LEMBAGA PIAWAIAN PERAKAUNAN MALAYSIA
MALAYSIAN ACCOUNTING STANDARDS BOARD

MASB Standard 3

Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies

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The standards, which have been set in bold type should be read in the context of the background material and implementation guidance in this Standard, and in the context of the Foreword to MASB Standards. MASB Standards are not intended to apply to immaterial items.

Objective

The objective of this Standard is to prescribe the classification, disclosure and accounting treatment of certain items in the income statement so that all enterprises prepare and present an income statement on a consistent basis. This enhances comparability both with the enterprise's financial statements of previous periods and with the financial statements of other enterprises. Accordingly, this Standard requires the classification and disclosure of extraordinary items and the disclosure of certain items within profit or loss from ordinary activities. It also specifies the accounting treatment for changes in accounting estimates, changes in accounting policies and the correction of fundamental errors.

Scope

1. This Standard should be applied in presenting profit or loss from ordinary activities and extraordinary items in the income statement and in accounting for changes in accounting estimates, fundamental errors and changes in accounting policies.

2. This Standard supersedes International Accounting Standard IAS 8 (revised), Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies, issued by the Malaysian professional accountancy bodies in 1997.

3. This Standard deals with, among other things, the disclosure of certain items of net profit or loss for the period. These disclosures are made in addition to any other disclosures required by other MASB Standards, including MASB 1, Presentation of Financial Statements.

4. This Standard also deals with certain disclosures relating to discontinued operations. It does not deal with the recognition and measurement issues related to discontinued operations.

5. The tax effects of extraordinary items, fundamental errors and changes in accounting policies are accounted for and disclosed in accordance with MASB Approved Accounting Standard IAS 12, Accounting for Taxes on Income. Where that Standard refers to unusual items, this should be read as extraordinary items as defined in this Standard.

Definitions

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

Extraordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly.

Ordinary activities are any activities that are undertaken by an enterprise as part of its business and such related activities in which the enterprise engages in furtherance of, incidental to, or arising from those activities.

A discontinued operation results from the sale or abandonment of an operation that represents a separate, major line of business of an enterprise and of which the assets, net profit or loss and activities can be distinguished physically, operationally and for financial reporting purposes.

Fundamental errors are errors discovered in the current period that are of such significance that the financial statements of one or more prior periods can no longer be considered to have been reliable at the date of their issue.

Accounting policies are the specific principles, bases, conventions, rules and practices adopted by an enterprise in preparing and presenting financial statements.

Net Profit or Loss for the Period

7. All items of income and expense recognised in a period should be included in the determination of the net profit or loss for the period unless a MASB Standard requires or permits otherwise.

8. Normally, all items of income and expense recognised in a period are included in the determination of the net profit or loss for the period. This includes extraordinary items and the effects of changes in accounting estimates. However, circumstances may exist when certain items may be excluded from net profit or loss for the current period. This Standard deals with two such circumstances: the correction of fundamental errors and the effect of changes in accounting policies.

9. Other MASB Standards deal with items which may meet the MASB's A Proposed Framework for the Preparation and Presentation of Financial Statements, definitions of income or expense but which are usually excluded from the determination of the net profit or loss. Examples include revaluation surpluses (see MASB Approved Accounting Standard IAS 16, Property, Plant and Equipment) and gains and losses arising on the translation of the financial statements of a foreign entity (see MASB 6, The Effects of Changes in Foreign Exchange Rates).

10. The net profit or loss for the period comprises the following components, each of which should be disclosed on the face of the income statement:

(a) profit or loss from ordinary activities; and

(b) extraordinary items.

Extraordinary Items

11. The nature and amount of each extraordinary item should be separately disclosed.

12. Virtually all items of income and expense included in the determination of net profit or loss for the period arise in the course of the ordinary activities of the enterprise. Therefore, only on rare occasions does an event or transaction give rise to an extraordinary item. It is possible to view such items as being external to managerial control and exhibiting a high degree of abnormality.

