GOVERNMENT OF MALAYSIA

Federal Government Accrual Accounting Manual

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ISSUED BY

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1.0 OVERVIEW

Introduction

1.1 The purpose of this section is to provide an overview of accrual accounting in the public sector environment. This manual serves to provide guidelines on accrual accounting going forward and to provide an overview of the concept of consolidated funds.

Objectives of the Manual

1.2 The objectives of this Manual are to:

- Provide general information and guidance on accrual accounting;
- Assist finance staff in recording both routine and complex transactions particular to government;
- Assist entities with respect to recognition, measurement and disclosure requirements for the production of their entity financial statements on an accrual basis.

Scope and Limitation of the Manual

1.3 The entities of the Federal Government of Malaysia ('FGOM') to which this **policy manual** applies shall consist of:

- All Federal Ministries
- All Federal Departments
- All Responsibility Centres

1.4 This manual will cover the following:

- Accounting policies and treatment under MPSAS. The MPSAS that has been adopted by the FGOM are listed in Appendix A
- Examples of accounting entries for generic transactions

1.5 The Manual does not purport to cover all possible accounting transactions and scenarios. This is considered to be neither desirable nor possible because of the number of permutations and combinations that can exist.

1.6 The transactions presented must be considered in light of this and may not be the only possible way of handling a specific transaction. Thus, the Manual only provides general direction on the majority of transactions that the entities will encounter. However, the transactions covered together with the explanations should provide the necessary guidance to handle most transactions. In circumstances where this is not possible, the advice of the Accountant General's Department of Malaysia ('AGD') should be sought.

1.7 The accounting policies and its interpretation are subject to changes and revision (as published by AGD).

1.8 To use this Manual effectively, finance staff should refer to:

- AGD Circulars
- Chart of Accounts
- Financial Procedure Act 1957
- Malaysian Public Sector Accounting Standards ('MPSASs')
- Treasury Instruction
- Treasury Circulars and Guidelines
- Other relevant laws

1.0 OVERVIEW (CONTINUED)

Framework

1.9 This manual is based on MPSASs which are relevant to the specific circumstances of the entities. In a situation where no specific guidance is provided by MPSASs, management needs to exercise judgement to develop and apply an accounting policy that is relevant and reliable. Management can refer to International Public Sector Accounting Standards ('IPSASs') where it is applicable and relevant.

ACCOUNTING RULES AND PRINCIPLES

2.0 ACCOUNTING PRINCIPLES

Introduction

2.1 This chapter deals with the accounting principles which form the specific principles bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

Understandability

2.2 Information is understandable when users might reasonably be expected to comprehend its meaning. For this purpose, users are assumed to have a reasonable knowledge of the entity's activities and the environment in which it operates, and to be willing to study the information. Information about complex matters should not be excluded from the financial statements merely on the grounds that it may be too difficult for certain users to understand.

Relevance

2.3 Information is relevant to users if it can be used to assist in evaluating past, present, or future events or in confirming, or correcting, past evaluations. In order to be relevant, information must also be timely.

Materiality

2.4 The relevance of information is affected by its nature and materiality. Information is material if its omission or misstatement could influence the decisions of users or assessments made on the basis of the financial statements. Materiality depends on the nature or size of the item or error, judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic that information must have if it is to be useful.

Reliability

2.5 Reliable information is free from material error and bias, and can be depended on by users to represent faithfully that which it purports to represent or could reasonably be expected to represent.

Faithful Representation

2.6 For information to represent faithfully transactions and other events, it should be presented in accordance with the substance of the transactions and other events, and not merely their legal form.

Substance Over Form

2.7 If information is to represent faithfully the transactions and other events that it purports to represent, it is necessary that they be accounted for and presented in accordance with their substance and economic reality, and not merely their legal form. The substance of transactions or other events is not always consistent with their legal form.

Neutrality

2.8 Information is neutral if it is free from bias. Financial statements are not neutral if the information they contain has been selected or presented in a manner designed to influence the making of a decision or judgment in order to achieve a predetermined result or outcome.

2.0 ACCOUNTING PRINCIPLES (CONTINUED)

Prudence

2.9 Prudence is the inclusion of a degree of caution in the exercise of the judgments needed in making the estimates required under conditions of uncertainty, such that assets or revenue are not overstated and liabilities or expenses are not understated. However, the exercise of prudence does not allow, for example:

- The creation of hidden reserves or excessive provisions,
- The deliberate understatement of assets or revenue,
- The deliberate overstatement of liabilities or expenses, because the financial statements would not be neutral and, therefore, not have the quality of reliability.

Completeness

2.10 The information in financial statements should be complete within the bounds of materiality and cost.

Comparability

2.11 Information in financial statements is comparable when users are able to identify similarities and differences between that information and information in other reports. Comparability applies to the:

- Comparison of financial statements of different entities; and
- Comparison of the financial statements of the same entity over periods of time.

2.12 An important implication of the characteristic of comparability is that users need to be informed of the policies employed in the preparation of financial statements, changes to those policies, and the effects of those changes. Because users wish to compare the performance of an entity over time, it is important that financial statements show corresponding information for preceding periods.

Timeliness

2.13 If there is an undue delay in the reporting of information, it may lose its relevance. To provide information on a timely basis, it may often be necessary to report before all aspects of a transaction are known, thus impairing reliability. Conversely, if reporting is delayed until all aspects are known, the information may be highly reliable but of little use to users who have had to make decisions in the interim. In achieving a balance between relevance and reliability, the overriding consideration is how best to satisfy the decision-making needs of users.

Balance between Benefit and Cost

2.14 The balance between benefit and cost is a pervasive constraint. The benefits derived from information should exceed the cost of providing it. The evaluation of benefits and costs is, however, substantially a matter of judgment. Furthermore, the costs do not always fall on those users who enjoy the benefits. Benefits may also be enjoyed by users other than those for whom the information was prepared. For these reasons, it is difficult to apply a benefit-cost test in any particular case. Nevertheless, standard setters, as well as those responsible for the preparation of financial statements and users of financial statements, should be aware of this constraint.

2.0 ACCOUNTING PRINCIPLES (CONTINUED)

Balance between Qualitative Characteristics

2.15 In practice a balancing, or trade-off, between qualitative characteristics is often necessary. Generally, the aim is to achieve an appropriate balance among the characteristics in order to meet the objectives of financial statements. The relative importance of the characteristics in different cases is a matter of professional judgment.

Reference

- MPSAS 1 – Presentation of Financial Statement

3.0 FIRST TIME ADOPTION OF MPSAS

Introduction

3.1 This chapter deals with the first-time adoption of MPSAS, which is on 1.1.2015.

Policies

3.2 The general principle applied to an opening MPSAS statement of financial position is that items should be recognised and measured in accordance with the standards in force at the beginning of first MPSAS reporting period.

Selection of accounting policies

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

3.4 An entity shall select and apply its accounting policies consistently for similar transactions, other events, and conditions, unless an MPSAS specifically requires or permits categorization of items for which different policies may be appropriate. If an MPSAS requires or permits such categorization, an appropriate accounting policy shall be selected and applied consistently to each category.

Transitional provisions

3.5 On first time adoption, assets and liabilities recognized should be adjusted against accumulated surplus or deficit on the date of adoption. FGOM plans to adopt MPSAS as disclosed in Appendix A.

3.6 The following are the transitional exemptions that will be adopted for the first MPSAS financial statements:

Exemptions Affecting Fair Presentation and Compliance	Transitional Exemptions Adopted by FGOM
1. Recognition and / or measurement of the following assets and / or liabilities: • Investment Properties • Property, Plant and Equipment • Defined Benefit Plan and Other Long Term Benefits • Biological Assets and Agriculture Produce • Intangible Assets • Service Concession Assets and Related Liabilities • Financial Instruments	These assets and / or liabilities can be recognized for reporting periods within 3 years following the date of adoption.
2. Recognition and / or measurement of non-exchange revenue	Changes in accounting policy can be recognized on a class by class basis within 3 years following the date of adoption.
3. Other borrowing costs	Other borrowing costs are expensed off. The allowed alternative treatment of capitalising interest is not adopted.

3.0 *FIRST TIME ADOPTION OF MPSAS (CONTINUED)*

Exemptions Affecting Fair Presentation and Compliance	Transitional Exemptions Adopted by FGOM
4. Leases	Finance lease relating to relevant assets can be recognized subject to the earlier of asset being recognized or expiry of 3 years following the date of adoption.
5. Contingencies	Liability relating to relevant assets can be recognized subject to the earlier of asset being recognized or expiry of 3 years following the date of adoption.
6. Related Party Disclosures	Disclosure of related party relationships, transactions and information about key management personnel can be disclosed within 3 years following the date of adoption.

Exemptions Not Affecting Fair Presentation and Compliance	Transitional Exemptions Adopted by FGOM
1. Date at which cost can be determined	Fair value as deemed cost is determined at any date during the 3 year transitional period.
2. Measurement of assets (a) Inventory (b) Investment Properties (c) Property, Plant and Equipment (d) Intangible Assets (e) Financial Instruments (f) Service Concession Assets	Fair value as deemed cost applied at date of adoption where historical cost is not available.
3. Measurement of assets acquired through a non-exchange transaction	Fair value as deemed cost applied at date of adoption, where historical cost information is not available.
4. Investments	Fair value as deemed cost at date of adoption, where historical cost is not available.
5. Comparative information	No comparative information will be prepared.
6. Foreign exchange	Not applicable.
7. Borrowing costs	Not adopting retrospective application of charging borrowing costs.
8. Hyper inflationary	Not applicable.
9. Segment reporting	Segment information is not reported within 3 years following the date of adoption.
10. Hedge accounting	Not applicable.

3.0 FIRST TIME ADOPTION OF MPSAS (CONTINUED)

3.7 In the course of transition to accrual accounting, certain government trust account may be identified as obsolete and will need to be closed down.

Reference

- ED 53 – First Time Adoption of Accrual Basis

Scenario A - Recognition of asset as opening balance on first adoption during transitional period

Total property, plant and equipment consisting of two separate assets (i.e. asset A and asset B) are recognized as opening balance during the transition period from cash accounting to accrual accounting. Asset A amounts to RM150,000 is purchased by a responsibility centre, financed through general fund. Asset B amounts to RM75,000 is financed through a government trust account.

Asset A has an opening gross balance of RM150,000 and an accumulated depreciation of RM50,000.

Asset B has an opening gross balance of RM75,000 and an accumulated depreciation of RM25,000.

Journal entries

1) To record the recognition of asset A and asset B as opening balance

(a) General Fund

To recognize the opening balance of asset A (as gross and total accumulated depreciation) under general funds, the property, plant and equipment account will be debited, accumulated depreciation account credited and the accumulated surplus or deficit of the general funds account credited. The treatment applies for assets discovered to be of existence subsequent to the date of transition.

	Amount (RM)	Accounting Code
DR Property, plant and equipment - general fund	150,000	A1430000
CR Accumulated depreciation – general funds	50,000	A3130000
CR Accumulated surplus or deficit - general funds	100,000	E0311XXX

(b) Government Trust Account

For asset B financed through government trust account, the property, plant and equipment account will be debited, accumulated depreciation credited and the accumulated surplus or deficit of government trust account credited. The treatment applies for assets discovered to be of existence subsequent to the date of transition.

	Amount (RM)	Accounting Code
DR Property, plant and equipment – government trust account	75,000	A1430000
CR Accumulated depreciation – government trust account	25,000	A313000
CR Accumulated surplus or deficit – government trust account	50,000	E0211XXX

4.0 PRESENTATION OF FINANCIAL STATEMENTS

Introduction

4.1 Financial statements are a structured representation of the financial position and financial performance of an entity. The objectives of general purpose financial statements are to provide information about the financial position, financial performance, and cash flows of an entity that is useful to a wide range of users in making and evaluating decisions about the allocation of resources. Specifically, the objectives of general purpose financial reporting in the public sector are to provide information useful for decision making, and to demonstrate the accountability of the entity for the resources entrusted to it, by:

(a) Providing information about the sources, allocation, and uses of financial resources;
(b) Providing information about how the entity financed its activities and met its cash requirements;
(c) Providing information that is useful in evaluating the entity's ability to finance its activities and to meet its liabilities and commitments;
(d) Providing information about the financial condition of the entity and changes in it; and
(e) Providing aggregate information useful in evaluating the entity's performance in terms of service costs, efficiency, and accomplishments.

Financial period

4.2 The financial year is defined by Section 3 of the Financial Procedure Act 1957 [Act 61] as a period of twelve months ending on the 31st day of December every year. Financial statements shall be presented at least annually.

Complete set of financial statements

4.3 The FGOM Financial Statements prepared in compliance with Section 16(1) of the Financial Procedure Act 1957 [Act 61] and MPSAS 1 – Presentation of financial statement comprise the following:

(a) Statement of Financial Position
(b) Statement of Financial Performance
(c) Statement of Changes In Net Assets/ Equity
(d) Cash Flow Statement
(e) Statement of Budget Performance
(f) Notes to the Accounts

4.4 FGOM financial statements are also prepared in compliance with MPSAS 22 – Disclosure of financial information from general government sector ('GGS') to disclose appropriate information about the GGS.

4.5 Financial statement is to be prepared in accordance with the accounting principles detailed in Section 2 of MPSAS 1 – Presentation of financial statement.

4.0 PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

STATEMENT OF FINANCIAL POSITION

Components of Statement of Financial Position

4.6 The face of the statement of financial position shall include, where applicable, line items that present the following amounts:

(a) Property, plant, and equipment;
(b) Investment property;
(c) Intangible assets;
(d) Financial assets
(e) Investments accounted for using the equity method;
(f) Inventories;
(g) Recoverable from non-exchange transactions (taxes and transfers);
(h) Receivables from exchange transactions;
(i) Cash and cash equivalents;
(j) Taxes and transfers payable;
(k) Payables under exchange transactions;
(l) Provisions;
(m) Financial liabilities;
(n) Net assets/equity , which comprise:
    (i) Accumulated surplus or deficit of general funds
    (ii) Accumulated surplus or deficit of government trust account
    (iii) Other reserves

Current/Non-current Distinction

4.7 An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its statement of financial position except when a presentation based on liquidity provides information that is reliable and is more relevant. The term 'current' applies to financial periods within 12 months following the reporting date (i.e. 12 months following 31.12.20XX).

Current Assets

4.8 An asset shall be classified as current when it satisfies any of the following criteria:

(a) It is expected to be realized in, or is held for sale or consumption in, the entity's normal operating cycle;
(b) It is held primarily for the purpose of being traded;
(c) It is expected to be realized within twelve months after the reporting date; or
(d) It is cash or a cash equivalent (as defined in MPSAS 2 – Cash flow statements), unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date. All other assets shall be classified as non-current.

Current Liabilities

4.9 A liability shall be classified as current when it satisfies any of the following criteria:

(a) It is expected to be settled in the entity's normal operating cycle;
(b) It is held primarily for the purpose of being traded;
(c) It is due to be settled within twelve months after the reporting date; or
(d) The entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

4.0 PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

Trust Accounts

4.10 The assets and liabilities on the statement of financial position include assets and liabilities of government trust accounts. Public trust account balances are reported and represented as liabilities on the statement of financial position.

4.11 Details of Trust Accounts are outlined in Chapter 27.

Illustrative Statement of Financial Position

4.12 The following illustrative statement of financial position does not necessarily represent the final presentation adopted by the FGOM and are subject to change.

Refer to Appendix B on illustrative financial statements.

	Notes	20X2	20X1
ASSETS			
Current assets			
Cash and cash equivalents	xx	xx	xx
Recoverable from taxes and transfers	xx	xx	xx
Receivables	xx	xx	xx
Inventories	xx	xx	xx
Other receivables		xx	xx
Other current assets		xx	xx
Total current assets		xx	xx
Non-current assets			
Recoverable from taxes and transfers	xx	xx	xx
Receivables	xx	xx	xx
Investments in controlled entities	xx	xx	xx
Investments in jointly controlled entities	xx	xx	xx
Investments in associates	xx	xx	xx
Other financial assets	xx	xx	xx
Property, plant and equipment	xx	xx	xx
Investment properties	xx	xx	xx
Intangible assets	xx	xx	xx
Other receivables		xx	xx
Total non-current assets		xx	xx
TOTAL ASSETS		xx	xx
LIABILITIES			
Current liabilities			
Payables under exchange transaction	xx	xx	xx
Taxes and transfers payable	xx	xx	xx
Provisions	xx	xx	xx
Borrowings	xx	xx	xx
Pension plan and gratuity	xx	xx	xx
Public trust account/Balance of obligation to public			
Deposits			
Total current liabilities			
Non-current liabilities			
Borrowings	xx	xx	xx
Pension plan and gratuity	xx	xx	xx
Public trust account/Balance of obligation to public			
Deposits			
Total non-current liabilities		xx	xx
TOTAL LIABILITIES		xx	xx
Net assets		xx	xx

4.0 PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

	Notes	20X2	20X1
NET ASSETS/ EQUITY			
Accumulated surplus or deficit of general fund		xx	xx
Accumulated surplus or deficit of government trust account			
Other reserves		xx	xx
Total Net Assets/Equity		xx	xx

Illustrative Statement of Financial Position of Government Trust Accounts

4.13 The following illustrates the disclosure of a statement of financial position of a government trust account that will form part of the notes to the financial statements.

	20X2	20X1
Assets		
Cash	xx	xx
Property, plant and equipment	xx	xx
Work in progress	xx	xx
Loan receivable	xx	xx
Due to / due from	xx	xx
Total assets	xx	xx
Liabilities		
Payables	xx	xx
Borrowings	xx	xx
Total liabilities	xx	xx
Net assets	-	-
Net asset /equity		
Opening balance	xx	xx
Accumulated surplus or deficit	xx	xx
Total net assets/equity	-	-

Illustrative Statement of Financial Position of Public Trust Account

4.14 The following illustrates the disclosure of a statement of financial position of a public trust account that will form part of the notes to the financial statements.

	20X2	20X1
Assets		
Cash	xx	xx
Financial assets	xx	xx
Total assets	xx	xx
Liabilities		
Payables	xx	xx
Public trust account **(Note 1)**	xx**	xx*
Total liabilities	xx	xx

Note 1:		
Public trust account		
Opening balance at 1 Jan	xx*	
Accumulated surplus or deficit	xx	
Closing balance at 31 Dec	xx**	

4.0 PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

Components of Statement of Financial Performance

4.15 The face of the statement of financial performance shall include line items that present the following amounts for the period:

(a) Revenue;
(b) Expenses;
(c) Finance costs;
(d) Share of surplus or deficit of investments;
(e) Pre-tax gain or loss recognized on the disposal of assets or settlement of liabilities attributable to discontinuing operations;
(f) Surplus or deficit.

Classification of Expenses by Nature/Function

4.16 The entity shall present, either on the face of the statement of financial performance or in the notes, an analysis of expenses using classification based on nature or function.

Trust accounts

4.17 The revenue and expense on the statement of financial performance includes revenue and expenses of government trust accounts. Public trust account's revenue and expenses are not included on the statement of financial performance where there is no inflow or outflow of economic benefit to the FGOM.

4.0 PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

Illustrative Statement of Financial Performance

4.18 The following illustrative statement of financial performance does not necessarily represent the final presentation adopted by the FGOM and are subject to change.

Refer to Appendix B on illustrative financial statements.

By Nature

	Notes	20X2	20X1
Revenue			
Taxation revenue	xx	xx	xx
Non-taxation revenue	xx	xx	xx
Federal territories revenue		xx	xx
Other revenue			
Total Revenue		xx	xx
Expenses			
Wages, salaries and employee benefits	xx	xx	xx
Supplies and consumables used	xx	xx	xx
Low value asset		xx	xx
Grant and transfer expense		xx	xx
Other expenses		xx	xx
Depreciation and amortization expense	xx	xx	xx
Impairment of assets	xx	xx	xx
Rental expense		xx	xx
Cost of goods sold		xx	xx
Repair and maintenance of property, plant and equipment		xx	xx
Finance costs	xx	xx	xx
Total Expenses		xx	xx
Surplus or deficit for the year		xx	xx

By Function

	Notes	20X2	20X1
Revenue			
Taxation revenue	xx	xx	xx
Non-taxation revenue	xx	xx	xx
Revenue from exchange transactions		xx	xx
Transfers from other government entities		xx	xx
Other revenue			
Total Revenue		xx	xx
Expenses			
General public services		xx	xx
Defence		xx	xx
Education		xx	xx
Health		xx	xx
Housing and community amenities		xx	xx
Recreational, cultural and religion		xx	xx
Economic affairs		xx	xx
Environmental protection		xx	xx
Other expenses		xx	xx
Finance costs	xx	xx	xx
Total Expenses		xx	xx
Surplus or deficit for the year		xx	xx

4.0 PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

Illustrative Statement of Financial Performance of Government Trust Account

4.19 The following illustrates the disclosure of a statement of financial performance of a trust account.

Revenue	20X2	20X1
Borrowing proceeds	xx	xx
Transfer from general funds	xx	xx
Donation and contributions	xx	xx
Gain on investment in fixed deposit	xx	xx
Interest income	xx	xx
Gain on sale of goods and services	xx	xx
Total revenue	xx	xx
Expenses		
Development expenditure	xx	xx
Miscellaneous expenses	xx	xx
Depreciation	xx	xx
Impairment	xx	xx
Total expenses	xx	xx
Net surplus or deficit for the year	xx	xx

Illustrative Statement of Financial Performance of Public Trust Account

4.20 The following illustrates the disclosure of a statement of financial performance of a public trust account.

Revenue	20X2	20X1
Donations and contributions	xx	xx
Gain on investment in fixed deposit	xx	xx
Interest income	xx	xx
Total revenue	xx	xx
Expenses		
Miscellaneous expenses	xx	xx
Total expenses	xx	xx
Net surplus or deficit for the year	xx	xx

Components of Statement of Changes In Net Assets / Equity

4.21 The Statement of Changes in Net Assets/Equity shall include:

(a) Surplus or deficit for the period.
(b) Each item of revenue and expense for the period that, as required by other Standards, is recognized directly in net assets/equity, and the total of these items.

For each component of net assets/equity separately disclosed, the effects of changes in accounting policies and corrections of errors recognized in accordance with MPSAS 3 – Accounting policies, changes in accounting estimates and errors.

4.0 *PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)*

STATEMENT OF CHANGES IN NET ASSETS / EQUITY

Illustrative Statement of Changes In Net Assets/Equity

4.22 The following illustrative Statement of Changes in Net Assets/Equity does not necessarily represent the final presentation adopted by the FGOM and are subject to change.

Refer to Appendix B on illustrative financial statements.

	Acc. Surplus / (Deficit) or Contributed Fund			Total Net Assets / Equity
	General Fund RM'000	Government Trust Accounts RM'000	Other reserves* RM'000	RM'000
Balance at 1 January 20X1	-	-	-	-
Changes in net assets/equity for 20X1				
Items directly recognised in equity	xx	xx	xx	xx
Surplus or deficit for the year	xx	xx	xx	xx
Total recognised revenue and expense for the period	xx	xx	xx	xx
Balance as at 31 December 20X1 carried forward	xx	xx	xx	xx
Balance as at 31 December 20X1 brought forward	xx	xx	xx	xx
Changes in net assets/equity for 20X2				
Items directly recognised in equity	xx	xx	xx	xx
Surplus or deficit for the year	xx	xx		xx
Total recognised revenue and expense for the period	xx	xx	xx	xx
Balance as at 31 December 20X2	xx	xx	xx	xx

* The separate disclosure of other reserves on the face of the Statement of Net Assets/Equity will be dependent on the materiality and applicability of their balances.

4.0 PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

CASH FLOW STATEMENT

Purpose of Cash Flow Statement

4.23 The cash flow statement identifies:

(a) The sources of cash inflows
(b) The items on which cash was expended during the reporting period
(c) The cash and cash equivalent balance as at the reporting date.

4.24 Cash flow information provides users of financial statements with a basis to assess:

(a) The ability of the entity to generate cash and cash equivalents
(b) The needs of the entity to utilize those cash flows.

Direct method

4.25 FGOM will be reporting cash flows from operating activities using the direct method. A reconciliation to the indirect method is required to be disclosed.

Reporting Cash Flows on a Net Basis

4.26 An entity should report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities. However, the following cash flows are reported on a net basis:

(a) Cash receipts collected and payments made on behalf of customers, taxpayers, or beneficiaries when the cash flows reflect the activities of the other party rather than those of the entity; and
(b) Cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short

Components of Cash Flow Statement

4.27 The cash flow statement should report cash flows during the period classified by operating, investing, and financing activities.

<u>Operating Cash Flow</u>

4.28 The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the entity are funded:

(a) By way of taxes (directly and indirectly); or
(b) From the recipients of goods and services provided by the entity.

<u>Investing Cash Flow</u>

4.29 The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which cash outflows have been made for resources that are intended to contribute to the entity's future service delivery. Only cash outflows that result in a recognized asset in the statement of financial position are eligible for classification as investing activities.

4.0 PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

Financing Cash Flow

4.30 The separate disclosure of cash flows arising from financing activities is important, because it is useful in predicting claims on future cash flows by providers of capital to the entity.

Non cash transactions

4.31 Investing and financing transactions that do not require the use of cash or cash equivalents should be excluded from a cash flow statement. Such transactions should be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.

4.32 Examples of non-cash transactions are:

(a) The acquisition of assets through the exchange of assets, the assumption of directly related liabilities, or by means of a finance lease
(b) The conversion of debt to equity.

Disclosure requirements

4.33 An entity should disclose, together with a commentary in the notes to the financial statements, the amount of significant cash balances held by the entity that are not available for use by the economic entity.

Illustrative Cash Flow Statements

4.34 The following illustrative Cash Flow Statements do not necessarily represent the final presentation adopted by the FGOM and are subject to change.

Refer to Appendix B on illustrative financial statements.

Cash Flow Statement (Direct Method)

	Notes	20X2	20X1
CASHFLOWS FROM OPERATING ACTIVITIES:			
Receipts			
Taxation		xx	xx
Sale of goods and services		xx	xx
Grants		xx	xx
Interest received		xx	xx
Other receipts		xx	xx
Payments			
Employee costs		xx	xx
Superannuation		xx	xx
Suppliers		xx	xx
Interest paid		xx	xx
Trust paid		xx	xx
Other payments	24	xx	xx
Net cash flows from operating activities		xx	xx
CASHFLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		xx	xx
Proceeds from sale of property, plant and equipment		xx	xx
Proceeds from sale of investments		xx	xx
Purchase of foreign currency securities		xx	xx
Net cash flows from investing activities		xx	xx

4.0 PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

	Notes	20X2	20X1
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings		xx	xx
Repayment of borrowings		xx	xx
Distribution/dividend to government		xx	xx
Net cash flows from financing activities		xx	xx
Net increase/(decrease) in cash and cash equivalents		xx	xx
Cash and cash equivalents at beginning of the year		xx	xx
Cash and cash equivalents at end of the year		xx	xx

4.35 Reconciliation of Net Cash Flows from Operating Activities to Surplus/(Deficit) will form part of the notes to the cash flow statement.

	20X2 RM'000	20X1 RM'000
Surplus or deficit	xx	xx
Non-cash movements		
(+) Depreciation/Amortisation	xx	xx
(+) Increase in provision for doubtful debt	xx	xx
(+) Increase in payables	xx	xx
(+) Increase in borrowings	xx	xx
(+) Increase in provisions relating to employee costs	xx	xx
(-) (Gains) / (+) losses on sale of property, plant and equipment	xx	xx
(-) (Gains) / (+) losses on sale of investments	xx	xx
(-) Increase in other current assets	xx	xx
(-) Increase in investments due to revaluation	xx	xx
(-) Increase in receivables	xx	xx
Net cash flows from operating activities	xx	xx

Presentation of Budget Information

4.36 An entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts as a separate additional financial statement.

4.37 The comparison of budget and actual amounts shall present separately for each material item:

(a) The original and final budget amounts; and
(b) The actual amounts on a comparable basis.

4.38 Since the budget and the financial statements are prepared on different bases, entities will include, as a separate additional financial statement, a comparison schedule between budgeted amounts and actual amounts prepared on the budgetary basis, as opposed to presenting an additional budget column in the financial statements presented. An entity prepares its budget on the budgetary basis, whereas the financial statements are prepared on the full accrual basis of accounting.

4.0 PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

STATEMENT OF BUDGET PERFORMANCE

Differences between Actual Amount and Budgeted Amount

4.39 Differences between the actual amounts identified consistent with the comparable basis, and the actual amounts recognized in the financial statements, can usefully be classified into the following:

(a) Basis differences, which occur when the approved budget is prepared on a basis other than the accounting basis. For example, where the budget is prepared on the cash basis or modified cash basis and the financial statements are prepared on the accrual basis.
(b) Timing differences, which occur when the budget period differs from the reporting period reflected in the financial statements.
(c) Entity differences, which occur when the budget omits programs or entities that are part of the entity for which the financial statements are prepared.

Disclosure Requirements for Budget Performance Comparison

4.40 An entity shall explain in notes to the financial statements the following:

(a) The budgetary basis.
(b) Classification basis adopted in the approved budget.
(c) The entities included in the approved budget.
(d) An explanation of whether changes between the original and final budget are a consequence of reallocations within the budget, or of other factors.

Level of Aggregation

4.41 Budget documents may provide great detail about particular activities, programs, or entities. These details are often aggregated into broad classes under common budget heads, budget classifications, or budget headings for presentation to, and approval by, the legislature or other authoritative body. The disclosure of budget and actual information consistent with those broad classes and budget heads or headings will ensure that comparisons are made at the level of legislative or other authoritative body oversight identified in the budget documents.

Reconciliation of Actual Amounts on a Comparable Basis and Actual Amounts in the Financial Statements

4.42 The actual amounts presented in the Statement of Budget Performance and actual amounts have to be reconciled to the actual amounts of the Cash Flow Statement, identifying separately any basis, timing and entity differences. As the FGOM accounting basis for the financial statements (full accrual basis accounting) is different from the budgetary basis, the budgetary result and net cash flows (cash flow statement) from operating activities, investing activities and financing activities will be reconciled. The reconciliation will be disclosed in the notes to the financial statements.

4.0 *PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)*

Illustrative Statement of Budget Performance

4.43 The following illustrative Statements of Budget Performance represents the presentation to be adopted by the FGOM.

Illustrative Statement of Budget Performance on Estimated Revenue

	20X2				20X1	
	Original estimation	Revised Estimation	Actual		Actual	
	RM	RM	RM	%	RM	%
Tax revenue						
Income tax	xx	xx	xx	xx	xx	xx
Other direct tax	xx	xx	xx	xx	xx	xx
Custom duty – export	xx	xx	xx	xx	xx	xx
Custom duty – import	xx	xx	xx	xx	xx	xx
Total tax revenue	xx	xx	xx	xx	xx	xx
Non tax revenue						
License, registration fee and permits	xx	xx	xx	xx	xx	xx
Sale of services	xx	xx	xx	xx	xx	xx
Gain from sale of goods	xx	xx	xx	xx	xx	xx
Rental revenue	xx	xx	xx	xx	xx	xx
Interest and gain on investment	xx	xx	xx	xx	xx	xx
Fines and penalties	xx	xx	xx	xx	xx	xx
Total non tax revenue	xx	xx	xx	xx	xx	xx
Federal territories revenue						
Tax revenue from federal territories	xx	xx	xx	xx	xx	xx
Non tax revenue from federal territories	xx	xx	xx	xx	xx	xx
Total federal territories revenue	xx	xx	xx	xx	xx	xx
Total revenue	xx	xx	xx	xx	xx	xx

4.0 PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

Illustrative Statement of Budget Performance on Operating Expenditure (T Vote)

Purpose of expenditure			Budgeted Amounts			Actual		Variance
		Original RM	Increase/ (Decrease) RM	Vire-ment* RM	Total RM	Amount RM	Estima-tion %	Final Budget and Actual RM
Charged expenditure								
T.01	**Royal provision for S.P.B Yang Dipertuan Agong**							
010000	General Administration	xx	xx	xx	xx	xx	xx	xx
10000	Emolument	xx	xx	xx	xx	xx	xx	xx
20000	Services and supplies	xx	xx	xx	xx	xx	xx	xx
30000	Assets	xx	xx	xx	xx	xx	xx	xx
40000	Contribution and fixed charges	xx	xx	xx	xx	xx	xx	xx
Total 010000		xx	xx	xx	xx	xx	xx	xx
Total emoluments		xx	xx	xx	xx	xx	xx	xx
Total services and supplies		xx	xx	xx	xx	xx	xx	xx
Total asset		xx	xx	xx	xx	xx	xx	xx
Total contribution and fixed charges		xx	xx	xx	xx	xx	xx	xx
Total for royal provision for S.P.B Yang Dipertuan Agong		xx	xx	xx	xx	xx	xx	xx

Illustrative Statement of Budget Performance on Operating Expenditure (B Vote)

Purpose of expenditure			Budgeted Amounts			Actual Amounts		Variance
		Original RM	Increase/ (Decrease) RM	Vire-ment* RM	Total RM	Amount RM	Estima-tion %	Deficit / Surplus of expendi-tures RM
Supply expenditure								
B.06	**Prime Minister Department**							
010000	General Administration	xx	xx	xx	xx	xx	xx	xx
10000	Emoluments	xx	xx	xx	xx	xx	xx	xx
20000	Services and supplies	xx	xx	xx	xx	xx	xx	xx
30000	Assets	xx	xx	xx	xx	xx	xx	xx
40000	Contribution and fixed charges	xx	xx	xx	xx	xx	xx	xx
50000	Other expenses	xx	xx	xx	xx	xx	xx	xx
Total 010000		xx	xx	xx	xx	xx	xx	xx
Total emoluments		xx	xx	xx	xx	xx	xx	xx
Total services and supplies		xx	xx	xx	xx	xx	xx	xx
Total asset		xx	xx	xx	xx	xx	xx	xx
Total contribution and fixed charges		xx	xx	xx	xx	xx	xx	xx
Total other expenses		xx	xx	xx	xx	xx	xx	xx
Total for Prime Minister Department		xx	xx	xx	xx	xx	xx	xx

* Virement represents movement of budget between programs/activities/objects within the same Ministry.

4.0 *PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)*

Illustrative Statement of Budget Performance on Development Expenditure (P-Vote)

Purpose of expenditure		Overall cost	Actual expendi-ture RM-X up to 31.12.20x1	Budgeted Amounts year 20x2			Actual Amounts year 20x2			Actual expendi-ture RM–X up to 31.12.20x2
				Direct method	Borrow-ings	Total	Direct method	Borrow-ings	Total	
		RM	RM	RM	RM	RM	RM	RM	RM	RM
P.45	**Ministry of youth and sports**									
00100	IKBN	xx	xx	xx	xx	xx	xx	xx	xx	xx
00110	Skills Building Programme	xx	xx	xx	xx	xx	xx	xx	xx	xx
00603	Sports Complex Tawau, Sabah	xx	xx	xx	xx	xx	xx	xx	xx	xx
02004	District Complex youths (KRMD)	xx	xx	xx	xx	xx	xx	xx	xx	xx
04007	Study on building of youth	xx	xx	xx	xx	xx	xx	xx	xx	xx
Total for Ministry of Sports		xx	xx	xx	xx	xx	xx	xx	xx	xx
Total Development expenditure		xx	xx	xx	xx	xx	xx	xx	xx	xx

Illustrative Statement of Reconciliation

	Operating	Financing	Investing	Total
Actual amount on comparable basis as presented in the Budget and actual comparative statement	x	x	x	x
Basis differences	x	x	x	x
Timing differences	x	x	x	x
Entity differences	x	x	x	x
Actual amount in the statement of cash flows	x	x	x	x

This reconciliation could be included on the face of the Statement of Comparison of Budget and Actual Amount or as a disclosure note.

Existing statement of budget performance will need to be reclassed under operating, financing and investing activities as required under the statement of reconciliation between budget and cash flow.

References

- MPSAS 1 – Presentation of Financial Statement
- MPSAS 2 – Cash Flow Statements
- MPSAS 24 – Presentation of Budget Information in Financial Statement

FINANCIAL POSITION AND RELATED NOTES

5.0 PROPERTY, PLANT AND EQUIPMENT

Introduction

5.1 This chapter covers the following matters:

- Initial recognition and measurement
- Measurement subsequent to initial recognition
- Concept and methods of depreciation
- Revaluation
- Disposals and exchanges
- Other specific assets
- Disclosures

Initial recognition and measurement

5.2 Property, plant and equipment are tangible items that:

(a) Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
(b) Are expected to be used for more than one reporting period.

5.3 Property, plant and equipment acquired through an exchange transaction shall be initially recognized as an asset at cost if, and only if:

(a) It is probable that future economic benefits or service potential associated with the item will flow to the entity; and
(b) The cost or fair value of the item can be measured reliably.

5.4 Proposed capitalization threshold for property, plant and equipment is RM2,000 per item subject to regular review. Asset below RM2,000 (low value asset) shall be expensed off but recorded in the assets register for record and control purpose.

<u>Measurement of cost</u>

5.5 The cost of an item of property, plant, and equipment comprises:

(a) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
(b) Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
(c) The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired, or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

5.6 Examples of directly attributable costs are:

(a) Cost of employee benefits that arise directly from the construction or acquisition of the item
(b) The costs of site preparation
(c) Initial delivery and handling costs
(d) Installation and assembly costs
(e) Professional fees
(f) Cost of testing whether the asset is working properly

5.0 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Spare parts and servicing equipment

5.7 Spare parts and servicing equipment are usually carried as inventory and recognized in surplus or deficit as consumed. However, major spare parts and stand-by equipment qualify as property, plant, and equipment when an entity expects to use them for more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant, and equipment, they are accounted for as property, plant, and equipment.

Componentization of asset

5.8 Componentization is the separation of an asset into its significant component. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item and has a different useful life will need to be componentised separately.

For example:

(a) An aircraft and its engines may need to be treated as separate depreciable assets.
(b) The building and air conditioning system/lifts may need to be treated as separate depreciable assets.

Subsequent costs

5.9 Once an item of property, plant and equipment has been capitalised, there may be further costs on that asset at a later date. Subsequent costs should be capitalised only when it is probable that future economic benefits/services potential associated with the item will flow to the entity and the cost of the item can be measured reliably.

5.10 Examples are where the subsequent costs result in either an increase in productive capacity, an additional ability to generate future economic benefits/service potential or an extension in useful life.

5.11 All other subsequent costs should be recognised as an expense in the period in which they are incurred. The cost of the day-to-day servicing of an item of property, plant and equipment is not recognised as an asset because they do not add to the future economic benefits/service potential of the item.

Subsequent measurement

5.12 After recognition as an asset, an item of property, plant and equipment shall be carried at cost, less any accumulated depreciation and any accumulated impairment loss (cost model).

Concept and methods of depreciation

Depreciation

5.13 Depreciation is charged on a straight-line basis at rates calculated to allocate the cost of an item of property, plant and equipment measured at cost less any estimated residual value, over its remaining useful life. For freehold land, it is not necessary to depreciate but for leasehold land, it shall be amortized over the lease period. The depreciation charge for the period is recognized in surplus or deficit.

5.0 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

5.14 Classification of property, plant and equipment and its useful life is illustrated under Appendix C.

5.15 Some life assets are used by FGOM in carrying out their operations. For life assets in which future benefits or service potential are obtained, these life assets shall be accounted for as property, plant and equipment. For example, dogs belonging to the narcotic division of the police force used in operations are to be accounted for as property, plant and equipment. The useful lives of these assets are in Appendix C.

Impairment

5.16 Where an asset's recoverable service amount or recoverable amount is less than its carrying amount, it is reported at its recoverable service amount or recoverable amount and an impairment loss is recognized.

5.17 An entity would impair the cost of a property, plant and equipment when it can demonstrate that the reduction in future economic benefits is expected to be permanent. Conditions that may indicate that the future economic benefits associated with a property, plant and equipment have been reduced and impairment is appropriate include:

(a) A change in the extent to which the asset is used;
(b) A change in the manner in which the asset is used;
(c) Significant technological developments;
(d) Physical damage;
(e) Removal of the asset from service;
(f) A decline in or cessation of, the need for the services provided by the asset;
(g) A decision to halt construction of the asset before it is complete or in usable or saleable condition; and
(h) A change in the law or environment affecting the extent to which the asset can be used.

Please refer to Chapter 14 – Impairment of assets for further illustration of impairment of assets.

Revaluation

5.18 Where the current policy is changed, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount being its fair value at revaluation date less any subsequent accumulated depreciation and accumulated impairment losses. Revaluations shall be made with sufficient regularity.

5.19 The frequency of revaluations depends upon the changes in the fair values of the items of property, plant, and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. Some items of property, plant, and equipment experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant, and equipment with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three or five years.

5.20 Where the carrying amount of a class of asset is increased as a result of a revaluation, the increase shall be credited directly to revaluation surplus. However, the increase shall be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same class of assets previously recognised in surplus or deficit.

5.0 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

5.21 Where the carrying amount of a class of asset is increased as a result of a revaluation, the increase shall be recognised directly in surplus or deficit to the extent that it reverses the impairment loss previously recognized in surplus or deficit.

5.22 If the carrying amount of a class of asset is decreased as a result of a revaluation, the decrease shall be recognised in surplus or deficit. However, the decrease shall be debited to revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that class of assets.

Disposals and exchanges

5.23 When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. This method is often used when an asset is revalued by means of applying an index to its depreciated replacement cost.

5.24 Revaluation increases and decreases relating to individual assets within a class of property, plant and equipment must be offset against one another within that class but most not be offset in respect of assets in different classes.

<u>Gains or losses on disposal of assets</u>

5.25 Gains or losses arising from disposal of property, plant and equipment are recognized in the statement of financial performance in the period in which the transaction occurs.

<u>Non-monetary exchange of property, plant and equipment</u>

5.26 Non-monetary exchanges are exchanges of non-monetary assets, liabilities or services for other non-monetary assets, liabilities or services with little or no monetary consideration involved.