13. Whether an event or transaction is clearly distinct from the ordinary activities of the enterprise is determined by the nature of the event or

transaction in relation to the business ordinarily carried on by the enterprise rather than by the frequency with which such events are expected to occur. Therefore, an event or transaction may be extraordinary for one enterprise but not extraordinary for another enterprise because of the differences between their respective ordinary activities. For example, losses sustained as a result of an earthquake may qualify as an extraordinary item for many enterprises. However, claims from policyholders arising from an earthquake do not qualify as an extraordinary item for an insurance enterprise that insures against such risks.

14. Examples of events or transactions that generally give rise to extraordinary items for most enterprises are:

    (a) the expropriation of assets; or

    (b) an earthquake or other natural disaster.

15. A previous practice has been to view the disposal of long-term investments and land or buildings as extraordinary items. Whilst such items are material and sometimes not expected to recur in the foreseeable future, nonetheless these items are related and incidental to the ordinary and typical activities of the enterprises. Extraordinary items arise from transactions or events that possess a high degree of abnormality that are clearly distinct from the ordinary activities of the enterprise and also are not expected to recur in the foreseeable future.

16. That an event or transaction is clearly distinct from the ordinary activities is also determined by the nature of the event or transaction in relation to the environment of the enterprise's business operations. For example, losses sustained as a result of a typhoon would normally qualify as an extraordinary item for most enterprises in Malaysia. However, losses from a flood would not normally qualify as an extraordinary item, unless it is of a scale that can be considered as a natural disaster. Reporting enterprises are, however, required to disclose ordinary items separately if their disclosure is relevant in explaining the financial performance.

17. The disclosure of the nature and amount of each extraordinary item may be made on the face of the income statement, or when this disclosure is made in the notes to the financial statements, the total amount of all extraordinary items is disclosed on the face of the income statement.

Profit or Loss from Ordinary Activities

18. When items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately.

19. Although the items of income and expense described in paragraph 18 are not extraordinary items, the nature and amount of such items may be relevant to users of financial statements in understanding the financial position and performance of an enterprise and in making projections about financial position and performance. Disclosure of such information is usually made in the notes to the financial statements.

20. Circumstances which may give rise to the separate disclosure of items of income and expense in accordance with paragraph 18 include:

(a) the write-down of inventories to net realisable value or property, plant and equipment to recoverable amount, as well as the reversal of such write-downs;

(b) a restructuring of the activities of an enterprise and the reversal of any provisions for the costs of restructuring;

(c) disposals of items of property, plant and equipment;

(d) disposals of long-term investments;

(e) discontinued operations;

(f) litigation settlements; and

(g) other reversals of provisions.

Discontinued Operations

21. While the disposal of investments or other major assets may be sufficiently important to warrant disclosure of the related items of income or expense, occasionally an enterprise sells or abandons a separate, major line of business which is distinguishable from other business activities, for example, a segment determined in accordance with MASB Approved Accounting Standard IAS 14, Reporting Financial Information by Segment. When this constitutes a discontinued operation as defined in this Standard, the disclosures contained in paragraph 22 are relevant to users of financial statements.

22. The following disclosures should be made for each discontinued operation:

(a) the nature of the discontinued operation;

(b) the industry and geographical segments in which it is reported in accordance with MASB Approved Accounting Standard on Segment Reporting;

(c) the effective date of discontinuance for accounting purposes;

(d) the manner of discontinuance (sale or abandonment);

(e) the gain or loss on discontinuance and the accounting policy used to measure that gain or loss; and

(f) the revenue and profit or loss from the ordinary activities of the operation for the period, together with the corresponding amounts for each prior period presented.

23. The results of a discontinued operation are generally included in profit or loss from ordinary activities. However, in the rare circumstances that the discontinuance is the result of events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore are not expected to recur frequently or regularly, the income or expenses that arise from the discontinuance are treated as extraordinary items. For example, if a subsidiary is expropriated by a foreign government, the income or expense that arise from the expropriation may qualify as an extraordinary item. The disclosure requirements in paragraph 22 are applied for all discontinued operations including those that give rise to extraordinary items.

24. When it is known at the date on which the financial statements are authorised for issue that an operation was discontinued after the balance sheet date or that it will be discontinued, the disclosure requirements of paragraph 22 are applied to the extent that the information can be reliably estimated.

Changes in Accounting Estimates

25. As a result of the uncertainties inherent in business activities, many financial statement items cannot be measured with precision but can only be estimated. The estimation process involves judgements based on the latest information available. Estimates may be required, for example, of bad debts, inventory obsolescence or the useful lives or

expected pattern of consumption of economic benefits of depreciable assets. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.

26. An estimate may have to be revised if changes occur regarding the circumstances on which the estimate was based or as a result of new information, more experience or subsequent developments. By its nature, the revision of the estimate does not bring the adjustment within the definitions of an extraordinary item or a fundamental error.

27. Sometimes it is difficult to distinguish between a change in accounting policy and a change in an accounting estimate. In such cases, the change is treated as a change in an accounting estimate, with appropriate disclosure.

28. The effect of a change in an accounting estimate should be included in the determination of net profit or loss in:

(a) the period of the change, if the change affects the period only; or

(b) the period of the change and future periods, if the change affects both.

29. A change in an accounting estimate may affect the current period only or both the current period and future periods. For example, a change in the estimate of the amount of bad debts affects only the current period and therefore, is recognised immediately. However, a change in the estimated useful life or the expected pattern of consumption of economic benefits of a depreciable asset affects the depreciation expense in the current period and in each period during the remaining useful life of the asset. In both cases, the effect of the change relating to the current period is recognised as income or expense in the current period. The effect, if any, on future periods is recognised in future periods.

30. The effect of a change in an accounting estimate should be included in the same income statement classification as was used previously for the estimate.

31. To ensure the comparability of financial statements of different periods, the effect of a change in an accounting estimate for estimates which were previously included in the profit or loss from ordinary

activities is included in that component of net profit or loss. The effect of a change in an accounting estimate for an estimate which was previously included as an extraordinary item is reported as an extraordinary item.

32. The nature and amount of a change in an accounting estimate that has a material effect in the current period or which is expected to have a material effect in subsequent periods should be disclosed. If it is impracticable to quantify the amount, this fact should be disclosed.

Fundamental Errors

33. Errors in the preparation of the financial statements of one or more prior periods may be discovered in the current period. Errors may occur as a result of mathematical mistakes, mistakes in applying accounting policies, misinterpretation of facts, fraud or oversights. The correction of these errors is normally included in the determination of net profit or loss for the current period.

34. On rare occasions, an error has such a significant effect on the financial statements of one or more prior periods that those financial statements can no longer be considered to have been reliable at the date of their issue. These errors are referred to as fundamental errors. An example of a fundamental error is the inclusion in the financial statements of a previous period of material amounts of work in progress and receivables in respect of fraudulent contracts which cannot be enforced. The correction of fundamental errors that relate to prior periods requires the restatement of the comparative information or the presentation of additional pro forma information.

35. The correction of fundamental errors can be distinguished from changes in accounting estimates. Accounting estimates by their nature are approximations that may need revision as additional information becomes known. For example, the gain or loss recognised on the outcome of a contingency which previously could not be estimated reliably does not constitute the correction of a fundamental error.

Benchmark Treatment

36. The amount of the correction of a fundamental error that relates to prior periods should be reported by adjusting the opening balance of retained earnings. Comparative information should be restated, unless it is impracticable to do so.

37. The financial statements, including the comparative information for prior periods, are presented as if the fundamental error had been corrected in the period in which it was made. Therefore, the amount of the correction that relates to each period presented is included within the net profit or loss for that period. The amount of the correction relating to periods prior to those included in the comparative information in the financial statements is adjusted against the opening balance of retained earnings in the earliest period presented. Any other information reported with respect to prior periods, such as historical summaries of financial data, is also restated.

38. The restatement of comparative information does not necessarily give rise to the amendment of financial statements which have been approved by shareholders or registered or filed with regulatory authorities. However, specific legislations may require the amendment of such financial statements.

39. An enterprise should disclose the following:

(a) the nature of the fundamental error;

(b) the amount of the correction for the current period and for each prior period presented;

(c) the amount of the correction relating to periods prior to those included in the comparative information; and

(d) the fact that comparative information has been restated or that it is impracticable to do so.