5.27 Property, plant and equipment acquired through non exchange is measured at fair value unless:

(a) The exchange transaction lacks commercial substance; or
(b) The fair value of neither the asset received nor the asset given up is reliably measurable.

Other specific assets

<u>Asset under construction</u>

5.28 An asset under construction ('AUC') is an asset an entity is currently 'constructing', which is not yet being used for its final intended purpose.

5.29 The cost of an AUC is determined using the same cost measurement principles above. AUC are not depreciated during the period of construction. When the asset is ready for use, the AUC will need to be reclassified to its appropriate category of property, plant and equipment and commence depreciation.

5.0 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

5.30 Where the AUC is earmarked for transfer at inception, the treatment will depend on the substance of the contractual agreement as well as any legislation that could supplement or override those contractual terms.

5.31 For those development projects carried out by the ministry who legally own the assets but the assets are transferred to third party when completed, during construction period, AUC shall be capitalized. When such AUC are completed and transferred to third party, AUC shall be expensed off to current year surplus or deficit.

5.32 For those development projects carried out by the ministry as legally required but ministry has no control over the asset and has no legal ownership, then the AUC shall be expensed off as a grant to a third party. Guidance on grant accounting is included in Chapter 15- Grants.

Heritage asset

5.33 Heritage assets are assets because of their cultural, environmental, or historical significance. Examples of heritage assets include historical buildings and monuments, archaeological sites, conservation areas and nature reserves, and works of art. Certain characteristics, including the following, are often displayed by heritage assets (although these characteristics are not exclusive to such assets):

(a) Their value in cultural, environmental, educational, and historical terms is unlikely to be fully reflected in a financial value based purely on a market price;
(b) Legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale;
(c) They are often irreplaceable and their value may increase over time, even if their physical condition deteriorates; and
(d) It may be difficult to estimate their useful lives, which in some cases could be several hundred years.

5.34 Heritage asset shall be recorded if it is gazetted under National Heritage Act 2005. If cost is available, it shall be measured at cost. If it is impractical to determine the cost, it shall be measured at nominal cost of RM1.

5.35 Some heritage assets have future economic benefits or service potential other than their heritage value, for example, an historic building being used for office accommodation. In these cases, they are recognized and measured on the same basis as other items of property, plant, and equipment.

Ownership of Government Asset on Third Party Land

5.36 Government building sitting on third party land shall be accounted for as property, plant, and equipment or lease asset if ownership or control exists over the building. The following criteria need to be considered:

(a) Legal ownership of the building.
(b) When there is no formal documentation, control is deemed to exist where FGOM has the power to obtain future economic benefit or service potential associated with the building and able to restrict the access of other party to the benefit.
(c) Control is also deemed to exist where the FGOM enjoys the risk and rewards attached to the building. Risk is defined as possibilities of losses from idle capacity, technological obsolescence or changes in value due to changes in economic conditions and reward is defined as economic life and gain from appreciation in value or realization of residual value.

5.0 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(d) If payments were made for the land, the following criteria are assessed:
   (i) if risk and rewards are transferred to government
   (ii) period of payment (one off, periodic or perpetual)

<u>Asset obtained through non exchange transaction</u>

5.37 When asset is acquired through non exchange transaction, its cost shall be measured at it fair value as at the date of acquisition. In a non exchange transaction, an entity either received value from another entity without directly giving approximately equal value in exchange or gives value to another entity without directly receiving approximately equal value in exchange.

Disclosure requirements

5.38 An entity shall disclose the following:

(a) Property, plant and equipment and heritage assets is reported under the heading 'Non current assets' in the statement of financial position;
(b) The net book value of tangible capital assets not being amortized because they are under construction or development; and
(c) For property, plant and equipment where the net book value is already nil, the original historic cost, as an indication of their existence.

5.39 For each class of property, plant, and equipment (including heritage assets):

(a) The measurement bases used for determining the gross carrying amount;
(b) The depreciation methods used;
(c) The useful lives or the depreciation rates used;
(d) The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and
(e) A reconciliation of the carrying amount at the beginning and end of the period showing:
   (i) Additions;
   (ii) Disposals;
   (iii) Acquisitions through entity combinations;
   (iv) Increases or decreases resulting from revaluations under and from impairment losses (if any) recognized or reversed directly in net assets/equity in accordance with MPSAS 21 – Impairment of non–cash-generating asset;
   (v) Impairment losses recognized in surplus or deficit in accordance with MPSAS 21 – Impairment of non–cash-generating asset;
   (vi) Impairment losses reversed in surplus or deficit in accordance with MPSAS 21 – Impairment of non–cash-generating asset;
   (vii) Depreciation;
   (viii) The net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity; and
   (ix) Other changes.

5.0 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(f) For each class of property, plant, and equipment recognized in the financial statements:
  - (i) The existence and amounts of restrictions on title, and property, plant, and equipment pledged as securities for liabilities;
  - (ii) The amount of expenditures recognized in the carrying amount of an item of property, plant, and equipment in the course of its construction;
  - (iii) The amount of contractual commitments for the acquisition of property, plant, and equipment; and
  - (iv) If it is not disclosed separately on the face of the statement of financial performance, the amount of compensation from third parties for items of property, plant, and equipment that were impaired, lost or given up that is included in surplus or deficit.

(g) In accordance with MPSAS 3 – Accounting policies, changes in accounting estimates and errors, an entity discloses the nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in subsequent periods. For property, plant, and equipment (not including heritage assets), such disclosure may arise from changes in estimates with respect to:
  - (i) Residual values;
  - (ii) The estimated costs of dismantling, removing, or restoring items of property, plant and equipment;
  - (iii) Useful lives; and
  - (iv) Depreciation methods.

(h) If a class of property, plant, and equipment is stated at revalued amounts, the following shall be disclosed:
  - (i) The effective date of the revaluation;
  - (ii) Whether an independent valuer was involved;
  - (iii) The methods and significant assumptions applied in estimating the assets' fair values;
  - (iv) The extent to which the assets' fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms, or were estimated using other valuation techniques;
  - (v) The revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders or other equity holders;
  - (vi) The sum of all revaluation surpluses for individual items of property, plant, and equipment within that class; and
  - (vii) The sum of all revaluation deficits for individual items of property, plant, and equipment within that class

References

- MPSAS 17 – Property, Plant and Equipment

5.0 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Scenario A - Purchase and depreciation of a property, plant and equipment

The entity purchased and received a vehicle for RM23,500 on 31 January 20X7. Delivery costs are an additional RM500. Payment takes place on the 15 February 20X7. The vehicle has a useful life of 10 years with no estimated residual value.

Journal entries

1) To record the purchase and receipt of the vehicle on 31 January 20X7

(a) Delivery with invoice

The entity should capitalize the asset as property, plant and equipment (vehicle) account, since it is above the RM2,000 capitalization threshold. Delivery costs should be capitalized as part of the cost of the asset. Since the entity has not paid for the vehicle, a liability must be recorded for the amount owing.

	Amount (RM)	Accounting Code
DR Property, plant and equipment (vehicle)	24,000	A14341XX
CR Accounts payable	24,000	L01341XX

(b) Delivery without invoice

Similar to 1(a), an entity received the asset without the supporting invoice. In such an instance, the goods received but invoice not received (GRIR), a transit account, is credited.

	Amount (RM)	Accounting Code
DR Property, plant and equipment (vehicle)	24,000	A14341XX
CR Goods received invoiced not received (GRIR)	24,000	L1312960

Once invoice is in receipt, a transfer journal of liability is done from the GRIR account to accounts payable.

2) To record the depreciation expense for January 20X7

It is necessary to allocate the cost of the asset as an expense in a rational and systematic manner over those periods expected to benefit from the use of the asset. Using the straight-line depreciation, the monthly charge to depreciation expense and accumulated depreciation would be RM200 (RM24,000/10yrs = RM2,400/year; RM2,400/12mths = RM200/month).

	Amount (RM)	Accounting Code
DR Depreciation expense	200	B31341XX
CR Accumulated depreciation	200	A31341XX

Full month of depreciation is charged regardless of the purchase timing of an asset in a given month (i.e. a mid month purchase).

3) To record the payment of vehicle on 15 February 20X7

When the entity makes a payment, the liability account is reversed and cash account is reduced accordingly.

	Amount (RM)	Accounting Code
DR Accounts payable	24,000	L01341XX
CR Cash	24,000	A0112XXX

5.0 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Scenario B - Treatment of subsequent cost incurred

The entity purchased a building on 31 January 20X7 for RM300,000 with a useful life of 50 years. Subsequently after 10 years, the centralised air condition system was removed and reinstalled with a new system. The cost of the original air condition system was RM50,000 and was accounted for as a separate component of asset.

The new air condition system was valued at RM70,000. At this point, the net book value of the original air condition was RM40,000. The cost of the air condition system was accounted for as a separate asset from the building.

Journal entries

1) To record the removal of the old centralized air condition system

The net book value of the old air conditioner system amounts to RM40,000 at the point when it is removed.

	Amount (RM)	Accounting Code
DR Accumulated deprecation	10,000	A31353XX
DR Write off expense	40,000	B05512XX
CR Property, plant and equipment (air conditioner)	50,000	A14353XX

Full month of depreciation is charged regardless of the removal timing of an asset in a given month (i.e. a mid month removal).

2) To record the installation of the new centralized air condition system

The new air condition system installed amounts to RM70,000. At the point of installation, property, plant and equipment account is debited and the cash account is reduced accordingly.

	Amount (RM)	Accounting Code
DR Property, plant and equipment (air conditioner)	70,000	A14353XX
CR Cash	70,000	A0112XXX

3) To record the depreciation expense of new centralized air conditioner system

The new centralized air conditioner system will be depreciated over the remaining useful life of the building (i.e.40 years). The yearly depreciation expense amounts of RM1,750 (RM70,000 / 40).

	Amount (RM)	Accounting Code
DR Depreciation expense	1,750	B31353XX
CR Accumulated depreciation	1,750	A31353XX

5.0 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Scenario C - Purchase of a property, plant and equipment that can be componentized

The entity purchased an aircraft which amounts to RM350,000 on 31 January 20X7. Upon assessment, the engine of the aircraft should be componentized and is valued at RM100,000. The aircraft is said to have an estimated useful life of 20 years while the engine has a useful life of 40 years.

Journal entries

1) To record the purchase and receipt of the aircraft on 31 January 20X7

The entity should capitalize this asset as a property, plant and equipment account, since it is above the RM2,000 capitalization threshold. Furthermore, both the aircraft and engine will need to be treated as two separate assets as the costs are significant and both have different useful life.

	Amount (RM)	Accounting Code
DR Property, plant and equipment (aircraft)	250,000	A14341XX
DR Property, plant and equipment (engine)	100,000	A14341XX
CR Accounts payable	350,000	L01341XX

Scenario D - Cost of construction of asset

An entity plans to construct an asset which functions to provide benefits to the entity over a useful life of 10 years. The construction of the asset is scheduled to be completed in 4 months. The entity incurs the following costs in constructing the asset:

(a) Feasibility assessment studies which costs RM3,000
(b) Cost of evaluating sites for the asset amounting to RM3,000
(c) Materials and supplies amounting to RM6,000
(d) Labour cost of RM5,000

Journal entries

1) To record the asset under construction

Only costs that are directly attributable to the construction of the asset is capitalized as asset under construction. The materials and supplies cost and the labour cost incurred to construct the asset is capitalized as asset under construction. However, the cost of conducting the feasibility assessment studies and also the cost of evaluating sites for the asset are generally not cost directly attributable to constructing the asset, thus it is expensed off at the period it is incurred.

	Amount (RM)	Accounting Code
DR Asset under construction	11,000	A203XXXX
CR Accounts payable	11,000	L013XXXX

5.0 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Scenario E - Entity purchases a computer but work is still required to get it ready for use

Entity buys computer hardware for RM200,000. The equipment is not functional until it has been installed properly and is ready for use. Until that time the equipment will not be depreciated. The following costs are associated with getting the equipment ready for use:

(a) Freight charges - RM500
(b) Computer consultants to set up the hardware - RM35,000
(c) Additional circuits required to modify the hardware to adapt to entity's needs - RM5,000

Journal entries

1) To record the purchase of the computer hardware

The asset is over the threshold RM2,000 amount and must be capitalized. Since the asset is not ready for use, the asset should not be depreciated.

	Amount (RM)	Accounting Code
DR Property, plant and equipment - asset under construction	200,000	A20352XX
CR Accounts payable	200,000	L01352XX

2) To record and capitalize cost of computer consultants amounting to RM35,000 directly attributable to the computer equipment as part of the asset

	Amount (RM)	Accounting Code
DR Property, plant and equipment – asset under construction	35,000	A20352XX
CR Cash	35,000	A0112XXX

3) To record additional expenses of RM5,500 (freight and additional circuits charges) related to the computer hardware installation

Similar journal entry as 2) above. Total computer cost capitalised will amount to RM240,500.

4) The computer is ready for use

	Amount (RM)	Accounting Code
DR Property, plant and equipment – computer hardware	240,500	A14352XX
CR Property, plant and equipment – asset under construction	240,500	A20352XX

Depreciation of the asset commences once the asset is ready for use.

A reclassification transfer journal entry is required to move asset from AUC to computer hardware. Useful life of computer hardware is expected to be 5 years and depreciation will now commence based on the cost value of RM240,500. Similar journal entry under Scenario A applies.

5.0 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Scenario F - Asset under construction with progressive payments

Company A Sdn Bhd secured a project to build a school with the cost of work of RM10 million. The work commenced on 1 Mei 20X1. On 1 Jun 20X1, FGOM made an advance payment to Company A amounting to RM1 million. The project was expected to be completed on 1 August 20X2.

For each government project, the contractor has to provide deposit (akin to retention sum) amounting to five percent (5%) of the contract sum to secure the performance of the contractor's obligation under the contract. The contractor may opt to use Performance Bond issued by an approved licensed bank or in the form of a performance guarantee sum whereby deduction shall be made from every interim payment. Company A has opted for a performance guarantee sum.

The payment schedule for project is as per below:

Date	Payment Schedule	Bill with Completion Certificate	Advance payment	Performance Guarantee Sum(5%)	Cash outflow
01 June 20X1	Deposit	-	(1,000,000)	-	(1,000,000)
01 August 20X1	1st progress payment	(3,000,000)	1,000,000	71,428	(1,928,572)
01 October 20X1	2nd progress payment	(2,000,000)	-	71,428	(1,928,572)
01 December 20X1	3rd progress payment	(1,000,000)	-	71,428	(928,572)
01 February 20X2	4th progress payment	(1,000,000)	-	71,428	(928,572)
01 April 20X2	5th progress payment	(1,000,000)	-	71,428	(928,572)
01 June 20X2	6th progress payment	(1,000,000)	-	71,428	(928,572)
01 August 20X2	7th progress payment	(1,000,000)	-	71,432	(928,568)
Total		**(10,000,000)**	**-**	**500,000**	**9,500,000**

Journal entries

1) To record the advance cash payment to Company A

	Amount (RM)	Accounting Code
DR Advance payment*	1,000,000	A0591XXX
CR Cash	1,000,000	A0112XXX

* Where advance payment is held for less than 12 months, this account is classed as current asset. Otherwise, it is classed as non current asset.

5.0 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Journal entries

2) To record the first progressive payment on 1 August 20X1

On 1 August 20X1, the FGOM accrued for the first progress payment based on completion progress certificate and progress bill of RM3 million to Company A.

	Amount (RM)	Accounting Code
DR Asset under construction	3,000,000	A20321XX
CR Account payable	3,000,000	L01321XX

At settlement point, a 5% performance guarantee sum was retained by FGOM. The advance payment account was also utilised towards this payment.

	Amount (RM)	Accounting Code
DR Account payable	3,000,000	L01321XX
CR Advance payment	1,000,000	A0591XX
CR Performance guarantee sum	71,428	L11111XX
CR Cash	1,928,572	A0112XXX

3) To record the second progress payment on 1 October 20X1

On 1 October 20X1, the FGOM accrued for the second progress payment of RM2 million to Company A.

	Amount (RM)	Accounting Code
DR Asset under construction	2,000,000	A20321XX
CR Account payable	2,000,000	L01321XX

At settlement point, another 5% performance guarantee sum was retained by FGOM. At this stage, all earlier advance payment was utilised for the first progress payment.

	Amount (RM)	Accounting Code
DR Account payable	2,000,000	L01321XX
CR Performance guarantee sum	71,428	L11111XX
CR Cash	1,928,572	A0112XXX

5.0 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Journal entries

4) To record the completion of construction and to recognize the asset under construction as asset

On 1 August 20X2, the FGOM issued the Certificate of Project Completion. At that point of time, the total of work cost paid to Contractor A is RM9.5 million and Performance Guarantee Sum reached its equivalent amount totalling 5% of the contract sum of RM500,000.

This triggers a transfer journal to move asset from AUC to building.

	Amount (RM)	Accounting Code
DR Property, plant and equipment - building (school)	10,000,000	A14321XX
CR Asset under construction	10,000,000	A20321XX

Subsequent payment towards building will need to be expensed unless it meets the capitalization criteria.

5) To record release of performance guarantee on 1 September 20X2

a) Assume no defect identified during retention period, thus full release of performance guarantee sum

Upon successful completion and sign off from FGOM, the performance guarantee is approved for release to Contractor A.

	Amount (RM)	Accounting Code
DR Performance guarantee sum	500,000	L11111XX
CR Cash	500,000	A0112XXX

b) Assume defect identified during retention period, thus partial release of performance guarantee sum

During the warranty period, the FGOM found that the contractor needed to repair a classroom and toilet due to defect of materials and workmanship. The contractor was reluctant to carry out the repair. The entity incurred RM200,000 to carry out the repair works.

i) The repair work was carried out by contractor B and the accompanying subsequent cost of repair is debited as expense.

	Amount (RM)	Accounting Code
DR Expense	200,000	B02281XX
CR Cash (Contractor B)	200,000	A0112XXX

5.0 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Journal entries

ii) The RM200,000 was reclaimed via the partial payment and release of performance guarantee sum

	Amount (RM)	Accounting Code
DR Performance guarantee sum	500,000	L11111XX
CR Cash (Contractor A)	300,000	A0112XXX
CR Expense	200,000	B02281XX

iii) To record using the same scenario above where the project was unreasonably delayed and behind schedule, action was taken to the Contractor A by imposing penalty of RM100,000 and by deducting penalty from the final payment. The final payment of the project is RM400,000 being the release from the performance guarantee sum.

	Amount (RM)	Accounting Code
DR Performance guarantee sum	500,000	L11111XX
CR Non tax revenue - penalty	100,000	H0176102
CR Cash	400,000	A0112XXX

6) To record the payment for an extension of building

On 15 August 20X2, the FGOM instructed the contractor to carry out the variation order to extend the building for a store room. The payment for variation order was made to the contractor amounting to RM200,000

As the additional cost incurred will generate future economic benefit, this cost is capitalized and added to current building cost.

	Amount (RM)	Accounting Code
DR Property, plant and equipment - building (school)	200,000	A14321XX
CR Cash	200,000	A0112XXX

7) To record impairment upon halt of construction

Refer to Scenario A.4 under chapter 14 – Impairment of Assets.

5.0 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Scenario G - Disposal via sale of property, plant and equipment

On 1 May 20X7, an entity purchased informatics-hardware for RM32,000 with an estimated service life of 5 years and an estimated residual value after 5 years of RM2,000. The entity uses straight-line depreciation and decides to sell the asset on 1 November 2011.

Journal entries

1) To record the disposal of the asset and related gain

The consideration agreed for the disposal is assumed at RM8,000. The entity should record the proceeds received of RM8,000. The equipment and related accumulated depreciation should be removed/derecognised from the books. The resulting gain will be credited to the 'Gain on Disposal' account.

The accumulated depreciation is RM27,000 and is calculated as follows (RM32,000-2,000 = RM30,000) (RM30,000/60 mths = RM500/mths) (54 mths x RM500 = RM27,000).

	Amount (RM)	Accounting Code
DR Cash	8,000	A0113XXX
DR Accumulated depreciation – informatics hardware	27,000	A31352XX
CR Informatics hardware	32,000	A14352XX
CR Gain from disposal of property, plant and equipment	3,000	H02846XX

Full month of depreciation is charged regardless of the disposal timing of an asset in a given month (i.e. a mid month disposal)

2) To record the disposal of the asset and the related loss

Assuming the circumstance is the same as above except the entity decides to sell the asset for RM3,000 on 1 November 20X7. In this case, the resulting loss will be debited to the 'Loss on Disposal' account.

	Amount (RM)	Accounting Code
DR Cash	3,000	A0113XXX
DR Accumulated depreciation – informatics hardware	27,000	A31352XX
DR Loss on disposal of property, plant and equipment	2,000	B05535XX
CR Informatics hardware	32,000	A14352XX

Full month depreciation is charged regardless of the disposal timing of an asset in a given month (i.e. a mid month disposal)

5.0 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Scenario H - Acquisition of property, plant and equipment via trade-in

The entity trades in an old piece of research equipment for a new piece of research equipment. The old equipment has an accumulated depreciation of RM7,000 and an original cost of RM8,000. Trade in price is RM600. The new equipment has a value of RM10,000.

Journal entries

1) To record the new acquisition via trade-in

The cost of the old equipment and related accumulated depreciation should be removed / derecognised from the books. The loss on the disposal of the trade-in is RM400.

	Amount (RM)	Accounting Code
DR Property, plant and equipment (new)	10,000	A14359XX
DR Accumulated depreciation - equipment (old)	7,000	A31359XX
DR Loss on disposal of assets	400	B05535XX
CR Property, plant and equipment (old)	8,000	A14359XX
CR Accounts payable (net of trade in amount)	9,400	L01359XX

Scenario I - Write-off of property, plant and equipment

Informatics hardware originally costing RM120,000 with a useful life of 5 years has a RM60,000 accumulated depreciation balances on 1 April 20X7. It is amortized at RM2,000 per month. In July, a fire caused substantial damage to the equipment. The entity decides the equipment has no future benefits and should be written off immediately.

Journal entries

1) To record the write-off of property, plant and equipment (bringing the value of the informatics hardware to zero)

The cost of the equipment and related accumulated depreciation (after adding an additional RM6,000 in depreciation expense in 20X7) should be written off from the books. The net result of these items will result in a write off of RM54,000.

	Amount (RM)	Accounting Code
DR Accumulated depreciation – Informatics hardware	66,000	A31352XX
DR Write off expense	54,000	B05512XX
CR Informatics hardware	120,000	A14352XX

5.0 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Scenario J - Impairment of property, plant and equipment

A computer equipment has a cost of RM400,000 and accumulated depreciation of RM40,000. The entity determines that the computer equipment will not provide the full benefits expected (e.g. the computer equipment cannot handle the volume of processing required and new additional equipment will have to be purchased to supplement it). The entity determines that the cost of the computer equipment should be reduced by RM100,000 to reflect the decline in the asset's value.

Journal entries

1) To record the write-down of property, plant and equipment

The decline in asset's value is recorded as an impairment loss expense. The credit is to accumulated impairment loss to reflect the decrease in the net book value of the asset.

	Amount (RM)	Accounting Code
DR Impairment loss expense	100,000	B41352XX
CR Accumulated impairment loss	100,000	A41352XX

Scenario K - Revaluation of property, plant and equipment

An entity purchased a building at a cost of RM500,000 on 1 January 20X1. Building asset is depreciated on a straight line basis over 25 years with an annual depreciation charge of RM20,000. By year 20X5, the building had appreciated in value to RM700,000. The accumulated depreciation was at RM100,000.

Where an item of property, plant and equipment is revalued, any accumulated depreciation at the date of revaluation is restated proportionately with the change in the gross carrying amount of asset so that the carrying amount of the asset after revaluation equals its revalued amount.

Hence, the increase in asset value is recorded as a revaluation surplus and accumulated depreciation is increased in line with the higher gross revalued amount.

Subsequent to the revaluation in Year 20X5, the asset value appreciated further in value to RM1,200,000 in Year 20X6 due to increased popularity in the area where building resides.

Details of property, plant and equipment after revaluation on a depreciated replacement cost basis are as follows:

	20X6	20X5
Property, plant and equipment at cost	700,000	500,000
Increase on revaluation	500,000	200,000
Property, plant and equipment at revalued gross replacement cost	1,200,000	700,000
Accumulated depreciation	140,000	100,000
Accumulated depreciation on revaluation	100,000	40,000
Accumulated depreciation after revaluation	240,000	140,000
Total increase on revaluation:		
Increase in cost	500,000	200,000
Increase in accumulated depreciation	(100,000)	(40,000)
Total increase on revaluation	400,000	160,000

5.0 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Journal entries

1) To record the revaluation of a building in 20X5

Total increase on revaluation in 20X5 amounted to RM160,000.

	Amount (RM)	Accounting Code
DR Property, plant and equipment (Building)	200,000	A14321XX
CR Accumulated depreciation	40,000	A31321XX
CR Revaluation surplus	160,000	E01321XX

In 20X5, the accumulated depreciation on the revalued asset is increased in the same proportionate increase as the gross carrying amount. The gross carrying amount increased by 40% (RM200,000 increase) from RM500,000 to RM700,000.

Accordingly accumulated depreciation increased by the same proportionate of 40% (RM40,000 increase) from RM100,000 to RM140,000.

2) To record further increment of revaluation in 20X6

Total increase on revaluation in 20X6 amounted to RM400,000.

	Amount (RM)	Accounting Code
DR Property, plant and equipment (Building)	500,000	A14321XX
CR Accumulated depreciation	100,000	A31321XX
CR Revaluation surplus	400,000	E01321XX

In 20X6, the accumulated depreciation on the revalued asset is increased in the same proportionate increase as the gross carrying amount. The gross carrying amount increased by 71% (RM500,000 increase) from RM700,000 to RM1,200,000.

Accordingly accumulated depreciation increased by the same proportionate of 71% (RM100,000 increase) from RM140,000 to RM240,000.

3) To record the disposal of building at year end 20X6

The building was subsequently disposed at a selling price of RM1,000,000 at the end of year 20X6. Revaluation surplus is reversed with a net gain on disposal of RM600,000.

	Amount (RM)	Accounting Code
DR Cash	1,000,000	A0113XXX
DR Accumulated depreciation	240,000	A31321XX
DR Revaluation surplus	560,000	E01321XX
CR Property, plant and equipment (Building)	1,200,000	A14321XXX
CR Gain on disposal	600,000	H01881XX

5.0 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Scenario L – Upward and downward revaluations

An entity purchased a freehold land at a cost of RM100,000.

1) Upward revaluation and subsequent downward revaluation.

In Year 1, the carrying amount of the freehold land was revalued upward to RM110,000. Subsequently in Year 3, the same freehold land was revalued downward to RM90,000.

2) Downward revaluation and subsequent upward revaluation.

In Year 1, the carrying amount of the freehold land was revalued downward to RM95,000. Subsequently in Year 5, the same freehold land was revalued upward to RM105,000.

Journal entries

1) To record upward revaluation and subsequent downward revaluation

a) Upward revaluation of freehold land to RM110,000 with an increase in carrying value by RM10,000 (RM110,000 – RM100,000).

	Amount (RM)	Accounting Code
DR Property, plant and equipment (Freehold land)	10,000	A14311XX
CR Revaluation surplus	10,000	E01311XX

b) Downward revaluation of freehold land to RM90,000 with a decrease in carrying value by RM20,000 (RM110,000 – RM90,000).

	Amount (RM)	Accounting Code
DR Revaluation surplus	10,000	E01311XX
DR Impairment loss expense	10,000	B41311XX
CR Property, plant and equipment (Freehold land)	20,000	A14311XX

The decrease in carrying value is reversed from a revaluation surplus to the extent of any credit balance existing in respect of that class of asset. The remaining decrease in carrying value is recognised in that current year surplus or deficit.

5.0 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Journal entries

2) To record downward revaluation and subsequent upward revaluation

a) Downward revaluation of freehold land to RM95,000 with a decrease in carrying value by RM5,000 (RM100,000 – RM95,000).

	Amount (RM)	Accounting Code
DR Impairment loss expense	5,000	B41311XX
CR Property, Plant and Equipment (Freehold land)	5,000	A14311XX

As there is no revaluation surplus available for that class of assets, the downward revaluation cannot be reversed against any revaluation surplus and is recognised in that current year surplus or deficit.

b) Upward revaluation of freehold land to RM105,000 with an increase in carrying value by RM10,000 (RM105,000 – RM95,000).

	Amount (RM)	Accounting Code
DR Property, Plant and Equipment (Freehold land)	10,000	A14311XX
CR Revaluation surplus	5,000	E01311XX
CR Impairment loss expense	5,000	B41311XX

As the carrying amount of that class of asset increased as a result of a subsequent upward revaluation, the increase shall be recognised directly in surplus or deficit to the extent that it reverses the impairment loss previously recognized in surplus or deficit.

Any remaining increase from that upward revaluation is credited directly to a revaluation surplus.

5.0 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Scenario M - Non-monetary transfer of property, plant and equipment

The education service entity transfers software and hardware equipment to the health services entity (i.e. inter entity transfer). This transfer of asset is done at no consideration. The asset is transferred at its gross value of RM115,000 with the accumulated depreciation value of RM20,000.

Journal entries

1) To record the disposal at the transferring entity i.e. at the education service entity

The transferring entity is seen to record loss on disposal

	Amount (RM)	Accounting Code
DR Loss on disposal	95,000	B05535XX
DR Accumulated depreciation (IT equipment)	20,000	A31352XX
CR Property, plant and equipment (IT equipment) – (gross)	115,000	A14352XX

2) To record the acquisition at the receiving entity i.e. at the health service entity

The receiving entity is seen to record gain on acquisition

	Amount (RM)	Accounting Code
DR Property, plant and equipment (IT equipment)	115,000	A14352XX
CR Accumulated depreciation (IT equipment)	20,000	A31352XX
CR Gain on acquisition	95,000	H01881XX

At FGOM Statement of Financial Performance, gain on acquisition and loss on disposal will eliminate.

3) To record transfer of similar asset using the same scenario from education service entity to a local university, an entity outside FGOM

As the transfer of asset is not within the entity, the transfer is done at net book value of RM95,000, with no consideration given.

	Amount (RM)	Accounting Code
DR Loss on disposal	95,000	B05535XX
CR Property, Plant and Equipment*	95,000	A14352XX

* System can continue recording this transfer at gross less accumulated depreciation.

5.0 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Scenario N - Non-monetary exchange of property, plant and equipment

An entity arranges to exchange with an outside party research equipment (Equipment A) with book value of RM135,000 (cost RM150,000 less accumulated depreciation RM15,000) for the another research equipment (Equipment B). Both equipment's fair values cannot be reliably measured and the expected cash flows generated by Equipment B will not differ from Equipment A's future cash flows.

Journal entries

1) To record the exchange of similar assets with no monetary consideration

Equipment B will be recorded at net book value of Equipment A RM135,000 (RM150,000 - RM15,000) i.e. the book value of the asset given up. This is because this exchange transaction lacks commercial substance (no impact on future cash flows) and both equipment's fair values cannot be reliably measured.

	Amount (RM)	Accounting Code
DR Property, plant and equipment (Equipment B)	135,000	A14359XX
DR Accumulated depreciation (Equipment A)	15,000	A31359XX
CR Property, plant and equipment (Equipment A)	150,000	A14359XX

Scenario O - Non-monetary exchange of property, plant and equipment assets (with commercial substance)

An entity arranged to exchange with an outside party research equipment (Equipment A) with book value of RM135,000 (cost: RM150,000 less accumulated depreciation: RM15,000) for the another research equipment (Equipment B). Equipment A's fair value was RM170,000 and the expected cash flows generated by Equipment B would differ from Equipment A's expected cash flows.

Journal entries

1) To record the exchange of Equipment A for Equipment B

Equipment B would be recorded at the fair value of the asset given up RM170,000. Equipment B's fair value will be used if Equipment A's fair value is not available or less reliable.

	Amount (RM)	Accounting Code
DR Property, plant and equipment (Equipment B)	170,000	A14352XX
DR Accumulated depreciation (Equipment A)	15,000	A31352XX
CR Property, plant and equipment (Equipment A)	150,000	A14352XX
CR Gain on exchange	35,000	H02849XX

5.0 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Scenario P - Low value asset

An entity purchased office equipment costing RM1,500. These have been classed as low value and will need to be expensed off.

Journal entries

1) To record low valued asset purchased

As the machine parts purchased costs lower than the capitalisation threshold of RM2,000, the low value asset will be expensed off.

	Amount (RM)	Accounting Code
DR Expense	1,500	B03351XX
CR Cash	1,500	A0112XXX

The low value asset is recorded in the fixed assets register for control purpose.

6.0 PUBLIC PRIVATE PARTNERSHIP (PPP)

Introduction

6.1 This chapter covers the following matters:

- Public Private Partnership (PPP)
- Private Finance Initiative (PFI)
- Privatization
- Others
- Recognition of service concession asset
- Recognition of liability
- Disclosures

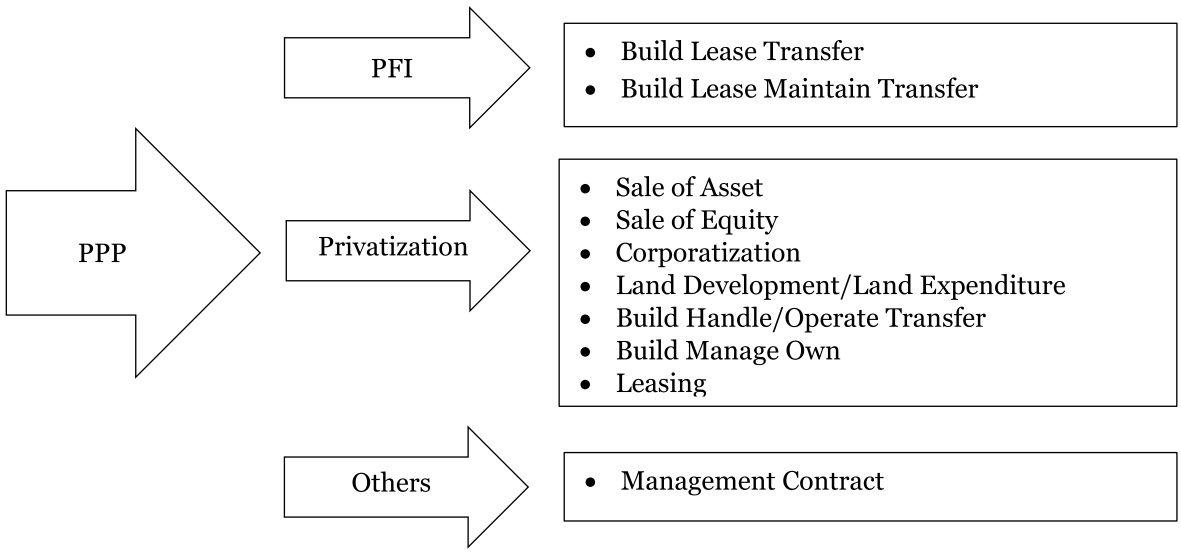
Public Private Partnership (PPP)

6.2 A privatization policy was launched in the early 1980s with the intent of strengthening roles of the private sector in the national economic development.

6.3 The concept of PPP includes PFI and privatization.

6.4 PFI generally has longer concession periods (>20 years) with a higher project cost (100 million).

The below diagram illustrates the different PPP arrangements:



6.0 PUBLIC PRIVATE PARTNERSHIP (PPP) (CONTINUED)

Private Finance Initiative (PFI)

6.5 PFI is a form of public private partnership (PPP) where the public sector is able to procure the provision of public services from the private sector. PFI comes in various forms and identification is based on the substance of arrangements.

6.6 PFI arrangements that do not involve delivery of public service arrangement and where such arrangement contains a lease is dealt with in accordance with the guidance under Chapter 11 - Lease Accounting. Such arrangement may differ from one another and attention needs to be given to its underlying substance and economic reality and not merely its legal form.

6.7 As for arrangements that involve provision of public service by the operator of the service concession agreement, the accounting treatment shall be dealt with in this chapter.

6.8 PFI includes the following concept:

Build Lease Transfer

6.9 This build-lease-transfer method involves a private company building facilities with its own funds. Once completed, the facilities will be utilised by the Government. In return, the company will charge rental to the Government. Ownership will be transferred to the Government at the end of the concession period.

6.10 Examples of projects adopting this method are the development of the Government Complex in Putrajaya and the construction of 10,000 units of the 1st Phase Teachers' Residents in Selangor, Kuala Lumpur, Pahang, Perak, Penang, Kedah, Perlis, Sarawak and Sabah.

Build-Lease-Maintain-Transfer

6.11 Build-lease-maintain-transfer method involves private companies building and maintaining Government facilities with their own funding throughout the concession period. The Government will only issue payments if the service delivered meets the pre-agreed service level or the stipulated Key Performance Indicator – KPI. The facilities will be owned by the Government at the end of the concession period.

6.12 For example, the UiTM campus construction projects in selected areas.

6.13 Based on fact pattern, lease accounting should be applied due to absence of public service and service potential is substantially consumed by the government. Where there is an arrangement that involves provision for public service, then a concession asset and liability is recognised. Refer to 6.52 for details.

Privatization

6.14 Privatization is another method used by FGOM to attract private sector participation in the delivery of services being traditionally provided by the public sector with full or partial control retained by FGOM.

6.15 Similar to PFI, privatization arrangements may differ from one another and attention needs to be given to its underlying substance and economic reality and not merely its legal form.

6.16 Where arrangement does not involve public service arrangements and where such arrangements contain a lease, it is dealt with in accordance with the guidance under Chapter 11 – Lease Accounting.

6.0 PUBLIC PRIVATE PARTNERSHIP (PPP) (CONTINUED)

6.17 Privatization includes the following concepts:

Sale of Assets

6.18 This involves transferring assets owned by FGOM companies to private bodies to enable the company to take over and carry on with the privatised entity commercial activities.

6.19 This may involve the transfer of either all three of the organisational components (management, asset and staff responsibilities) or some of the components. The sales of the assets may involve the assets owned by any FGOM organisation either companies or other entities.

6.20 An example of this method is the takeover of the South East Johore Development Authority (KEJORA), Southeast Pahang Development Authority (DARA), Jengka Regional Development Authority (JENGKA) and MARA Shipyard Engineering Terengganu commercial activities as well as the takeover of the Municipal Council of Penang Island bus services.

6.21 Sale of asset is dealt with in accordance with the derecognition principles of the categories of assets and liabilities in the respective standards.

Sale of Equity

6.22 Equity sales are specifically for government companies and involve title transfers as well as management, asset (with or without liabilities) and staff responsibilities. This form of privatisation may involve selling of some or all the equity of a company. Total equity sales means transferring 100% of Government equity in the company, while partial transfer means less than 100%.

6.23 An example of this method is Mardec Bhd., Naval Dockyard Sdn. Bhd. and Perusahaan Otomobil Nasional (PROTON) Bhd.

6.24 Sale of equity is dealt with in accordance with the guidance under Chapter 9 – Investment. The sale can be treated as a disposal or transfer of investment.

Corporatization

6.25 This method is used to change the status of FGOM agencies into a company under the Companies Act 1965 with company equities in full control by the FGOM.

6.26 Examples are SIRIM Berhad, MIMOS Berhad and Institut Jantung Negara Sdn. Bhd. (IJNSB).

6.27 Corporatization is dealt with in accordance with guidance under Chapter 5 - Property, Plant and Equipment and Chapter 9 – Investment. The corporatization will result in the sale of an asset and an acquisition of equity treated as an investment.

Land Development/Land Transfer

6.28 Land transfer involves the transfer of land to a private company for development. In return, the FGOM is entitled to certain portfolio of the developed lands which may include offices and quarters.

6.29 Land development involves collaborative land development whereby the ownership of the land is not transferred to the company but the fully-developed property will be sold directly to the public. The return for FGOM will be in-kind and cash terms.

6.0 PUBLIC PRIVATE PARTNERSHIP (PPP) (CONTINUED)

6.30 Examples of projects utilising this method are the redevelopment of the Bukit Bintang Girls School site in Kuala Lumpur, Kuala Lumpur City Hall (DBKL) land development in the Batu Sub-district, Bukit Jalil National Sports Complex and the construction of the Malaysian Armed Forces (ATM) camp in Bukit Gedung, Penang Island.

6.31 The land transfer is dealt with in accordance with Chapter 5 – Property, Plant and Equipment. The land transfer/development will be treated as monetary or non-monetary exchange depending on the agreed arrangement.

<u>Build – Handle/Operate – Transfer</u>

6.32 This method is used for the privatization of projects traditionally implemented by the private sector such as infrastructure and public facilities projects. It involves the construction of a public facility by a private body with its own funding. The Company will manage the facility for a certain concession period and it will be surrendered to FGOM without cost at the end of the concession period. The Company will be allowed to collect charges and fees from consumers utilising the service.

6.33 Examples of projects adopting this method are tolled highways, light rail services and sewerage.

6.34 This method is dealt with in accordance with guidance set out in this chapter where concession asset and liabilities is recognized when provision for public service is present and conditions met.

<u>Build - Manage/Operate – Own</u>

6.35 This method involves a private company funding the construction and managing the facilities without surrendering the asset to FGOM. Within the concession period, the company is allowed to charge for the usage of the facilities or services.

6.36 Examples of projects adopting this method are Penjanakuasa Elektrik Persendirian (IPP) and Bekalan Air Dingin Putrajaya.

6.37 This method is dealt with in accordance to MPSAS 1 where cost of services and payments made are accounted for as expense.

<u>Lease</u>

6.38 This method involves the transfer of rights using assets and facilities with leasing rental payment. This method is usually used for the privatization of entities with high-value assets and is strategically located such as ports and airports.

6.39 This method does not involve transfer of assets to concession companies but the regulations may be established for the lease holder to purchase the asset at the end of the leasing period. The leasing period is the same as the concession period.