Allowed Alternative Treatment

40. The amount of the correction of a fundamental error should be included in the determination of net profit or loss for the current period. Comparative information should be presented as reported in the financial statements of the prior period. Additional pro forma information, prepared in accordance with paragraph 36, should be presented unless it is impracticable to do so.

41. The correction of the fundamental error is included in the determination of the net profit or loss for the current period. However, additional information is presented, often as separate columns, to show the net profit or loss of the current period and any prior periods presented as if the fundamental error had been corrected in the period when it was made.

42. An enterprise should disclose the following:

(a) the nature of the fundamental error;

(b) the amount of the correction recognised in net profit or loss for the current period; and

(c) the amount of the correction included in each period for which pro forma information is presented and the amount of the correction relating to periods prior to those included in the pro forma information. If it is impracticable to present pro forma information, this fact should be disclosed.

Changes in Accounting Policies

43. Users need to be able to compare the financial statements of an enterprise over a period of time to identify trends in its financial position, performance and cash flows. Therefore, the same accounting policies are normally adopted in each period.

44. A change in accounting policy should be made only if required by statute, or by MASB, or if the change will result in a more appropriate presentation of events or transactions in the financial statements of the enterprise.

45. A more appropriate presentation of events or transactions in the financial statements occurs when the new accounting policy results in more relevant or reliable information about the financial position, performance or cash flows of the enterprise.

46. The following are not changes in accounting policies:

(a) the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions; and

(b) the adoption of a new accounting policy for events or transactions which did not occur previously or that were immaterial.

The initial adoption of a policy to carry assets at revalued amounts is a change in accounting policy but it is dealt with as a revaluation in accordance with MASB Approved Accounting Standard IAS 16, Property, Plant and Equipment, or MASB Approved Accounting Standard IAS 25, Accounting for Investments, as appropriate, rather than in accordance with this Standard. Therefore, paragraphs 51 to 59 of this Standard are not applicable to such changes in accounting policy.

47. A change in accounting policy is applied retrospectively or prospectively in accordance with the requirements of this Standard. Retrospective application results in the new accounting policy being applied to events and transactions as if the new accounting policy had always been in use. Therefore, the accounting policy is applied to events and transactions from the date of origin of such items. Prospective application means that the new accounting policy is applied to the events and transactions occurring after the date of the change. No adjustments relating to prior periods are made either to the opening balance of retained earnings or in reporting the net profit or loss for the current period because existing balances are not recalculated. However, the new accounting policy is applied to existing balances as from the date of the change. For example, if a new standard on Borrowing Costs was issued an enterprise may decide to change its accounting policy for borrowing costs and capitalise those costs in conformity with the allowed alternative treatment in the new Standard. Under prospective application, the new policy only applies to borrowing costs that are incurred after the date of the change in accounting policy.

Adoption of a MASB Standard

48. A change in accounting policy which is made on the adoption of a MASB Accounting Standard should be accounted for in accordance with the specific transitional provisions, if any, in that MASB Standard. In the absence of any transitional provisions, the change in accounting policy should be applied in accordance with the benchmark treatment in paragraphs 51, 54 and 55 or the allowed alternative treatment in paragraphs 56, 58 and 59.

49. The transitional provisions in a MASB Standard may require either a retrospective or a prospective application of a change in accounting policy.

50. When an enterprise has not adopted a new MASB Standard which has been published by the Malaysian Accounting Standards Board but which has not yet come into effect, the enterprise is encouraged to disclose the nature of the future change in accounting policy and an estimate of the effect of the change on its net profit or loss and financial position.

Other Changes in Accounting Policies - Benchmark Treatment

51. A change in accounting policy should be applied retrospectively unless the amount of any resulting adjustment that relates to prior periods is not reasonably determinable. Any resulting adjustment

should be reported as an adjustment to the opening balance of retained earnings. Comparative information should be restated unless it is impracticable to do so.

52. The financial statements, including the comparative information for prior periods, are presented as if the new accounting policy had always been in use. Therefore, comparative information is restated in order to reflect the new accounting policy. The amount of the adjustment relating to periods prior to those included in the financial statements is adjusted against the opening balance of retained earnings of the earliest period presented. Any other information with respect to prior periods, such as historical summaries of financial data, is also restated.