6.40 Examples of projects adopting this method are Kuantan Port and leasing of the container terminal in Port Klang.

6.41 This method is dealt with in accordance with Chapter 11 – Leasing.

6.0 PUBLIC PRIVATE PARTNERSHIP (PPP) (CONTINUED)

Others

Management Contract

6.42 This method involves the utilisation of the private sector's management expertise to manage an activity or execute services which were previously self-executed by FGOM through a short-term contract.

6.43 This method involves payment of services by FGOM for a certain concession period and involves transfer of staff, management responsibilities and movable assets to the particular company.

6.44 Examples of projects adopting this method are the maintenance of Federal Roads and hospital support services for FGOM hospitals under the Ministry of Health Malaysia.

6.45 This method is dealt with in accordance to MPSAS 1 where cost of services and payments made are accounted for as expense.

6.46 A service concession arrangement is a binding arrangement between a grantor and an operator in which:

(a) The operator uses the service concession asset to provide a public service on behalf of the grantor for a specified period of time; and
(b) The operator is compensated for its services over the period of the service concession arrangement.

Recognition of service concession asset

6.47 The grantor shall recognize an asset provided by the operator and an upgrade to an existing asset of the grantor as a service concession asset if:

(a) The grantor controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price;
(b) The grantor controls—through ownership, beneficial entitlement or otherwise—any significant residual interest in the asset at the end of the term of the arrangement; and
(c) Assets used in a service concession arrangement for its entire useful life (a 'whole-of-life' asset), given the condition (a) is met.

6.48 The grantor shall initially measure the service concession asset at its fair value. After initial recognition or reclassification, service concession assets shall be accounted for as a separate class of assets in accordance with MPSAS 17 - Property, plant and equipment or in rare circumstances, MPSAS 31 - Intangible asset.

Recognition of liability

6.49 Where a grantor recognizes a service concession asset, the grantor shall also recognize a liability. The grantor shall not recognize a liability when an existing asset of the grantor is reclassified as a service concession asset, except in circumstances where additional consideration is provided by the operator.

6.0 PUBLIC PRIVATE PARTNERSHIP (PPP) (CONTINUED)

6.50 The liability recognized shall be initially measured at the same amount as the service concession asset adjusted by the amount of any other consideration (e.g., cash) from the grantor to the operator, or from the operator to the grantor.

6.51 In exchange for the service concession asset, the grantor may compensate an operator for the service concession asset by a combination of:

(a) Making payments to the operator (the 'financial liability' model);
(b) Compensating the operator by other means (the 'grant of a right to the operator' model) such as:
    (i) Granting the operator the right to earn revenue from third-party users of the service concession asset; or
    (ii) Granting the operator access to another revenue-generating asset for the operator's use (e.g., a private wing of a hospital where the remainder of the hospital is used by the grantor to treat public patients or a private parking facility adjacent to a public facility).

Financial Liability Model

6.52 Where the grantor has an unconditional obligation to pay cash or another financial asset to the operator for the construction, development, acquisition, or upgrade of a service concession asset, the grantor shall account for the liability recognized as a financial liability.

6.53 The grantor has an unconditional obligation to pay cash if it has guaranteed to pay the operator:

(a) Specified or determinable amounts; or
(b) The shortfall, if any, between amounts received by the operator from users of the public service and any specified or determinable amounts even if the payment is contingent on the operator ensuring that the service concession asset meets specified quality or efficiency requirements.

6.54 The grantor shall allocate the payments to the operator and account for them according to their substance as a reduction in the liability recognized, a finance charge, and charges for services provided by the operator. The finance charge and charges for services provided by the operator in a service concession arrangement shall be accounted for as expenses.

Grant of Right to the Operator Model

6.55 Where the grantor does not have an unconditional obligation to pay cash or another financial asset to the operator for the construction, development, acquisition, or upgrade of a service concession asset, and grants the operator the right to earn revenue from third-party users or another revenue-generating asset, the grantor shall account for the liability recognized as the unearned portion of the revenue arising from the exchange of assets between the grantor and the operator.

6.56 The grantor shall recognize revenue and reduce the liability recognized according to the economic substance of the service concession arrangement. Unearned revenue shall be recognized arising from the exchange of assets between the grantor and the operator. Revenue and reduction of the liability shall be recognized according to the economic substance of the service concession arrangement.

6.0 PUBLIC PRIVATE PARTNERSHIP (PPP) (CONTINUED)

Dividing the Arrangement

6.57 If the grantor pays for the construction, development, acquisition, or upgrade of a service concession asset partly by incurring a financial liability and partly by the grant of a right to the operator, it is necessary to account separately for each part of the total liability recognized. The amount initially recognized for the total liability shall be the same amount as the service concession asset, adjusted by the amount of any other consideration (e.g., cash) from the grantor to the operator, or from the operator to the grantor.

Disclosure requirements

6.58 The statement of financial position should disclose the book value of lease asset and the leased finance liability of PFI under the heading non current assets and non current liabilities respectively. Refer to Chapter 11 – Lease Accounting for detailed disclosures.

6.59 The statement of financial position should disclose the book value of concession assets under the heading non current assets and concession liabilities under the heading non current liabilities.

6.60 A grantor shall disclose the following information in respect of service concession arrangements in each reporting period:

(a) A description of the arrangement
(b) Significant terms of the arrangement that may affect the amount, timing, and certainty of future cash flows (e.g., the period of the concession, re-pricing dates, and the basis upon which re-pricing or re-negotiation is determined);
(c) The nature and extent (e.g., quantity, time period, or amount, as appropriate) of:
    (i) Rights to use specified assets;
    (ii) Rights to expect the operator to provide specified services in relation to the service concession arrangement;
    (iii) Service concession assets recognized as assets during the reporting period, including existing assets of the grantor reclassified as service concession assets;
    (iv) Rights to receive specified assets at the end of the service concession arrangement;
    (v) Renewal and termination options;
    (vi) Other rights and obligations (e.g., major overhaul of service concession assets); and
    (vii) Obligations to provide the operator with access to service concession assets or other revenue-generating assets; and
(d) Changes in the arrangement occurring during the reporting period.

References

- MPSAS 32 – Service Concession Arrangements: Grantor

6.0 PUBLIC PRIVATE PARTNERSHIP (PPP) (CONTINUED)

Scenario A - The grantor makes a predetermined series of payments to the operator (using financial liability model)

An entity, the grantor, entered into a service concession agreement with a local concessionaire, Company C, the operator to deliver public service arrangement. The terms of the arrangement require an operator to construct a road-completing construction within two years—and maintain and operate the road to a specified standard for eight years (i.e. years 3–10).

The cost of constructing the road amounts to RM1,050,000 as advised by operator. The annual depreciation taken by the grantor is on a straight-line basis.

The terms of the arrangement requires the grantor to pay the operator RM200,000 per year in years 3–10 for making the road available to the public. The total consideration (payment of RM200,000 in each of years 3–10) is intended to cover the cost of constructing the road and annual service expense of RM12,000.

The terms of the arrangement also require the operator to resurface the road when the original surface deteriorates. The operator estimates that it will undertake resurfacing at the end of year 8 at a fair value of RM110,000.

The road surface is recognised as a separate component of the initial fair value of the service concession asset and measured at the estimated fair value of the resurfacing and depreciated over years 3 – 8.

The rate implicit in the service concession agreement specific to asset is 6.18%.

The road has an economic life of 25 years. At the end of the concession period, the ownership of the road is transferred to the grantor and the road will have a remaining useful life of 15 years.

Fair value of the contract component:

Contract component	Fair value (RM)
Road – base layer	940,000
Road – original surface layer	110,000
Total fair value – as advised by operator	1,050,000
Annual service component	12,000
Effective interest rate	6.18%

6.0 PUBLIC PRIVATE PARTNERSHIP (PPP) (CONTINUED)

Journal entries

1) To record the recognition of service concession asset (classed as AUC) when the highway is being constructed

The cost of materials, labour and other directly attributable costs are recognized as AUC using the percentage of completion method. Based on the stage of completion, the work in progress will be recognized gradually and the concession liability will be recognized accordingly. Grantor recognises a financial liability of fair value equal to the fair value of AUC at the end of Year 1. The liability is increased at the end of Year 2 to reflect both fair value of AUC and finance charge on outstanding liabilities.

Year 1	Amount (RM)	Accounting Code
DR Assets under construction (AUC)	525,000	A20331xx
CR Concession liability*	525,000	L09249XX

Year 2	Amount (RM)	Accounting Code
DR Assets under construction (AUC)	525,000	A20331xx
CR Concession liability*	525,000	L09249XX

* Concession liability payable within 12 months is disclosed as current liabilities.

Please refer to Table A.3 statement of financial position for recognition of concession asset and concession liability.

2) To record the recognition of service concession asset when the highway construction is completed

Once the service concession asset has been finish constructed, the work in progress will be credited and will instead be debited to property, plant and equipment. The remaining cost incurred on the construction of the road will be recognized as property, plant and equipment. The offsetting credit entry is to recognize the corresponding amount in concession liability.

	Amount (RM)	Accounting Code
DR Concession asset	1,050,000	A14331XX
CR AUC	1,050,000	A20331xx

Please refer to Table A.3 statement of financial position for recognition of concession asset.

3) To record the depreciation of the service concession asset during the operations period, once the service concession asset is recognized

The annual depreciation is taken by grantor on a straight line basis. The depreciation expense will start to be recognized on the third year where the road construction is completed. The total fair value of the road is RM1,050,000 comprised of RM940,000 relating to base layer and RM110,000 relating to surface layer. Annual depreciation for base layer amounts to RM38,000 (RM940,000/25 years) and surface layer amounts to RM18,000 (RM110,000/6 years). Annual depreciation charge amounts to RM56,000.

	Amount (RM)	Accounting Code
DR Depreciation expense	56,000	B31331XX
CR Accumulated depreciation	56,000	A31331XX

The depreciation expense recognised is illustrated in Table A.2 statement of financial performance.

6.0 PUBLIC PRIVATE PARTNERSHIP (PPP) (CONTINUED)

Journal entries

4) To record the service expense

The service expense is only recognised from Year 3 onwards. The service expense recognised over 8 years will be the same.

	Amount (RM)	Accounting Code
DR Service expense	12,000	B2822XX
CR Concession liability	12,000	L09249XX

Please refer to Table A.2 Statement of financial performance for the service expense recognised.

5) To record the finance charge

Finance charge will start to be recognised from Year 2 onwards.

	Amount (RM)	Accounting Code
DR Finance cost	32,000	B04457XX
CR Concession liability	32,000	L09249XX

Please refer to Table A.2 Statement of financial performance cost recognised.

6) To record the yearly compensation paid to the operator

When the grantor make yearly payment to the operator / concessionaire, the payment will be recognized as a reduction in concession liability. In addition, the cash account will recognize the corresponding amount accordingly.

	Amount (RM)	Accounting Code
DR Concession liability	200,000	L09249XX
CR Cash	200,000	A0112XXX

Please refer to Table A.1 Cash flow for payments recognised.

6.0 *PUBLIC PRIVATE PARTNERSHIP (PPP) (CONTINUED)*

Table A.1 Cash Flows (RM'000)

Year	1	2	3	4	5	6	7	8	9	10	Total
Predetermined series of payments	-	-	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(1,600)
Net inflow/ (outflow)	-	-	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(1,600)

Table A.2 Statement of Financial Performance (RM'000)

Year	1	2	3	4	5	6	7	8	9	10	Total
Service expenses	-	-	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(96)
Finance charge	-	(32)	(67)	(59)	(51)	(43)	(34)	(25)	(22)	(11)	(344)
Depreciation base layers	-	-	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(304)
Depreciation original surface layer	-	-	(18)	(19)	(18)	(18)	(19)	(18)	-	-	(110)
Depreciation replacement surface layer	-	-	-	-	-	-	-	-	(18)	(19)	(37)
Total depreciation	-	-	(56)	(57)	(56)	(56)	(57)	(56)	(56)	(57)	(451)
Annual surplus/ (deficit)	-	(32)	(135)	(128)	(119)	(111)	(103)	(93)	(90)	(80)	(891)

NOTES:
Depreciation in year 3 – 8 reflects the depreciation on the initially-constructed road surface. It is fully depreciated over that period. Depreciation in years 9 – 10 reflects the depreciation on the new service concession asset component (surface) recognised in year 8.

6.0 *PUBLIC PRIVATE PARTNERSHIP (PPP) (CONTINUED)*

Table A.3 Statement of Financial Position (RM'000)

Year	1	2	3	4	5	6	7	8	9	10
Service concession asset – base layers	525	940	902	864	826	788	750	712	674	636
Service concession asset –original surface layer	-	110	92	73	55	37	18	-	-	-
Service concession asset – replacement surface layer	-	-	-	-	-	-	-	110	92	73
Total service concession asset	525	1,050	994	937	881	825	768	822	766	709
Cash	-	-	(200)	(400)	(600)	(800)	(1,000)	(1,200)	(1,400)	(1,600)
Financial liability	(525)	(1,082)	(961)	(832)	(695)	(550)	(396)	(343)	(177)	-
Cumulative surplus or deficit	-	32	167	295	414	525	628	721	811	891

NOTES:

1. In this example, the resurfacing occurs as expected in year 8, when the initially-constructed road surface is fully depreciated. If the resurfacing occurred earlier, the initially-constructed road surface would not be fully depreciated, and would need to be derecognised in accordance with MPSAS 17 before the new component of the service concession asset related to the resurfacing is recognised.
2. The new component of the service concession asset related to the resurfacing is recognised in year 8. Years 9 – 10 reflect depreciation on this additional component (Table A.2).
3. The financial liability is increased in year 8 for the recognition of the new component of the service concession asset.

6.0 PUBLIC PRIVATE PARTNERSHIP (PPP) (CONTINUED)

Table A.4 Changes in Financial Liability (RM'000)

Year	1	2	3	4	5	6	7	8	9	10
Balance brought forward	-	525	1,082	961	832	695	550	396	343	177
Liability recognised along with initial service concession asset	525	525	-	-	-	-	-	-	-	-
Finance charge added to liability prior to payments being made	-	32	-	-	-	-	-	-	-	-
Portion of predetermined series of payments that reduces the liability	-	-	(121)	(129)	(137)	(145)	(154)	(163)	(166)	(177)
Liability recognised along with replacement surface layers	-	-	-	-	-	-	-	110	-	-
Balance carried forward	525	1,082	961	832	695	550	396	343	177	-

6.0 PUBLIC PRIVATE PARTNERSHIP (PPP) (CONTINUED)

Scenario B - The grantor gives the operator the right to charge users a toll for use of the road (using grant of right to operator model)

Following on from Scenario A, the terms of the arrangement now only grants the operator the right to allow the operator to collect tolls from drivers using the road. The operator forecasts that vehicle numbers will remain constant over the duration of the arrangement and that it will receive tolls of RM200,000 in each of years 3–10.

The compensation for maintenance and operating the road is included in the tolls the operator expects to earn over the term of the service arrangement.

Journal entries

1) To record the recognition of work in progress when the highway is being constructed

As consideration for the service concession asset, the grantor recognises a liability (i.e. deferred revenue) under the grant of a right to the operator model for granting the operator the right to collect tolls. Liability is recognised as the asset is recognised.

Year 1	Amount (RM)	Accounting Code
DR Assets under construction (AUC)	525,000	A20331XX
CR Deferred revenue	525,000	L09249XX

Year 2	Amount (RM)	Accounting Code
DR Assets under construction (AUC)	525,000	A20331XX
CR Deferred revenue	525,000	L09249XX

Please refer to Table B.3 statement of financial position for the asset recognised.

2) To record the recognition of service concession asset when the highway construction is completed.
   Same as Scenario A, journal entry (2).

3) To record the depreciation of the service concession asset during the operations period, once the service concession asset is recognized
   Same as Scenario A, journal entry (3)

4) To record the liability reduction over years 3 – 10.

The grantor will recognise revenue on the basis of access to service concession asset is expected to be provided evenly over the (8 years) term of concession arrangement from point at which the asset is capable of providing economic benefits.

Yearly liability reduction to revenue amounts to RM145,000 (RM1,050,000 + RM110,000)/(8 years).

	Amount (RM)	Accounting Code
DR Deferred revenue	145,000	L09249XX
CR Revenue on concession asset	145,000	H01883XX

Please refer to Table B.2 Statement of financial performance for the deferred revenue recognised.

6.0 *PUBLIC PRIVATE PARTNERSHIP (PPP) (CONTINUED)*

Table B.1 Cash Flows (RM'000)

Because there is no payment made to the operator, there are no cash flow impacts for this scenario.

Table B.2 Statement of Financial Performance (RM'000)

Year	1	2	3	4	5	6	7	8	9	10	Total
Revenue (reduction of liability)	-	-	145	145	145	145	145	145	145	145	1,160
Depreciation base layers	-	-	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(304)
Depreciation original surface layer	-	-	(18)	(19)	(18)	(18)	(19)	(18)	-	-	(110)
Depreciation replacement surface layer	-	-	-	-	-	-	-	-	(18)	(19)	(37)
Total depreciation	-	-	(56)	(57)	(56)	(56)	(57)	(56)	(56)	(57)	(451)
Annual surplus/ (deficit)	-	-	89	88	89	89	88	89	89	88	709

NOTES:

1. Depreciation in year 3 – 8 reflects the depreciation on the initially-constructed road surface. It is fully depreciated over that period.
2. Depreciation in years 9 – 10 reflects the depreciation on the new service concession asset component (surface) recognised in year 8.
3. The revenue (reduction of the liability) includes revenue from the additional liability (Table 2.3).
4. All revenue is recognised evenly over the term of the arrangement.

6.0 *PUBLIC PRIVATE PARTNERSHIP (PPP) (CONTINUED)*

Table B.3 Statement of Financial Position (RM'000)

Year	1	2	3	4	5	6	7	8	9	10
Service concession asset – base layers	525	940	902	864	826	788	750	712	674	636
Service concession asset –original surface layer	-	110	92	73	55	37	18	-	-	-
Service concession asset – replacement surface layer	-	-	-	-	-	-	-	110	92	73
Total service concession asset	525	1,050	994	937	881	825	768	822	766	709
Cash	-	-	-	-	-	-	-	-	-	-
Liability (Deferred revenue)	(525)	(1,050)	(905)	(760)	(615)	(470)	(325)	(290)	(145)	-
Cumulative surplus or deficit	-	-	(89)	(177)	(266)	(355)	(443)	(532)	(621)	(709)

NOTES:

1. In this example, the resurfacing occurs as expected in year 8, when the initially-constructed road surface is fully depreciated. If the resurfacing occurred earlier, the initially-constructed road surface would not be fully depreciated, and would need to be derecognised in accordance with MPSAS 17 before the new component of the service concession asset related to the resurfacing is recognised.
2. The new component of the service concession asset related to the resurfacing is recognised in year 8. Years 9 – 10 reflect depreciation on this additional component (Table 2.2).
3. The financial liability is increased in year 8 for the recognition of the new component of the service concession asset.

6.0 *PUBLIC PRIVATE PARTNERSHIP (PPP) (CONTINUED)*

Table B.4 Changes in Liability (RM'000)

Year	1	2	3	4	5	6	7	8	9	10
Balance brought forward	-	525	1,050	905	760	615	470	325	290	145
Liability recognised along with initial service concession asset	525	525	-	-	-	-	-	-	-	-
Revenue (reduction of liability)	-	-	(145)	(145)	(145)	(145)	(145)	(145)	(145)	(145)
Liability recognised along with replacement surface layers	-	-	-	-	-	-	-	110	-	-
Balance carried forward	525	1,050	905	760	615	470	325	290	145	-

7.0 INVENTORIES

Introduction

7.1 This chapter covers the following matters:

- Initial recognition and measurement
- Measurement subsequent to initial recognition
- Disclosures

Initial recognition and measurement

7.2 Inventories are assets:

(a) In the form of materials or supplies to be consumed in the production process;
(b) In the form of materials or supplies to be consumed or distributed in the rendering of services;
(c) Held for sale or distribution in the ordinary course of operations; or
(d) In the process of production for sale or distribution.

7.3 Inventories for FGOM may include:

(a) Ammunition;
(b) Consumable stores;
(c) Maintenance materials;
(d) Spare parts for plant and equipment, other than those dealt with in the standards on Property, Plant and Equipment;
(e) Strategic stockpiles (for example, energy reserves);
(f) Supplies held for sale (for example, stamps);
(g) Educational/training course materials;
(h) Agriculture produce (if material).

7.4 Inventories which have a value of RM1 million or more per responsibility centre as at the end of preceding three financial years shall be capitalized.

<u>Exchange transactions</u>

7.5 Inventories shall be measured initially at cost.

7.6 Cost of inventories, comprising all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition, are calculated using weighted average method.

<u>Non-exchange transactions</u>

7.7 Inventories shall be measured at fair value as at date of acquisition.

<u>Agriculture produce</u>

7.8 The fair value at the point of harvest is regarded on cost of inventory. Refer to Chapter 8 for details.

7.0 INVENTORIES (CONTINUED)

Cost formulas

7.9 The cost formula that can be used are:

(a) Specific identification
(b) first-in, first-out (FIFO)
(c) Weighted average cost

7.10 The same cost formula shall be used for all inventories having similar nature and use to the entity. For inventories with different nature or use (for example, certain commodities used in one segment and the same type of commodities used in another segment), different cost formulas may be justified.

Subsequent measurement

7.11 Inventories are subsequently recorded at the lower of cost and net realizable value.

7.12 Some inventories are held for distribution at no charge or nominal charge for public benefit. Examples include medical supplies at public hospitals. The net realisable value for this category of inventories shall be determined by reference to the current replacement cost.

Write down of inventory

7.13 Amounts written-down to the net realizable value or current replacement cost are to be expensed in the period where the write-down is made.

Reversal of write down

7.14 A new assessment is made of net realizable value in each subsequent period. The amount written down is reversed for the following circumstances:

(a) When the circumstances that previously caused inventories to be written down below cost no longer exist
(b) When there is clear evidence of an increase in net realizable value because of changed economic circumstances

Journal entries in the Accounting System

7.15 The Periodic Inventory method or other methods will be used for purpose of the accounts.

7.16 Periodic inventory method keeps the inventory balance at the same value at the beginning of the year. At year end, the inventory balance will be adjusted based on results of a physical count. Inventory purchases will be expensed off.

Disclosure requirements

7.17 Inventories are to be classified as a Current Asset on the statement of financial position. Inventories are stated net of the allowance for impairment losses.

7.0 INVENTORIES (CONTINUED)

7.18 The financial statements shall disclose:

(a) The accounting policies adopted in measuring inventories, including the cost formula used;
(b) The total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;
(c) The carrying amount of inventories carried at fair value less costs to sell;
(d) The amount of inventories recognized as an expense during the period;
(e) The amount of any write-down of inventories recognized as an expense in the period
(f) The amount of any reversal of any write-down that is recognized in the statement of financial performance in the period
(g) The circumstances or events that led to the reversal of a write-down of inventories
(h) The carrying amount of inventories pledged as security for liabilities.

References

- MPSAS 12 – Inventories

7.0 INVENTORIES (CONTINUED)

Scenario A - Determining cost of inventories using FIFO, weighted average cost valuation methods and specific identification

An entity has been purchasing inventories during the year. Assume that opening inventory on 1 March 2013 is nil. All inventory are finished goods and is of the same type.

	Quantity Unit	Unit Cost (RM)
Batch 1 received on 1 March 2013	2	3.00
Batch2 received on 15 March 2013	4	4.50
On 25 March 2013, entity sold 5 units	(5)	
Closing inventory on 31 March 2013	1	

	Quantity Unit	Unit Cost (RM)	Value (RM)
(a) FIFO	1	4.50 (a)	4.50
(b) Weighted average	1	4.00 (b)	4.00

(a) FIFO: all units of batch 1 are assumed consumed first and then 3 units from batch 2 are assumed consumed. One unit from batch 2 remains at cost of RM4.50
(b) Weighted average: the average unit cost of all units received is RM4.00 (2 units x RM3.00 + 4 units x RM4.50)/(2 units + 4 units)

An entity must use the same cost formula (FIFO or weighted average cost) for all inventories having similar nature of use in entity. For inventories with different nature or use, different cost formula may be justified.

Specification identification of costs means that specific costs are attributed to identified items of inventory. This is an appropriate treatment for items that are segregated for a specific project, regardless of whether they have been bought or produced. However, specific identification of costs is inappropriate when there are large numbers of items of inventory that are ordinarily interchangeable. In such circumstances, the method of selecting those items that remain in inventories could be used to obtain predetermined effects on the surplus or deficit for the period.

When applying specific identification cost method, an entity shall use the same cost formula for all inventories having similar nature and use to the entity. For inventories with different nature or use, different cost formulas may be justified.

7.0 INVENTORIES (CONTINUED)

Scenario B - Purchase and issue of inventory under a periodic inventory system

An entity purchases medical supplies in year 20X1 for RM50,000. Freight charges of RM500 are included on the invoice. Assuming the entity uses a periodic system, purchases and issues are recorded directly in the inventory account as they occur.

Journal entries

1) To record the purchase inventories in year 20X1 (assuming inventories as held for consumption)

The purchase of consumable inventories is recorded as a debit to operating expenses.

	Amount (RM)	Accounting Code
DR Operating expense	50,000	B02261XX
DR Operating expense	500	B02227XX
CR Accounts payable	50,000	L01261XX
CR Accounts payable	500	L01227XX

2) To record the purchase of inventories held for resale in year 20X1 (assuming inventories held for resale)

The purchase of inventories held for resale is recorded as a debit to cost of goods sold.

	Amount (RM)	Accounting Code
DR Cost of goods sold	50,000	B18XXX00
DR Cost of goods sold	500	B18XXX00
CR Accounts payable	50,500	L01XX000

3) To record the issuance of inventories

No entry performed.

4) To adjust consumable inventory balance after an inventory count at year end of 20X1, inventory balance determined to be RM5,000

The ending balance of inventory is recorded as an asset while the opening balance is removed. The operating expense is reduced to reflect inventory items previously expensed but not actually consumed.

	Amount (RM)	Accounting Code
DR Inventories held for consumption	5,000	A06261XX
CR Operating expense	5,000	B02261XX

7.0 INVENTORIES (CONTINUED)

Journal entries

5) In the next financial year (20X2), the entity purchases additional inventory held for consumption, which amounts to RM10,000. Note: The opening balance for 20X2 amounts to RM5,000

The purchase of inventory held for consumption is debited as operating expense in year 20X2.

	Amount (RM)	Accounting Code
DR Operating expense	10,000	B02261XX
CR Accounts payable	10,000	L01261XX

Similarly, should the purchase be for inventory held for resale instead, the purchase is debited as cost of goods sold.

6) At the end of 20X2, an inventory count is conducted. The inventory balance is determined to be RM8,000. The opening balance carried forward from 20X1 amounts to RM5,000

The closing balance of the inventory which amounts to RM8,000, is recorded by debiting inventory held for consumption and reversing part of operating expense previously recognised. The opening inventory balance for 20X2 needs to be reversed out.

	Amount (RM)	Accounting Code
DR Inventories held for consumption	8,000	A06261XX
CR Operating expense	3,000	B02261XX
CR Inventories held for consumption	5,000	A06XX000

7.0 INVENTORIES (CONTINUED)

Scenario C - Purchase and issue of inventory under a perpetual inventory system

An entity purchases medical supplies for RM50,000. Freight charges of RM500 are included in the invoice. Assuming the entity uses a perpetual system, purchases and issues are recorded directly in the inventory account as they occur.

Journal entries

1) To record the purchase of consumable inventories

The purchase of medical supplies is recorded as a debit to inventories. Delivery cost should be capitalised as part of the cost of the inventories. The treatment to inventories held for consumption and inventories held for resale are the same under perpetual inventory system.

	Amount (RM)	Accounting Code
DR Inventories held for consumption	50,500	A06261XX
CR Accounts payable	50,500	L01261XX

2) To record the issuance of RM10,000 from inventory held for consumption

When inventories held for consumption are issued for daily consumption, the inventory held for consumption account is reduced and the offsetting entry would be a debit of operating expense.

	Amount (RM)	Accounting Code
DR Operating expense	10,000	B06261XX
CR Inventory for consumption	10,000	A06261XX

3) To record the issuance of RM10,000 from inventory held for resale

When inventories held for resale are issued for resale to third party, the inventory held for resale account is reduced and the offsetting entry would be a debit of cost of goods sold.

	Amount (RM)	Accounting Code
DR Cost of goods sold	10,000	B06261XX
CR Inventory held for resale	10,000	A06XX000

7.0 INVENTORIES (CONTINUED)

Scenario D - Write down of inventory and reversal of write down

An entity noted a slowdown in demand from its customer for its products which was reflected in reduced price. This indicated that the net realisable value may be below cost, i.e. cost of inventory is now written down to reflect the lower value. The reduction in value was quantified at RM2,000.

Subsequent to that, the entity notices that the demand for that product rebounds due to promotional activities. Thus, the impairment loss previously recognized is reversed.

Journal entries

1) To record the write down

The inventory value must be written-down by creating an 'accumulated write down' account (contra account). This balance will be netted off against the inventory balance in the statement of financial position.

	Amount (RM)	Accounting Code
DR Inventory write down expense	2,000	B532XXXX
CR Accumulated write down	2,000	A532XXXX

2) To record the reversal of write down

When the write down previously recognized is reversed, the accumulated write down account previously recognized is debited and same expense account is reversed. The same entry applies when recognition and reversal of write down straddles over 2 financial years.

	Amount (RM)	Accounting Code
DR Accumulated write down	2,000	A532XXXX
CR Inventory write down expense	2,000	B532XXXX

Scenario E - Inventory obsolescence - write-off required

A physical count determined that items worth RM2,000 were obsolete.

Journal entries

1) To record inventory obsolescence

When inventory is determined to be obsolete, it should be written off. To record inventory obsolescence, the inventories account must be reduced by the amount of the obsolescence and a loss recorded. If the inventory was held for resale, the credit entry would be to the 'Inventory held for resale' account.

	Amount (RM)	Accounting Code
DR Write-off on inventory	2,000	B05512XX
CR Inventory held for resale	2,000	A072XXXX

7.0 *INVENTORIES (CONTINUED)*

Scenario F - Transfer of inventories between entities

Health service entity is required to transfer medical supplies worth RM10,000 to defence service entity.

Journal entries

1) To record the reduction in inventory balance at the transferring entity i.e. health service entity

Health service entity transfer medical supplies to deference service entity, the inventory balance of health service entity is reduced by the amount transferred, which is RM10,000. As no consideration is received by health service entity, the reduction in inventory balance is recognised as current period loss.

	Amount (RM)	Accounting Code
DR Medical supplies expense*	10,000	B06274XX
CR Inventories held for consumption	10,000	A06274XX

2) To record the increase in inventory balance at the receiving entity i.e. defence service entity

When defence service entity receives the medical supplies transferred, the amount received is recognised as a current period gain. The increase in inventory balance is recognised as a debit to inventory held for consumption.

	Amount (RM)	Accounting Code
DR Inventories held for consumption	10,000	A06274XX
CR Receipt of transfer of inventories*	10,000	H0188200

* At FGOM statement of financial performance, medical supplies expense and receipt of transfer of inventories will eliminate.

8.0 AGRICULTURE

Introduction

8.1 This chapter covers the following matters:

- Initial recognition and measurement
- Measurement subsequent to initial recognition
- Disclosures

Initial recognition and measurement

8.2 Life assets can be accounted for in accordance with the following criteria:

	Biological assets	Agriculture produce	Property, plant and equipment
Definition	A biological asset is a life asset, e.g. animal or plant, that are used in agriculture activities. Agricultural activity is the management of the biological transformation and harvest of biological assets by an entity for: (a) Sale; (b) Distribution at no charge or for a nominal charge; or (c) Conversion into agricultural produce or into additional biological assets for sale or for distribution at no charge or for a nominal charge. A biological transformation includes the processes of growth, degeneration, production and procreation that causes qualitative or quantitative change in a biological asset.	Agricultural produce is the harvested product of the entity's biological assets. While the produce is still growing or still attached to the biological asset, its value forms part of the value of the biological asset and not separately as an inventory. A life asset shall be accounted for as inventory if it is: (a) To be consumed or used as part of the operation of the ministry (b) In the form of supplies to be consumed or distributed in the rendering of services or (c) In the process of production for sale and distribution	Life assets are accounted as property, plant and equipment when the life assets are used in everyday operations that are not classified as agriculture activities. For life assets in which future benefits or service potential are obtained, these life assets shall be accounted for as property, plant and equipment.
MPSAS	MPSAS 27 – Agriculture	MPSAS 12 – Inventory Further details are in Chapter 7 – Inventories	MPSAS 17 – Property, plant and equipment Further details are in Chapter 5 – Property, plant and equipment

8.0 AGRICULTURE (CONTINUED)

	Biological assets	Agriculture produce	Property, plant and equipment
Examples	Sheep, trees in a plantation forest, plants, dairy cattle, chicken, bushes, vines and fruit trees.	Wool, felled trees, cotton, harvested cane, milk, carcass, leaf, grapes, picked fruit	Dogs belonging to the narcotic division of the police force to help them catch drug traffickers.
Initial recognition and measurement	Biological asset shall be initially measured at fair value less (market selling price) costs to sell. If fair value cannot be measured reliably, the biological asset shall be measured at cost.	Agricultural produce shall be initially recognized as inventory. It is measured at fair value less costs to sell, at the point of harvest.	Please refer to Chapter 5 – Property, plant and equipment.
Biological transformation	A gain or loss arising on initial recognition of a biological asset at fair value less costs to sell shall be included in surplus or deficit for the period in which it arises. Frequency of valuation can be very with the type of biological assets based on weight or growth of assets.	A gain or loss arising on initial recognition of agricultural produce as a result of harvesting at fair value less costs to sell shall be included in surplus or deficit for the period in which it arises.	Not applicable.

8.3 There is a presumption that fair value can be measured reliability for a biological asset. However, that presumption can be rebutted only on initial recognition for a biological asset for which market-determined prices or values are not available, and for which alternative estimates of fair value are determined to be clearly unreliable.

8.4 Biological asset and agriculture produce shall be recognized when and only when:

(a) The entity controls the asset as a result of past events;
(b) It is probable that future economic benefits or service potential associated with the asset will flow to the entity; and
(c) The fair value or cost of the asset can be measured reliably.

8.5 Life assets that do not meet the requirements of MPSAS 12 – Inventory, MPSAS 17 – Property, plant and equipment and MPSAS 27 – Agriculture are not accounted for as asset.

8.0 AGRICULTURE (CONTINUED)

Subsequent measurement

8.6 Life assets are subsequently measured based on the below.

	Biological assets	Agriculture produce	Property, plant and equipment
Subsequent measurement	Subsequently, these assets shall be measured at fair value less costs to sell. If cost was used at initial recognition, and fair value still cannot be measured reliably, it shall be measured at cost less any accumulated depreciation and impairment losses. Otherwise, any changes in fair value less cost to sell is included in surplus or deficit for the period in which it arises.		Further details are in Chapter 5 – Property, plant and equipment.

Disclosure requirements

8.7 An entity shall disclose the following:

(a) Biological assets and agriculture produce is reported as Assets in Statement of Financial Position.
(b) The aggregate gain or loss arising during the current period on initial recognition of biological assets and agricultural produce and from the change in fair value less costs to sell of biological assets.
(c) A description of biological assets that distinguishes between consumable (held for harvest as agricultural produce or for sales/distribution as biological assets i.e. animals/plants) and bearer biological assets (used for onetime use or continuously for more than 1 year in an agricultural activity) and between biological assets held for sale and those held for distribution at no charge or for a nominal charge.
(d) The nature of its activities involving each group of biological assets.
(e) Non-financial measures or estimates of the physical quantities of:
    (i) Each group of the entity's biological assets at the end of the period; and
    (ii) Output of agricultural produce during the period.
(f) The methods and significant assumptions applied in determining the fair value of each group of agricultural produce at the point of harvest and each group of biological assets.
(g) The fair value less costs to sell of agricultural produce harvested during the period, determined at the point of harvest.
(h) The existence and carrying amounts of biological assets whose title is restricted, and the carrying amounts of biological assets pledged as security for liabilities;
(i) The nature and extent of restrictions on the entity's use or capacity to sell biological assets;
(j) The amount of commitments for the development or acquisition of biological assets;
(k) Financial risk management strategies related to agricultural activity; and

8.0 AGRICULTURE (CONTINUED)

(l) A reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period. The reconciliation shall include:
   (i) The gain or loss arising from changes in fair value less costs to sell, disclosed separately for bearer biological assets and consumable biological assets;
   (ii) Increased due to purchases;
   (iii) Increases due to assets acquired through a non-exchange transaction;
   (iv) Decreases attributable to sales and biological assets classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with the relevant international or national standard dealing with non-current assets held for sale and discontinued operations;
   (v) Decreases due to distributions at no charge or for a nominal charge;
   (vi) Decreases due to harvest;
   (vii) Increases resulting from entity combinations;
   (viii) Net exchange differences arising on the translation of financial statements into a different presentation currency, and on the translation of a foreign operation into the presentation currency of the reporting entity; and
   (ix) Other changes.

<u>Additional disclosures for biological assets where fair value cannot be measured reliably</u>

8.8 If an entity measures biological asset at their cost less any accumulated depreciation and any accumulated impairment losses at the end of the period, the entity shall disclose for such biological assets:

(a) A description of the biological assets;
(b) An explanation of why fair value cannot be measure reliably;
(c) If possible, the range of estimates within which fair value is highly likely to lie;
(d) The depreciation method used;
(e) The useful lives or the depreciation rates used; and
(f) The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period.

8.9 If, during the current period an entity measures biological assets at their cost less any accumulated depreciation and any accumulated impairment losses, an entity shall disclose any gain or loss recognized on disposal of such biological assets and the reconciliation required shall disclose amounts related to such biological assets separately. In addition, the reconciliation shall include the following amounts included in surplus or deficit related to those biological assets:

(a) Impairment losses;
(b) Reversals of impairment losses; and
(c) Depreciation.

8.10 If the fair value of biological assets previously measured at their cost less any accumulated depreciation and any accumulated impairment losses becomes reliably measurable during the current period, an entity shall disclose for those biological assets:

(a) A description of with biological assets;
(b) An explanation of why fair value has become reliably measurable; and
(c) The effect of the change.

References

- MPSAS 27 - Agriculture

8.0 *AGRICULTURE (CONTINUED)*

Scenario A - Recognition of biological asset and agriculture produce (animals)

An entity raises 5 calves as cattle and purchases 10 cattle at fair value of RM100 per cow during the financial year. The following are the cattle's subsequent treatment:

(a) The cattle obtained through non exchange transaction are slaughtered and ear marked for consumption during a festival organized by the entity
(b) The cattle purchased through exchange transaction are slaughtered at its abattoirs and the carcasses are to be sold at the local market.

Journal entries

1) To recognize the cattle as biological asset obtained through non exchange transaction (5 cattle raised)

The cattle are biological assets while they are living animals:

(a) For cattle raised by the entity, the entity is said to acquire the biological assets through non exchange transaction.
(b) These cattle will be recognized at the fair value of biological assets of similar attributes that are acquired through exchange transactions.

There is a gain on initial recognition.

	Amount (RM)	Accounting Code
DR Biological asset	500	A17361XX
CR Gain from biological transformation of biological asset	500	H01891XX

2) To recognize the cattle as biological asset obtained through exchange transaction (10 cattle purchased)

The cattle are biological assets while they are living animals:

(a) For cattle purchased by the entity, the entity is said to acquire the biological assets through exchange transaction. These cattle will be recognized at the fair value of the biological assets, which is generally the transacted amount.

	Amount (RM)	Accounting Code
DR Biological asset	1,000	A17361XX
CR Cash	1,000	A0112XXX

8.0 AGRICULTURE (CONTINUED)

Journal entries

3) To account for the biological transformation of the calves to cattle

(a) Calves raised as cattle shall be measured at its fair value.
(b) The additional cattle acquired through non exchange and exchange transaction under journals 1 and 2 above have gone through biological transformation and their cumulative values increased from RM1,500 to RM1,800 (RM600 on non exchange transaction and RM1,200 on exchange transaction).

The increase in value amounting to RM300 is a gain on biological transformation.

	Amount (RM)	Accounting Code
DR Biological asset	300	A17361XX
CR Gain from biological transformation of biological asset	300	H01891XX

4) To transfer harvested biological assets to agriculture produce

When cattle are slaughtered, biological transformation ceases and the carcasses meet the definition of agricultural produce and are reclassed as inventory held for consumption or held for resale.

	Amount (RM)	Accounting Code
DR Inventory held for consumption/ inventory held for resale	1,800	A06361XX/ A07361XX
CR Biological assets	1,800	A17361XX

8.0 AGRICULTURE (CONTINUED)

Scenario B - Sale of agriculture produce classified as inventory held for resale

Following on from Scenario A, the entity slaughters 10 of the cattle it acquires through exchange transaction at its abattoirs and sells the carcasses to the local market.

Journal entries

1) To recognise sale of carcasses

Carcasses are eventually sold for RM1,800. Upon sale, the inventory held for resale is credited and cost of goods sold is debited.

	Amount (RM)	Accounting Code
DR Cost of goods sold	1,200	B07361XX
CR Inventory held for resale	1,200	A07361XX

The revenue is recognised and a receivable is recorded.

	Amount (RM)	Accounting Code
DR Accounts receivable	1,800	A03739XX
CR Revenue on sale of miscellaneous goods	1,800	H02739XX

Scenario C - Consumption of agriculture produce classified as inventory held for consumption

Following on from Scenario A, an entity ear marked for consumption the 5 cattle it raised at a festival.

Journal entries

1) To record consumption of inventory

Cattles consumed during festival will not see an increase in value and will be expensed in current year's surplus or deficit. The inventory held for consumption is reduced accordingly.

	Amount (RM)	Accounting Code
DR Consumables expense - animal	600	B06361XX
CR Inventory held for consumption	600	A06361XX

8.0 AGRICULTURE (CONTINUED)

Scenario D - Recognition of agricultural produce after harvesting (plants)

An entity is involved in planting oil palm trees and harvesting oil palm fruits. On 31 October 2013, the entity harvests oil palm fruits from its oil palm trees. Its fair value less costs to sell amounted to RM500.

Journal entries

1) Harvest of agriculture produce

The palm oil plants are bearer biological assets that continually generate oil. When the entity harvests the fruit, the palm oil plant continue to be living plants and continue to be recognized as biological assets after harvest. Hence, the entity should continue to account for the palm oil plants as a biological asset.

At the point of harvest, the harvested fruit should be recognized at fair value less costs to sell and treated as inventory. The gain arising from initial recognition of agricultural produce is credited as surplus for the period it is harvested. Since the harvested fruit is meant to be resold to the public and the entity does not manufacture oil products, the harvested fruit should be recognized as inventory held for resale.

	Amount (RM)	Accounting Code
DR Inventory held for resale	500	A07362XX
CR Gain from biological transformation of biological asset	500	H01891XX

2) Sale of agriculture produce i.e., harvested fruit

Once fruit harvested is sold, the inventory is reduced and a charge to cost of goods sold arises.

	Amount (RM)	Accounting Code
DR Cost of goods sold	500	B07362XX
CR Inventory held for resale	500	A07362XX

Revenue is also recognised upon sale and a receivable is created. Harvested fruit was eventually sold for RM600.

	Amount (RM)	Accounting Code
DR Account receivable	600	A03739XX
CR Revenue on sale of miscellaneous goods	600	H02739XX

9.0 INVESTMENTS

Introduction

9.1 This chapter covers the following matters:

- Types of investments
- Initial recognition and measurement
- Measurement subsequent to initial recognition
- Disclosures

Types of investments

9.2 Investments in controlled entities, jointly controlled entities and associates are equity investments in companies, statutory bodies and international agencies.

9.3 For purposes of the FGOM and using the first time adoption for investments as stipulated in Chapter 3, investments in controlled entities, jointly controlled entities and associates are to be accounted for in the separate financial statements under the equity method.

Initial recognition and measurement

9.4 The initial recognition and measurement criteria are as follows:

	Investment in controlled entities	Investment in associates	Investment in jointly controlled entities
Initial recognition	An entity is said to have established control of another entity for financial reporting purposes when one of the following criteria are fulfilled: (a) The entity benefit from the activities of the other entity; (b) The entity have the power to govern the financial and operating policies of the other entity;	The entity will classify an investment as an associate when there is existence of significant influence. The existence of significant influence by an investor is usually evidenced in one or more of the following ways: (a) Representation on the board of directors or equivalent governing body of the investee; (b) Participation in policy-making processes, including participation in decisions about dividends or other distributions; (c) Material transactions between the investor and the investee;	The existence of a binding arrangement conferring similar rights and obligations on the parties to it will differentiate an investment in jointly controlled entities from investment in associates.

9.0 INVESTMENTS (CONTINUED)

	Investment in controlled entities	Investment in associates	Investment in jointly controlled entities
Initial recognition (continued)	(c) The entity's power to govern the financial and operating policies of the other entity is exercisable. There is a presumption that the investment is a controlled entity if the FGOM owns >50% interest.	(d) Interchange of managerial personnel; (e) Provision of essential technical information. There is a presumption that the investment is an associate if the FGOM owns between 20%-50% interest in an entity.	
Initial measurement	For FGOM, investment in controlled entities, associates and jointly controlled entities will be recognized at cost.		

Subsequent measurement

9.5 When separate financial statements are prepared, investments in controlled entities, jointly controlled entities, and associates shall be accounted for using one of the following methods:

(a) Using the equity method;
(b) At cost; or
(c) As a financial instrument.

For FGOM, investment in controlled entities, jointly controlled entities and associates shall be accounted for at cost. This policy may be subject to change.

<u>Application of the equity method</u>

9.6 Under the equity method:

(a) The investment is stated as one line item, initially recognised at cost.
(b) The carrying amount of the investment is increased or decreased to recognise the investor's share of the profit or loss of the associate after the date of acquisition.
(c) The investor's share of the profit or loss of the associate is adjusted for the effect of any fair value adjustments recognised upon initial recognition and is recognised in the investor's income statement.
(d) Any distributions received from the associate reduce the investment's carrying amount.
(e) Adjustments to the associate's carrying amount may also be necessary for changes in the investor's proportionate interest in the associate that arises from changes in the associate's other comprehensive income, that have not been recognised in the associate's profit or loss. Such changes will include those arising from the revaluation of property, plant, and equipment and available for sale investments and from foreign exchange translation differences.

9.0 INVESTMENTS (CONTINUED)

Application of the cost method

9.7 Under the cost method:

(a) The investment continues to be recognized at cost.
(b) The investor recognizes revenue from the investment only to the extent that the investor is entitled to receive distributions from accumulated surpluses of investee arising after date of acquisition.
(c) Entitlements received are regarded as a recovery of investment and recognized as a reduction of the cost of investment.

Application as financial instruments

9.8 The accounting treatment as a financial instrument is outlined in Chapter 19 – Financial Instruments.

Disclosure requirements

9.9 Investment in controlled entities, associates and jointly controlled entities should be disclosed under the heading Non current assets in the Statement of Financial Position.

9.10 When a controlling entity or venturer with an interest in a jointly controlled entity, or an investor in an associate prepares separate financial statements, those separate financial statements shall disclose:

(a) The fact that the statements are separate financial statements and the reasons why those statements are prepared if not required by law, legislation, or other authority;
(b) A list of significant controlled entities, jointly controlled entities, and associates, including the name; the jurisdiction in which the entity operates (when it is different from that of the controlling entity); proportion of ownership interest; and, where that interest is in the form of shares, the proportion of voting power held (only where this is different from the proportionate ownership interest); and
(c) A description of the method used to account for the entities listed.

9.11 The following additional disclosures for investment in associates shall be made:

(a) The fair value of investments in associates for which there are published price quotations;
(b) Summarized financial information of associates, including the aggregated amounts of assets, liabilities revenues and surplus or deficit;
(c) The reasons why the presumption that an investor does not have significant influence is overcome if the investor holds, directly or indirectly through controlled entities, less than 20 percent of the voting or potential voting power of the investee but concludes that it has significant influence;
(d) The reasons why the presumption that an investor has significant influence is overcome if the investor holds, directly or indirectly through controlled entities, 20 percent or more of the voting power of the investee but concludes that it does not have significant influence;
(e) The reporting date of the financial statements of an associate, when such financial statements are used in applying the equity method and are as of a reporting date or for a period that is different from that of the investor, and the reason for using a different reporting date or different period;

9.0 INVESTMENTS (CONTINUED)

(f) The nature and extent of any significant restrictions (e.g., resulting from borrowing arrangements or regulatory requirements) on the ability of associates to transfer funds to the investor in the form of cash dividends, or similar distributions, or repayment of loans or advances;
(g) The unrecognized share of losses of an associate, both for the period and cumulatively, if an investor has discontinued recognition of its share of losses of an associate;
(h) The fact that an associate is not accounted for using the equity method; and
(i) Summarized financial information of associates, either individually or in groups, which are not accounted for using the equity method, including the amounts of total assets, total liabilities, revenues and surplus or deficit.

9.12 A venturer shall make the following additional disclosures:

(a) Method used to recognise its interest in jointly controlled entities;
(b) The aggregate amount of the following contingent liabilities, unless the possibility of any outflow in settlement is remote, separately from the amount of other contingent liabilities:
(c) Any contingent liabilities that the venturer has incurred in relation to its interests in joint ventures, and its share in each of the contingent liabilities that have been incurred jointly with other venturers;
(d) Its share of the contingent liabilities of the jointly controlled entities themselves for which it is contingently liable; and
(e) Those contingent liabilities that arise because the venturer is contingently liable for the liabilities of the other venturers of a jointly controlled entity;
(f) A brief description of the following contingent assets and, where practicable, an estimate of their financial effect, where an inflow of economic benefits or service potential is probable:
    (i) Any contingent assets of the venturer arising in relation to its interests in jointly controlled entity and its share in each of the contingent assets that have arisen jointly with other venturers
    (ii) Its share of the contingent assets of the jointly controlled entity themselves.
(g) A listing and description of interests in significant joint ventures and the proportion of ownership interest held in jointly controlled entities; and
(h) The aggregate amounts of each of current assets, non-current assets, current liabilities, non-current liabilities, revenue, and expenses related to its interest in jointly controlled entities.

9.13 A venturer shall disclose the aggregate amount of the following:

(a) Commitments in respect of its interests in jointly controlled entity separately from other commitments;
(b) Any capital commitments of the venturer in relation to its interests in jointly controlled entity and its share in the capital commitments that have been incurred jointly with other venturers; and
(c) Its share of the capital commitments of the jointly controlled entity themselves.

References

- MPSAS 6 - Consolidated and Separate Financial Statement
- MPSAS 7 - Investments in Associates
- MPSAS 8 - Investments in Joint Ventures

9.0 INVESTMENTS (CONTINUED)

Scenario A - Recognising investment using cost method

Scenario A.1 - Initial recognition of investment in a controlled entity on acquisition of that entity

Entity A acquires Company B by purchasing 60% of its equity for RM200 million in cash.

Journal entries

1) To record the purchase of 60% interest in Company B

The investment in controlled entity is recorded at cost of RM200 million in cash.

	Amount (RM)	Accounting Code
DR Investment in controlled entities	200,000,000	A1021XXX
CR Cash	200,000,000	A0112XXX

The same journal entry is applicable for similar scenarios for investment in associates and jointly controlled entities.

Scenario A.2 - Initial recognition of investment in a controlled entity on forming that entity

Entity A created Company B to achieve some of its objectives with control presumed to exist in terms of (a) power (via voting interest) and (b) benefit (via extraction of distribution of assets from the other entity).

Entity A incurred RM100 million (in cash) in forming Company B and to support Company B's initial financial and operating policies.

Journal entries

1) To record cost of investment in newly created Company B

The investment in controlled entity is recorded at cost of RM100 million

	Amount RM	Accounting Code
DR Investment in controlled entities*	100,000,000	A1021XXX
CR Cash	100,000,000	A0112XXX

* This is assuming that the full amount is equity in nature.

9.0 INVESTMENTS (CONTINUED)

Scenario A.3 - Subsequent measurement of investment in controlled entities

Entity A acquires Company B by purchasing 60% of its entity for RM200 million in cash. Subsequent to that, Company B recognises dividend of RM10 million from its accumulated surplus.

Journal entries

1) To record Entity A's share of distribution from Company B

Entity A recognises revenue from its investment in Company B only to the extent the investor is entitled to i.e. RM6 million of 60% out of total distribution of RM10 million.

The investment in controlled entity is recorded at cost of RM200 million in cash.

	Amount RM	Accounting Code
DR Cash	6,000,000	A0113XXX
CR Gain on investments	6,000,000	H0275XXX

The same journal entry is applicable for similar scenarios for investment in associated and jointly controlled entities.

Scenario A.4 - Divestment of investment in controlled entity

Entity A decides to dispose its interest in Company B. The consideration to be received amounts to RM250,000 for the 60% ownership interest. The net book value of the 60% ownership interest amounts to RM230,000.

Journal entries

1) To record the sale of 60% ownership interest in Company B

The sale of the 60% ownership interest in Company B is recognized by crediting the investment in controlled entities account and debiting the corresponding cash account recognized. The difference between the two accounts is recognized as gain on divestment.

	Amount (RM)	Accounting Code
DR Cash	250,000	A0113XXX
CR Gain on divestment of controlled entity	20,000	H0275XXX
CR Investment in controlled entity	230,000	A1021XXX

The same journal entries are applicable for similar scenarios for investment in associates and jointly controlled entities.

Same journal entry is also applicable for divestment where equity method is applied.

9.0 INVESTMENTS (CONTINUED)

Scenario A.5 - Impairment of investment in controlled entity

The investment in controlled entities is periodically reviewed for impairment assessment. During a recent review, an investment company was declared bankrupt and an impairment loss on investment in controlled entity amounting to RM100,000 was included in the accounts. Assume no revaluation reserve.

Journal entries

1) To record the impairment loss in the investment in controlled entities

Impairment loss is recognized against the current year surplus or deficit.

	Amount (RM)	Accounting Code
DR Impairment loss expense	100,000	B54211XX
CR Accumulated impairment loss	100,000	A54211XX

The same journal entry is applicable for similar scenarios for investment in associates and jointly controlled entities.

Same journal entry is also applicable for impairment where equity method is applied.

9.0 INVESTMENTS (CONTINUED)

Scenario B - Recognition investment using equity method

Scenario B.1 - Subsequent measurement of investment in a controlled entity – equity method

Entity A acquires Company B by purchasing 60% of its equity for RM200 million in cash. Subsequent to that, Company B's book value increased by RM3 million.

Journal entries

1) To record entity A's share of Company B's increase in book value

Entity A subsequently measures value of Company B using equity method. Book value of Company B has increased by RM3 million. Company A accounts for this increase in book value of Company B at its share of 60% of RM3 million, being RM1.8 m (RM3m x 60%).

	Amount (RM)	Accounting Code
DR Investment in controlled entities	1,800,000	A10211XX
CR Revenue	1,800,000	H0275XXX

The same journal entry is applicable for similar scenarios for investment in associates and jointly controlled entities.

Scenario B.2 - Dividend received from jointly controlled entities - where equity method of accounting is applicable

Entity A was entitled to dividend from Company B for the 60% ownership interest in Company B. The dividend of RM3,000 was declared on 1 February 20X7 and received on April 20X1.

Journal entries

1) To record the entitlement to the dividend of 1 February 20X1

The dividend receivable will be recognized as a deductible to the cost of investment balance and the receivable account is increased accordingly to the amount expected to be received.

	Amount (RM)	Accounting Code
DR Receivable	3,000	A0375XXX
CR Investment in controlled entities	3,000	A10211XX

2) To record the receipt of dividend or 1 April 20X1

The dividend received will result in an increase in the cash balance and the corresponding reversal of the receivable balance.

	Amount (RM)	Accounting Code
DR Cash	3,000	A0113XXX
CR Receivable	3,000	A0375XXX

The same journal entries are applicable for similar scenarios for investments in associates and jointly controlled entities.

9.0 INVESTMENTS (CONTINUED)

Scenario C - Recognising investment as a financial instrument (available for sale)

The scenario for available for sale type of investment is covered under Scenario C of Chapter 19 – Financial Instruments.

Scenario D - Consolidation of a controlled entity

The FGOM acquires an investee by acquiring 80% of the shares in Entity A for a cost of RM2.76 million total shares on 1 January 20X9. The acquisition results in FGOM acquiring 80% ownership interest in Entity A.

It is assumed that:

(a) There are no intra-group transactions
(b) The investee and FGOM share the same year end of 31 December
(c) No differences in accounting policies adopted
(d) No goodwill arises on consolidation

The Consolidated Statement of Financial Position and Financial Performance of the FGOM and investee are illustrated below:

Statement of Financial Position	FGOM (RM'000)	Entity A (RM'000)	Consolidation adjustment (RM'000)	Consolidated statement (RM'000)
Tangible fixed assets	1,000	3,000	-	4,000
Investment in Entity A	2,760	-	(2,760)	-
Other current assets	2,600	1,200	-	3,800
Other current liabilities	(600)	(100)	(130)	(830)
	5,760	4,100		6,970
Share capital	2,000	1,000	(1,000)	2,000
Reserves	3,760	3,100	(2,450)	4,410
Minority interest	-	-	690	560
			(130)	
	5,760	4,100		6,970

Statement of Financial Performance	FGOM (RM'000)	Entity A (RM'000)	Consolidation adjustment (RM'000)	Consolidated statement (RM'000)
Revenue	10,000	4,000	-	14,000
Expenses	(8,600)	(3,200)	-	(11,800)
Taxation	(200)	(150)	-	(350)
Surplus or deficit after tax	1,200	650		1,850
Minority interest	-	-	(130)	(130)
	1,200	650		1,720

9.0 INVESTMENTS (CONTINUED)

Scenario E - Converting loan to voting shares

An entity issues loan to a corporation amounting to RM100,000 with a maturity period of 5 years. At the end of the maturity period, the corporation enters into an agreement with the entity to convert loan to voting shares. The shares are valued at a fair value of RM100 per unit. The corporation offers 1,000 units of shares.

Journal entries

1) To record the issuance of loan to the corporation

When the entity issues loan to a corporation, the loan is recognised as loan receivable and the cash account is reduced accordingly.

	Amount (RM)	Accounting Code
DR Loan receivable	100,000	A03371XX
CR Cash	100,000	A0112XXX

2) To record the conversion of loan to shares

When the entity agrees to accept shares in lieu of loan repayment, the entity recognises the shares received as investments (as it was intended to be held for non trading purposes) and reduces the loan receivable account. Depending on the ownership and control levels of the entity in the corporation, the investment will be recognised as an investment in controlled entity, associates or in jointly controlled entities.

In this case, we assume the shares offered by the corporation results in an ownership of 25% in the corporation, thus, an investment in associates account is debited.

	Amount (RM)	Accounting Code
DR Investment in associate	100,000	A1221XXX
CR Loan receivables	100,000	A03371XX

10.0 INVESTMENT PROPERTIES

Introduction

10.1 This chapter covers the following matters:

- Initial recognition and measurement
- Measurement subsequent to initial recognition
- Disposals and exchanges
- Disclosures

10.2 Investment property is defined as property (land or a building – or part of a building – or both) held to earn rentals or capital appreciation or both, rather than for:

(a) use in the production or supply of goods or services or for administrative purposes; or
(b) sale in the ordinary course of business

10.3 Examples of investment property include the following:

(a) Land held for long-term capital appreciation, rather than for short-term sale in the ordinary course of operations;
(b) Land whose future use has not yet been determined. If the future use has not yet been determined, land is assumed to be held for capital appreciation;
(c) A building owned or held under a finance lease and leased out under an operating lease;
(d) A building that is vacant, but held to be leased out under an operating lease; or
(e) Property that is being constructed or developed for future use as investment property.

10.4 Investment property does not include:

(a) Property intended for sale in the ordinary course of business or for development (for example, agricultural) and resale;
(b) Property under construction for third parties;
(c) Owner-occupied property, including property held for such use or for redevelopment prior to such use;
(d) Property occupied by employees;
(e) Owner-occupied property awaiting disposal; and
(f) Property that is leased to another entity under a finance lease.

Initial recognition and measurement

<u>Exchange transaction</u>

10.5 Investment property shall be initially recognized as an asset at cost when and only when:

(a) It is probable that future economic benefits or service potential associated with the investment property will flow to the entity; and
(b) The cost or fair value of the item can be measured reliably.

<u>Non exchange transaction</u>

10.6 Where an investment property is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.

10.0 INVESTMENT PROPERTIES (CONTINUED)

Subsequent measurement

10.7 Investment property will be recorded at cost under cost model, as follows:

(a) Measure at cost less accumulated depreciation and accumulated impairment losses.
(b) Depreciation is charged on a straight-line basis at rates calculated to allocate the cost or valuation of an item of investment property value measured at cost less any estimated residual value, over its remaining useful life.
(c) For freehold land, it is not necessary to depreciate but for leasehold land, it shall be amortized over the lease period. The depreciation charge for the period is recognized in surpluses or deficit.

10.8 Where the accounting policy is changed to that of the fair value model, the treatment would be as follows:

(a) Measure at fair value unless the fair value is not reliably determinable on a continuous basis.
(b) Gain or loss arising from the change in the fair value is recognized in the surpluses or deficit for the period in which it arises.
(c) A property interest held by lessee under an operating lease may be classified and accounted for as investment property if it meets the definition of investment property and the use of fair value model is mandatory.

10.9 Refer to Chapter 14 on impairment of assets for details.

Disposals and exchanges

<u>Gains or losses on disposal</u>

10.10 Gains or losses arising from disposal of investment property are recognized in the statement of financial performance in the period in which the transaction occurs at the net amount. Gain or loss arising from disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset, at fair value.

<u>Non-monetary exchange</u>

10.11 Please refer to similar treatment in non-monetary exchange of property, plant and equipment in Chapter 5.

Disclosure requirements

10.12 Investment properties are recorded under the 'Investment Property' heading on the Statement of Financial Position.

10.0 INVESTMENT PROPERTIES (CONTINUED)

10.13 An entity shall disclose:

(a) Whether it applies the fair value or the cost model;
(b) The methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence, or was more heavily based on other factors (which the entity shall disclose) because of the nature of the property and lack of comparable market data;
(c) The extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact shall be disclosed;
(d) The amounts recognized in surplus or deficit for:
  (i) Rental revenue from investment property;
  (ii) Direct operating expenses (including repairs and maintenance) arising from investment property that generated rental revenue during the period; and
  (iii) Direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental revenue during the period.
(e) The existence and amounts of restrictions on the reliability of investment property or the remittance of revenue and proceeds of disposal; and
(f) Contractual obligations to purchase, construct, or develop investment property or for repairs, maintenance, or enhancements.
(g) An entity that applies the fair value model shall disclose a reconciliation between the carrying amounts of investment property at the beginning and end of the period
(h) In the exceptional cases where an entity measures investment property using the cost model in MPSAS 17 - Property, Plant and Equipment, the reconciliation shall disclose amounts relating to that investment property separately from amounts relating to other investment property. In addition, an entity shall disclose:
  (i) A description of the investment property;
  (ii) An explanation of why fair value cannot be determined reliably;
  (iii) If possible, the range of estimates within which fair value is highly likely to lie; and
  (iv) On disposal of investment property not carried at fair value:
    - The fact that the entity has disposed of investment property not carried at fair value;
    - The carrying amount of that investment property at the time of sale; and
    - The amount of gain or loss recognized.

References

- MPSAS 13 – Leases
- MPSAS 16 – Investment Property
- MPSAS 17 – Property, Plant and Equipment
- MPSAS 21 – Impairment of Non-Cash-Generating Assets
- MPSAS 26 – Impairment of Cash-Generating Assets

10.0 INVESTMENT PROPERTIES (CONTINUED)

Scenario A - Purchase of an investment property and its subsequent measurement

In 20X3, an entity purchased a plot of land on the outskirts of a major city. The area has mainly low-cost public housing and very limited public transport facilities. FGOM has plans to develop the area as an industrial park in 5 years' time and the land is expected to greatly appreciate in value if FGOM proceeds with the plan. The entity has not decided what to do with the property.

Journal entries

1) To record the purchase of an investment property

The property should be classified as an investment property. Although the entity has not determined a use for the property after the park's development takes place, in the medium-term the land is held for capital appreciation.

	Amount (RM)	Accounting Code
DR Investment properties	100,000	A22311XX
CR Cash	100,000	A0112XXX

2) To record the measurement of investment property after its initial recognition

The fair value of the investment property is RM110,000 in 20X4.

2a) Cost model:

The gain (110,000-100,000=10,000) is not recognized. Instead, the investment property is depreciated regularly at RM10,000=RM100,000/10 (Assuming a useful life of 10 years).

	Amount (RM)	Accounting Code
DR Depreciation expense	10,000	B37311XX
CR Accumulated depreciation	10,000	A37311XX

In addition, the investment property is regularly assessed for impairment. Please refer to Chapter 5 – Property, plant and equipment, Scenario G - Impairment of property, plant and equipment.

2b) Fair value model: The gain (110,000-100,000=10,000) is recognized as a surplus during the period. This increases the value of the investment property to RM110,000 in the Statement of Financial Position. Similarly, should there be a loss, the loss will be recognized in the current year surplus or deficits.

	Amount (RM)	Accounting Code
DR Investment properties	10,000	A22311XX
CR Gain on change in fair value	10,000	H01892XX

10.0 INVESTMENT PROPERTIES (CONTINUED)

Scenario B - Swap of land with loan

An entity issued loan amounting to RM50,000 to a third party. At the maturity of the loan, the third party settled its obligation by providing a land to the entity. The land is valued at RM40,000 and deemed to be classified as an investment property.

Journal entries

1) To record the issuance of loan

The entity recognizes the loan receivable of RM50,000 and reducing the cash account of RM50,000.

	Amount (RM)	Accounting Code
DR Loan receivable	50,000	A03371XX
CR Cash	50,000	A0112XXX

2) To record the repayment of loan by providing a land to the entity

Since the fair value of the land is less than the value of the loan receivable, the loss on swap is recognized in the current year surplus or deficits. In addition, the land account is debited as soon as the ownership of the land is transferred to the entity and the outstanding loan receivable amount is reduced.

	Amount (RM)	Accounting Code
DR Investment properties – Land	40,000	A22311XX
DR Loss on swap	10,000	B05553XX
CR Loan receivable	50,000	A03371XX

10.0 INVESTMENT PROPERTIES (CONTINUED)

Scenario C - Non-monetary exchange of investment property assets (with commercial substance)

An entity exchanges a plot of government-owned land (Land A) for its neighbouring plot of land (Land B) with an outside party who owns Land B. Land B's fair value to the entity was RM200,000 while its carrying cost for Land A was RM190,000. The transaction is assumed to have commercial substance.

Journal entries

1) To record the exchange of Land A for Land B

The exchange of lands is a non-monetary exchange. As the configuration of the cash flows potential of the Land A differs from the configuration of the cash flows potential of the Land B, the exchange transaction has commercial substance.

As a result, the cost of Land B is measured at fair value, leading to recognition of RM10,000 gain on exchange of Land A. The fair value of Land B would be recognized if Land A's fair value is less reliable.

	Amount (RM)	Accounting Code
DR Investment properties – Land B	200,000	A22311XX
CR Investment properties - Land A	190,000	A22311XX
CR Gain on Exchange	10,000	H02849XX

11.0 LEASE ACCOUNTING

Introduction

11.1 This chapter covers the following matters:

- Scope
- Leases classification
- Accounting by lessee and lessor
- Accounting for sale and leaseback
- Disclosure by lessee
- Disclosure by lessor

Scope

11.2 A lease is a contractual agreement between a lessor and a lessee that gives the lessee the right to use specific property owned by the lessor for a specific period of time in return for generally periodic cash payments.

11.3 FGOM may enter into a PFI arrangement which do not include the delivery of public services but conveys a right to use an asset in return for payment or series of payments. Such arrangement contains a lease and should be accounted for based on the guidance in this Chapter.

Lease classification

11.4 Leases are classified based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or lessee.

11.5 A lease is classified as finance lease if it transfers substantially all the risks and rewards incidental to ownership of the lease asset to the lessee. Otherwise, it is classified as an operating lease.

<u>Lease term</u>

11.6 The lease term is key to classifying a lease and is defined by the standard as *"...the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option"*.

11.7 A non-cancellable lease is defined as a lease that is cancellable only:

(a) Upon the occurrence of some remote contingency;
(b) With the permission of the lessor;
(c) If the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or
(d) Upon payment by the lessee of such an additional amount that, at inception of the lease, continuation of the lease is reasonably certain.

11.0 LEASE ACCOUNTING (CONTINUED)

11.8 If a lease contains a clean break clause, that is, where the lessee is free to walk away from the lease agreement after a certain time without penalty, then the lease term for accounting purposes will normally be the period between the commencement of the lease and the earliest point at which the break option is exercisable by the lessee.

11.9 If a lease contains an early termination clause that requires the lessee to make a termination payment to compensate the lessor (sometimes referred to as the 'stipulated loss value') such that the recovery of the lessor's remaining investment in the lease was assured, then the termination clause would normally be disregarded in determining the lease term.

11.10 Where there are break clauses that transfer some economic risk to the lessor, but at the same time give the lessor some protection from financial loss, the interpretation becomes more difficult. For example, certain computer lessors include 'right to exchange' clauses in leases that would otherwise be classified as finance leases. These give lessees the right to return equipment, or a proportion of the equipment, at certain times during the primary lease term, but normally on condition that a replacement lease is entered into on the new and remaining equipment.

11.11 Other factors that may need to be considered in determining whether secondary periods should be included in the lease term are other forms of commercial compulsion such as penalties. For example, if the lessee is subject to a penalty for failing to renew a lease or exercise a purchase option, or if the return conditions stipulated in the lease are unduly penal, it may be to the lessee's advantage to continue to lease the asset. Similarly, if the lessee's business is dependent on the asset such that the cost of its removal and disruption of business are disproportional to the costs of continuing the lease, the secondary period should be included in the lease term.

<u>Classification indicators</u>

11.12 The following examples of situations individually or in combination would normally lead to a lease being classified as a finance lease:

(a) The lease transfers ownership of the asset to the lessee by the end of the lease term.
(b) The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised.
(c) The lease term is for the major part of the economic life of the asset even if title is not transferred.
(d) At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the lease asset.
(e) The lease assets are of a specialised nature such that only the lessee can use them without major modifications being made.

<u>Inception and commencement</u>

11.13 Lease classification is made at the inception of the lease. The inception of the lease is the earlier of the date of the lease agreement and the date of the parties' commitment to the lease's principal provisions. In the case of a finance lease, the assets and liabilities to be recognised at the commencement of the lease term are determined at the date of inception.

11.0 LEASE ACCOUNTING (CONTINUED)

11.14 The commencement of the lease term is the date from which the lessee is entitled to exercise its right to use the lease asset and it is the date of initial recognition of the lease assets and liabilities. For example, a lessee may sign an agreement to lease a car on 31 March, but does not take delivery of the car until 30 June. The classification of the lease and the measurement of the related assets and liabilities will take place on 31 March, but the recognition in the financial statements of the lease assets and liabilities will not take place until 30 June.

<u>Change in lease classification</u>

11.15 Changes in estimates or changes in circumstances should not result in a change in classification. For example, a change in the estimated residual value of a property or a change in its expected economic life would not give rise to a new classification of a lease. However, changes to the provisions of a lease may require the classification to be re-assessed.

Accounting by lessee and lessor

11.16 The treatment of finance and operating leases from the perspective of lessor and lessee are as follows:

	Finance Lease	**Operating Lease**
FGOM as lessee	The finance lease should be recorded on the statement of financial position both as an asset and as an obligation to pay future rentals. They should be recognised at the fair value of the lease asset or, if lower, the present value of the minimum lease payments each determined at the inception of the lease. In calculating the present value of the minimum lease payments, the discount factor is the interest rate implicit in the lease. Any initial direct costs of the lessee are added to the amount recognised as an asset. The interest rate implicit in the lease is defined by the standard as *"...the discount rate that, at the inception of the lease, causes the aggregate present value of (a) the minimum lease payments and (b) the unguaranteed residual value to be equal to the sum of (i) the fair value of the lease asset and (ii) any initial direct costs of the lessor"*. In more simple terms, the interest rate implicit in the lease is the lessor's internal rate of return from the lease taking into account the normal cash price of the lease asset, rentals and the amount the lessor expects to recover from the residual value.	Operating leases should not be capitalised. Lease payments made under operating leases should be recognised as an expense on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the user's benefit. The start of the lease term is the commencement of the lease, rather than the inception of the lease, that is, when the lessee is entitled to exercise its right to use the lease asset. It should be noted that lease payments exclude costs for services such as insurance and maintenance.

11.0 LEASE ACCOUNTING (CONTINUED)

	Finance Lease	Operating Lease
FGOM as lessee (continued)	Where this is not possible, the lessee is to use his incremental borrowing rate to determine the present value of the minimum lease payments. The lessee's incremental borrowing rate is the rate the lessee would have to pay on a similar lease or, if that is not determinable, the rate at the inception of the lease that the lessee would incur on borrowings over a similar term with a similar security. The minimum lease payments for a lessee are the payments over the lease term that the lessee is, or can be required, to make excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor together with any amounts guaranteed by the lessee or any party related to the lessee (for example, another group entity). In addition, if a lessee has an option to purchase the asset at a price that makes it reasonably certain, at the inception of the lease, that the option will be exercised, then the lessee should include the payment to exercise the option in its calculation of the minimum lease payments. If it is not reasonably certain that the option will be exercised, any penalty for non-exercise should be included in the minimum lease payments. It will be reasonably certain that an option will be exercised if, at the inception of the lease, it is expected that the option price will be sufficiently lower than the expected fair value of the asset at the date the option is exercised. An asset leased under a finance lease should be depreciated over the shorter of the lease term and its useful life, unless there is a reasonable certainty the lessee will obtain ownership of the asset by the end of the lease term in which case it should be depreciated over its useful life. Lease payments should be apportioned between the finance charge and the reduction of the outstanding liability. The finance charge should be allocated to periods during the lease term, so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The standard acknowledges that, in practice, some form of approximation may need to be used to simplify the calculation of the allocation.	

11.0 LEASE ACCOUNTING (CONTINUED)

	Finance Lease	Operating Lease
FGOM as lessor	The amount due from the lessee under a finance lease should be recognised in the lessor's statement of financial position as a receivable at an amount equal to the lessor's net investment in the lease. Over the lease term, rentals are apportioned between a reduction in the net investment in the lease and finance income. A lessor's net investment in a lease is its gross investment in the lease discounted at the interest rate implicit in the lease. The gross investment in the lease is equal to the minimum lease payments plus any unguaranteed residual accruing to the lessor. The definition of minimum lease payments for a lessor is slightly different to the definition used by a lessee in that, in addition to the payments required to be made by the lessee , a lessor will include in its calculation of minimum lease payments, any residual value that has been guaranteed whether by the lessee, a party related to the lessee, or an independent third party (for example, the manufacturer of the asset). This means that, at any point in time during the lease term, the net investment in the lease will be represented by the remaining minimum lease payments (the amounts the lessor is guaranteed to receive under the lease from either the lessee or third parties), less that part of the minimum lease payments that is attributable to future gross earnings (namely, interest). The lessor's net investment in the lease will also include any unguaranteed residual value. The unguaranteed residual value, which will be small in a finance lease, represents the amount the lessor expects to recover from the value of the lease asset at the end of the lease term that is not guaranteed in any way by either the lessee or third parties. The recognition of finance income should be based on a pattern reflecting a constant periodic rate of return on the lessor's net investment.	A lessor should present assets subject to operating leases in their statement of financial positions according to the nature of the asset. In most cases, this means that the asset will be recorded as property plant and equipment or investment property. Depreciable lease assets must be depreciated or amortised on a basis consistent with the lessor's normal depreciation policy for similar assets.

11.0 LEASE ACCOUNTING (CONTINUED)

Accounting for sale and leaseback

11.17 A sale and leaseback transaction arises when an owner sells an asset and immediately re-acquires the use of the asset by entering into a lease with the buyer.

Finance leaseback

11.18 Where the seller enters into a finance leaseback, the transaction is essentially a financing operation. The seller/lessee never disposes of the risks and rewards of ownership of the asset and so it should not recognise a profit or loss on the sale. Any apparent profit (that is, the difference between the sale price and the previous carrying value) should be deferred and amortised over the lease term.

11.19 Normally, a property, plant and equipment's carrying value before a sale and finance leaseback will not be more than the lease asset's fair value. Indeed, if it were, it would need to be tested for impairment. Any such adjustments to the asset's carrying value should be made before determining the apparent profit or loss on the sale and leaseback transaction. However, where subsequent rentals are determined other than on an arm's length basis, it is possible that the sales proceeds will be less than the fair value of the asset. Apparent loss should be treated in the same way as any profit, that is, deferred and amortised over the lease term.

Operating leaseback

11.20 Where the seller enters into a sale and operating leaseback, it effectively disposes of substantially all the risks and rewards of owning the asset in the sale transaction; and may re-acquire some of the risks and rewards of ownership in the leaseback, but does not re-acquire substantially all of them. Accordingly, the transaction should be treated as a disposal and any profit or loss on the transaction should be recognised immediately in the statement of financial performance.

11.21 If the fair value of an asset at the time of a sale and operating leaseback transaction is less than the carrying amount of the asset, a loss equal to the difference between the carrying amount of the asset and its fair value should be recognised immediately. The effect of this requirement is to ensure that any pre-existing impairment in the carrying value of the asset is recognised immediately.

11.22 Where the sale transaction is established at fair value, any profit on the sale should be recognised immediately, as this is in effect, a normal sales transaction.

11.23 Where the sale price is above the fair value, the excess of the sale price over the fair value does not represent a genuine profit. This is because the rentals payable in future years will almost certainly be inflated above the market value. Accordingly, the excess of the sale proceeds over the fair value should be deferred and amortised over the period for which the asset is expected to be used. This treatment will have the effect of reducing the annual expense for rentals to a basis consistent with the fair value of the asset.

11.24 Where the sale price is below the fair value, the standard requires that any profit or loss should be recognised immediately. An exception is made, however, where a loss is compensated by future lease payments that are below market levels. In such a circumstance, the loss (to the extent that it is compensated by future rentals below market levels) should be deferred and amortised over the period for which the asset is expected to be used.

11.0 LEASE ACCOUNTING (CONTINUED)

Disclosure by lessee

Finance lease

11.25 Finance lease is reported as lease asset under the heading non current asset and lease liabilities under the heading non current liabilities in the Statement of Financial Position.

11.26 It is not appropriate for the lease liabilities to be presented in the financial statements as a deduction from the lease assets. Lease liabilities should be shown separately from other financial obligations.

11.27 Lessee shall disclose the following:

(a) For each class of asset, the net carrying amount at the reporting date;
(b) A reconciliation between the total of future minimum lease payments at the reporting date, and their present value;
(c) In addition, an entity shall disclose the total of future minimum lease payments at the reporting date, and their present value, for each of the following period:
    (i) Not later than one year;
    (ii) Later than one year and not later than five years; and
    (iii) Later than five years.
(d) Contingent rents recognised as an expense in the period;
(e) The total of future minimum sublease payments expected to be received under non-cancellable subleases at the reporting date; and
(f) A general description of the lessee's material leasing arrangements including, but not limited to, the following:
    (i) The basis on which contingent rent payable is determined;
    (ii) The existence and terms of renewal or purchase options and escalation clauses; and
    (iii) Restrictions imposed by lease arrangements, such as those concerning return of net surplus, return of capital contributions, dividends, additional debt and further leasing.

Operating lease

11.28 Lessee shall disclose the following:

(a) The total of future minimum lease payments under non-cancellable operating leases for each of the following periods:
    (i) Not later than one year;
    (ii) Later than one year and not later than five years; and
    (iii) Later than five years;
(b) The total of future minimum sublease payments expected to be received under non-cancellable subleases at the reporting late;
(c) Lease and sublease payments recognized as an expense in the period, with separate amounts for minimum lease payments, contingent rents, and sublease payments; and
(d) A general description of the lessee's significant leasing arrangements including, but not limited to, the following:
    (i) The basis on which contingent rent payments are determined;
    (ii) The existence and terms of renewal or purchase options and escalation clauses; and
    (iii) Restrictions imposed by lease arrangements, such as those concerning return of net surplus, return of capital contributions, dividends, additional debt, and further leasing.

11.0 LEASE ACCOUNTING (CONTINUED)

Disclosure by lessor

Finance lease

11.29 Lessor shall disclose the following:

(a) A reconciliation between the total gross investment in the lease at the reporting date, and the present value of minimum lease payments receivable at the reporting date. In addition, an entity shall disclose the gross investment in the lease and the present value of minimum lease payments receivable at the reporting date, for each of the following periods:
   (i) Not later than one year,
   (ii) Later than one year and not later than five years; and
   (iii) Later than five years.

(b) Unearned finance revenue;

(c) The unguaranteed residual values accruing to the benefit of the lessor;

(d) The accumulated allowance for uncollectible minimum lease payments receivable;

(e) Contingent rents recognised in the statement of financial performance; and

(f) A general description of the lessor's material leasing arrangements.

Operating lease

11.30 Lessors shall disclose the following:

(a) The future minimum lease receipts under non-cancellable operating leases in the aggregate and for each of the following periods:
   (i) Not later than one year;
   (ii) Later than one year and not later than five years; and
   (iii) Later than five years;

(b) Total contingent rents recognized in the statement of financial performance in the period; and

(c) A general description of the lessor's leasing arrangements.

References

- MPSAS 13 - Leases

11.0 LEASE ACCOUNTING (CONTINUED)

Scenario A - An entity enters into finance lease agreement as lessee

A local lessor company and an entity sign a lease agreement that calls for Lessor Company to lease equipment to the entity beginning January 1, 20X5. The lease contains the following terms and provisions.

1. The term of the lease is five years, and the lease agreement is non-cancellable, requiring equal payments of RM23,982 at the beginning of each year (annuity due basis).
2. The equipment has a fair value at the inception of the lease of RM100,000, an estimated economic life of five years, and no residual value at the end of the 5 years.
3. The lease contains no renewal options and the equipment reverts to Lessor Company at the termination of the lease.
4. The entity depreciates similar equipment it owns on a straight-line basis.
5. Lessor company set the annual rental to ensure a rate of return on its investments of 10% per year; the entity is aware of this fact.

The lease meets the criteria for classification as a finance lease because (1) the lease term of five years, being equal to the equipment's estimated economic life of five years and (2) the present value of the minimum lease payments (RM100, 000 as computed below) exceeds 90% of the fair value of the property (RM100,000).

1) To record the recognition of finance lease on January 1, 20X5

The asset value and the amount of the obligation are recorded at the beginning of the lease term at the present value of the lease payments. The minimum lease payments are RM119,910 (RM23,982 x 5) and the amount capitalized as lease assets is RM100,000, the present value of the minimum lease payments is determined as follows:

Capitalized amount	= (RM23,982) x present value of an annuity due of RM1 for 5 periods at 10%.
	= RM23,982 x 4.16986
	= RM100,000

The lessor's implicit interest rate of 10% is used instead of the lessee's incremental borrowing rate of 11% because (1) it is lower, and (2) the lessee has knowledge of it.

	Amount (RM)	Accounting Code
DR Interest in suspense*	19,910	A7135XXX
DR Lease asset – equipment	100,000	A1535XXX
CR Lease liability- equipment*	119,910	L0724XXX

* On the financial statement, this will be presented on a net basis.