53. The restatement of comparative information does not necessarily give rise to the amendment of financial statements which have been approved by shareholders or registered or filed with regulatory authorities. However, specific legislations may require the amendment of such financial statements.

54. The change in accounting policy should be applied prospectively when the amount of the adjustment to the opening balance of retained earnings required by paragraph 51 cannot be reasonably determined.

55. When a change in accounting policy has a material effect on the current period or any prior period presented, or may have a material effect in subsequent periods, an enterprise should disclose the following:

(a) the reasons for the change;

(b) the amount of the adjustment for the current period and for each period presented;

(c) the amount of the adjustment relating to periods prior to those included in the comparative information; and

(d) the fact that comparative information has been restated or that it is impracticable to do so.

Other Changes in Accounting Policies - Allowed Alternative Treatment

56. A change in accounting policy should be applied retrospectively unless the amount of any resulting adjustment that relates to prior

periods is not reasonably determinable. Any resulting adjustment should be included in the determination of the net profit or loss for the current period. Comparative information should be presented as reported in the financial statements of the prior period. Additional pro forma comparative information, prepared in accordance with paragraph 51, should be presented unless it is impracticable to do so.

57. Adjustments resulting from a change in accounting policy are included in the determination of the net profit or loss for the period. However, additional comparative information is presented, often as separate columns, in order to show the net profit or loss and the financial position of the current period and any prior periods presented as if the new accounting policy had always been applied.

58. The change in accounting policy should be applied prospectively when the amount to be included in net profit or loss for the current period required by paragraph 56 cannot be reasonably determined.

59. When a change in accounting policy has a material effect on the current period or any prior period presented, or may have a material effect in subsequent periods, an enterprise should disclose the following:

(a) the reasons for the change;

(b) the amount of the adjustment recognised in net profit or loss in the current period; and

(c) the amount of the adjustment included in each period for which pro forma information is presented and the amount of the adjustment relating to periods prior to those included in the financial statements. If it is impracticable to present pro forma information, this fact should be disclosed.

Effective Date

60. This MASB Standard becomes operative for financial statements covering periods beginning on or after 1 July, 1999.

Appendix 1

Compliance with International Accounting Standards

The requirements of this MASB Standard are consistent, in all material respects, with International Accounting Standard IAS 8 (revised), Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies.

Appendix 2

The appendix is illustrative only and does not form part of the standards. The purpose of the appendix is to illustrate the application of the standards to assist in clarifying their meaning. Extracts from income statements and statements of retained earnings are provided to show the effects on these financial statements of the transactions described below. These extracts do not necessarily conform with all the disclosure and presentation requirements of other MASB Approved Accounting Standards.

Extraordinary Items and Discontinued Operations

ALPHA CO
Extract from the Income Statement

	20-01	20-00
	RM	RM
Gross profit	10,000	12,000
Loss on sale of truck engine valve manufacturing operation (Note 1)	(3,000)	-
Income taxes	(2,100)	(3,600)
Profit from ordinary activities	4,900	8,400
Extraordinary item - loss on expropriation of car engine valve manufacturing operation in country R (Net of income tax of RM1,350) (Note 2)	-	(3,150)
Net Profit	4,900	5,250

Extracts from notes to the Financial Statements

1. On 1 July 20-01, Alpha sold its truck engine valve manufacturing operation. The results of this operation had previously been reported in the valve manufacturing industry segment and the domestic geographical segment. The loss is the difference between the proceeds from the sale of the operation and the net carrying amount of the assets and liabilities of the operation at the date of sale. The revenues recognised relating to this operation from 1 January 20-01 until 1 July 20-01 were RM15,000 (RM35,000 – 20-00) and the profits before tax were RM5,000 (RM10,000 – 20-00).

2. On 1 October 20-00, Alpha's car engine valve manufacturing operations in country R were expropriated, without compensation, by the Government. The results of this operation had previously been reported in the valve manufacturing industry segment and the Pacific geographical segment. The loss arising from the expropriation has been accounted for as an extraordinary item. The loss arising from the expropriation is the net carrying amount of the assets and liabilities of the operation at the date of expropriation. The revenues recognised relating to this operation from 1 January 20-00 until 1 October 20-00 were RM10,000 and the profits before tax were RM2,000.