2) To record the first lease payment on January 1, 20X5

The first lease payment of RM23,982 represents a reduction of the principal of the lease obligation. There is no interest paid out at this point. Each rental payment of RM23,982 consists of two elements: (1) a reduction in the principal of the lease obligation and (2) a financing cost (interest expense). The total financing cost or interest expense over the term of the lease is the difference between the present value of the lease payments (RM100,000) and the actual cash disbursed which amounts to RM119,910, or RM19,910.

11.0 LEASE ACCOUNTING (CONTINUED)

Journal entries

Lease Amortization Schedule (Annuity Due Basis)				
Date	Annual Lease Payment (RM)	Interest (10%) on Unpaid Obligation (RM)	Reduction of Lease Obligation (RM)	Balance of Lease Obligation (RM)
	(a)	(b)	(c)	(d)
Jan.1/x5				100,000
Jan.1/x5	23,982	-	23,982	76,018
Jan.1/x6	23,982	7,602	16,380	59,639
Jan.1/x7	23,982	5,964	18,018	41,621
Jan.1/x8	23,982	4,162	19,820	21,801
Jan.1/x9	23,982	2,180	21,801	-
Total	119,910	19,910	100,000	

a. Lease payment as required by lessor
b. 10% of the preceding balance of (d) except for January 1, 20X5; since this is an annuity due, no time has elapsed at the date of the first payment and no interest has accrued.
c. (a) minus (b)
d. Preceding balance minus (c).

	Amount (RM)	Accounting Code
DR Lease liability- equipment	23,982	L0724XXX
CR Cash	23,982	A0112XXX

Note: In the journal entry 2 above no portion of the 23,982 relates to interest expense. Please refer to journal entry 4 for payments that relate to principal reduction and interest expense incurred.

3) To record the depreciation expense for the year

The entity should record depreciation expense and accumulated depreciation as per the entity's normal depreciation policy (e.g. straight-line method). RM100,000/5years= RM20,000/year.

	Amount (RM)	Accounting Code
DR Depreciation expense –equipment (leased)	20,000	B3235XXX
CR Accumulated depreciation - equipment (leased)	20,000	A3235XXX

4) To record the lease payment on January 1, 20X6.

The recording of the lease payment results in a reduction of the lease obligation and the interest expense incurred. The interest in suspense are reversed and recorded as an interest expense when the lease payment is made.

	Amount (RM)	Accounting Code
DR Lease liability - equipment	23,982	L0724XXX
DR Interest expense	7,602	B04459XX
CR Cash	23,982	A0112XXX
CR Interest in suspense	7,602	A7135XXX

11.0 LEASE ACCOUNTING (CONTINUED)

Scenario B - An entity enters into finance lease agreement as lessor

Entity A manufactures trucks. If offers customers a choice of either buying the trucks outright or leasing them under a finance lease. Trucks cost RM25,000 to manufacture. If trucks are purchased outright, they are sold for RM30,000. Customer chooses to lease the trucks for 20 years at an annual rental of RM2,809 payable annually in advance.

Entity A believes that the residual value of the truck at the end of 20 year lease term will be RM1,000.

A market interest rate on leases of this type is 8%. The present value of the minimum lease payments is RM29,786 and the present value of the residual is RM214.

Journal entries

1) To record sales

Entity A will record sales revenue equal to the lower of the fair value of the asset (RM30,000) and the present value of the minimum lease payments (RM29,786). The cost of sales will be equal to the carrying value of truck (RM25,000) less present value of the residual (RM214).

Entity A will recognise a selling profit of RM5,000 (RM29,786 – RM24,786).

It will also recognise a lease receivable of RM30,000 (RM29,786 + RM214) being the present value of minimum lease payment plus the present value of the unguaranteed residual (the net investment in the lease).

The net investment will amortise to a residual value of RM1,000 over 20 year. Lease as lessor applies each lease rental to reduce receivable and recognise income at a constant periodic rate of return on net investment.

	Amount (RM)	Accounting Code
DR Lease receivable	29,786	A0374XXX
CR Revenue	29,786	H0273XXX
DR Cost of sales	24,786	B07278XX
DR Lease receivable – interest in residual	214	A0374XXX
CR Inventory held for resale	25,000	A07278XX

11.0 LEASE ACCOUNTING (CONTINUED)

Scenario C - An entity enters into finance lease agreement as lessor where title is retained at the end of the lease period

FGOM leases out land to a member of the public for 99 years at a value of RM1.5 million being the minimum lease payment paid at the inception of the lease. At the end of the lease term, the ownership of land will revert back to FGOM. The carrying value of the land to FGOM was RM1.2 million.

For the purpose of this scenario, the unguaranteed residual value is estimated at RM600,000 with a present value of RM400,000. Fair value of the land at inception of lease is RM1.6 million.

As present value of minimum lease payment amounts to substantially the land value, this transfer is treated as a finance lease.

Journal entries

1) To record the sale of leasehold land

FGOM will need to ascertain the value of the unguaranteed residual value of this land. Hence, the minimum lease payment of RM1.5 million and the unguaranteed residual value will equal the gross investment.

The total gross investment will reflect the fair value of the leasehold land that will also need to be brought back to its current present value. This will provide a net discounted gross investment.

	Amount (RM)	Accounting Code
DR Cash	1,500,000	A0113XXX
DR Finance lease receivable	400,000	A03741XX
CR Property, Plant and Equipment – Land	1,200,000	A14311XX
CR Gain on disposal	700,000	H02741XX

Finance lease receivable reflects the unguaranteed residual value.

2) To record periodic accretion of gain over the lease period

Total gain at the end of the lease period amounts to RM200,000 (RM600,000 – RM400,000).

	Amount (RM)	Accounting Code
DR Finance lease receivable	200,000	A03741XX
CR Gain on finance lease	200,000	H02741XX

3) To record the return of leasehold land to FGOM

At the expiry of the lease term, the land is returned to FGOM.

	Amount (RM)	Accounting Code
DR Property, Plant and Equipment – Land	600,000	A14311XX
CR Finance lease receivable	600,000	A03741XX

11.0 LEASE ACCOUNTING (CONTINUED)

Scenario D - An entity enters into an operating lease agreement as lessee

An entity leases a building from an external party for 6 months as their temporary control center in a commercial area is heavily affected by flood. The monthly rental is RM10,000 and the contracted lease term is 6 months.

Journal entries

1) To record the recognition monthly lease expense

Lease expense is debited once the actual payment has been made to the lessor, cash is credited to reflect the cash outflow for the settlement of the liability.

	Amount (RM)	Accounting Code
DR Lease expense	10,000	B02242XX
CR Cash	10,000	A0112XXX

Scenario E - An entity enters into an operating lease agreement as lessor

An entity leases a building to an external party for 6 months as their temporary office. The monthly rental is RM10,000 and the contracted lease term is 6 months.

Journal entries

1) To record the recognition of monthly lease revenue

The revenue account is credited once the actual payment has been made by the lessee, cash balance is debited to reflect the cash inflow for the settlement of the liability.

	Amount (RM)	Accounting Code
DR Cash	10,000	A0113XXX
CR Lease revenue	10,000	H02742XX

12.0 INTANGIBLE ASSETS

Introduction

12.1 This chapter covers the following matters:

- Specific types of intangible assets
- Initial recognition and measurement
- Measurement subsequent to initial recognition
- Disclosures

12.2 An intangible asset is an identifiable non-monetary asset without physical substance. It shall be initially recognized as an asset if:

(a) It meets the definition of an intangible asset;
(b) It is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and
(c) Cost or fair value of the asset can be measured reliably.

Specific types of intangible assets

License fee for software

12.3 License fee for software is the cost incurred to acquire license to allow for usage of software.

Types of software	Initial recognition and measurement
Software integrated with hardware	Recognized as part of property, plant and equipment.
Standalone software	Recognized as intangible asset.

The license fee for software may include the initial acquisition cost and any maintenance or betterment cost.

12.4 License fee for software shall be capitalized as intangible asset and yearly maintenance fee shall be expensed off. Enhancement (upgrade) of the system shall be capitalized.

Research and development

12.5 Internally generated intangible assets are generated through research and development.

12.6 Research is defined as original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Examples of research activities include:

(a) Activities aimed at obtaining new knowledge;
(b) The search for, evaluation and final selection of, applications of research findings or other knowledge;
(c) The search for alternatives for materials, devices, products, processes, systems, or services; and
(d) The formulation, design, evaluation, and final selection of possible alternatives for new or improved materials, devices, products, processes, systems, or services.

12.0 INTANGIBLE ASSETS (CONTINUED)

12.7 Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use. Examples of development activities are:

(a) The design, construction, and testing of pre-production or pre-use prototypes and models;
(b) The design of tools, jigs, moulds, and dies involving new technology;
(c) The design, construction, and operation of a pilot plant or operation that is not of a scale economically feasible for commercial production or use in providing services;
(d) The design, construction, and testing of a chosen alternative for new or improved materials, devices, products, processes, systems, or services; and
(e) Website costs and software development costs.

12.8 Expenditure on research (or on the research phase of an internal project) shall be recognized as an expense when it is incurred as entity cannot demonstrate that an intangible asset exists that will generate probable future economic benefits or service potential.

12.9 An intangible asset arising from development (or from the development phase of an internal project) shall be recognized if, and only if, an entity can demonstrate all of the following:

(a) The technical feasibility of completing the intangible asset so that it will be available for use or sale;
(b) Its intention to complete the intangible asset and use or sell it;
(c) Its ability to use or sell the intangible asset;
(d) How the intangible asset will generate probable future economic benefits or service potential. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
(e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
(f) Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Patent

12.10 A patent is a set of exclusive rights granted to an inventor or their assignee in exchange for the public disclosure of the invention. An invention is a solution to a specific technological problem, and may be a product or a process. Patents are a form of intellectual property.

12.11 Patents with finite useful will be amortized over its useful life excluding its residual value. Patents with infinite useful life will be recognized at cost at acquisition and is not amortized. However, patent with infinite useful life is still tested for impairment yearly.

12.0 INTANGIBLE ASSETS (CONTINUED)

Initial recognition and measurement

12.12 Depending on the acquisition method of the intangible asset, initial recognition and measurement of these intangible assets will differ, as follows:

Acquisition method	Initial recognition and measurement	Examples
Exchange transaction	Measured at transacted amount, which would be the cost of acquisition	License fee for software Patents
Non exchange transaction	Measured at fair value	Patents
Internally generated	Measured at cost	Research and development

Subsequent measurement

12.13 The subsequent measurement for intangible assets differs as follows:

Types of intangible assets acquired	Subsequent measurement	Chapter reference
With finite useful lives	Cost model. Measured at cost less amortization and impairment.	The policy is similar with property, plant and equipment, as detailed in Chapter 5 – Property, plant and equipment.
	Revaluation model. Measured at fair value at the date of revaluation less amortization.	
With indefinite useful lives	Shall not be amortized, but impairment is required annually and whenever there is an indication that the intangible asset may be impaired.	The detailed policy on impairment is in Chapter 14 – Impairment of Assets.

Disclosure requirements

12.14 Intangible assets are reported under the heading Non current asset in the statement of financial position.

12.15 For research and development cost or other intangible assets which are expensed, the expense is reported in the statement of financial performance.

12.0 INTANGIBLE ASSETS (CONTINUED)

12.16 The following disclosures are required for Intangible Asset:

(a) Whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortization rates used;
(b) The amortization methods used for intangible assets with finite useful lives;
(c) The gross carrying amount and any accumulated amortization (aggregated with accumulated impairment losses) at the beginning and end of the period;
(d) The line item(s) of the statement of financial performance in which any amortization of intangible assets is included;
(e) A reconciliation of the carrying amount at the beginning and end of the period showing:
    (i) Additions, indicating separately those from internal development and those acquired separately;
    (ii) Assets classified as held for sale or included in a disposal group classified as held for sale
    (iii) Increases or decreases during the period resulting from revaluations
    (iv) Impairment losses recognized in surplus or deficit during the period
    (v) Impairment losses reversed in surplus or deficit during the
    (vi) Any amortization recognized during the period;
    (vii) Net exchange differences arising on the translation of the financial statements into the presentation currency, and on the translation of a foreign operation into the presentation currency of the entity; and
    (viii) Other changes in the carrying amount during the period.

References

- MPSAS 31 - Intangible Assets

12.0 *INTANGIBLE ASSETS (CONTINUED)*

Scenario A - Non-monetary exchange of intangible assets

A health agency exchanged a drug patent it owns (Patent A) with an outside party for another drug patent (Patent B). Patent A's carrying amount as at the date of transaction was RM100,000 and its fair value was RM1,000,000. The transaction is assumed to have commercial substance.

Journal entries

1) To record the exchange of Patent A for Patent B

The exchange of patents is a non-monetary exchange the entity has taken. The entity should recognize Patent B's value at the fair value of the patent given up.

	Amount (RM)	Accounting Code
DR Intangible asset (Patent B)	1,000,000	A23391XX
CR Intangible asset (Patent A)	100,000	A23391XX
CR Gain on exchange	900,000	H02849XX

12.0 INTANGIBLE ASSETS (CONTINUED)

Scenario B - Recognition of license fee

An entity decides to acquire a software. The entity acquires the license to use the software which amounts to RM25,000. Subsequent to that, to enable continued usage of the software, the entity is required to pay a yearly maintenance fee amounting to RM3,000. After 3 years, the entity decides to upgrade the software to include more features which are necessary to the entity's operations. The entity is required to pay an one-off payment of RM9,000 for the upgrade of the software.

Journal entries

1) To record the acquisition of software

The one off payment paid to acquire the software, is capitalized as an asset classified as intangible asset. In addition, the obligation to pay that arises is credited as account payable.

	Amount (RM)	Accounting Code
DR Intangible asset (software)	25,000	A23391XX
CR Account payable	25,000	L01391XX

2) To record the payment of yearly maintenance fee

The yearly maintenance fee paid to enable continued usage of the software, is expensed off and not capitalized as asset. In addition, the obligation to pay that arises is credited as account payable.

	Amount (RM)	Accounting Code
DR Operating expense	3,000	B01XXX00
CR Account payable	3,000	L01391XX

3) To record the upgrade of software

The one-off payment paid to upgrade the software is capitalized as asset as the expense will bring about future benefits in the future. In addition, the obligation to pay is credited as account payable.

	Amount (RM)	Accounting Code
DR Intangible asset (software)	9,000	A23391XX
CR Account payable	9,000	L01391XX

12.0 INTANGIBLE ASSETS (CONTINUED)

Scenario C – Recognition of research and development costs incurred

An entity developed a new system to schedule court cases more effectively that will result in increased service delivery. Prior to 1 March 20X3, the expenditure incurred for the research and development of the system was RM300. After 1 March 20X3, the expenditure incurred for the development of the system was RM700. The total expenditure for the year ended 20X3 is RM1,000. The entity is able to demonstrate that the newly developed system met the criteria for recognition as an intangible asset as at 1 March 20X3.

Journal entries

1) To record the research and development costs incurred prior to the date where the criteria for recognition as an intangible asset is met at 1 March 20X3

Prior to 1 March 20X3, the research and development cost incurred is expensed off and is not capitalized as asset. The expense is recognized as operating expense and the offsetting credit entry is accounts payable.

	Amount (RM)	Accounting Code
DR Operating expense	300	B01XXX00
CR Account payable	300	L01XX000

2) To record the development costs incurred after the date where the criteria for recognition as an intangible asset is met at 1 March 20X3

After 1 March 20X3, the development cost incurred is capitalized and is recognized as intangible asset.

	Amount (RM)	Accounting Code
DR Intangible asset (computer system)	700	A23391XX
CR Account payable	700	L01391XX

12.0 INTANGIBLE ASSETS (CONTINUED)

Scenario D - Patent with finite useful life and committed residual value

Entity A acquires a patent over a formula for a vaccine, from Entity B to secure Entity A's ability to provide free vaccinations to its constituents at a cost of RM250,000. The vaccine protected by the patent is expected to be a source of service potential for at least 15 years. Entity A has a commitment from Entity C to purchase that patent in five years for 60 per cent of the fair value of the patent at the date it was acquired, and Entity A intends to sell the patent in five years. The patent would be amortized over its five-year useful life to Entity A with a residual value equal to 60 per cent of the patent's fair value at the date it was acquired.

Journal entries

1) To record the acquisition of the patent

The total cost of acquiring the patent is capitalized as intangible asset and the offsetting credit entry is the account payable.

	Amount (RM)	Accounting Code
DR Intangible asset (patent)	250,000	A23391XX
CR Account payable	250,000	L01391XX

2) To record the amortization of the patent

The amortization expense is arrived at by dividing the amortization amount by the finite useful life. Amortization amount is RM100,000 = RM250,000 - (RM250,000 X 60%). Amortization expense is RM20,000 = RM100,000/5. The above journal entry is recorded annually for 5 years until the end of the patent's useful life.

	Amount (RM)	Accounting Code
DR Amortization expense	20,000	B48391XX
CR Accumulated amortization	20,000	A48391XX

12.0 INTANGIBLE ASSETS (CONTINUED)

Scenario E - Patent with indefinite useful life

Entity A acquires an asset, the patent over a formula for a vaccine, from Entity B to secure Entity A's ability to provide free vaccinations to its constituents which amounts to RM250,000. It is expected that the formula will need to be slightly modified every 10 years to maintain its efficacy. There is evidence to support ongoing renewal of the patent. A contract with Entity B stipulates that Entity B will maintain the efficacy of the formula continuously, and evidence supports its ability to do so. The costs to renew the patent and maintain the efficacy of the formula are expected to be insignificant and will be paid to the Entity B when the improvements are made. An analysis of product lifecycle studies, and demographic and environmental trends, provides evidence that the patent will provide service potential to Entity A by enabling it to deliver its vaccination program for an indefinite period. Accordingly, the patent would be treated as having an indefinite useful life.

Journal entries

1) To record the acquisition of patent

The total cost of acquiring the patent is capitalized as intangible asset and the offsetting credit entry is the account payable. The accounting treatment for the acquisition of patent with finite useful life and indefinite useful life are same. However, patent with indefinite useful life need not be amortized.

	Amount (RM)	Accounting Code
DR Intangible asset (patent)	250,000	A24391XX
CR Account payable	250,000	L01391XX

The expenses incurred on the ongoing renewal of the patent is to be expensed off to the current year surplus or deficit.

13.0 OTHER RECEIVABLES

Introduction

13.1 This chapter covers the following matters:

- Types of prepayments
- Initial recognition and measurement
- Subsequent measurement to initial recognition
- Disclosures

Types of prepayments

13.2 Prepayments are amounts paid for by the entities in advance of the goods and services being received. Prepayments include contract payments before the receipt of the goods and /or services, prepaid expenses and deferred charges.

13.3 A prepaid expense or a deferred charge is an allocation to current and/or future periods of past costs where benefits will occur in the current and/or future periods. The distinction between the two is the duration of the benefits to be realized; prepaid expenses provide future benefits over a shorter period of time than do deferred charges.

13.4 Advance payment to contractors shall be accounted for as prepayment.

Initial recognition and measurement

13.5 Prepayments shall be recognized as current asset at transacted amount.

Subsequent measurement

13.6 Subsequently, there is no requirement for re-measurement but the amount is transferred to expenses or other class of asset, where appropriate (i.e. when the related goods or services have been received).

13.7 Government entities have many expenses that they incur on a regular basis. Rent, utilities, subscriptions, payments and many other expenses must be paid periodically. When expenses are prepaid, an asset is recognized. This is charged to expenses gradually as the prepaid expense is consumed. Prepaid expense will be charged out as an expense on a systematic and rational basis related to use.

13.8 The balance of any prepaid expense shall be written off to expense in the period that no future benefits remain.

Disclosures requirements

13.9 Prepaid expenses, deferred charges and prepayments will be reflected on the Statement of Financial Position under the heading Prepayments.

References

- MPSAS 29 – Financial Instruments, Recognition and Measurement

13.0 OTHER RECEIVABLES (CONTINUED)

Scenario A - Prepaid expenses

A government entity rents space in an office building for RM25,000 per month. However, the owner of the building demands that all tenants of the building prepay at least a year's rent. At the time the entity pays the owner the desired amount of prepaid rent, there are 8 months left in the fiscal year and so 4 months rental is expensed to surplus or deficit.

Journal entries

1) To record the cost of the prepaid rent

Since the entity paid in advance a years' rent, it must record an asset for the amount that it paid. 'Prepaid Expenses' is used to record the asset. The cash account is reduced accordingly.

	Amount (RM)	Accounting Code
DR Prepaid expenses – rent	300,000	A05242XX
CR Cash	300,000	A0112XXX

2) To record the rent consumed by the end of the fiscal year

At year-end, the entity must record an expense equivalent to 4 months of rent RM100,000 (4 months x RM25,000) and reduce the prepaid expense (asset) by an equivalent amount. Please note if the monthly rent is material to the operations of the entity the expense could be recorded on a monthly basis. In this case the rent expense would be debited for RM25,000 every month with a corresponding credit to prepaid expenses.

	Amount (RM)	Accounting Code
DR Rent expense	100,000	B02242XX
CR Prepaid expenses	100,000	A05242XX

13.0 OTHER RECEIVABLES (CONTINUED)

Scenario B - Payments made in advance of receiving goods

The entity enters into a contract for goods whereby they are required to make a payment in advance of receiving those goods in accordance with the terms of the contract. The amount of the prepayment is RM21,000.

Journal entries

1) To record the prepayment

Since the entity paid for goods in advance, it must record an asset for the amount that it paid. 'Prepaid Expenses' is used to record the asset. The cash account is reduced accordingly.

	Amount (RM)	Accounting Code
DR Prepaid expense	21,000	A0527XXX
CR Cash	21,000	A0112XXX

2) Goods are received

Once the goods are received the entity must record an expense RM21,000 and reduce prepaid expense (asset) by an equivalent amount.

	Amount (RM)	Accounting Code
DR Operating expense	21,000	B0227XXX
CR Prepaid expenses	21,000	A0527XXX

14.0 IMPAIRMENT OF ASSETS

Introduction

14.1 This chapter covers the following matters:

- Basic principles of impairment
- Identifying assets that may be impaired
- Indicators of impairment
- Measuring and accounting for impairment
- Disclosures

14.2 Cash-generating assets are assets held with the primary objective of generating a commercial return.

14.3 Non-cash-generating assets are assets other than cash-generating assets.

14.4 Most assets held in the public sector are non-cash generating assets as the cash inflow from the economic benefit derived from holding the asset will never exceed the cash outflow from maintaining such an asset.

14.5 An asset may generate cash flows and also be used for non-cash generating purposes.

An example:
A public hospital has ten wards, one of which is used for fee paying patients on a commercial basis, and the rest used for non-fee paying patients. Patients from both wards jointly use other hospital facilities (for example, operating facilities). The extent to which the asset is held with the objective of providing a commercial return needs to be considered to determine whether the entity should apply the provisions of MPSAS 21 –Impairment of non-cash generating assets or MPSAS 26 – Impairment of cash-generating asset.

If, as in this example, the non-cash-generating component is a significant component of the arrangement as a whole, the entity applies MPSAS 21 – Impairment of non-cash-generating asset rather than MPSAS 26 – Impairment of cash-generating asset.

Basic principles of impairment

14.6 An asset is impaired when the carrying amount of the asset exceeds its recoverable service amount (for non-cash generating asset) or recoverable amount (for cash generating asset).

Identifying assets that may be impaired

14.7 An entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable service amount/recoverable amount of the asset.

14.0 IMPAIRMENT OF ASSETS (CONTINUED)

Indicators of impairment

Non-cash-generating assets

14.8 In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

External sources of information

(a) Cessation, or near cessation, of the demand or need for services provided by the asset;
(b) Significant long-term changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, legal, or government policy environment in which the entity operates;

Internal sources of information

(a) Evidence is available of physical damage of an asset;
(b) Significant long-term changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, or plans to dispose of an asset before the previously expected date and reassessing the useful life of an asset as finite rather than indefinite;
(c) A decision to halt the construction of the asset before it is complete or in a usable condition; and
(d) Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected.

Cash-generating assets

14.9 In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

External sources of information

(a) An asset’s market value has declined significantly more than would be expected as a result of the passage of time or normal use;
(b) Significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic, or legal environment in which the entity operates, or in the market to which an asset is dedicated;
(c) Market interest rates or other market rates of return on investments have increased during the period that are likely to affect the discount rate used in calculating an asset’s value in use and decrease the asset’s recoverable amount materially.

Internal sources of information

(a) obsolescence or physical damage of an asset;
(b) Significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or the manner in which, an asset is used or is expected to be used. It can include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite;

14.0 IMPAIRMENT OF ASSETS (CONTINUED)

(c) A decision to halt the construction of the asset before it is complete or in a usable condition; and
(d) Economic performance of an asset is, or will be, worse than expected.

Measuring and accounting for impairment

14.10 Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortization). Impairment, therefore, reflects a decline in the utility of an asset to the entity that controls it.

14.11 If the recoverable service amount or recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable service amount or recoverable amount. That reduction is an impairment loss.

14.12 The impairment loss shall be recognized as expense to surplus or deficit. Where the estimated impairment loss is greater than the carrying amount of the asset, the carrying amount of the asset is reduced to zero with a corresponding amount recognized in surplus or deficit. A liability would be recognized only if another MPSAS so requires.

14.13 After the recognition of an impairment loss, the depreciation (amortization) charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Non cash generating asset

14.14 A non-cash-generating asset is impaired when the carrying amount of the asset exceeds its recoverable service amount. The recoverable service amount is the higher of an asset's fair value less costs to sell and its value in use.

14.15 The value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

There are 3 approaches to estimate the present value of the asset's remaining service potential for non-cash generating assets

(a) Depreciated replacement cost approach – where an asset's present value is determined based on the cost to replace to assets gross service potential after taking into account its accumulated depreciation over consumed service potential asset life.
(b) Restoration cost approach - is the cost of restoring the service potential of an asset to its pre-impaired level. Under this approach, the present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment.
(c) Service units approach – where the asset's present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment to conform to the reduced number of service units expected from the asset in its impaired state. As in the restoration cost approach, the current cost of replacing the remaining service potential of the asset before impairment is usually determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

14.0 IMPAIRMENT OF ASSETS (CONTINUED)

Cash generating asset

14.16 Similar to non-cash generating asset, an impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

14.17 Unlike non-cash generating asset, to estimate the recoverable amount, an entity will need to look into its cash flow projections to derive value in use. In measuring value in use, an entity shall:

(a) Base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset.
(b) Base cash flow projections on the most recent financial budgets/forecasts approved by management, but shall exclude any estimated future cash inflows or outflows expected to arise from future restructurings or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts shall cover a maximum period of five years, unless a longer period can be justified; and
(c) Estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified.

14.18 Estimates of future cash flows shall include:

(a) Projections of cash inflows from the continuing use of the asset;
(b) Projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
(c) Net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

14.19 Future cash flows shall be estimated for the asset in its current condition. Estimates of future cash flows shall not include estimated future cash inflows or outflows that are expected to arise from:

(a) A future restructuring to which an entity is not yet committed; or
(b) Improving or enhancing the asset's performance.

14.20 Estimates of future cash flows shall not include:

(a) Cash inflows or outflows from financing activities; or
(b) Income tax receipts or payments.

14.0 IMPAIRMENT OF ASSETS (CONTINUED)

Reversal of impairment of loss

14.21 The increased carrying amount of an asset attributable to a reversal on an impairment loss shall not exceed the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior periods.

14.22 A reversal of an impairment loss for an asset shall be recognized immediately in surplus or deficit.

14.23 After a reversal of an impairment loss is recognized, the depreciation (amortization) charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Disclosure Requirements

14.24 An entity shall disclose the following for each class of assets:

(a) The amount of impairment losses recognized in surplus or deficit during the period and the line item(s) of the statement of financial performance in which those impairment losses are included.
(b) The amount of reversals of impairment losses recognized in surplus or deficit during the period and the line item(s) of the statement of financial performance in which those impairment losses are reversed.

14.25 An entity shall disclose the following for each material impairment loss recognized or reversed during the period:

(a) The events and circumstances that led to the recognition or reversal of the impairment loss.
(b) The amount of the impairment loss recognized or reversed.
(c) The nature of the asset.
(d) The segment to which the asset belongs, if the entity reports segment information in accordance with MPSAS 18 – Segment reporting.
(e) Whether the recoverable service amount of the asset is its fair value less costs to sell or its value in use.
(f) If the recoverable service amount is fair value less costs to sell, the basis used to determine fair value less costs to sell (such as whether fair value was determined by reference to an active market).
(g) If the recoverable service amount is value in use, the approach used to determine value in use.

References

- MPSAS 21 – Impairment of Non-Cash-Generating Asset
- MPSAS 26 – Impairment of Cash-Generating Asset

14.0 IMPAIRMENT OF ASSETS (CONTINUED)

Scenario A - Impairment of non cash generating asset

Scenario A.1 - Depreciated Replacement Cost Approach

In 1999, the entity purchased a software license for an application for its new mainframe computer for RM350,000. The entity estimated that the useful life of the software would be seven years and that it would receive economic benefits and service potential from the software on a straight-line basis over the life of the software.

By 20X2, usage of the application had declined to 15 per cent of its originally anticipated demand. A license for a software application to replace the remaining service potential of the impaired software application costs RM70,000.

Journal entries

1) To record the impairment loss in year ended 20X2 of RM120,000

		(RM)
a.	Acquisition cost, 1999	350,000
	Accumulated depreciation, 20X2 (a ÷ 7 x 4)	200,000
b.	Carrying amount, 20X2	150,000
c.	Replacement cost	70,000
	Accumulated amortization (c ÷ 7 x 4)	40,000
d.	Recoverable Service Amount	30,000
	Impairment loss (b-d)	120,000

As illustrated above, the carrying amount of RM150,000 is greater than the recoverable service amount of RM30,000. Hence, impairment loss of RM120,000 would be recognized as expense and the corresponding entry is recognised as accumulated impairment loss.

	Amount (RM)	Accounting Code
DR Impairment loss expense	120,000	B48391XX
CR Accumulated impairment loss	120,000	A48391XX

Refer to Scenario C for reversal of impairment loss.

14.0 IMPAIRMENT OF ASSETS (CONTINUED)

Scenario A.2 - Restoration Cost Approach

In 1998, the entity acquired a bus at the cost of RM200,000 to help students from a nearby village to commute free of charge. The school estimated a useful life of 10 years for the bus. In 20X2, the bus sustained damage in a road accident requiring RM40,000 to be restored to a usable condition. The restoration will not affect the useful life of the asset. The cost of a new bus to deliver a similar service is RM250,000 in 20X2.

Journal entries

1) To record the impairment loss in year ended 20X2 of RM15,000.

		(RM)
a.	Acquisition cost, 1998	200,000
	Accumulated depreciation, 20X2 (a ÷ 10 x 5)	100,000
b.	Carrying amount, 20X2	100,000
c.	Replacement cost	250,000
	Accumulated depreciation (c ÷ 10 x 5)	125,000
d.	Depreciated replacement cost (undamaged state)	125,000
	Less: restoration cost	40,000
e.	Recoverable Service Amount	85,000
	Impairment loss (b-e)	15,000

As illustrated above, the carrying amount of RM100,000 is greater than the recoverable service amount of RM85,000. Hence, impairment loss of RM15,000 would be recognized as expense and the corresponding entry is recognised as accumulated impairment loss.

	Amount (RM)	Accounting Code
DR Impairment loss expense	15,000	B41341XX
CR Accumulated impairment loss	15,000	A41341XX

Refer to Scenario C for reversal of impairment loss.

14.0 IMPAIRMENT OF ASSETS (CONTINUED)

Scenario A.3 - Service Units Approach

In 1998, the entity purchased a new printing machine at a cost of RM40 million. The entity estimated that the useful life of the machine would be 40 million copies of books to be printed over 10 years for use by elementary school students. In 20X2, it was reported that an automated feature of the machine's function does not operate as expected resulting in a 25 per cent reduction in the machine's annual output level over the remaining 5 years of the useful life of the asset. The replacement cost of a new printing machine is RM45 million in 20X2.

Journal entries

1) To record the impairment loss in year ended 20X2 of RM3,125,000.

		(RM)
a.	Acquisition cost, 1998	40,000,000
	Accumulated depreciation (a ÷ 10 x 5)	20,000,000
b.	Carrying amount, 20X2	20,000,000
c.	Replacement cost	45,000,000
	Accumulated depreciation (c ÷ 10 x 5)	22,500,000
d.	Depreciated replacement cost before adjustment for remaining units	22,500,000
e.	Recoverable Service Amount (d x 75%)	16,875,000
	Impairment loss (b-e)	3,125,000

As illustrated above, the carrying amount of RM20,000,000 is greater than the recoverable service amount of RM 16,875,000. Hence, impairment loss of RM3,125,000 would be recognized as expense and the corresponding entry is recognised as accumulated impairment loss.

	Amount (RM)	Accounting Code
DR Impairment loss expense	3,125,000	B41351XX
CR Accumulated impairment loss	3,125,000	A41351XX

Refer to Scenario C for reversal of impairment loss.

14.0 IMPAIRMENT OF ASSETS (CONTINUED)

Scenario A.4 - Impairment of an abandoned construction of a non-cash generating asset

In January 20X8, the FGOM granted to Contractor A a contract to construct a hospital at an overall agreed cost of work amounting to RM200 million. Work commenced in March 20X8. The duration of construction was expected to be 2 years.

Up until January 20X0, a total of RM180 million was paid out to Contractor A based on periodic progress billing and certificate of progress completion. The building was 90% completed.

By this time, major disputes arose between the FGOM and Contractor A and as the disputes were unresolved, the Contractor activated the break clause and terminated his contract with FGOM.

The project was abandoned for approximately 2 years before a new Contractor B was assigned to complete the construction of the hospital. Contractor B estimates a further RM50 million to complete the construction. The estimated RM50 million includes RM20 million for restoration work and RM30 million to complete construction. Replacement cost of the building was estimated at RM210 million.

Journal entries

1) To record construction cost incurred until January 20X0

	Amount (RM)	Accounting Code
DR Asset under construction	180,000,000	A20321XX
CR Cash	180,000,000	A0112XXX

2) To record impairment on asset under construction

Assessment was made on asset under construction to check for impairment indicators and consequently assess the recoverable service amount.

Impairment indicators assessed are:

- A decision to halt completion or in a usable condition; no impairment as there was intention to complete construction.
- Evidence available on physical damage; there was evidence of damage hence restoration was subsequently pursued.

Evaluation of impairment	(RM'000)
a) Acquisition cost at 20X0 (at 90%)/current value	180,000
b) Replacement cost (Fair value at 90% of RM210 million)*	189,000
Less: Restoration cost	(20,000)
c) Recoverable service amount	169,000
Impairment loss (a – c)	11,000

* The replacement cost of a 90% completed building approximates to RM189 million.

	Amount (RM)	Accounting Code
DR Impairment loss expense	11,000,000	B57321XX
CR Accumulated impairment loss	11,000,000	A57321XX

14.0 IMPAIRMENT OF ASSETS (CONTINUED)

Journal entries

3) To record restoration expense incurred in 20X2

During 20X2, Contractor B restored building to its original state and completed construction on the remaining building structure.

a) The RM20 million is added to asset under construction in year 20X2

	Amount (RM)	Accounting Code
DR Asset under construction	20,000,000	A20321XX
CR Cash (Contractor B)	20,000,000	A0112XXX

b) To record the remaining RM30 million incurred to bring asset to its current service potential

	Amount (RM)	Accounting Code
DR Asset under construction	30,000,000	A20321XX
CR Cash (Contractor B)	30,000,000	A0112XXX

Upon full completion and certificate of completion obtained, the asset can be transferred from asset under construction to property plant and equipment (building).

Subsequently, the asset was revalued at a higher replacement cost of RM240 million. The asset's current recoverable amount at present is RM219 million (RM180 million + RM50 million – less impairment of RM11 million). The asset can now be increased to its recoverable service amount.

The entire impairment loss provided for under journal entry 2 is now reversed.

	Amount (RM)	Accounting Code
DR Accumulated impairment loss	11,000,000	A57321XX
CR Impairment loss expense	11,000,000	B57321XX

The increased carrying amount of the asset attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior period.

14.0 IMPAIRMENT OF ASSETS (CONTINUED)

Scenario B - Impairment of cash generating asset

At the beginning of 20X0, an entity puts into service a power plant that it constructed at the cost of RM250 million. At the beginning of 20X3, power plants constructed by competitors are put into service, resulting in a reduction in the revenue produced by the entity. Reduction in revenue was due to lower than expected volume of electricity generated and lower than expected electricity price and stand-by capacities. The reduction in revenue is evidence that the economic performance of the asset is worse than expected.

The following are the details of the power plant:

Cost	RM250,000,000
Useful life	20 years
Residual value	0
Depreciation method	Straight line

Consequently, the entity is required to determine the asset's recoverable amount. Since it is not possible to determine the fair value less costs to sell of the power plant, recoverability can only be determined through the calculation of value in use.

In order to determine the value in use of the power plant, the entity is required to:

(a) Prepares pre-tax cash flow forecasts derived from the most recent financial budgets/forecasts for the next five years (year 20X4 – 20X8) approved by management;
(b) Estimates subsequent pre-tax cash flows (years 20Y0 – 20Y9) based on declining growth rates ranging from -6 per cent per annum to -3 per cent per annum; and
(c) Select a 6 per cent discount rate which represents a rate that reflects current market assessments of the time value of money and the risks specific to the entity's power plant.

14.0 *IMPAIRMENT OF ASSETS (CONTINUED)*

Journal entries

1) To record the impairment of loss in year ended 20X3 amounting to RM78.9 million.

		(RM)
a.	Acquisition cost	250,000,000
	Accumulated depreciation (a ÷ 20 x 4)	(50,000,000)
b.	Carrying amount	200,000,000
c.	Recoverable amount (value in use)	121,100,000
d.	Impairment loss (b – c)	78,900,000

As illustrated above, the carrying amount of RM200 million exceeds the recoverable amount of RM121.1 million (value in use) by RM78.9 million (RM200 million – RM121.1 million).

The determination of the value in use of the power plant at the end of the 20X3 is as illustrated in Table A.1 – Calculation of The Value in Use of The Entity's Power Plant.

Hence, the impairment loss of RM78.9 million is recognised as expense and the corresponding entry is recognised as accumulated impairment loss.

	Amount (RM)	Accounting Code
DR Impairment loss expense	78,900,000	B41321XX
CR Accumulated impairment loss	78,900,000	A41321XX

Refer to Scenario C for reversal of impairment loss.

Table A.1 – Calculation of the Value in Use of The Entity's Power Plant at the end of 20X3:

Year	Long-term growth rates	Future (pre-tax) cash flows (RM'm)	Present value factor at 6% discount rate$^{\beta}$	Discounted future (pre-tax) cash flow (RM'm)
20X4		16.8*	0.94340	15.8
20X5		14.4*	0.89000	12.8
20X6		14.2*	0.83962	11.9
20X7		14.1*	0.79209	11.2
20X8		13.9*	0.74726	10.4
20Y0	(6%)	13.1±	0.70496	9.2
20Y1	(6%)	12.3±	0.66506	8.2
20Y2	(6%)	11.6±	0.62741	7.3
20Y3	(5%)	11.0±	0.59190	6.5
20Y4	(5%)	10.5±	0.55839	5.9
20Y5	(5%)	10.0±	0.52679	5.3
20Y6	(4%)	9.6±	0.49697	4.8
20Y7	(4%)	9.2±	0.46884	4.3
20Y8	(3%)	8.9±	0.44230	3.9
20Y9	(3%)	8.6±	0.41727	3.6
				121.1

Value in use

* Based on management's best estimate of net pre-tax cash flow projections.

± Based on an extrapolation from preceding year cash flow using declining growth rates.

β The present value factor is calculated as $k = 1/1\ (1+a)^n$, where a = discount rate and n = period discount.
As stated in MPSAS 26 – Impairment of cash generating assets, discount rate is a pre-tax rate that reflects current market assessment of:
(a) The time value of money represented by the current risk-rate rate of interests; and
(b) The risks specific to the asset for which the future pre-tax cash flow estimates have not been adjusted.

14.0 *IMPAIRMENT OF ASSETS (CONTINUED)*

Scenario C - Reversal of impairment loss

Following on from Scenario A.1 where an impairment loss of RM120,000 was recognised due to usage of a software application decreased to below its originally anticipated demand. This impairment loss was subsequently reversed as usage of the software application rebounded, where the value in value/recoverable service amount is now greater than the carrying amount.

Journal entries

1) To record the reversal of impairment loss

When there are signs of reversal of impairment loss, the accumulated impairment loss account is debited and the impairment loss account is credited.

The same journal entry applies when recognition and reversal of write down straddles over two financial years.

	Amount (RM)	Accounting Code
DR Accumulated impairment loss	120,000	A48391XX
CR Impairment loss expense	120,000	B48391XX

Note: The same journal entry is applicable for similar reversal of impairment loss scenarios for both cash generating and non cash generating assets regardless whether the depreciated replacement cost approach, restoration cost approach, service units approach, CGU approach or the value in use approach are adopted.

15.0 GRANTS

Introduction

15.1 This chapter covers the following matters:

- Types of grants
- Initial recognition and measurement
- Measurement subsequent to initial recognition
- Disclosures

15.2 FGOM grants can be viewed as a contractual or legal obligation to deliver cash (via 'grants') to an entity. Such grants can be termed as fixed grant following a fixed scheduler payment or variable grant that can be released at the point of request. These types of government grants given to state and state authorities are not repayable.

15.3 In Malaysia, FGOM grants ('pemberian kerajaan') refer to statutory contributions that the FGOM will need to make to all states and state authorities as required under the Federal Constitution and the Financial Procedure Act 1957 (revised – 1985).