Fundamental Errors

During 20-02, Beta Co discovered that certain products that had been sold during 20-0l were incorrectly included in inventory at 31 December 20-0l at RM6,500.

Beta's accounting records for 20-02 show sales of RM104,000, cost of goods sold of RM86,500 (including RM6,500 for error in opening inventory), and income taxes of RM5,250.

In 20-0l, Beta reported :

	RM
Sales	73,500
Cost of goods sold	(53,500)
Profit from ordinary activities before income taxes	20,000
Income taxes	(6,000)
Net Profit	14,000

20-01 opening retained earnings was RM20,000 and closing retained earnings was RM34,000.

Beta's income tax rate was 30% for 20-02 and 20-01.

BETA CO

Extract from the Income Statement under the Benchmark Treatment

	20-02	20-0l
	RM	RM
		(restated)
Sales	104,000	73,500
Cost of goods sold	(80,000)	(60,000)
Profit from ordinary activities before income taxes	24,000	13,500
Income taxes	(7,200)	(4,050)
Net Profit	16,800	9,450

BETA CO

Statement of Retained Earnings under the Benchmark Treatment

	20-02	20-01
	RM	RM
		(restated)
Opening retained earnings as previously reported	34,000	20,000
Correction of fundamental error (Net of income taxes of RM1,950) (Note 1)	(4,550)	-
Opening retained earnings as restated	29,450	20,000
Net profit	16,800	9,450
Closing Retained Earnings	46,250	29,450

Extracts from Notes to the Financial Statements

1 Certain products that had been sold in 20-0l were incorrectly included in inventory at 31 December 20-0l at RM6,500. The financial statements of 20-0l have been restated to correct this error.

BETA CO

Extract from the Income Statement under the Allowed AlternativeTreatment

			Pro Forma	
	20-02	20-01	20-02	20-01
	RM	RM	RM	RM
			(restated)	(restated)
Sales	104,000	73,500	104,000	73,500
Cost of goods sold (Note 1)	(86,500)	(53,500)	(80,000)	(60,000)
Profit from ordinary activities before income taxes	17,500	20,000	24,000	13,500
Income taxes (includes the effects of the correction of a fundamental error)	(5,250)	(6,000)	(7,200)	(4,050)
Net Profit	12,250	14,000	16,800	9,450

BETA CO

Statement of Retained Earnings under the Allowed Alternative Treatment

			Pro Forma	
	20-02	20-01	20-02	20-01
	RM	RM	RM	RM
			(restated)	(restated)
Opening retained earnings as previously reported	34,000	20,000	34,000	20,000
Correction of fundamental error (Net of income taxes of RM1,950)	-	-	(4,550)	-
Opening retained earnings as restated	34,000	20,000	29,450	20,000
Net profit	12,250	14,000	16,800	9,450
Closing Retained Earnings	46,250	34,000	46,250	29,450

Extracts from Notes to the Financial Statements

1 Cost of goods sold for 20-02 includes RM6,500 for certain products that had been sold in 20-01 but were incorrectly included in inventory at 31 December 20-01. Restated pro forma information for 20-02 and 20-01 is presented as if the error had been corrected in 20-01.

Changes in Accounting Policy

During 20-02, Gamma Co changed its accounting policy with respect to the treatment of borrowing costs that are directly attributable to the acquisition of a hydro-electric power station which is in course of construction for use by Gamma. In previous periods, Gamma had capitalised such costs, net of income taxes, in accordance with the allowed alternative treatment in the proposed Accounting Standard on Borrowing Costs. Gamma has now decided to expense, rather than capitalise, these costs in order to conform with the benchmark treatment in the proposed MASB Standard.

Gamma capitalised borrowing costs incurred of RM2,600 during 20-01 and RM5,200 in periods prior to 20-01. All borrowing costs incurred in previous years in respect to the acquisition of the power station were capitalised.

Gamma's accounting records for 20-02 show profit from ordinary activities before interest and income taxes of RM30,000; interest expense of RM3,000 (which relates only to 20-02); and income taxes of RM8,100.

Gamma has not yet recognised any depreciation on the power station because it is not yet in use.

In 20-01, Gamma reported:

	RM
Profit from ordinary activities before interest and income taxes	18,000
Interest expense	-
Profit from ordinary activities before income taxes	18,000
Income taxes	(5,400)
Net Profit	12,600

20-01 opening retained earnings was RM20,000 and closing retained earnings was RM32,600.

Gamma's tax rate was 30% for 20-02 and 20-01.

GAMMA CO

Extract from the Income Statement under the Benchmark Treatment

	20-02	20-01
	RM	RM
		(restated)
Profit from ordinary activities before interest and income taxes	30,000	18,000
Interest expense	(3,000)	(2,600)
Profit from ordinary activities before income taxes	27,000	15,400
Income taxes	(8,100)	(4,620)
Net Profit	18,900	10,780

GAMMA CO

Statement of Retained Earnings under the Benchmark Treatment

	20-02	20-01
	RM	RM
		(restated)
Opening retained earnings as previously reported	32,600	20,000
Change in accounting policy with respect to the capitalisation of interest (Net of income taxes of RM2,340 for 20-02 and RM1,560 for 20-0l) Note 1	(5,460)	(3,640)
Opening retained earnings as restated	27,140	16,360
Net profit	18,900	10,780
Closing Retained Earnings	46,040	27,140

Extracts from Notes to the Financial Statements

1. During 20-02, Gamma changed its accounting policy with respect to the treatment of borrowing costs related to a hydro-electric power station which is in course of construction for use by Gamma. In order to conform with the benchmark treatment on Borrowing Costs, the enterprise now expenses rather than capitalises such costs. This change in accounting policy has been accounted for retrospectively. The comparative statements for 20-01 have been restated to conform to the changed policy. The effect of the change is an increase in interest expense of RM3,000 (20-02) and RM2,600 (20-01). Opening retained earnings for 20-01 have been reduced by RM5,200 which is the amount of the adjustment relating to periods prior to 20-01.

GAMMA CO

Extract from the Income Statement under the Allowed Alternative Treatment

			Pro Forma	
	20-02	20-01	20-02	20-01
	RM	RM	RM (restated)	RM (restated)
Profit from ordinary activities before interest and income taxes	30,000	18,000	30,000	18,000
Interest expense	(3,000)	-	(3,000)	(2,600)
Cumulative effect of change in accounting policy	(7,800)	-	-	-
Profit from ordinary activities before income taxes	19,200	18,000	27,000	15,400
Income taxes (includes the effect of a change in accounting policy)	(5,760)	(5,400)	(8,100)	(4,620)
Net Profit	13,440	12,600	18,900	10,780

GAMMA CO

Statement of Retained Earnings under the Allowed Alternative Treatment

			Pro Forma	
	20-02	20-01	20-02	20-01
	Rm	RM	RM	RM
			(restated)	(restated)
Opening retained earnings as previously reported	32,600	20,000	32,600	20,000
Change in accounting policy with respect to the capitalisation of interest (Net of income taxes of RM2,340 for 20-02 and RM1,560 for 20-01) Note 1	-	-	(5,460)	(3,640)
Opening retained earnings as restated	32,600	20,000	27,140	16,360
Net profit	13,440	12,600	18,900	10,780
Closing Retained Earnings	46,040	32,600	46,040	27,140

Extracts from Notes to the Financial Statements

1. An adjustment of RM7,800 has been made in the income statement for 20-02 representing the effect of a change in accounting policy with respect to the treatment of borrowing costs related to a hydro-electric power station which is in course of construction for use by Gamma. In order to conform with the benchmark treatment on Borrowing Costs, the enterprise now expenses rather than capitalises such costs. This change in accounting policy has been accounted for retrospectively. Restated pro forma information, which assumes that the new policy had always been in use, is presented. Opening retained earnings in the pro forma information for 20-01 have been reduced by RM5,200 which is the amount of the adjustment relating to periods prior to 20-01.