Types of grants

15.4 The classification of government grants are as follows:

(a) Government grants to various states in accordance to the Federal Constitution
   (i) Capitation grant (based on population) to assist in the management of the state government
   (ii) State roads grant to assist in the road maintenance of state government
   (iii) State reserve fund to assist with any revenue shortfall in state government or for economic and infrastructure development in the state.
   (iv) Grant to state governments of Sabah & Sarawak to assist in the development of those state governments
   (v) Expense grants to specific ministerial departments
   (vi) Service grants for federal development

(b) Government grants to various states in accordance to the rule of law
   (i) Additional income grant
   (ii) Annual state grant for local authorities maintenance
   (iii) Annual grant to Selangor
   (iv) Annual grant to Kedah

(c) Government grants to other statutory bodies, co-operation, local authorities and non-government organizations.

15.5 Where a present obligation of the entity arising from past events exists and requires a settlement which will result in an outflow of resources, then a financial liability will need to be recognized. As an example, where there are fixed annual grants confirmed with scheduler payments to Sabah, Sarawak, Kedah and Selangor, these will be accrued as a financial liability.

15.6 Where a present obligation of the entity exists with an uncertain timing and amount which also requires an outflow of resources with a reliable estimate, then a provision will need to set out as per the required recognition, measurement and disclosure rule under MPSAS 19 - Provisions, contingent liabilities and contingent assets.

15.0 GRANTS (CONTINUED)

Initial recognition and measurement

15.7 Liabilities accrued are recognized initially at fair value. The expenses charged to surplus or deficit can be amortized over the appropriate periods.

15.8 Where provisions are made due to uncertainties timing and amount, they are recognized at the present value of the estimated expenditure required which reflects the current market assessment of time value of money. The provision can be accrued at closing month or at year end.

Subsequent measurement

15.9 Accrued liabilities are subsequently measured at amortised cost using the effective interest method. Any increase in the provision due to passage of time is recognized as finance cost expense.

Disclosure requirements

15.10 Grants are reported in the Statement of Financial Position under the heading liability. A breakdown may be required on the types of grants given to various statutory bodies, local authorities, state government and non-governmental organizations.

References

- MPSAS 19 – Provisions, Contingent Liabilities and Contingent Assets

15.0 GRANTS (CONTINUED)

Scenario A - Issuance and disbursement of fixed grant

FGOM will need to make an annual grant payment to the Selangor state government amounting to RM1,000,000 with a scheduler payment of RM250,000 each quarter starting in the calendar year 1 January 20x3.

Journal entries

1) To record the liability as at 1 January 20X3

At this point, the eligibility criterion has been met and obligation to pay for the grant is present. FGOM will recognize the grant liability and grant expense.

	Amount (RM)	Accounting Code
DR Grant expense	1,000,000	B04421XX
CR Grant liability	1,000,000	L01421XX

2) To record 1st quarterly payment of RM250,000 due on 31 March 20X3 and is settled.

At this point, the eligibility criterion has been met and obligation to pay for the grant is present. FGOM will recognize the reduction in grant liability and credit bank.

	Amount (RM)	Accounting Code
DR Grant liability	250,000	L01421XX
CR Cash	250,000	A0112XXX

15.0 GRANTS (CONTINUED)

Scenario B - Recognising an estimated grant expense to a state

A state has requested for a grant from FGOM to assist with it shortfall of revenue. The grant requested is valued at approximately RM250,000 and has been approved in essence as at 31 December 20X3. The exact timing and amount of payment has yet to be agreed but a present obligation is expected to result in an outflow of funds from a past transaction.

On 31 March 20X4, a full grant amount was confirmed as RM450,000.

Journal entries

1) To record the liability as at 31 December 20X3 as a provision

At this point, the provision eligibility criterion has been met and a provision should be accrued for with an expense being created on the debit side.

	Amount (RM)	Accounting Code
DR Grant expense	250,000	B04421XX
CR Grant provision	250,000	L04421XX

2) To record the reversal and reduction of accrued provision upon payment being confirmed at RM450,000

FGOM will need to reduce its grant provision by RM250,000 and charge additional grant expense to surplus or deficit amount to RM200,000 and credit cash & bank by RM450,000 matching the grant amounts to be released to the statutory body.

	Amount (RM)	Accounting Code
DR Grant provision	250,000	L04421XX
DR Grant expense	200,000	B04421XX
CR Cash	450,000	A0112XXX

15.0 GRANTS (CONTINUED)

Scenario C - Offsetting grant paid against an existing loan given to a state.

A state was extended a loan of RM10 million in cash from FGOM for some state development purpose in January 20X0. In January 20X1, as required by the constitution, the state was extended a grant for its state management, of RM11 million. It was agreed that the grant is used to offset the loan given to state in prior year.

Journal entries

1) To record the loan given in January 20X0

The loan extended is recorded as a receivable in FGOM's financial statements.

	Amount (RM)	Accounting Code
DR Loan receivable	10,000,000	A03371XX
CR Cash	10,000,000	A0112XXX

2) To record the grant given in January 20X1

The grant extended to state is recorded as grant expense in FGOM's financial statements. The corresponding entry is a reduction of the loan receivable previously extended to state and the remaining amount is recognised as a reduction in cash account.

	Amount (RM)	Accounting Code
DR Grant expense	11,000,000	B04421XX
CR Loan receivable	10,000,000	A03371XX
CR Cash	1,000,000	A0112XXX

16.0 PROVISIONS

Introduction

16.1 This chapter covers the following matters:

- Types of provisions
- Initial recognition and measurement
- Subsequent measurement to initial recognition
- Disclosures

16.2 A liability is defined as a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow of resources.

16.3 A provision can be distinguished from other liabilities such as payables and accruals because there is uncertainty about the timing and amount of the future expenditure/settlement.

16.4 Provision should be set up for estimated amounts for goods or services received but not recorded at the end of each month, for any material amount. These should be subsequently reversed when definitive amounts are known, at which time an accounts payable would be set up, or at the beginning of the next month depending on an entity's system.

Types of provision

16.5 The following further identifies the types of liabilities that are usually presented as a typical provision.

- Refund of consumption tax
- Warranties given for goods or services sold
- Refunds given for goods sold
- Payments for damages connected with legal cases that are probable
- Dilapidations payable at the end of an operating lease
- Contingencies, where the criteria are met

Initial recognition and measurement

16.6 Provisions are recognized when:

(a) An entity has a present legal or constructive obligation as a result of past events;
(b) It is probable that an outflow of resources will be required to settle the obligation; and
(c) A reliable estimate of the amount can be made.

16.7 Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

16.0 PROVISIONS (CONTINUED)

16.8 Below is a simplified matrix for provision recognition and reimbursements.

Where, as a result of past events, there may be an outflow of resources embodying future economic benefits or service potential in settlement of (a) a present obligation, or (b) a possible obligation whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.		
There is a present obligation that probably requires an outflow of resources.	**There is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources.**	**There is a possible obligation or a present obligation where the likelihood of an outflow of resources is remote.**
A provision is recognized	No provision is recognized	No provision is Recognized
Disclosures are required for the provision	Disclosures are required for the contingent liability	No disclosure is required

16.9 Where an entity expects a provision to be reimbursed (for example, reimbursement of damages paid), the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain and should not exceed the amount of the related provision.

Some or all of the expenditure required to settle a provision is expected to be reimbursed by another party.		
The entity has no obligation for the part of the expenditure to be reimbursed by the other party.	**The obligation for the amount expected to be reimbursed remains with the entity, and it is virtually certain that reimbursement will be received if the entity settles the provision.**	**The obligation for the amount expected to be reimbursed remains with the entity, and the reimbursement is not virtually certain if the entity settles the provision.**
The entity has no liability for the amount to be reimbursed	The reimbursement is recognized as a separate asset in the statement of financial position, and may be offset against the expense in the statement of financial performance. The amount recognized for the expected reimbursement does not exceed the liability	The expected reimbursement is not recognized as an asset
No disclosure is required.	The reimbursement is disclosed, together with the amount recognized for the reimbursement	The expected reimbursement is disclosed

16.10 The amount recognized as a provision shall be the best estimate of the expenditure required to settle the present obligation at the reporting date. The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time.

16.0 PROVISIONS (CONTINUED)

16.11 The risks and uncertainties that inevitably surround many events and circumstances shall be taken into account in reaching the best estimate of a provision. Risk describes variability of outcome. A risk adjustment may increase the amount at which a liability is measured.

16.12 Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation. Because of the time value of money, provisions relating to cash outflows that arise soon after the reporting date are more onerous than those where cash outflows of the same amount arise later.

16.13 Provisions are therefore discounted, where the effect is material. The discount rate (or rates) shall be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) shall not reflect risks for which future cash flow estimates have been adjusted.

16.14 When a provision is discounted over a number of years, the present value of the provision will increase each year as the provision comes closer to the expected time of settlement (refer to Scenario C).

Subsequent measurement

16.15 Provisions shall be reviewed at each reporting date, and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision shall be reversed.

16.16 Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognized as an interest expense.

Disclosure Requirements

16.17 For each class of provision, an entity shall disclose:

(a) Carrying amount at the beginning and end of the period
(b) Additional provisions made in the period, including increases to existing provisions
(c) Amounts used (that is, incurred and charged against the provision) during the period
(d) Unused amounts reversed during the period
(e) The increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate.

16.18 An entity shall also disclose the following for each class of provision:

(a) A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential
(b) An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events
(c) The amount of any expected reimbursement, stating the amount of any asset that has been recognized for that expected reimbursement.
(d) Comparative information is not required as the information required is an analysis showing the movement between the opening provision and the closing provision balance.

References

- MPSAS 19 – Provisions, Contingent Liabilities, and Contingent Assets

16.0 PROVISIONS (CONTINUED)

Scenario A - Obligatory Events - Regulatory Notification

In 20X3, entity A received notice that a class action and statutory investigations will be made into claims of pollution caused by the entity. Neighbours living near entity A's premise claim that its operations have caused ground water contamination.

Entity A's operations have been conducted at the site for 80 years. Management is not sure whether it has all the information about the entire 80 years. External experts have determined that it is 'more likely than not' that entity A will be required to pay approximately RM1,000,000 legal settlement, in order to prevent a full-scale legal proceeding that might cost Entity A more.

In 20X4, before the legal proceeding is completed, entity A reached consensus with claimants and regulatory bodies to drop the case by paying RM1,500,000 settlement.

Journal entries

1) To record the provision in 20X3

As the legal settlement is very likely to occur and a reliable estimate was given by experts, RM1,000,000 should be recognized as provision for the law suit.

	Amount (RM)	Accounting Code
DR Legal settlement expense	1,000,000	B0444XXX
CR Provision for legal settlement	1,000,000	L0444XXX

2) To record the payment in 20X4

The liability of RM1,000,000 that was recorded in journal entry 1 for legal settlement is reversed. The additional costs of RM500,000 is recorded as an expense to the current year's surplus or deficit.

	Amount (RM)	Accounting Code
DR Provision for legal settlement	1,000,000	L0444XXX
DR Legal settlement expenses	500,000	B0444XXX
CR Cash	1,500,000	A0112XXX

16.0 PROVISIONS (CONTINUED)

Scenario B - Reversal of Provision

In 20X3, entity A was brought to court for negligence caused by the entity. Entity A's lawyers determined that it is 'more likely than not' that entity A will lose the court case. As a result, management recognized a provision of RM1,000,000 for damages in the 20X3 statement of financial position.

By 20X4, the entity's lawyers advised management that the chances of losing the court case was now unlikely as a result of a favourable decision made in a similar case. The lawyers now believe that it is no longer probable that the entity will be found liable.

Journal entries

1) To record the provision in 20X3

As there is a present obligation that requires an outflow of resources on the court case, a provision equal to the estimate of the damages is recognized in the statement of financial position.

	Amount (RM)	Accounting Code
DR Legal damages expense	1,000,000	B0444XXX
CR Provision for legal damages	1,000,000	L0444XXX

2) To reverse the provision in 20X4

As the present obligation that requires a payment does not materialise, the provision provided in 20X3 can be reversed.

	Amount (RM)	Accounting Code
DR Provision for legal damages	1,000,000	L0444XXX
CR Legal damage expense	1,000,000	B0444XXX

16.0 PROVISIONS (CONTINUED)

Scenario C – Present Value of Provisions

The expected value of a provision at the end of year 5 is RM2,000. This expected value has not been risk-adjusted. An appropriate discount rate that takes account of the risk associated with this cash flow has been estimated at 12%.

Calculations:	**Increase of Provisions**
Current time: Present value = 2000/(1.12)5 = 1134.85	
End of Year 1: Present value = 2000/(1.12)4 = 1271.04	136.18
End of Year 2: Present value = 2000/(1.12)3 = 1423.56	152.52
End of Year 3: Present value = 2000/(1.12)2 = 1594.39	170.83
End of Year 4: Present value = 2000/(1.12)1 = 1785.71	191.33
End of Year 5: Present value = 2000/(1.12)0 = 2000.00	214.29

Journal entries

1) To record the provision in Year 1

The provision expected to incur at the end of 5 years shall be adjusted to the present value to take into account the time value of money.

	Amount (RM)	Accounting Code
DR Expense	1,134.85	B0444XXX
CR Provision	1,134.85	L0444XXX

2) To record the increase in provision in Year 2

Each subsequent year, provision shall be adjusted to reflect the time value of money in accordance to the calculation above.

	Amount (RM)	Accounting Code
DR Expense	136.18	B0444XXX
CR Provision	136.18	L0444XXX

17.0 CONTINGENCIES

Introduction

17.1 This chapter covers the following matters:

- Types of contingencies
- Initial recognition and measurement of contingencies
- Subsequent measurement to initial recognition
- Disclosures

Types of contingencies

<u>Contingent assets</u>

17.2 Contingent assets generally only arise from unplanned or other unexpected events that give rise to the possibility of an inflow of resources embodying economic benefits to the entity.

<u>Contingent liabilities</u>

17.3 All provisions are contingent because they are uncertain in timing and amount. However, the term contingent is used for liabilities and assets which existence will be confirmed only by the occurrence or non-occurrence of uncertain future event(s) not wholly within the control of the entity.

17.4 Example of contingent liabilities are guarantees on the indebtedness of others, claims on pending litigation and insurance programs.

17.5 Contingent liabilities which are not recognized as financial liabilities because they are either:

(a) Possible obligations, as it has yet to be confirmed whether the entity has a present obligation that could lead to an outflow of resources; or
(b) Present obligations that do not meet the recognition criteria in this Standard (because either it is not probable that an outflow of resources will be required to settle the obligation, or the obligation amount cannot be reliably estimated.

17.6 This contrasts with the need to make a provision which is only required where a present obligation exists that will probably require an outflow of economic benefits that can be measured reliably.

17.7 The following tables summarises the key requirements on initial recognition:

<u>Contingent assets</u>

Where inflow of economic benefits is not probable, contingent asset is not required to be disclosed in the financial statements. Where inflow of economic benefits is probable, disclose amounts as a contingent asset at fair value being the value at which the amount is settled. The amount recognized shall be the best estimate. Where inflow of economic benefits is virtually certain, amounts are recognized as an asset in the financial statements as the asset is no longer 'contingent'.

17.0 CONTINGENCIES (CONTINUED)

Initial recognition and measurement

<u>Contingent liabilities</u>

Obligation and probability of outflow of economics benefits	Accounting treatment in accordance to MPSAS 19 – Provisions, contingent liabilities and contingent assets
Present obligation that *probably* requires an outflow of resources	A provision is recognized (see Chapter 16 – Provisions for further illustration)
Present obligation that may (possible but not probable) requires an outflow of resources	Disclosed as contingent liabilities
Present obligation where the likelihood of outflow of resource is remote	No disclosure is required

17.8 Where subsequent to period/ year end, a present obligation becomes material and an estimate can be reliably made after the financial position date materialises, that material event should be reflected in the prior year's financial statement only where it is an adjusting event. A separate chapter on Adjusting Event is detailed under Chapter 24 - Events after reporting date.

Subsequent measurement

<u>Contingent liabilities</u>

17.9 After initial recognition, an entity should measure its financial liabilities at amortized cost using the effective interest method. The effective interest rate is the rate that discounts estimated future cash payments over the contracted term of the financial liability.

Disclosure requirements

17.10 Unless the possibility of any outflow in settlement is remote, an entity shall disclose, for each class of contingent liability at the reporting date, a brief description of the nature of the contingent liability and, where practicable:

(a) An estimate of its financial effect
(b) An indication of the uncertainties relating to the amount or timing of any outflow; and
(c) The possibility of any reimbursement.

17.11 Below is an extract of disclosure on contingent liabilities in Notes to Accounts of XX financial statement year ended 20X2.

Note XX. Contingent liabilities

Contingent liabilities relating to the Gulf of Mexico oil spill

As a consequence of the Gulf of Mexico oil spill...... XX has incurred costs during the year and recognized provisions for certain future costs....... XX has provided for its best estimate of amounts expected to be paid from the $20-billion trust fund. This includes certain amounts expected to be paid pursuant to the Oil Pollution Act of 1990 (OPA 90) as described in Note 36.......

References

- MPSAS 19 – Provisions, Contingent Liabilities and Contingent Assets

17.0 CONTINGENCIES (CONTINUED)

Scenario A - Recognition of Contingent Assets

At one extreme, where an entity is pursuing a legal claim against another party through the courts, at the outset of the legal process the probability of winning the case or the other side settling out of court might be low. In this circumstance, an inflow of economic benefits is not probable and so a contingent asset is not required to be disclosed in the entity's financial statements.

During the development of the case and its progression through the legal system, the claim may become probable of recovery. Where no court judgment has yet been made, but it is probable that the outcome will be favourable, an asset is not recognized but disclosure of a contingent asset should be made. This is because until the court judgment is made, it would be rare for the outcome of the case to be virtually certain.

Journal entries

1) No journal entry required.

Scenario B - Litigation

After a luncheon in 20X3, ten people died, possibly as a result of food poisoning from products sold by a restaurant at a public museum (the entity). Legal proceedings commenced seeking damages from the entity but the entity disputes liability on any claims.

Up to the date of authorization of the financial statements for the year to December 31, 20X3 for issue, the entity's lawyers advise that it is probable that the entity will not be found liable. However, when the entity prepares the financial statements for the year to December 31, 20X4, its lawyers advise that, owing to developments in the case, it is probable that the entity will be found liable.

Journal entries

1. To record the contingent liability

No journal entry is required. Note disclosure is required.

There can be different stages in a litigation process. During the stages, it will be necessary for the entity to consider whether or not an obligation arises for which provision is required. Initially, the likelihood of settlement might be remote and as consequence, there is no need to even note a contingent liability. However, once an action has been started, a contingent liability might arise that initially only requires a disclosure. But as the litigation progresses, the likelihood of an outflow of resources may become probable and warrant a provision to be made.

(a) At December 31, 20X3: On the basis of the evidence available when the financial statements were approved, there is no obligation as a result of past events.

Conclusion: No provision is recognized by the entity. The matter is disclosed as a contingent liability unless the probability of any outflow is regarded as remote.

(b) At December 31, 20X4: On the basis of the evidence available, there is a present obligation but there is a probable outflow of resources of economic benefits.

Conclusion: A provision is recognized for the best estimate of the amount to settle the obligation.

17.0 CONTINGENCIES (CONTINUED)

Scenario C - Legislative Requirement for Refurbishment

A government cartography service is required by law to overhaul its aircraft used for aerial mapping once every three years. There is no present obligation as a result of a past obligating event.

Journal entries

1) To record the contingent liability

No journal entry is required. Note disclosure is required.

No provision is recognized. The costs of overhauling aircraft are not recognized as a provision for the same reasons as the cost of replacing the lining is not recognized as a provision or contingent liability. Even a legal requirement to overhaul does not make the costs of overhaul a liability, because no obligation exists to overhaul the aircraft independently of the entity's future actions – the entity could avoid the future expenditure by its future actions, for example by selling the aircraft.

18.0 COMMITMENTS

Introduction

18.1 This chapter covers the following matters:

- Types of commitments
- Initial recognition and measurement
- Subsequent measurement to initial recognition
- Disclosures

18.2 A commitment is the stage between the establishment of an agreement between parties (whether that be signing a contract or passing legislation) and the fulfilment of the requirements of the agreement by one or more parties, creating an obligation to perform on the part of the remaining party or parties.

18.3 The most common example of a commitment is contracting for goods or services. Once the contract between the entity and the supplier has been signed, there is a commitment on the part of the entity to perform its part of the contract, which, generally, is to pay the supplier. The commitment exists until the supplier has performed their part of the contract, (i.e., delivered goods or services of a specified nature and/ or quality, etc.). Once goods or services are received, a commitment ceases to exist and the entity has an obligation or liability to pay the supplier.

18.4 Where an entity enters into any significant commitment or contingent liability after the year end, disclosure of this non-adjusting event is required under MPSAS 14 - Events after reporting date. An example of this will be where an entity issues a significant guarantee after the reporting date.

Types of commitments

18.5 This is the only specific disclosure requirement concerning commitments under MPSAS 14 – Events after reporting date. Other standards do include the need for disclosure of commitments that exist at the statement of financial position date that will affect future periods. These include:

- Capital commitments
- Operating lease commitments
- Commitments in respect of investment properties
- Other commitments including loan commitments

18.6 Although committed amounts do not appear on the face of the financial statements, it is necessary to properly present the appropriate information for disclosure in the notes.

Initial recognition and measurement of commitments

18.7 The initial commitment is valued at the fair value or cost being the amount at which a commitment is settled.

Subsequent measurement to initial recognition

18.8 After initial recognition, an entity should measure its commitments at amortized cost using the effective interest method. The effective interest rate is the rate that discounts estimated future cash payments over the contracted term of the financial liability.

18.0 COMMITMENTS (CONTINUED)

Disclosure Requirements

18.9 If non-adjusting events where commitments could exist after the reporting date are material, non-disclosure could influence the economic decisions of users taken on the basis of the financial statements. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the reporting date:

(a) The nature of the event
(b) An estimate of its financial effect, or a statement that such an estimate cannot be made.

References

- MPSAS 13 – Leases
- MPSAS 14 – Events After Reporting Date
- MPSAS 16 – Investment Property
- MPSAS 17 – Property, Plant and Equipment
- MPSAS 29 – Financial Instruments, Recognition and Measurement

18.0 COMMITMENTS (CONTINUED)

Scenario A - Property, plant and equipment: Entity enters into a commitment to purchase vehicles

An entity decides on 28 November 20X3 that it is necessary to purchase 5 vehicles to carry out program delivery requirements. The entity enters into a RM800,000 contract with an outside party for the purchase of 5 vehicles on 28 December 20X3. The vehicles were delivered on 4 January 20X4.

Journal entries

1) To record decision on 28 November 20X3

No journal entry is required. No disclosure note is required.

There is no commitment at this point. The entity has only decided they need the vehicles but have not entered into an agreement.

2) To record purchase order on 28 December 20X3

The entity has entered into an agreement to purchase the vehicles, and has committed funds to acquire these goods. Since the vehicles have not been received, no liability exists to pay for these goods. As a result, no journal entry is required, but note disclosure regarding the nature and amount of the commitment is required on the year end 20X3 financial statements.

No journal entry is required. Note disclosure is required. The amount of contractual commitment for the acquisition of PPE is required.

3) To record the liability (purchase and receipt of vehicles) on 4 January 20X4

At this point the entity has a present obligation to pay the vehicle vendor. Since the entity has not paid for the vehicle, a liability of RM800,000 must be recorded for the amount owing.

	Amount (RM)	Accounting Code
DR Property, plant and equipment - Vehicle	800,000	A14341XX
CR Account payable	800,000	L01341XX

19.0 FINANCIAL INSTRUMENTS

Introduction

19.1 This chapter covers the following matters:

- Different types of financial instruments (Financial assets and liabilities)
- Initial recognition and measurement
- Measurement subsequent to initial recognition
- Derecognition
- Impairment of financial assets
- Financial instruments denominated in foreign currency
- Concessionary loans
- Securitization of loans and accounts receivable
- Disclosure requirements

19.2 A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability of another entity.

19.3 Financial assets are classified as either of the following:

(a) Loans and receivables
(b) Financial assets 'at fair value through surplus or deficit'
(c) Held to maturity investments
(d) Available for sale assets

19.4 Financial liabilities are classified as either of the following:

(a) Financial liabilities 'at fair value through surplus or deficit'
(b) Other financial liabilities (at amortised cost)
(c) Financial guarantee contacts

Types of financial assets

<u>Loans and Receivables</u>

19.5 Loans and receivables are financial assets with a fixed or determinable payment which are not quoted in an active market. It arises when an entity provides money, goods or services directly to a debtor with no intention of trading the receivable.

19.6 Examples include account receivables, loans (computer, housing, car, educational or staff loans given) and deposits with licensed banks. Staff loan is dealt with under Chapter 21 – Employee Benefits.

19.7 Accounts receivables are classified as short-term receivables that are normally, but not necessarily, expected to be collected within a year. Accounts receivables may include trade and non-trade receivables. The former represents amounts owed by customers for goods sold and services rendered as part of normal operations. The latter arises from a variety of transactions including return on investments (dividends), interest income, and refund of overpayments and recoveries.

19.8 Accrued receivables should be set up for estimated amounts for goods or services rendered but not recorded at the end of each month, for any material amounts. These should be subsequently reversed when definitive amounts are known, at which time an accounts receivable is set up.

19.0 FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets 'at fair value through surplus or deficit'

19.9 A financial asset at fair value through surplus or deficit is a financial asset that meets either of the following conditions:

(a) It is classified as held for trading. A financial asset is classified as held for trading if it is:
   (i) Acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
   (ii) On initial recognition part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking; or
   (iii) A derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

(b) Upon initial recognition it is designated by the entity as at fair value through surpluses or deficit.

19.10 Financial assets at fair value through surplus or deficit include for example investments in shares and foreign government securities, assuming the above conditions are met.

Held to maturity investments

19.11 Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity other than:

(a) Those that the entity upon initial recognition designates as at fair value through surplus or deficit;
(b) Those that the entity designates as available-for-sale; and
(c) Those that meet the definition of loans and receivables.

19.12 Held-to-maturity financial assets include investments in quoted bonds and foreign government securities, assuming that the conditions above are met.

19.13 Under the 'tainting rule', an entity shall not classify any financial assets as held-to-maturity if the entity has, during the current financial year or during the two preceding financial years, sold or reclassified more than significant amount of held-to-maturity before maturity.

19.14 It shall be reclassified as AFS and re-measured at fair value and the difference between its carrying amount and fair value shall be accounted for directly in net assets/equity through statement of changes in net assets/equity.

Available for sale assets

19.15 Available for sale assets are non-derivative financial assets that are designated as available-for-sale or are not classified as:

(a) Loans and receivables,
(b) Held-to-maturity investments or
(c) Financial assets at fair value through surpluses or deficit.

19.16 Available for sale financial assets consist of, for example, quoted and unquoted equity and debt securities.

19.0 FINANCIAL INSTRUMENTS (CONTINUED)

Types of financial liabilities

Financial liabilities at fair values through surplus and deficit

19.17 A financial liability at fair value through surplus or deficit is a financial liability that meets either of the following conditions:

(a) It is classified as held for trading. A financial liability is classified as held for trading if it is:
   (i) Acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
   (ii) On initial recognition, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking; or
   (iii) A derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

(b) Upon initial recognition, designated by the entity as at fair value through surplus or deficit.

19.18 Financial liabilities at fair value from surplus or deficit include, for example, derivatives held in an unfavourable position.

Other financial liabilities

19.19 At government level, government could engage in a ‘government to government loan’ type, also known as bilateral loans. The bilateral loans can be syndicated (more than 1 lender) or single lender loan. . It is quite common for a group of lenders to fund a loan jointly. This is usually accomplished by a loan syndication under which each syndicate members lends a specific amount to the borrower and has the right to repayment from the borrower.

19.20 For other development works, a government can obtain a multilateral term loan from banks. These loans are for example, obtained from Islamic Development Bank or Asian Development Bank.

19.21 Accounts payable are balances owed to trade creditors, sundry creditors and others for goods, services, loans, transfer payments etc. Payables arise because of the time lag between the requirement to record the obligation and the requirement to satisfy the obligation at a later date.

19.22 Deposits consisting of general and investment deposits are monies received for specific purposes (under law or agreement) and need to be reimbursed once purpose is achieved. General deposits include deposit for unclaimed monies arising from sale proceeds from unclaimed security.

Financial guarantee contracts

19.23 A financial guarantee is a promise to pay all or a part of the principal and/or interest on a debt obligation in the event of default by the borrower. A financial guarantee contract requires the issuer to make specified payments to reimburse the holder for a loss it incurs if a specified entity (debtor) fails to make payment when due under a financial instrument’s original or modified terms.

19.0 FINANCIAL INSTRUMENTS (CONTINUED)

19.24 A contract that compensates the holder more than the loss incurred does not meet the definition of a financial guarantee contract. For the definition of a financial guarantee to be met, the amount of reimbursement must be either less than the amount of loss incurred or equal to the amount incurred in order to reimburse some or all of the loss the holder suffered because the debtor defaulted.

19.25 Governments may issue financial guarantees for a variety of reasons. They are often issued to further a government's policy objectives, for example, to support infrastructure projects and stabilize the financial market in times of distress. Governments and public sector entities may be granted the power to issue financial guarantees by legislation or other authority. In assessing whether a guarantee is contractual or non-contractual, an entity distinguishes the right to issue the guarantee and the actual issue of the guarantee. The right to issue the guarantee in terms of legislation or other authority is non-contractual, while the actual issue of the guarantee should be assessed using the substance over form principle to determine whether the guarantee is contractual.

19.26 There are loans taken by statutory bodies and government linked companies, such as FELDA and Khazanah Nasional Berhad which are guaranteed by the FGOM under the provision of Loans Guarantee (Bodies Corporate) Act 1965 (Act 96). Fee consideration are charged in exchange for financial guarantees by FGOM.

Initial recognition and measurement

19.27 When a financial asset or financial liability is recognised initially, an entity shall measure it at its fair value plus, in the case of a financial asset or financial liability not at fair value through surplus or deficit, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent measurement

<u>Financial assets</u>

19.28 Loans and receivables are measured at amortized cost using the effective interest method less impairment losses.

19.29 Financial assets at fair value through surplus or deficit are subsequently measured at fair value with changes in fair value recognized in surplus or deficit.

19.30 Available for sale assets are subsequently measured at fair value through surplus or deficit except in rare circumstances where it is measured at cost less impairment (only for investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured).

19.31 Available for sale gain or loss are recognized directly to net assets/ equity through statement of changes in net assets/equity.

19.32 Dividends or similar distributions on an available-for-sale equity instrument are recognized in surpluses or deficit when the entity's right to receive payment is established.

19.33 Held-to-maturity assets are subsequently measured at amortized cost using the effective interest method cost less impairment losses.

19.0 FINANCIAL INSTRUMENTS (CONTINUED)

Financial liabilities

19.34 Financial liabilities at fair value through surplus or deficit are subsequently measured at fair value with changes in fair value recognised in surplus or deficit. Financial liabilities are measured at amortized cost using the effective interest method.

19.35 Subsequent measurement for financial guarantee contracts is at the higher of the amount determined in accordance with MPSAS 19 - Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognized less, where appropriate, cumulative amortization in accordance with MPSAS 9 - Revenue from Exchange Transactions (financial guarantee fees).

19.36 Where there are no examples of similar financial guarantee contracts, a government can conclude it cannot use a valuation technique as the use of a valuation technique does not provide a reliable fair value. A government can therefore determine to measure financial guarantee contract in accordance with MPSAS 19 – Provisions, Contingent Liabilities and Contingent Assets.

Effective Interest Method

19.37 The amortised cost of a financial asset or financial liabilities is defined as the amount at which the financial asset or liabilities is measured at initial recognition minus principal repayments plus or minus the cumulative amortization using the effective interest method of any differences between initial amount and the amount payable at maturity minus any reduction (through the use of an allowance account) for impairment or uncollectability. The calculation of effective interest rate is illustrated under Scenario E.2

19.38 The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest revenue or interest expense over the relevant period.

19.39 The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

19.40 When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (e.g. prepayments) but shall not consider future credit losses.

19.41 The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Derecognition

Financial assets

19.42 Derecognition of a financial asset is when the contractual rights to the cash flow is extinguished or waived or when all risk, reward and control have been transferred.

Financial liabilities

19.43 Derecognition of a financial liability is when the obligation is waived, cancelled, discharged or expired.

19.0 FINANCIAL INSTRUMENTS (CONTINUED)

Impairment of financial assets

19.44 An entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the entity shall determine the amount of any impairment loss.

19.45 A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

19.46 It may not be possible to identify a single, discrete event that caused the impairment. Rather the combined effect of several events may have caused the impairment. Losses expected as a result of future events, no matter how likely, are not recognized. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events:

(a) Significant financial difficulty of the issuer or obligor;
(b) A breach of contract, such as a default or delinquency in interest or principal payments;
(c) The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
(d) It becoming probable that the borrower will enter bankruptcy or other financial reorganization;
(e) The disappearance of an active market for that financial asset because of financial difficulties; or
(f) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
    (i) Adverse changes in the payment status of borrowers in the group(e.g., an increased number of delayed payments); or
    (ii) National or local economic conditions that correlate with defaults on the assets in the group (e.g., an increase in the unemployment rate in the geographical area of the borrowers, a decrease in oil prices for loan assets to oil producers, or adverse changes in industry conditions that affect the borrowers in the group).

19.47 In addition to the above, objective evidence impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates and indicates that the cost of investment in the equity instrument may not be recovered.

19.48 A significant or prolonged decline in the fair value of an investment in equity improvement below its cost is also objective evidence of impairment.

19.0 FINANCIAL INSTRUMENTS (CONTINUED)

Financial instrument denominated in foreign currency

19.49 These are financial instruments denominated in a currency other than the functional currency of FGOM which is Ringgit Malaysia (RM), that results in the contractual right to collect, or contractual obligation to deliver cash in foreign currencies. For example, when government borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency.

19.50 A translation is therefore required to convert financial data denominated in a foreign currency in terms of the functional currency.

19.51 A financial instrument denominated in a foreign currency shall be initially recognized in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

19.52 At each subsequent reporting date, these financial instruments shall be translated using the closing rate.

19.53 Exchange differences arising on the settlement of monetary items, or on translating monetary items at rates different from those at which they were translated on initial recognition, shall be recognized in surplus or deficit.

Concessionary loans

19.54 Concessionary loans are granted to or received by an entity at below market terms.

19.55 As concessionary loans are granted or received at below market terms, the transaction price on initial recognition of the loan may not be its fair value. Where an entity cannot determine fair value by reference to an active market, it uses a valuation technique. Fair value using a valuation technique could be determined by discounting all future cash receipts using a market related rate of interest for a similar loan.

19.56 Any difference between the fair value of the loan and the transaction price (the loan proceeds) is treated as an expense in surplus or deficit at initial recognition, except where the loan is a transaction with owners, in their capacity as owners. Where the loan is a transaction with owners in their capacity as owners, for example, where a controlling entity provides a concessionary loan to a controlled entity, the difference may represent a capital contribution, i.e., an investment in an entity, rather than an expense.

Securitization of loans and accounts receivable

19.57 It is fairly common for entities to raise finance by selling financial assets such as portfolios of loans and receivables.

19.58 Securitisation is a method of raising finance, first used by originators of mortgage loans through a sale of a block or poll of loans to another entity.

19.59 The receiving entity/ transferee could finance the purchase by issuing loan notes or other marketable debt instruments. This process is known as securitisation and referred to as an asset backed finance.

19.0 FINANCIAL INSTRUMENTS (CONTINUED)

19.60 There are key pass through conditions to confirm whether transferee has transferred sufficient risk and rewards associated with the asset to achieve derecognition as per below:

a) the transferor is not obliged to transfer funds to the transferee that it has not collected, that is, it is not required to fund payments to the eventual recipients. This means the transferee must bear the late payment risk;

b) the transferors ability to sell or pledge the financial assets highlights that the transferor does not control access to the future economic benefits associated with the transferred cash flows and therefore may not have an asset; and

c) the transferor is prohibited from re-investing the cash flows received in the short settlement period between collection of remittance. The transferor is not allowed to invest fund in other high yielding medium term investments for the benefits of the transferee or utilize funds in generating further assets for securitization.

19.61 Where a transferor selling financial assets for cash (or other assets) with no continuing involvement with the asset sold or with transferee and passes through conditions for derecognition, then the sale of financial asset will come with a corresponding derecognition of asset.

19.62 Where a transferor selling financial assets for cash still retains risk and reward to that financial obligation (or still retains recourse to that asset) and does not pass through conditions for derecognition, then the cash received transaction is treated as a financing transaction. The risk and reward of the ownership of asset have not been transferred.

Disclosures requirement

19.63 The disclosure requirements for financial statements are extensive. Details of the disclosures are in MPSAS 30 – Financial instruments; disclosure.

References

- MPSAS 4 – The Effect of Changes in Foreign Exchange Rates
- MPSAS 19 – Provisions, Contingent Liabilities and Contingent Assets
- MPSAS 28 – Financial Instruments, Presentation
- MPSAS 29 – Financial Instruments, Recognition and Measurement
- MPSAS 30 – Financial Instruments, Disclosures

19.0 FINANCIAL INSTRUMENTS (CONTINUED)

Scenario A - Loans and receivable

Scenario A.1 - Recognition of accounts receivable

The entity provides services to an external party for RM500 for the provision of an air time slot.

Journal entries

1) Upon service rendered to the external party. Payment has not been received

Upon invoicing the outside party, revenue and a corresponding accounts receivables is recognized.

	Amount (RM)	Accounting Code
DR Accounts receivable	500	A03723XX
CR Revenue	500	H02723XX

2) Upon full settlement of the invoice

At this point the outside party has paid the entity thereby reversing the accounts receivable and increasing the entity's cash holdings.

	Amount (RM)	Accounting Code
DR Cash	500	A0113XXX
CR Accounts receivable	500	A03723XX

19.0 FINANCIAL INSTRUMENTS (CONTINUED)

Scenario A.2 - Recognition of provision for impairment loss, partial reversal of provision for impairment loss and its subsequent write-off

An entity decides to recognize provision for impairment loss on a long overdue accounts receivable upon approval from authorities. Based on collectability assessment, the entity sets up a provision for impairment loss account for RM10,000.

Following various discussions, the debtor committed to payment of RM2,000 resulting in a partial reversal of the provision. This amount was paid.

Subsequent to that, the vendor was declared bankrupt. The remaining provision for impairment loss written off.

Journal entries

1) To record accumulated impairment loss

When an accumulated impairment loss is recorded, an impairment loss expense is recorded. The accumulated impairment loss is a valuation account (i.e. contra asset) and is subtracted from the gross amount of the accounts receivables on the statement of financial position.

	Amount (RM)	Accounting Code
DR Impairment loss expense	10,000	B51XXXXX
CR Accumulated impairment loss	10,000	A51XXXXX

2) To record partial reversal of accumulated impairment loss

As the debtor had committed to payment of an amount of RM2,000, partial reversal of provision was triggered.

	Amount (RM)	Accounting Code
DR Accumulated impairment loss	2,000	A51XXXXX
CR Impairment loss expense (reversal)	2,000	B51XXXXX

3) To record the write-off of the accumulated impairment loss

When the debt is assessed to be irrecoverable, they will be written off upon approval from authorities.

To write-off the balance, the accumulated impairment loss (a contra account) is reversed and the accounts receivable account is credited.

	Amount (RM)	Accounting Code
DR Accumulated impairment loss	8,000	A51XXXXX
CR Accounts receivable	8,000	A03XXXXX

19.0 FINANCIAL INSTRUMENTS (CONTINUED)

Scenario A.3 - Write off of an accounts receivable not previously provided for

An accounts receivable for RM300 is deemed as uncollectible and is written off upon approval from authorities. Before that, there was no allowance for impairment loss made.

Journal entries

1) To record the write-off

An account receivable should be written off if it is known with certainty that it is uncollectible. Where there was is no allowance of impairment of loss for that accounts receivable, the balance is removed from the books by debiting 'Bad debt written-off' and crediting 'Accounts receivable'.

	Amount (RM)	Accounting Code
DR Bad debt write off	300	B05512XX
CR Accounts receivable	300	A03XXXXX

19.0 FINANCIAL INSTRUMENTS (CONTINUED)

Scenario A.4 - Recognition of loan receivable

An entity provides a loan of RM500,000 to a state government to finance the construction of exhibition buildings. The loan bears interest at a rate of 6% per annum, and is repayable in monthly instalments at the end of every month over a 5-year period. There are no concessionary terms related to this Scenario.

Journal entries

1) To record loan of RM500,000 given

The loan is recorded on the books at its fair value.

	Amount (RM)	Accounting Code
DR Loans receivable	500,000	A03371XX
CR Cash	500,000	A0112XXX

2) To record accrual of interest receivable and recognize interest revenue

As interest is earned on the loan, the amount is recognized periodically as revenue for the period. In this case, interest revenue and interest receivable is recorded monthly. The amount of interest calculated in the first month is as follows: RM2,500 =RM500,000 x (6%/12months). The calculation here is assumed to approximate the effective interest rate method.

	Amount (RM)	Accounting Code
DR Interest receivable	2,500	A03375XX
CR Interest revenue	2,500	H02375XX

3) Record periodic repayments of the loan

As loan repayments are made, the cash holdings of the entity are increased. This is reflected by a debit to 'Cash'. The outstanding amount of the loan receivable is also reduced. When the interest is paid, the accrued interest receivable is reversed. The amount of loan repayment is: RM9,500 = RM7,000 (principal portion) + RM2,500 (interest portion). These amounts are derived using a loan calculation program.

	Amount (RM)	Accounting Code
DR Cash	9,500	A0113XXX
CR Loans receivable	7,000	A03371XX
CR Interest receivable	2,500	A03375XX

19.0 FINANCIAL INSTRUMENTS (CONTINUED)

Scenario B - Financial assets at fair value through surplus or deficits

Scenario B.1 - Purchase of financial assets at fair value through surplus or deficit and recognition of changes in fair value

An entity purchases Singapore Government Securities (SGS), a financial asset held for trading or financial asset at fair value through surplus or deficit. The fair value of the SGS amounts to RM15,000 and the entity incurs a transaction cost of RM1,000.

At the end of the financial year, the fair value of the Singapore Government Securities (SGS) increased to RM18,000.

Journal entries

1) To record the recognition of financial asset at fair value through surplus or deficit.

(a) At the point the financial assets at fair value through surplus or deficit is acquired, the financial asset is recognized at its fair value,.

	Amount (RM)	Accounting Code
DR Financial assets at fair value through surplus or deficit	15,000	A1342XXX
CR Cash	15,000	A0112XXX

(b) The transaction cost relating to the financial asset is expensed off.

	Amount (RM)	Accounting Code
DR Transaction cost expense	1,000	B0445XXX
CR Cash	1,000	A0112XXX

2) To record the recognition of changes in fair value

Where the fair value of changes, the gain/loss on the re-measurement of financial assets at fair value through surplus or deficit is recognized in the current year surplus or deficit.

	Amount (RM)	Accounting Code
DR Financial assets at fair value through surplus or deficit	3,000	A1342XXX
CR Gain on re-measurement of financial assets at fair value through surplus or deficit	3,000	H01893XX

19.0 FINANCIAL INSTRUMENTS (CONTINUED)

Scenario B.2 - Sale of financial assets at fair value through surplus or deficit

Following on from scenario B.1, the entity sells the financial asset at fair value through surplus or deficit at a selling price of RM12,000. The carrying amount of the financial asset at fair value through surplus or deficit is RM15,000.

Journal entries

1) To record the sale of financial assets at fair value through surplus or deficit

At the point the financial assets at fair value through surplus or deficit is disposed, the financial asset at fair value through surplus or deficit is credited and the cash account is debited. The difference between the book value of the financial asset at fair value through surplus or deficit and the selling price is recognized as either a gain or loss on sale of financial asset at fair value through surplus or deficit

	Amount (RM)	Accounting Code
DR Cash	12,000	A0113XXX
DR Loss on sale of financial assets at fair value through surplus or deficit	3,000	B05542XX
CR Financial assets at fair value through surplus or deficit	15,000	A1342XXX

19.0 FINANCIAL INSTRUMENTS (CONTINUED)

Scenario C - Available for sale assets

Scenario C.1 - Purchase and re-measurement of available-for-sale financial assets with known market price

An entity purchases a publicly listed equity security which amounts to RM15,000. The entity incurs a transaction cost of RM2,000. At the financial year end of 20X3, the security fair value increased to RM20,000.

The security is classified as available for sale financial assets.

Journal entries

1) To record the purchase of available-for-sale financial asset

a) Both quoted and unquoted securities acquired which are not intended to be sold within near period (and also not to be hold to maturity) are classified as available-for-sale financial asset.

At the point of acquisition of the quoted equity, available-for-sale financial asset will be recognized at RM15,000.

	Amount (RM)	Accounting Code
DR Available-for-sale financial asset	17,000	A1322XXX
CR Cash	17,000	A0112XXX

2) To record the gain on the re-measurement of available-for-sale financial asset

At the financial year end of 20X3, the gain on available-for-sale financial asset is not recognized in the current year surplus/ deficits. Instead, it is credited into an account known as gains / (loss) on re-measurement of available-for-sale financial asset, which is a separate component in the net assets/ equity. The same applies for the loss on available-for-sale financial asset.

	Amount (RM)	Accounting Code
DR Available-for-sale financial asset	3,000	A1322XXX
CR Gains on re-measurement of available-for-sale financial asset (directly in net assets/equity)	3,000	E0111XXX

19.0 FINANCIAL INSTRUMENTS (CONTINUED)

Scenario D - Held-to-maturity assets

Scenario D.1 - Purchase and re-measurement of held-to-maturity financial assets with known market price

An entity purchases a quoted bonds which amounts to RM15,000. The entity incurs a transaction cost of RM2,000. At the financial year end of 20X3, the bonds were remeasured at amortized cost (using effective interest method) less impairment losses. The bonds were valued at RM10,000.

The security is classified as held-to-maturity financial assets.

Journal entries

1) To record the purchase of held-to-maturity financial asset

a) Both quoted and unquoted securities acquired which has a fixed or determinable payment and fixed maturity are classified as held-to-maturity financial assets.

At the point of acquisition of the quoted equity, held-to-maturity financial asset will be recognized at RM15,000.

	Amount (RM)	Accounting Code
DR Held-to-maturity financial asset	17,000	A1312XXX
CR Cash	17,000	A0112XXX

2) To record the impairment loss held-to-maturity financial asset

At the financial year end of 20X3, the financial asset was impaired by RM5,000 based on amortised cost and the impairment loss is recognised in current year surplus or deficit.

	Amount (RM)	Accounting Code
DR Impairment loss expense	5,000	A1312XXX
CR Accumulated impairment loss	5,000	A50121XX

19.0 *FINANCIAL INSTRUMENTS (CONTINUED)*

Scenario E - Other financial liabilities

Scenario E.1 - Entity incurs repair expenses

An entity incurs RM6,500 in repairs for an air conditioning system for an office building. The repair expense is accrued and paid at the next financial period.

Journal entries

1) To record the repairs expense incurred

Once the operating expenses have been incurred regardless of when it is paid for or whether the invoice has been received, the entity must record by accruing the expense as a liability under accounts payable and debiting operating expenses account

	Amount (RM)	Accounting Code
DR Repair expense of office building	6,500	B02281XX
CR Accrual/Accounts payable	6,500	L01281XX

2) Subsequently, the entity settles this liability

Once the operating expense is paid, the entity must reduce the liability recorded in the accounts payable and the cash account is reduced accordingly.

	Amount (RM)	Accounting Code
DR Accounts payable	6,500	L01281XX
CR Cash	6,500	A0112XXX

Scenario E.2 - Amortization of premium amounts received on local borrowing

FGOM raised funds via government investment issues totalling RM2,000,000,000 based on an annual interest rate of 4% on a nominal value of RM2,000,000,000 at premium of 0.7% for a period of 5 years.

Journal entries

1) To record the funds received amounting to RM2,000,000,000 plus the additional nominal value at 0.7% against the principal sum amounting to RM14,000,000. Total receipt was RM2,014,000,000

a) When borrowing is received from the bank in the form of cash payment, the cash account is debited and a liability must be accrued for as borrowing, together with the nominal amount received.

	Amount (RM)	Accounting Code
DR Cash	2,014,000,000	A0113XXX
CR Premium Government Investment Issues*	14,000,000	L0611311
CR Government Investment Issues*	2,000,000,000	L0611310

* On financial statement, this is disclosed on net basis.

19.0 FINANCIAL INSTRUMENTS (CONTINUED)

Journal entries

b) To record interest accrued amounting to RM386 million (RM80 million interest per year over 5 years less premium of RM14 million)

Interest expense is accrued as liability together with FGOM investment issues and an accompanying interest accrual asset is created.

	Amount (RM)	Accounting Code
DR Government Investment Issues interest accrual	386,000,000	A70113XX
CR Government Investment Issues	386,000,000	L0611310

2) To record Year 1 interest and amortisation of premium over borrowing

When yearly interest is paid at 4%, the amount to be amortized from borrowing premium account will be based on the difference of RM80,000,000 and the interest calculated on the IRR rate. Year 1 effective interest rate is based on RM77,407,120.93 interest payment over initial cash received 2,014,000,000 amounting to 3.843%. The same effective rate is applied for subsequent years.

Year	Cashflow (RM)	Interest	Amortize Premium (RM)	Carrying Value (RM)
0	2,014,000,000.00			2,014,000,000.00
1	(80,000,000.00)	(77,407,120.93)	(2,592,879.07)	2,011,407,120.93
2	(80,000,000.00)	(77,307,464.87)	(2,692,535.13)	2,008,714,585.80
3	(80,000,000.00)	(77,203,978.58)	(2,796,021.42)	2,005,918,564.38
4	(80,000,000.00)	(77,096,514.84)	(2,903,485.16)	2,003,015,079.22
5	(2,080,000,000.00)	(76,984,920.78)	(3,015,079.22)	-
IRR	3.843% (based on cash flows)		14,000,000	-

Upon payment of interest of RM80,000,000 the liability account is reduced by the cash payment.

	Amount (RM)	Accounting Code
DR Government Investment Issues	77,407,120.83	L0611310
DR Premium Government Investment Issues	2,592,879.07	L0611311
CR Cash	80,000,000	A0112XXX

At the same time, the interest accrual relating to that year's interest is expensed to surplus or deficit for that period.

	Amount (RM)	Accounting Code
DR Interest expense	77,407,120.83	B0445XXX
CR Government Investment Issues interest accrual	77,407,120.83	A70113XX

19.0 FINANCIAL INSTRUMENTS (CONTINUED)

Scenario E.3 - Amortization of discount amounts received on local borrowing

FGOM raised funds via government investment issues totalling RM3,000,000,000 at a discounted rate of 6% for 5 years based on an annual interest rate of 8%.

Journal entries

1) To record the funds received amounting to RM2,820,000,000 at a 6% discounted rate over principal sum of RM3,000,000,000. Total discount amounted to RM180,000,000

(a) When borrowing is received from the bank in the form of cash payment, the cash account is debited and a liability must be accrued for as borrowing together with the nominal discount received.

	Amount (RM)	Accounting Code
DR Cash	2,820,000,000	A0113XXX
DR Discount Government Investment Issues*	180,000,000	L0611311
CR Government Investment Issues *	3,000,000,000	L0611310

* On financial statements, this is disclosed on net basis.

(b) To record interest accrued amounting to RM1,380 million (RM240 million interest per year over 5 years adding discount of RM180 million).

Interest expense is accrued as liability together with FGOM issues investment and an accompanying interest accrual asset is created.

	Amount (RM)	Accounting Code
DR Government Investment Issues interest accrual	1,380,000,000	A70113XX
CR Government Investment Issues	1,380,000,000	L0611310

2) To record Year 1 interest payment for the 1st half of the year at 4% interest rate on RM3,000,000,000 amount together with the amortization of the discount on government investment issues

When the half yearly interest is paid at 4%, the amount to be amortized from borrowing discount account will be based on the difference of RM80,000,000 and the interest calculated on the IRR rate(being the effective interest of 4.752%). The half yearly interest rate is calculated based on RM134,466,309.51 half yearly interest over initial cash received of RM2,820,000,000.

19.0 FINANCIAL INSTRUMENTS (CONTINUED)

Journal entries

Upon payment of the half yearly interest of RM120,000,000 the liability account is reduced by the cash payment.

	Amount (RM)	Accounting Code
DR Government Investment Issues	134,466,309.51	L0611310
CR Discount Government Investment Issues	14,466,309.51	L0611311
CR Cash	120,000,000	A0112XXX

At the same time interest accrual relating to the half yearly interest is expensed to surplus or deficit for that period

	Amount (RM)	Accounting Code
DR Interest expense	134,466,309.51	B0445XXX
CR Government Investment Issues interest accrual	134,466,309.51	A70113XX

Year	Month	Cashflow (RM)	Interest (RM)	Amortize Discount (RM)	Carrying Value (RM)
0		2,820,000,000.00			2,820,000,000.00
1	June	(120,000,000.00)	(134,466,309.51)	14,466,309.51	2,834,466,309.51
	December	(120,000,000.00)	(135,156,107.83)	15,156,107.83	2,849,622,417.34
2	June	(120,000,000.00)	(135,878,797.86)	15,878,797.86	2,865,501,215.19
	December	(120,000,000.00)	(136,635,947.98)	16,635,947.98	2,882,137,163.17
3	June	(120,000,000.00)	(137,429,201.36)	17,429,201.36	2,899,566,364.53
	December	(120,000,000.00)	(138,260,279.51)	18,260,279.51	2,917,826,644.04
4	June	(120,000,000.00)	(139,130,986.03)	19,130,986.03	2,936,957,630.07
	December	(120,000,000.00)	(140,043,210.53)	20,043,210.53	2,957,000,840.61
5	June	(120,000,000.00)	(140,998,932.71)	20,998,932.71	2,977,999,773.32
	December	(3,120,000,000.00)	(142,000,226.68)	22,000,226.68	-
IRR		4.752% (based on cash flows)		180,000,000.00	-

19.0 FINANCIAL INSTRUMENTS (CONTINUED)

Scenario F - Financial instrument denominated in foreign currency

Scenario F.1 - Foreign Currency Transactions (Loss)

An entity purchases consumables from a U.S firm for $50,000 USD. The exchange rate is quoted at RM3.45 when the goods are received. The entity makes payment for the purchase a week later. The exchange rate on payment date is RM3.47.

Journal entries

1) To record purchase of goods at time of receipt

When the purchase is made, the entity must record the expenses in Malaysian Ringgit at the exchange rate in effect at the time the goods are received. The amount will be recorded at RM172,500 ($50,000 USD x 3.45). A payable must be set up to record the amount owing for the corresponding amount.

	Amount (RM)	Accounting Code
DR Consumables expense	172,500	B0227XXX
CR Account payable	172,500	L0127XXX

2) Entity pays for the consumables

When the payment is made, the accounts payable is reversed. The cash account would reflect the payment made at the foreign currency rate of payment date, RM173,500 ($50,000 USD x 3.47). The difference will result in a loss of RM1,000 (RM173,500 - RM172,500).

	Amount (RM)	Accounting Code
DR Loss on foreign exchange	1,000	B05552XX
DR Account payable	172,500	L0127XXX
CR Cash	173,500	A0112XXX

19.0 FINANCIAL INSTRUMENTS (CONTINUED)

Scenario F.2 - Foreign Currency Transactions (Gain)

Assume all dealings in the previous scenario apply here, except that the rate in effect at payment date is $3.43USD.

Journal entries

1) Please refer to journal entry 1 under Scenario F.1 above

2) Entity pays for the consumables

Since the payment is made, the accounts payable is reversed at the original amount at which it was established. The cash account would reflect the payment made at the foreign currency rate of payment date, RM171,500 (50,000 x 3.43). The difference results in a gain of RM1,000 (RM172,500 - RM171,500).

	Amount (RM)	Accounting Code
DR Account payable	172,500	L0127XXX
CR Gain on foreign exchange	1,000	H02831XX
CR Cash	171,500	A0112XXX

19.0 FINANCIAL INSTRUMENTS (CONTINUED)

Scenario F.3 - Foreign exchange translation at month end (for financial reporting)

Entity purchases consumables from a U.S firm for $50,000 USD. The exchange rate used to record the payable on the books is RM3.45 (the goods-receipt date). The account payable is recorded at RM172,500($50,000 x RM3.45). The amount was not fully settled by month end.

The same entity also sells goods to a U.S firm for $100,000 USD. The exchange rate used to record the receivable on the books was RM3.48 (the transaction date). The receivable is recorded at RM348,000 (100,000 x RM3.48). The amount was not fully settled by month end.

As at month end, the exchange rate in place is RM3.50.

Journal entries

1) To record part payment and translation of financial liabilities

(a) Part payment of liability during the month amounting to $30,000

The part payment amounted to RM104,100 based on an exchange rate of RM3.47. This amount reduces the account payable. No realised foreign exchange gain or loss is recognised at this stage.

	Amount (RM)	Accounting Code
DR Account payable	104,100	L01227XXX
CR Cash	104,100	A0112XXX

(b) Translation of foreign currency financial liabilities at month end

The total payable was originally recorded in the books at an exchange rate of RM3.45 amounting to RM172,500 ($50,000 x RM3.45).
The balance of $20,000 ($50,000 - $30,000, journal 1a above) must be translated to reflect the exchange rate in effect at the statement of financial position date and amounts to RM70,000 ($20,000 x RM3.50) .
Based on Journal 1a, the part payment settled amounting to RM104,000 leaves a balance of RM68,400 (RM172,500 – RM104,100). The fluctuation in foreign exchange rates results in a loss of RM1,600 (RM70,000-RM68,400).

	Amount (RM)	Accounting Code
DR Loss – foreign exchange	1,600	B05552XX
CR Account Payable	1,600	L01227XXX

19.0 FINANCIAL INSTRUMENTS (CONTINUED)

Journal entries

2) To record part receipt and translation of financial assets

(a) Part receipt of receivable during the month amounting to $60,000

The part receipt amounted to RM209,400 based on an exchange rate of RM3.49. This amount reduces the account receivable. No realised foreign exchange gain or loss is recognised at this stage.

	Amount (RM)	Accounting Code
DR Cash	209,400	A0113XXX
CR Account receivable	209,400	A03XXXXX

(b) Translation of foreign currency financials assets at month end

The total receivable was originally recorded on the books at RM3.48 amounting to RM348,000 ($100,000 x RM3.48).
The balance of $40,000 ($100,000 - $60,000, journal 2a above) must be translated to reflect the exchange rate in effect at the statement of financial position date and amounts to RM140,000 ($40,000 x RM3.50).
Based on Journal 2a, the part receipt received amounting to RM209,400 leaves a balance of RM138,600 (RM348,000 – RM209,400). The fluctuation in foreign exchange rates results in a total gain of RM1,400 (RM140,000 – RM138,600).

	Amount (RM)	Accounting Code
DR Account receivable	1,400	A03XXXXX
CR Revaluation gain – foreign exchange	1,400	E0121XXX

19.0 FINANCIAL INSTRUMENTS (CONTINUED)

Scenario G - Concessionary loan

Scenario G.1- Recognition of concessionary loan

The entity advanced RM250 million to various students at the beginning of financial year, with the following terms and conditions:

(a) Principal is repaid as follows:
Year 1 to 3 : no principal be repaid
Year 4 : 30% principal to be repaid
Year 5 : 30% principal to be repaid
Year 6 : 40% principal to be repaid

(b) Interest is calculated at 6% interest on the outstanding loan balance and is paid annually in arrears. Assume the market rate of interest for a similar loan is 11.5%.

Journal entries

1) To record the issuance of loan amounting to RM250 million

As the concessionary loan is granted at an interest rate of 6%, below the market interest rate of 11.5%, the loan receivable is not able to be recognised at the transacted amount of RM250,000,000. (Note: the fair valuation of the loan can be done collectively).

	Amount (RM'000)	Accounting Code
DR Loan receivable	199,345	A033XXXX
DR Expense*	50,655	B04458XX
CR Bank	250,000	A0112XXX

Instead, the future cash receipts of the loan is discounted using a market interest rate of 11.5% to arrive at a present value of RM199,345,480. Difference between the transaction price of RM250,000,000 and fair value of the loan of RM199,345,480 amounts to RM50,654,520 (RM250,000,000 – RM199,345,480). The difference is recognised as an expense in surplus or deficits. Please refer to the table below for the detailed calculation:

	Year 1 (RM'000)	Year 2 (RM'000)	Year 3 (RM'000)	Year 4 (RM'000)	Year 5 (RM'000)	Year 6 (RM'000)
Capital balance	250,000	250,000	250,000	175,000	100,000	-
Interest payable (6%)	15,000	15,000	15,000	15,000	10,500	6,000
Total payments (capital and interest)	15,000	15,000	15,000	90,000	85,500	106,000
Present value of payments	13,453	12,066	10,820	58,229	49,613	55,164
Total present value of payments						199,345
Proceeds paid						250,000
Off-market portion of loan to be recognised as expense						50,655

* Where concessionary loan is given to a controlled entity, the difference may represent a capital contribution i.e. an increase in investment in controlled entity rather than an expense.

19.0 FINANCIAL INSTRUMENTS (CONTINUED)

Journal entries

2) To record the accrual of interest using the effective interest method

During year 1 to year 6, interest is accrued for each year at different amount based on the effective interest rate. Please refer to the table below for the detailed calculation:

	Year 1 (RM'000)	Year 2 (RM'000)	Year 3 (RM'000)	Year 4 (RM'000)	Year 5 (RM'000)	Year 6 (RM'000)
Capital	199,345	207,270	216,106	225,958	161,944	95,067
Interest accrual (+)	22,925	23,836	24,852	25,985	18,624	10,933
Interest and capital payments(-)	15,000	15,000	15,000	90,000	85,500	106,000
Balance	**207,270**	**216,106**	**225,958**	**161,943**	**95,068**	**-**

	Amount (RM'000)	Accounting Code
DR Loan receivable(+)	22,925	A033XXXX
CR Interest revenue(-)	22,925	H02755XX

Note: The above journal entry will be similar for accrual of interest for each subsequent year with the amount accrued as interest differing in accordance to the table above.

3) To record the payment of interest and principal as per the contractual rate of 6%

	Year 1 (RM'000)	Year 2 (RM'000)	Year 3 (RM'000)	Year 4 (RM'000)	Year 5 (RM'000)	Year 6 (RM'000)
Capital	250,000	250,000	250,000	250,000	250,000	250,000
Interest(+)	-	15,000	15,000	15,000	10,500	6,000
Payments(-)	-	15,000	15,000	90,000	85,500	106,000
Balance	**250,000**	**250,000**	**250,000**	**175,000**	**175,000**	**150,000**

During Year 1 to Year 3, there is no principal repayment. Only interest payment of RM15,000 is recorded as interest revenue.

	Amount (RM'000)	Accounting Code
DR Cash	15,000	A0113XXX
CR Loan receivable	15,000	A033XXXX

During Year 4 to Year 6, in addition to interest payment, principal amount is being repaid too. The journal entry below illustrates interest and principal payment for Year 4.

	Amount (RM'000)	Accounting Code
DR Cash	90,000	A0113XXX
CR Loan receivable	90,000	A033XXXX

Note: The above journal entry will be similar for Year 5 and Year 6 with the payment amount differing in accordance to the table above.

19.0 FINANCIAL INSTRUMENTS (CONTINUED)

Scenario H - Financial guarantees

Scenario H.1 - Entity provides financial guarantee contract and loan written-off – No fee

Entity A has provided a financial guarantee to entity B (the holder) to reimburse entity B against any financial effect of a default by entity C (the debtor) for a 10 year loan of RM1,000,000 that the entity has taken an for the purpose of a specific state development. The 10 year loan was taken on 1 January 20X0. The loan is repayable in 2 equal instalments of RM500,000 in 20X1 and 20X5. Entity C provided no fee consideration to entity A.

In 20X5, there was an economic downturn. Entity C sought bankruptcy protection and defaulted in the 2nd repayment of principal although it met its obligations for interest payment. Entity A confirms entity C is unlikely to recover.

Journal entries

1) Year 1 – Entity A provides loan guarantee to Entity B – No indication of potential default

As the probability of default is low/remote, the fair value of the final guarantee is assumed to be nil.

2) Year 20X5 – Indication arises on potential default

In view of the economic downturn and the initiation of bankruptcy protection, there arises indication of potential default by entity C. As a result, the fair value of the financial guarantee is assumed to be the maximum exposure of RM500,000. This provision is enacted upon approval from authorising.

A financial liability is created to include the RM500,000.

	Amount (RM)	Accounting Code
DR Financial guarantee expense	500,000	B05555XX
CR Financial guarantee contract provision	500,000	L0491XXX

3) Year 20X5 - Borrower defaults and entity pays out loan guarantee to lender.

When the borrower (entity C) defaults on the loan, entity A is required to make the payment to entity B and a reduction to provision will be made.

	Amount (RM)	Accounting Code
DR Financial guarantee contract provision	500,000	L0491XXX
CR Cash	500,000	A0112XXX

19.0 *FINANCIAL INSTRUMENTS (CONTINUED)*

Scenario H.2 - Entity provides financial guarantee contract and loan written off – With fee

Same scenario as scenario H.1 applies with a nominal fee consideration of RM10,000 given to the issuer of the financial guarantee contract. The guarantee fee is unconditional and irrevocable.

Journal entries

1) Year 20X0 – Entity A provides loan guarantee to Entity B of the request of entity C for a consideration of RM10,000

Guarantee fee of RM10,000 received from entity C is credited to loan guarantee provision account upon approval from authorities.

	Amount (RM)	Accounting Code
DR Cash	10,000	A0113XXX
CR Financial guarantee contract provision	10,000	L0491XXX

2) Year 20X0 to 20X4 – no indication of potential default.

As there was no indication of potential default between Years 20X0 to 20X4, the fair value of the financial guarantee provision was assumed to be RM5,000. The remaining RM5,000 is recognised as revenue from the guarantee fee received (RM10,000/10 years) x 5 years.

	Amount (RM)	Accounting Code
DR Financial guarantee contract provision	5,000	L0491XXX
CR Miscellaneous revenue	5,000	H01825XX

3) Year 20X5 – indication arises on potential default

As indication arises on potential default in view of the economic downturn and the initiation of bankruptcy protection, there arises potential default by entity C. As a result, the fair value of the financial guarantee provision is valued to be the maximum exposure of RM500,000.

As the balance in loan guarantee provision account was RM5,000 (RM10,000 - RM5,000 for entries 1 and 2 above), the additional provision to be made upon approval from authorities was RM495,000 (RM500,000 – RM5,000).

	Amount (RM)	Accounting Code
DR Financial guarantee expense	495,000	B05555XX
CR Financial guarantee contract provision	495,000	L0491XXX

4) Year 20X6 – Borrower defaults and entity pays out loan guarantee to lender, entity C

Same journal entry under no. 3 of Scenario H.1 applies.

19.0 FINANCIAL INSTRUMENTS (CONTINUED)

Scenario I.- Securitisation of loans and receivables

Scenario I.1 - Sale of loan with no transfer of risk to transferee

An entity decides to sell part of its housing loan portfolio to a mortgage bank A (transferee) amounting to RM500 million in cash.

Entity still retains all recourse to the original housing loans. The risk and rewards of the financial asset remains with the entity.

Journal entries

1) No change in entity portfolio of loans and account receivables

As there was no transfer of risk and rewards to transferee, the loan and accounts remains as a receivable.

2) To record the financing transaction

As the entity received amounts for the sale of loan portfolio, the entity must recognise an owing to Bank A.

	Amount (RM)	Accounting Code
DR Cash	500,000,000	A0113XXX
CR Amount due to Bank A	500,000,000	L06122XX

3) To record repayment to Bank A

a) Repayment upon advise of collection by Bank A assuming all debt was collected.

Assume that in Year 1, RM50,000,000 loan was repaid.

	Amount (RM)	Accounting Code
DR Amount due to Bank A	50,000,000	L06122XX
CR Loan receivable	50,000,000	A042XXXX

b) To record impairment provision upon advice on bankruptcy of a borrower and assuming debt was uncollected.

Entity needs to compensate Bank A via payment directly to Bank A as borrower is unable to make payments. The loan was valued at RM1 million.

	Amount (RM)	Accounting Code
DR Amount due to Bank A	1,000,000	L06122XX
CR Cash	1,000,000	A0112XXX

At the same time, an impairment loss over the loan receivable was recognized.

	Amount (RM)	Accounting Code
DR Impairment loss expense	1,000,000	B5121XXX
CR Accumulated impairment	1,000,000	A5121XXX

19.0 FINANCIAL INSTRUMENTS (CONTINUED)

Scenario I.2 - Sale of loan with transfer of risk to transferee

An entity sells part of its housing loan portfolio to a mortgage Bank A (transferee), amounting to RM500 million in cash. The total portfolio sold off amounts to RM550 million.

Entity novated its loans to Bank A and as a result transferred all risk and rewards to Bank A. The novation has the main effect of changing the lender's identity to Bank A.

Journal entries

1) To record derecognition of financial assets

As there was an effective transfer of risk and rewards to transferee and transferor has no recourse to the loans, that part of the loan receivable will be derecognised.

	Amount (RM)	Accounting Code
DR Cash	500,000,000	A0113XXX
DR Loss on disposal	50,000,000	B05543XX
CR Loans and accounts receivable	550,000,000	A042XXX

Where loan notes were issued in exchange of the block of loans purchased, the loan notes will be recognised as a financial asset value at book value of the asset exchanged.

On derecognition of a financial assets in its entity, the difference between the carrying amount and sum of:

- The consideration received;
- Any cumulative gain or loss recognised in other comprehensive income; and
- Is recognized in surplus or deficit.

FINANCIAL PERFORMANCE AND RELATED NOTES

20.0 REVENUE

Introduction

20.1 This chapter covers the following matters:

- Types of revenue
- Recognition and measurement
- Disclosures

Types of Revenue

20.2 Revenue is defined by 2 main categories – exchange revenue and non-exchange revenue.

Exchange Revenue

20.3 In accordance to MPSAS 9 - exchange revenue comes from transactions where there is an exchange of approximately equal value, for example:

- The rendering of services
- The sale of goods
- Interest
- Royalties
- Dividends
- Rental

Non Exchange Revenue

20.4 In accordance to MPSAS 23 - Revenue from non exchange transactions, non exchange revenue is recognized when an entity receives resources and provide no or nominal consideration directly in return. For example, collection of taxes, fines and penalties.

20.5 There is a further group of non exchange transactions where the entity may provide some consideration directly in return for the resources received but the consideration does not approximate the fair value of the resources received. In these cases, the entity determines whether there is a combination of exchange and non exchange transaction and examines the substance of the transaction. For example, a hospital provides service for a nominal consideration, where the transaction is conducted at a subsidized price, a price not equating to the fair value of the goods sold, then that transactions falls within the definition of a non exchange transaction.

20.6 Non exchange revenue mainly comprises of:

- Income tax
- Consumption tax
- Stamp duty
- Property tax
- Quit rent assessment
- Custom duties
- Excise duties
- Miscellaneous indirect taxes
- Fines and penalties
- Contributions and compensation from foreign countries and local contributors
- Licenses, registration fees and permits
- Public service

20.0 REVENUE (CONTINUED)

Recognition and measurement

Exchange revenue recognition

Type of Revenue	Timing for Recognition
Rendering of services Examples: • Housing • School transport • Management of toll roads • Processing of court cases • Admission fee	(a) When the amount of revenue can be measured reliably (b) It is probable that the economic benefits or service potential associated with the transaction will flow to the entity (c) The stage of completion of the transaction at the reporting date can be measured reliably (d) The costs incurred for the transaction and the costs to complete the transaction can be measured reliably
Sales of goods	(a) When the entity has transferred to the purchaser the significant risks and rewards of ownership of the goods (b) The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold (c) The amount of revenue can be measured reliably (d) It is probable that the economic benefits or service potential associated with the transaction will flow to the entity (e) The cost incurred or to be incurred in respect of the transaction can be measured reliably
Interest (using effective interest rate - EIR)	On a time proportion basis that takes into account the effective yield of the asset. Refer to Scenario A.2 for determination of EIR.
Royalties Examples: • Exploration of oil and gas • Timber concession	Based on the substance of the agreement.
Dividends	When shareholder's or the entity's right to receive payment is established.
Rentals	On straight line basis over the lease term, where FGOM acts as a lessor.

20.0 REVENUE (CONTINUED)

Non exchange revenue recognition

Type of Revenue	Timing for recognition
Income tax – Examples: • Corporate income tax • Individual income tax • Petroleum income tax	Recognized by reference to the earning of assessable income by the taxpayers. Income tax deductions received through the Pay as You Earn is recognized at the point of receipt.
Consumption tax Examples: • Sales tax • Services tax • Goods and services tax	Sales tax – Point of sale of taxable goods and services. Services tax – Point of payment receipt on taxable goods and services. Goods and services tax – Recognized upon declaration by the taxpayer.
Stamp Duty	Point of collection of the revenue.
Property Tax	Point of occurrence of taxable event.
Quit rent assessment	Point of occurrence of taxable event.
Custom duties Examples: • Export and import duties	Point of the movement of dutiable goods across custom boundaries and custom controlled warehouses.
Excise duties Examples: • Tobacco • Vehicles produced locally	Point of occurrence of taxable events being movement of dutiable goods. Recognized when the vehicles are sold. If not sold after 4th year of removal from manufacturing plant, vehicles are deemed as sold and excise duties shall be accrued as a receivable.
Miscellaneous indirect taxes Examples: • Levies	Levy for agriculture produce – Point of declaration. Levy for vehicle leaving and entering Malaysia – Point of levy imposed and received.
Fines and penalties	(a) Point of fine/penalty being imposed: i. Penalty for late payment of tax imposed by Inland Revenue Board. ii. Penalty for late payment of assessment imposed by the relevant authorities. (b) Traffic fine. When payment is received and not when the fine is imposed because the amount of fines cannot be reliably measured in view of the various discount/waiver.
Contributions and compensation from foreign countries and local contributors Examples: • Gifts and donations	Point of future economic benefits or service potential flows to the entity and the fair value can be measured reliably, e.g. when the amount is pledged, memorandum of understanding.
Licenses, registration fees and permit Examples: (c) Visa (d) Passport (e) Birth/Death Certificate	Point of licenses and permits issued
Public Service	Where service is rendered

20.0 REVENUE (CONTINUED)

Measurement (non exchange and exchange transaction)

20.7 Revenue shall be measured at the fair value of the consideration received or receivable.

Disclosure Requirements

20.8 Revenues are to be recorded on the statement of financial performance.

20.9 An entity shall disclose for non-exchange transactions:

(a) The amount of revenue from non-exchange transactions recognized during the period by major classes showing separately:
- Taxes, showing separately major classes of taxes; and
- Transfers, showing separately major classes of transfer revenue.

(b) The amount of receivables recognized in respect of non-exchange revenue;
(c) The amount of liabilities recognized in respect of transferred assets subject to conditions;
(d) The amount of liabilities recognized in respect of concessionary loans that are subject to conditions on transferred assets
(e) The amount of assets recognized that are subject to restrictions and the nature of those restrictions;
(f) The existence and amounts of any advance receipts in respect of non-exchange transactions; and
(g) The amount of any liabilities forgiven.
(h) The accounting policies adopted for the recognition of revenue from non-exchange transactions;
(i) For major classes of revenue from non-exchange transactions, the basis on which the fair value of inflowing resources was measured;
(j) For major classes of taxation revenue that the entity cannot measure reliably during the period in which the taxable event occurs, information about the nature of the tax; and
(k) The nature and type of major classes of bequests, gifts, and donations, showing separately major classes of goods in-kind received.

20.10 An entity shall disclose for exchange transactions:

(a) The accounting policies adopted for the recognition of revenue, including the methods adopted to determine the stage of completion of transactions involving the rendering of services;
(b) The amount of each significant category of revenue recognized during the period, including revenue arising from:
- The rendering of services;
- The sale of goods;
- Interest;
- Royalties; and
- Dividends or similar distributions; and

(c) The amount of revenue arising from exchanges of goods or services included in each significant category of revenue.

References

- MPSAS 9 – Revenue from Exchange Transactions
- MPSAS 23 – Revenue from Non Exchange Transactions

20.0 REVENUE (CONTINUED)

Scenario A -Exchange Revenue Transactions

Scenario A.1 - Recognition of revenue for sale of goods to external party

An entity sells information products to an outside party for RM1,500.

Journal entries

1) An entity delivered information products to an outside party for RM1,500

At this point the entity should recognize the revenue since the amount is known and the risks and rewards of ownership have been transferred to the buyer and the seller has completed all significant acts. Once the goods have been provided, the revenue should be recorded in the entity's books.

A receivable must be set up to record the amount to be received by the outside party. Where an invoice has not been issued, an accrued receivable for an estimated amount should be set up. This accrual can be reversed in the next period before the invoice is issued.

	Amount (RM)	Accounting Code
DR Accounts receivable	1,500	A03731XX
CR Non tax revenue - Sales of goods	1,500	H02731XX

2) An entity received cash for the information products delivered to an outside party for RM1,500.

When cash is received from the outside party, the accounts receivable is reversed and cash account is debited.

	Amount (RM)	Accounting Code
DR Cash	1,500	A0113XXX
CR Accounts receivable	1,500	A03731XX

20.0 REVENUE (CONTINUED)

Scenario A.2 - Accruing interest revenue using the effective interest rate

An entity purchases a 5 year RM100,000 bond at 9% when the market rate of interest is 8%. The fair value of the bond amounts to RM104,100.

Journal entries

1) To record initial bond purchase

Bond receivable is created upon the bond purchase. The difference between the market rate and bond interest rate results in a bond premium on bonds receivable of RM4,100.

	Amount (RM)	Accounting Code
DR Bonds receivable	100,000	A131XXX
DR Premium on bonds receivable	4,100	A136XXXX
CR Cash	104,100	A0112XXX

2) To record bi-yearly interest revenue receipt and interest revenue recognition

The bond premium of (RM104,100 – RM100,000 = 4,100) RM4,100 is amortised as interest revenue over the life of the bond. The table below shows the detailed calculation:

A	B	C	D	E	F	G
Date	Interest receipt stated 4.5 x Face (9%/2)	Interest receipt Market 4% x Previous BV in G (8%/2)	Amortisa-tion of Bond Premium (C minus B)	Debit balance in Bond Premium Account	Debit balance in Bonds Receivable Account	Book value (BV) of the Bond F plus E
	Debit cash (RM)	Credit interest revenue (RM)	Debit Bond Premium (RM)	(RM)	(RM)	(RM)
Jan 1, 2013				4,100	100,000	104,100
Jun 30, 2013	4,500	4,164	336	3,764	100,000	103,764
Dec 31, 2013	4,500	4,151	(349)	3,415	100,000	103,415
Jun 30, 2014	4,500	4,137	(363)	3,052	100,000	103,052
Dec 31, 2014	4,500	4,122	(378)	2,674	100,000	102,674
Jun 30, 2015	4,500	4,107	(393)	2,281	100,000	102,281
Dec 31, 2015	4,500	4,091	(409)	1,872	100,000	101,872
Jun 30,2016	4,500	4,075	(425)	1,447	100,000	101,447
Dec 31,2016	4,500	4,058	(442)	1,005	100,000	101,005
Jun 30,2017	4,500	4,040	(460)	545	100,000	100,545
Dec 31,2017	4,500	3,955	(545)	0	100,000	100,000
Total	**45,000**	**40,900**	**(4,100)**			

The first interest revenue on 30 June 2013 of RM4,500 sees an interest revenue recognition of RM4,164. The remaining RM336 reduces the provision on bonds receivable account.

	Amount (RM)	Accounting Code
DR Cash	4,500	A0113XXX
CR Interest revenue	4,164	H0275XXX
CR Premium on bond receivable	336	A136XXXX

20.0 REVENUE (CONTINUED)

Scenario B - Non Exchange Revenue Transactions

Scenario B.1 - Recognition, receipts and refund of corporate/individual tax

On 28 November 2012, Company A submits tax estimate to Inland Revenue Board of Malaysia for the financial year of 2013. The income tax estimate amounts to RM150,000. On 10 February 2013, Company A remits payment of RM12,500 (RM150,000 /12 months). Subsequent to that, Company A remits monthly payment of RM12,500 on the 10th of each month in 2013.

Journal entries

1) To record the remittance of tax instalment payment of RM12,500 on 10 February 2013 and subsequently 10th of each month in 2013

When cash payments are received from Company A, cash is debited and the revenue is recognized accordingly. The journal entries for the cash payment on the 10th of subsequent months are same as above. Income tax deductions received through the Pay As You Earn scheme shall be recognized as revenue at the point of receipt.

	Amount (RM)	Accounting Code
DR Cash	12,500	A0113XXX
CR Tax revenue	12,500	H01611XX

2) To record the recognition of potential refunds of overpayment or underpayment of tax

When the amount of actual tax payment is known upon receipt of the tax submission, the Inland Revenue Board of Malaysia will assess whether there is an over or underpayment of tax.

a) Recognition of over payment

At the end of the financial period, Company A's actual tax payment is RM125,000. Within the financial period of 2013, Company A submits form and elects for refund of tax payment. Inland Revenue Board of Malaysia proceeds to refund the income tax payment of RM25,000.

	Amount (RM)	Accounting Code
DR Tax revenue	25,000	H0161102
CR Tax refund fund	25,000	E0211727

To record the refund of overpayment of tax

When taxpayer submits form and elects for refund of tax payment, the Inland Revenue Board will make payment by crediting cash and debiting tax refund fund.

	Amount (RM)	Accounting Code
DR Tax refund fund	25,000	E0211727
CR Cash	25,000	A0112XXX

20.0 REVENUE (CONTINUED)

Journal entries

b) Recognition of under payment

At the end of the financial period, Company A's actual tax payment is RM170,000. Within the financial period of 2013, Company A submits form and agrees to make further tax payment of RM20,000.

	Amount (RM)	Accounting Code
DR Tax receivable	20,000	A02611XX
CR Tax revenue	20,000	H0161102

To record the receipt of underpayment of tax in current financial year

When taxpayer submits forms, agrees and make payments, the Inland Revenue Board will recognise this eventual cash receipt as tax receivable account accordingly.

	Amount (RM)	Accounting Code
DR Cash	20,000	A0113XXX
CR Tax receivable	20,000	A02611XX

Scenario B.2 - Recognition of quit rent assessment revenue

Land authority issues a bill for quit rent amounting to RM10,000. The entity has yet to receive quit rent assessment payment.

The individual involved subsequently make a cash payment.

Journal entries

1) To record the quit rent assessment revenue

The land authority should recognize the revenue since the amount is known and billed and there is certainty on the receivable. A receivable is created to record the amount to be received by the individual.

	Amount (RM)	Accounting Code
DR Tax receivable	10,000	A02911XX
CR Tax revenue	10,000	H01911XX

2) To record the cash received for quit rent assessment

The land authority reduces the tax receivable account accordingly.

	Amount (RM)	Accounting Code
DR Cash	10,000	A0113XXX
CR Tax receivable	10,000	A02911XX

20.0 REVENUE (CONTINUED)

Scenario B.3 - Recognition of revenue for penalty on late payment of corporate tax

Company A is required to remit monthly payment of RM12,500 starting 10 of January 2013.As at end of the financial year of 2013, Company A has failed to remit any monthly payments. Company A incurred a penalty on late payment of corporate tax amounting to RM2,500. Company A subsequently made full payment of the penalty.

Journal entries

1) To record the penalty incurred for late payment of corporate tax

Inland Revenue Board will recognize a penalty amounting to RM2,500, the penalty incurred will be recognized as income tax receivable and also credited as income tax revenue.

	Amount (RM)	Accounting Code
DR Penalty receivable	2,500	A02761XX
CR Non tax revenue-penalty	2,500	H01761XX

2) To record the cash received for the penalty incurred

When cash is received, revenue is recognized and the cash account is debited.

	Amount (RM)	Accounting Code
DR Cash	2,500	A0113XXX
CR Penalty receivable	2,500	A02761XX

20.0 REVENUE (CONTINUED)

Scenario B.4 - Receipt of cash for summon payment

As at 15 June 2013, individual A commits a traffic offence and was issued a summon by the traffic officer. The summon was due for payment immediately amounting to RM100. However, individual A only remitted summon payment on 1 August 2013. Since the payment is still within the stipulated time period, no penalties are incurred.

Journal entries

1) To record the cash in hand prior to cash banked in

The summon payment received is recognised as cash in hand at the point of receipt. Summon is recognised as revenue when payment is received and not when summon is issued.

	Amount (RM)	Accounting Code
DR Cash in hand	100	A0122XXX
CR Non tax revenue- fines and penalties	100	H01761XX

2) To record the cash in hand deposited in bank

When the cash in hand is deposited in bank, the cash in hand account is credited and the cash in bank account is debited.

	Amount (RM)	Accounting Code
DR Cash	100	A0113XXX
CR Cash in hand	100	A0122XXX

20.0 REVENUE (CONTINUED)

Scenario B.5 - Recognition of deposit as revenue

There are scenarios that result in recognition of deposit as revenue. These are three examples:

(a) For cheques and electronic funds transfer cancellation, deposits that are long overdue after 6 months are recognized as revenue.
(b) For other refundable deposits (excluding cheque and electronic funds transfer cancellation), the deposit will be gazette once it is overdue for more than 1 year. If the deposits remained unclaimed after gazette for more than 3 months, the refundable deposits will be recognized as revenue.
(c) The vendor failed to abide by the terms and conditions of the contract. As a result, its deposits are being forfeited. The forfeited deposits will be recognized as revenue.

The point of recognition of revenue for the above scenarios are different, however the journal entries to recognize revenue for the above scenarios are the same. The journal entries below illustrate scenario C where the vendor's deposits are forfeited but will be applicable to the other scenarios also.

A vendor failed to finish the construction of a public project. As per a clause in the agreement, the deposit remitted by the vendor will be forfeited should the vendor failed to abide by the conditions stated. The deposit forfeited amounts to RM2,000.

Journal entries

1) To record the revenue recognized from confiscated deposit

The deposit confiscated will be recognized as revenue and the deposit account is reduced by that amount.

	Amount (RM)	Accounting Code
DR Liability – Deposits	2,000	L1111XXX
CR Revenue	2,000	H01761XX

20.0 REVENUE (CONTINUED)

Scenario B.6 - Recognition of excise duties revenue

An entity manufactures national cars locally. The entity starts the distribution of car to showrooms and to various sales agents. Each national car has a selling price of RM50,000. The entity distributed 100 cars to 2 showrooms on 1 January 20X1 and 100 cars to 10 sales agents.

As at 31 December 20X1, sales agents sold all 100 cars. The showrooms were only able to sell 20 cars. As at 31 December 20X4, there was a balance of 15 unsold cars. Assume excise duties to be 10%, payable to FGOM.

Vehicles that are produced locally will recognise excise duties as revenues when vehicles are sold and not when the vehicles leave the factory. Excise duties shall be accrued as receivable at the end of 4th year after vehicles leave the factory even though not sold.

Journal entries

1) To record excise tax on cars sold as at 31 December 20X1

Total number of cars sold were 120 and hence total of RM6 million attracts the 10% excise duties and is received by FGOM. This is recognised as tax revenue.

	Amount (RM)	Accounting Code
DR Cash	600,000	A0113XXX
CR Tax revenue	600,000	H01623XX

2) To record excise tax receivable on 31 December 20X4

Total number of unsold cars after point of leaving factory stands at 15 and hence total of RM750,000 attracts 10% excise duties as receivable. This receivable is recognised as tax revenue.

	Amount (RM)	Accounting Code
DR Account receivable	75,000	A02623XX
CR Tax revenue	75,000	H01623XX

When tax amounts are received, account receivable and cash account are updated accordingly.

20.0 REVENUE (CONTINUED)

Journal entries

3) To record excise duty exemptions on unsold cars granted by authorities

(a) A full application was made to authorities to exempt manufacturer from excise duties payment. When approved by authorities, the excise duties receivable and revenue recognised is reversed.

	Amount (RM)	Accounting Code
DR Tax revenue	75,000	H01623XX
CR Account receivable	75,000	A02623XX

(b) A full application was made and authorities provided only partial approval on exemption amounting to RM35,000.

Assume full settlement of excise duties after journal entry 2 was entered before exemption approval was granted.

	Amount (RM)	Accounting Code
DR Cash	75,000	A0113XXX
CR Account receivable	75,000	A02623XX

Reversal of partially recognised revenue and refund is triggered once authorities grant exemption approval.

	Amount (RM)	Accounting Code
DR Revenue	35,000	B05511XX
CR Cash – refund	35,000	A0112XXX

20.0 REVENUE (CONTINUED)

Scenario B.7 - Recognition of deferred import duties revenue

A petroleum company makes an advance payment of import duty for purposes of oil importations via a road oil tanker from Singapore via customs entry point. The advance payment is an amount equal to the estimated import duty. For purpose of this scenario, the advance payment has been estimated at RM500,000. This amount was paid beginning of January 20x2.

When each importation takes place, the import duty to be paid is reversed from the advance payment received from petroleum company. For purpose of this scenario, each oil importation via a road oil tanker is estimated at RM45,000. During the month of January 20x2, a total of 10 oil importations crossed customs entry point from Singapore.

The petroleum company also tops up advance payment on a monthly basis or whenever the balance of the advance payment falls below the agreed threshold.

Journal entries

1) To record advance payment received beginning January 20x2

	Amount (RM)	Accounting Code
DR Cash	500,000	A0113XXX
CR Deferred revenue – import duties	500,000	L02621XX

Advance payment received is recognised as deferred revenue.

2) To record recognition of import duties as revenue during the month of January 20x2

Upon occurrence of oil importations, an equivalent revenue of RM450,000 (RM45,000 x 10 importations) is reversed from deferred revenue account and recognised as revenue in current year surplus or deficit.

	Amount (RM)	Accounting Code
DR Deferred revenue – import duties	450,000	L02621XX
CR Import duties revenue	450,000	H01621XX

3) To record subsequent advance payment received beginning February 20x2

A follow on payment of RM500,000 was received from petroleum company.

	Amount (RM)	Accounting Code
DR Cash	500,000	A0113XXX
CR Deferred revenue – import duties	500,000	L02621XX

Balance in deferred revenue account beginning February 20x2 totals to RM550,000 after taking into account journal 2 above.

20.0 REVENUE (CONTINUED)

Scenario B.8 -Recognition of tax refundable or tax receivable at year end

FGOM financial period is from 1 January 20X2 to 31 December 20X2. The Inland Revenue Board of Malaysia receives tax estimates from tax payers by 31 January 20X2 and actual tax returns are only due to be submitted on 30 July 20X3.

At 31 December 20X2, Inland Revenue Board will be required to make provision for any tax refund (from tax over payment) or accrue receivable (from unpaid tax).

Inland Revenue Board makes provision and/or accruals of tax receivable based on tax collection to date. Inland Revenue Board decides to make a provision for tax refund of RM400,000 and a tax accrual amounting to RM200,000.

Journal entries

1) To record the provision for tax refund at 31 December 20X2

At year end, when it is determined that there is a possibility of tax refund and the amount can be reliably estimated, the amount will be recognized as provision for tax refund.

	Amount (RM)	Accounting Code
DR Tax revenue	400,000	H01611XX
CR Provision for tax refund	400,000	E0211727

2) To record the accrual of tax receivables at 31 December 20X2

At year end, when it is determined that there is a probable inflow of economic benefits relating to financial period 20X2 and the amount can be reliably estimated, the receivables are accrued at year end.

	Amount (RM)	Accounting Code
DR Tax receivable	200,000	A02611XX
CR Tax revenue	200,000	H01611XX

21.0 EMPLOYEE BENEFITS

Introduction

21.1 This chapter covers the following matters:

- Types of benefits
- Initial recognitions and measurement
- Subsequent measurement to initial recognition
- Disclosures

Types of benefits

Short term employee benefits

21.2 Short term employee benefits include items such as:

(a) Wages, salaries and social security contributions;
(b) Short-term compensated absences (such as paid annual leave and paid sick leave) where the absences are expected to occur within twelve months after the end of the period in which the employees render the related employee service;
(c) Performance related bonuses and profit-sharing payable within twelve months after the end of the period in which the employees render the related service; and
(d) Non-monetary benefits (such as medical care, housing, cars and free or subsidized goods or services) for current employees.

Long term employee benefits

21.3 Long term employee benefits are employee benefits (other than post-employment benefits) and termination benefits that are due to be settled more than 12 months after the end of the period in which the employee renders the services.

Post-employment benefits

21.4 Post-employment benefits include, for example:

(a) Retirement benefits, such as pensions, gratuity and unutilised carry forward leave capped to 150 days;
(b) Other post-employment benefits, such as post-employment life insurance and post-employment medical care.

21.5 Arrangements whereby an entity provides post-employment benefits are post-employment benefit plans. Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan as derived from its principal terms and conditions.

Initial recognitions and measurements of benefits

Short term employee benefits

21.6 Accounting for wages and salaries is generally straightforward. A liability and an expense (unless capitalisation is appropriate) are recognized when an employee has rendered services. Capitalisation of employee benefits as part of an asset is dealt with in MPSAS 12 – Inventories, MPSAS 17 – Property plant and equipment and MPSAS 31 – Intangible assets.

21.0 EMPLOYEE BENEFITS (CONTINUED)

21.7 Other short term compensations, bonuses and arrangements are also straightforward. A liability and an expense (unless capitalisation is permitted as described above) are recognized when the reporting entity has a present legal or constructive obligation to make payments as a result of past events and a reliable estimate can be made of the payable amount.

21.8 A reliable estimate can be made when and only when:

(a) The formal terms of bonus plans or other arrangements contain a formula for determining the payable amount
(b) Payable amount is determined before the financial statements are authorised for issue
(c) Past practice that gives clear evidence on the entity constructive obligation on its payable amount.

21.9 Compensated absences can be accumulating (i.e. carried forward leave that can be used in future periods) and non-accumulating (maternity leave, jury service, sick leave) type of holiday benefits in nature.

21.10 Where benefit is accumulating and earned over time and capable of being carried forward, the reporting entity should provide for the expected cost. On the other hand, where benefit is non-accumulating, the reporting entity should not recognize liability or expense until the absence occurs.

21.11 Non-monetary benefits (including housing, cars and free or subsidised goods/services) should be recognized according to the same principles as benefits payable in cash. The amounts are recognized as liability and an expense should be measured at the cost to the employer providing the benefit.

21.12 The entity shall recognize the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, an entity shall recognize that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or cash refunds.

Long term employee benefits

21.13 The measurement of long term employee benefits is not usually subject to the same degree of uncertainty as the measurement of post- employment benefits. Its method differs from the accounting required for post-employment benefits as follow:

(a) Actuarial gains and losses are recognized immediately
(b) All past service cost are recognized immediately.

21.14 The amount recognized as a liability for other long-term employee benefits shall be the net total of the following amounts:

(a) The present value of the defined benefit obligation at the reporting date. An entity shall use the ‘projected unit credit method’ to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost.
(b) Minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

21.0 EMPLOYEE BENEFITS (CONTINUED)

21.15 The 'projected unit credit method' (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Post-employment benefits

21.16 In order to be classified as a defined contribution plan, a post-employment benefit plan must require the entity to pay fixed contributions into a separate entity.

21.17 Under a defined contribution plan:

(a) The entity's constructive obligation is limited to the amount that it agrees to contribute to the fund. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an entity (and perhaps also the employee) to a post-employment benefit plan, together with investment returns arising from the contributions; and
(b) In consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall on the employee.

21.18 Under a defined benefit plan:

(a) The entity's obligation is to provide the agreed benefits to current and former employees; and
(b) Actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the entity. If actuarial or investment experience is worse than expected, the entity's obligation may be increased.

21.19 The FGOM follows a defined benefit plan for its post-employment benefits. Accounting by an entity for defined benefit plans involves the following steps:

(a) Using actuarial techniques to make a reliable estimate of the amount of benefit that employees have earned in return for their service in the current and prior periods. This requires an entity to determine how much benefit is attributable to the current and prior periods and to make estimates (actuarial assumptions) about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs) that will influence the cost of the benefit;
(b) Discounting that benefit using the Projected Unit Credit Method in order to determine the present value of the defined benefit obligation and the current service cost;
(c) Determining the fair value of any plan assets;
(d) Determining the total amount of actuarial gains and losses and the amount of those actuarial gains and losses to be recognized;
(e) Where a plan has been introduced or changed, determining the resulting past service cost; and
(f) Where a plan has been curtailed or settled, determining the resulting gain or loss.

Subsequent recognition

21.20 Actuarial gains and losses arising from adjustments and changes in actuarial assumptions are charged or credited to accumulated surplus or deficit in the period in which they arise.

21.21 An entity needs to determine the present value of a defined benefit obligation with sufficient regularity that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the financial position date.

21.0 EMPLOYEE BENEFITS (CONTINUED)

Disclosure requirements

Short term & long term employee benefits

21.22 MPSAS 25 – Employee benefits, does not require specific disclosures about long term employee benefits, other Standards may require disclosures; for example, where the expense resulting from such benefits is material and so would require disclosure in accordance with MPSAS 1 – Presentation of Financial Statements. When required by MPSAS 20 – Related Party Disclosures, an entity discloses information about other long-term employee benefits for key management personnel.

For termination benefits

21.23 Where there is uncertainty about the number of employees who will accept an offer of termination benefits, a contingent liability exists.

21.24 As required by MPSAS 19 – Provisions, contingent liabilities and contingent assets, an entity discloses information about the contingent liability unless the possibility of an outflow in settlement is remote. As required by MPSAS 1 – Presentation of Financial Statements, an entity discloses the nature and amount of an expense if it is material. Termination benefits may result in an expense needing disclosure in order to comply with this requirement. Where required by MPSAS 20 – Related Party Disclosures, an entity discloses information about termination benefits for key management personnel.

Post-employment benefits

21.25 An entity shall disclose information that enables users of financial statements to evaluate the nature of its defined benefit plans and the financial effects of changes in those plans during the period. An entity shall disclose the following information about defined benefit plans:

(a) The entity's accounting policy for recognizing actuarial gains and losses;

(b) A general description of the type of plan;

(c) A reconciliation of opening and closing balances of the present value of the defined benefit obligation showing separately, if applicable, the effects during the period attributable to each of the following:
   (i) Current service cost;
   (ii) Interest cost;
   (iii) Contributions by plan participants;
   (iv) Actuarial gains and losses;
   (v) Foreign currency exchange rate changes on plans measured in a currency different from the entity's presentation currency;
   (vi) Benefits paid;
   (vii) Past service cost;
   (viii) Entity combinations;
   (ix) Curtailments; and
   (x) Settlements.

(d) An analysis of the defined benefit obligation into amounts arising from plans that are wholly unfunded and amounts arising from plans that are wholly or partly funded;

21.0 EMPLOYEE BENEFITS (CONTINUED)

(e) A reconciliation of the opening and closing balances of the fair value of plan assets and of the opening and closing balances of any reimbursement right recognized as an asset the effects during the period attributable to each of the following:
   - (i) Expected return on plan assets;
   - (ii) Actuarial gains and losses;
   - (iii) Foreign currency exchange rate changes on plans measured in a currency different from the entity's presentation currency;
   - (iv) Contributions by the employer;
   - (v) Contributions by plan participants;
   - (vi) Benefits paid;
   - (vii) Entity combinations; and
   - (viii) Settlements

(f) A reconciliation of the present value of the defined benefit obligation in (c) and the fair value of the plan assets in (e) to the assets and liabilities recognized in the statement of financial position, showing at least:
   - (i) The net actuarial gains or losses not recognized in the statement of financial position;
   - (ii) The past service cost not recognized in the statement of financial position;
   - (iii) Any amount not recognized as an asset, because of the limit wherein present value of economic benefits is not available
   - (iv) The fair value at the reporting date of any reimbursement right recognized as an asset (with a brief description of the link between the reimbursement right and the related obligation); and
   - (v) The other amounts recognized in the statement of financial position

(g) The total expense recognized in the statement of financial performance for each of the following, and the line item(s) in which they are included:
   - (i) Current service cost
   - (ii) Interest cost;
   - (iii) Expected return on plan assets;
   - (iv) Expected return on any reimbursement right recognized as an assets
   - (v) Actuarial gains and losses;
   - (vi) Past service cost;
   - (vii) The effect of any curtailment or settlement
   - (viii) The effect of the limit where present value of economic benefits is not available.

(h) The total amount recognized in the statement of changes in net assets/equity for each of the following:
   - (i) Actuarial gains and losses; and
   - (ii) The effect of the limit where present value of economic benefits is not available

(i) For entities that recognize actuarial gains and losses in the statement of changes in net assets/equity, the cumulative amount of actuarial gains and losses recognized in that statement;

(j) For each major category of plan assets, which shall include, but is not limited to, equity instruments, debt instruments, property, and all other assets, the percentage or amount that each major category constitutes of the fair value of the total plan assets;

(k) The amounts included in the fair value of plan assets for:
   - (i) Each category of the entity's own financial instruments; and
   - (ii) Any property occupied by, or other assets used by, the entity.

21.0 EMPLOYEE BENEFITS (CONTINUED)

(l) A narrative description of the basis used to determine the overall expected rate of return on assets, including the effect of the major categories of plan assets;

(m) The actual return on plan assets, as well as the actual return on any reimbursement rights recognized as an asset;

(n) The principal actuarial assumptions used as at the reporting date, including, when applicable:
  - (i) The discount rates;
  - (ii) The basis on which the discount rate has been determined;
  - (iii) The expected rates of return on any plan assets for the periods presented in the financial statements;
  - (iv) The expected rates of return for the periods presented in the financial statements on any reimbursement right recognized as an asset;
  - (v) The expected rates of salary increases (and of changes in an index or other variable specified in the formal or constructive terms of a plan as the basis for future benefit increases);
  - (vi) Medical cost trend rates; and
  - (vii) Any other material actuarial assumptions used.

  An entity shall disclose each actuarial assumption in absolute terms (for example, as an absolute percentage) and not just as a margin between different percentages or other variables:

(o) The effect of an increase of one percentage point and the effect of a decrease of one percentage point in the assumed medical cost trend rates on:
  - (i) The aggregate of the current service cost and interest cost components of net periodic post-employment medical costs; and
  - (ii) The accumulated post-employment benefit obligation for medical costs.

  For the purposes of this disclosure, all other assumptions shall be held constant. For plans operating in a high inflation environment, the disclosure shall be the effect of a percentage increase or decrease in the assumed medical cost trend rate of a significance similar to one percentage point in a low inflation environment;

(p) The amounts for the current annual period and previous four annual periods of:
  - (i) The present value of the defined benefit obligation, the fair value of the plan assets and the surplus or deficit in the plan; and
  - (ii) The experience adjustments arising on:
    - – The plan liabilities expressed either as (1) an amount or (2) a percentage of the plan liabilities at the reporting date; and
    - – The plan assets expressed either as (1) an amount or (2) a percentage of the plan assets at the reporting date.

(q) The employer's best estimate, as soon as it can reasonably be determined, of contributions expected to be paid to the employee.

References

- MPSAS 25 – Employee Benefits

21.0 EMPLOYEE BENEFITS (CONTINUED)

Scenario A - Staff claims

Scenario A.1 - Short term employee benefits: monetary staff claims

An entity reimbursed its staff's mobile phone bill based on phone bills submitted. A staff submits phone bill for the month amounting to RM1,000.

Journal entries

1) To record staff claims on monetary benefit

The cost of providing this monetary benefit is recognised as a staff benefit expense, measured at cost to the employer.

	Amount (RM)	Accounting Code
DR Staff benefit expense	1,000	B01151XX
CR Cash	1,000	A0112XXX

Scenario A.2 - Short term employee benefits: non-monetary staff claims

An entity provides its staff a mobile phone for use upon them joining the entity. Each mobile phone costs RM2,000.

Journal entries

1) To record staff claim on non-monetary benefit

The cost of providing non-monetary benefits (including mobile phones, tablets etc) should be recognised according to policies in place whereby staff may be required to return non-monetary benefit upon termination of service.

Staff is not required to return non-monetary asset i.e. the mobile phone received, thus the asset is expensed off.

	Amount (RM)	Accounting Code
DR Staff benefit expense	2,000	B01151XX
CR Cash	2,000	A0112XXX

21.0 EMPLOYEE BENEFITS (CONTINUED)

Scenario B - Short term employee benefits: refunds from staff

An entity has been paying staff housing allowance of RM1,000 per month since 01 January 20X3. A change in entity staff benefit policy was introduced on 1 March 20X3 whereby monthly housing allowance dropped to RM800. Entity has been paying staff RM1,000 and realized the overpayment in December 20X3. Entity overpaid housing allowance from March – December by RM200 per month amounting to RM2,000 (RM200 x 10 months).

Journal entries

1) To record the housing allowance paid as 31 December 20X3

The cost of monthly staff housing allowance incurred until 31 December 20X3 is recorded as an expense.

	Amount (RM)	Accounting Code
DR Staff housing allowance	12,000	B01121XX
CR Cash	12,000	A0112XXX

2) To record the refund of housing allowance overpaid to staff from March 20X3 to December 20X3 via a lower staff allowance paid in current or subsequent month

The cost of monthly staff housing allowance incurred and overpaid until 31 December 20X3 is recovered via current or subsequent month's lower staff allowance payment.

	Amount (RM)	Accounting Code
DR Cash (via lower payment)	2,000	A0113XXX
CR Staff housing allowance (net allowance)	2,000	B01121XX

21.0 EMPLOYEE BENEFITS (CONTINUED)

Scenario C - Post-employment benefits

An entity is a member of an employer-sponsored defined benefit pension plan. At year ended 20X2, the present value of the defined benefit obligation was RM15,000,000 while the market value of plan assets totalled RM14,250,000.

During the year ended 30 June 20X3, the entity paid out benefit to retirees (i.e. for pension gratuity, medical, etc…) amounting to RM500,000 from the pension liability. This will have a direct impact of reducing pension plans asset and liability.

At the same time, the company contributed RM400,000 towards its pension plan. The estimated current service cost is RM700,000 and the estimated interest cost is RM750,000.

At 30 June 20X3, an actuary determined that the present value of the defined benefit obligation as RM16,250,000 (an illustrative actuary report template is included below for reference). The market value of the plan assets was measured as RM15,200,000.

An illustrative extract of an actuarial summary report (RM):

Statement of Financial Performance	20X3
Profit and loss account	
Current service cost	700,000
Interest cost	750,000
Total pension cost	**1,450,000**

Statement of Financial Position	20X3
Present value of wholly or partly funded obligations / Benefit obligation at year end	16,250,000
Fair value of plan assets	15,200,000
Deficit (surplus) for funded plan (amount recognised as pension liability)	**10,150,000**

Movement of Benefit Obligation	20X3
Change in benefit obligation	
Opening balance	750,000
Current service cost	700,000
Interest cost	750,000
Deficit for funded plan	300,000
Actuarial (gain)/loss	-
Contribution paid from company	(400,000)
Return on plan asset	(1,050,000)
Closing balance	**1,050,000**

21.0 EMPLOYEE BENEFITS (CONTINUED)

Journal entries

1) To record the contribution paid out during 20X3 to pension plan

The contribution paid up RM400,000 in 20X3 would reduce the total liability balance.

	Amount (RM)	Accounting Code
DR Pension liability*	400,000	L0546XXX
CR Cash	400,000	A0112XXX

* Where there is no pension liability created, the contribution is expensed to the statement of financial performance.

2) To record pension expense during 20X3

The pension liability is increased by RM1,450,000 (including the estimated current service cost of RM700,000 and the estimated interest cost of RM750,000).

	Amount (RM)	Accounting Code
DR Pension expense	1,450,000	B0446XXX
CR Pension liability	1,450,000	L0546XXX

3) To record re-measurement of pension plan

a) To record pension liability

At year ended 20X3, pension liability is re-measured to RM16,250,000, being the present value of the defined benefit obligation. The carrying amount of the benefit obligation will need to be increased by RM300,000 after taking into accruing of current year service cost of RM700,000 and interest cost of RM750,000 plus RM500,000 of the pension payment paid out.

	Amount (RM)	Accounting Code
DR Pension expense	300,000	B0446XXX
CR Pension liability*	300,000	L0546XXX

Where the post-employment benefit fund is unfunded, i.e. no contribution is accrued, only entry (2) and (3) will be done.

b) To record pension liability

At year ended 20X3, pension asset is re-measured to RM15,200,000, being the fair value of the asset. The carrying amount of the asset will need to be increased by RM1,050,000 after taking into account pension contribution of RM400,000 plus RM500,000 of the pension payment paid out.

	Amount (RM)	Accounting Code
DR Pension asset*	1,050,000	L0546XXX
CR Pension expense	1,050,000,000	B0446XXX

* This is reflected on a net basis in the statement of financial position.

21.0 EMPLOYEE BENEFITS (CONTINUED)

Scenario D - Post employment benefit using projected unit method

An entity operates a defined benefit plan that pays a lump sum on termination of service of 1% of final salary for each year of service.

An employee joins the entity at the beginning of year 1 on a salary of RM50,000.
Salaries are assumed to increase at 7% per annum and the discount rate is 8%. It is assumed that the employee will retire after 5 years of service.

The following table shows how the defined benefit obligation builds up for this employee over the 5 years of service.

It is assumed that there are no changes in actuarial assumptions and the possibility that the employee may leave the entity before retiring is ignored.

Year	1	2	3	4	5
Estimated salary (7% growth)	50,000	53,500	57,245	61,255	65,540
Benefit attributed to each period (PCU)	655	655	655	655	655
Cumulative benefit payable	655	1,310	1,965	2,620	3,275
Opening obligation	0	482	1,041	1,686	2,428
Interest (8% on opening obligation)	0	39	83	135	195
Current service cost (discounted at 8%)	482	520	562	607	655
Closing obligation	482	1,041	1,686	2,428	3,277

At the end of year 5, the employee's final salary is RM65,540 (RM50,000*1.07^4).

The cumulative benefit earned at the end of 5 years is 1% of the final salary times 5 years of service (RM65,540*1%*5 = RM3,277).

The current year benefit earned in each of the 5 years is one-fifth of this (RM3,277/5 = RM655). This refers to the projected unit calculation method.

The projected unit credit method views each period of service as giving rise to an additional unit of benefit entitlement, with each unit being measured separately to build up the total obligation.

The current service cost is the present value of the benefit attributed to the current year. So in year 2, for example, the current service cost is RM520 (RM655/$(1.08)^3$).

21.0 EMPLOYEE BENEFITS (CONTINUED)

Journal Entries

1) To accrue current service cost in Year 1

Current year service cost at the present value of benefit attributed to the current year amounts to RM482.

	Amount (RM)	Accounting Code
DR Pension expense	482	B0446XXX
CR Pension liability	482	L0546XXX

2) To accrue current service cost in Year 3

The current service cost at the present value of benefit attributed to the current year amounts to RM645 (RM83 interest + RM562 current service cost). The closing obligation in Year 3 stands at RM1,686 which is the present value of benefits attributed to current and prior years service.

	Amount (RM)	Accounting Code
DR Pension expense	645	B0446XXX
CR Pension liability	645	L0546XXX

22.0 SEGMENT REPORTING

Introduction

22.1 This chapter covers the following matters:

- Types of segment reporting
- Policy guidance
- Disclosures

22.2 A segment is a distinguishable activity or group of activities of an entity for which it is appropriate to separately report financial information for the purpose of evaluating the entity's past performance in achieving its objectives and for making decisions about the future allocation of resources.

Types of segment reporting

<u>Segment reporting based on service lines/ functions</u>

22.3 Factors that will be considered in determining whether outputs (goods and services) are related and should be grouped as segments for financial reporting purposes include:

(a) The primary operating objectives of the entity and the goods, services and activities that relate to the achievement of each of those objectives and whether resources are allocated and budgeted on the basis of groups of goods and services;
(b) The nature of the goods or services provided or activities undertaken;
(c) The nature of the production process and/ or service delivery and distribution process or mechanism;
(d) The type of customer or consumer for the goods or services;
(e) Whether this reflects the way in which the entity is managed and financial information is reported to senior management and the governing board; and
(f) If applicable, the nature of the regulatory environment, (for example, department or statutory authority) or sector of government (for example finance sector, public utilities, or general government).

<u>Segment reporting based on geographical spread</u>

22.4 Alternatively, entity may be organized and report internally to the governing body and the senior manager on a regional basis—whether within or across national, state, local or other jurisdictional boundaries. Where this occurs the internal reporting system reflects a geographical segment structure. It may also be adopted if the management believes that an organisational structure based on regional devolution of responsibility better serves the objectives of the organisation.

22.5 Factors that will be considered in determining whether financial information should be reported on a geographical basis include:

(a) Similarity of economic, social and political conditions in different regions;
(b) Relationships between the primary objectives of the entity and the different regions;
(c) Whether service delivery characteristics and operating conditions differ in different regions;
(d) Whether this reflects the way in which the entity is managed and financial information is reported to senior managers and the governing board; and
(e) Special needs, skills or risks associated with operations in a particular area.

22.0 SEGMENT REPORTING (CONTINUED)

Multiple segmentation reporting

22.6 In some cases, an entity may report segment revenue, expense, assets and liabilities on the basis of more than one segment structure, for example by both service and geographical segments. Reporting on the basis of both service segments and geographical segments in the external financial statements often will provide useful information if the achievement of an entity's objectives is strongly affected both by the different products and services it provides and the different geographical areas to which those goods and services are provided.

22.7 If a segment is identified as a segment for the first time in the current period, prior period segment data that is presented for comparative purposes should be restated to reflect the newly reported segment as a separate segment, unless it is impracticable to do so.

22.8 The definitions of segment revenue, segment expense, segment assets, and segment liabilities include amounts of such items that are directly attributable to a segment and amounts of such items that can be allocated to a segment on a reasonable basis.

Disclosure requirements

22.9 The entity shall disclose segment information in the note to the financial statement. Segment information should be prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the consolidated group or entity.

22.10 Government departments and agencies are usually managed along service lines because this reflects the way in which major outputs are identified, their achievements monitored and their resource needs identified and budgeted.

22.11 An entity shall disclose:

(a) Total expense by segment
(b) Total revenue by segment
(c) Revenue from budget appropriation or similar allocation by segment
(d) Revenue from external sources (other than appropriation or similar allocation) by segment
(e) Revenue from transactions with other segments by segment
(f) Carrying amount of segment assets by segment
(g) Segment liabilities by segment
(h) Cost to acquire assets by segment
(i) Share of net surplus (deficit) of and investment in equity method associates or joint ventures by segment (if substantially all within a single segment)
(j) Reconciliation of revenue, expense, assets and liabilities by segment

22.12 Other disclosures:

(a) Basis of pricing inter-segment transfers and any changes therein
(b) Changes in segment accounting policies
(c) Types of products and services in each service segment
(d) Composition of each geographical segment
(e) If neither a service nor geographical basis of segmentation is adopted, the nature of the segments and activities encompassed by each segment

22.0 SEGMENT REPORTING (CONTINUED)

Reporting segment's financial performance

22.13 An entity's reporting period ends on 31 December, and the statement below illustrates the presentation of segment financial performance based on different functions within an education sector,

Schedule A: Information about segments of the Entity

Purpose of expenditure	Ministries					
	Finance		Education		Consolidated	
	20X1	20X0	20X1	20X0	20X1	20X0
	RM	RM	RM	RM	RM	RM
Segment Revenue						
Appropriation	xx	xx	xx	xx		
Fees from external sources	xx	xx	xx	xx		
Intersegment transfers	xx	xx	xx	xx		
Total Segment Revenue	xx	xx	xx	xx	xx	xx
Segment Expenses						
Salaries & wages	xx	xx	xx	xx		
Depreciation	xx	xx	xx	xx		
Other expenses	xx	xx	xx	xx		
Total Segment Expenses	xx	xx	xx	xx	xx	xx
Unallocated central expenses					xx	xx
Deficit from operating activities	xx	xx	xx	xx	xx	xx
Interest expense	xx	xx	xx	xx	xx	xx
Interest revenue	xx	xx	xx	xx	xx	xx
Share of net surpluses of associates	xx	xx	xx	xx	xx	xx
Surplus from Ordinary Activities	xx	xx	xx	xx	xx	xx
Extraordinary loss (uninsured flood damage)	xx	xx	xx	xx	xx	xx
Net Surplus	xx	xx	xx	xx	xx	xx
Other Information						
Segment assets	xx	xx	xx	xx	xx	xx
Investment in associates (equity method)	xx	xx	xx	xx	xx	xx
Unallocated central assets					xx	xx
Consolidated Total Assets	xx	xx	xx	xx	xx	xx
Segment liabilities	xx	xx	xx	xx	xx	xx
Unallocated corporate liabilities					xx	xx
Consolidated Total Liabilities	xx	xx	xx	xx	xx	xx
Capital Expenditure	xx	xx	xx	xx	xx	xx
Non-cash expense excluding depreciation	xx	xx	xx	xx	xx	xx
Non-cash revenue	xx	xx	xx	xx	xx	xx

References

- MPSAS 18 – Segment Reporting

OTHER RELATED CHAPTERS

23.0 ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ERRORS

Introduction

23.1 This chapter covers the requirements of MPSAS 3 – Accounting policies, changes in accounting estimates and errors, that shall be applied in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates, and correction of prior period errors.

CHANGES IN ACCOUNTING POLICIES

23.2 A change in accounting policy is:

(a) A change from one basis of accounting to another basis of accounting.
(b) A change in the accounting treatment, recognition, or measurement of a transaction, event, or condition within a basis of accounting.

23.3 Accounting policy shall be changed only if the change is required by MPSAS or if it results in the financial statements providing reliable and more relevant information about the effects of transactions, other events, and conditions of the entity's financial position, financial performance, or cash flows.

23.4 An entity shall account for a change in accounting policy resulting from the initial application of an MPSAS in accordance with the specific transitional provisions, if any, in that Standard.

23.5 When an entity changes an accounting policy upon initial application of an MPSAS that does not include specific transitional provisions applying to that change, or change an accounting policy voluntarily, it shall apply the change retrospectively.

23.6 A change in accounting policy shall be applied retrospectively, except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change or unless otherwise required under the transitional provision upon first time adoption of specific MPSASs.

23.7 When it is impracticable to determine the period-specific effects on one or more prior periods presented, the entity shall apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected component of net assets/equity for that period.

23.8 When it is impracticable to determine the cumulative effect of applying a new accounting policy to all prior periods, the entity shall adjust the comparative information to apply the new accounting policy prospectively from the earliest date practicable.

23.0 ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ERRORS (CONTINUED)

Disclosures

23.9 When initial application of an MPSAS (i) has an effect on the current period or any prior period, (ii) would have such an effect, except that it is impracticable to determine the amount of the adjustment, or (iii) might have an effect on future periods, an entity shall disclose:

(a) The title of the Standard;
(b) When applicable, that the change in accounting policy is made in accordance with its transitional provisions;
(c) The nature of the change in accounting policy;
(d) When applicable, a description of the transitional provisions;
(e) When applicable, the transitional provisions that might have an effect on future periods;
(f) For the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;
(g) The amount of the adjustment relating to periods before those presented, to the extent practicable; and
(h) If the required retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

23.0 ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ERRORS (CONTINUED)

Scenario A - Change in depreciation method

The entity bought an equipment on 1 January 20X2 at a cost of RM100,000. The details of the equipment are as per below:

	Amount
Cost	RM100,000
Useful life	5 years
Residual value	0
Yearly depreciation expense (straight line method)	RM20,000

The entity depreciates the equipment using the straight line depreciation method and recognises depreciation expense of RM10,000 for year ended 20X2. The Statement of Financial Position (Extract) and Statement of Financial Performance (Extract) are as per below:

Statement of Financial Position (Extract)	20X2 Amount (RM)
Property, plant and equipment	
- Cost	100,000
- Less: Accumulated depreciation	(20,000)
- Net book value	80,000

Statement of Financial Performance (Extract)	20X2 Amount (RM)
Revenue	120,000
Less: Depreciation expense	(20,000)
Net surplus	100,000

In year 20X3, the entity decides to change its depreciation method from straight line method to double declining/diminishing balance method due to significant change in the expected pattern of consumption of the equipment's future economic benefits. The depreciation rate is now accelerated to 40% (1 over 5 years useful life multiply by 2 i.e. 1/5 x 2). Using the double declining balance method, the depreciation amount that would be recognised on net book value will be as follows:

Year	Net book value (opening)	Depreciation %	Depreciation expense	Accumulated depreciation	Net book value (closing)
	-	40%	-	-	100,000
20X2	100,000	40%	40,000	40,000	60,000
20X3	60,000	40%	24,000	64,000	36,000
20X4	36,000	40%	14,400	78,400	21,600
20X5	21,600	40%	8,640	87,040	12,960
20X6	12,960	40%	5,184	92,224	7,776*

* At the end of 5 years, an assessment for impairment can be made to assess if carrying value is greater than recoverable service amount. Guidance on impairment accounting is detailed in Chapter 14 – Impairment of Assets.

23.0 ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ERRORS (CONTINUED)

Journal entries

1) To record the depreciation expense recognised in year 1 (20X2) under straight line method

The depreciation expense recognised will be debited as an expense and credit the accumulated depreciation account. The accumulated depreciation will reduce the net book value of the equipment.

	Amount (RM)	Accounting Code
DR Depreciation expense	20,000	B3135XXX
CR Accumulated deprecation	20,000	A3135XXX

2) To record the depreciation expense recognised in year 2 (20X3) under the double declining method and to restate the account balance for year 20X2

The depreciation expense recognised in year 20X3 using the double declining balance method will be in accordance to the calculation illustrated above.

	Amount (RM)	Accounting Code
DR Depreciation expense	24,000	B3135XXX
CR Accumulated depreciation	24,000	A3135XXX

Statement of Financial Position (Extract)	20X3 Amount (RM)	(Restated) 20X2 Amount (RM)	
Property, plant and equipment			
- cost	100,000	100,000	
- less: accumulated depreciation	64,000	40,000	(restated)
- net book value	36,000	60,000	(restated)

Statement of Financial Performance (Extract)	20X3 Amount (RM)	(Restated) 20X2 Amount (RM)	
Revenue	140,000	120,000	
Less: Depreciation expense	(24,000)	(40,000)	(restated)
Net surplus	116,000	80,000	(restated)

23.0 ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ERRORS (CONTINUED)

CHANGES IN ACCOUNTING ESTIMATES

23.10 As a result of the uncertainties inherent in delivering services, conducting trading, or other activities, many items in financial statements cannot be measured with precision but can only be estimated. Estimation involves judgments based on the latest available, reliable information. For example, estimates may be required of:

(a) Tax revenue due to government;
(b) Bad debts arising from uncollected taxes;
(c) Inventory obsolescence;
(d) The fair value of financial assets or financial liabilities;
(e) The useful lives of, or expected pattern of consumption of future economic benefits or service potential embodied in, depreciable assets, or the percentage completion of road construction;
(f) Warranty obligations; and
(g) Pension obligation.

23.11 An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error.

23.12 Changes shall be recognized prospectively by including it in the surplus and deficit in the period of change (if the change affects the period only), or the period of change and future periods (if the change affects both). Prospective recognition of the effect of a change in an accounting estimate means that the change is applied to transactions, other events, and conditions from the date of the change in estimate.

23.13 To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of net assets/ equity, it shall be recognized by adjusting the carrying amount of the related asset, liability, or net assets/ equity item in the period of change.

Disclosures

23.14 An entity shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect on future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate the effect.

Scenario A - Change in Estimate of Useful Life

Entity A purchased an asset on 1 January 20X0 for RM100,000 and the asset had an estimated useful life of 10 years and a residual value of nil. The entity has charged depreciation using the straight-line method at RM10,000 per annum. 4 years later, on 1 January 20X4, the asset's net book value is RM60,000, the asset's estimated life is reviewed and it is concluded that the asset will be useful for a another 4 years. In other words, its useful life is two years shorter than the initial estimated useful life. The company should amend the annual provision for depreciation to charge the unamortised cost (namely, RM60,000) over the revised remaining life of 4 years. The adjustment is made prospectively.

23.0 ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ERRORS (CONTINUED)

Scenario B - Change in Estimate of Residual Value

During the year ended 20X1, Entity A reviewed the residual value of one of its vehicles. The estimated useful economic life was 10 years, and has been depreciated for 5 years up to 20X1. The initial cost of the vehicle was RM100,000, and had an accumulated depreciation of RM40,000. The expected residual value of the vehicle has been revised from RM20,000 to zero and the remaining economic life of the asset remains the same (5 years).

Prior to 20X1, the vehicle cost is RM100,000, the useful life is 10 years, and the residual value is RM20,000. The annual depreciation expense is RM8000, being (100,000-20,000)/ 10 years. After 20X1, the residual value has been reviewed down to zero. The net book value of vehicle is RM60,000, and remaining useful life is 5 years. Hence, the annual depreciation expense has now increased to RM12,000, being (60,000 – 0)/ 5 years.

Scenario C - Changes in Basis of Tax Estimates

At a financial year end, Inland Revenue Board of Malaysia is required to estimate provision for tax refund or accrued tax receivable. Inland Revenue Board of Malaysia has been estimating provision for tax refund at 2% of the total tax payment received. However, analysis shows that 2% is not sufficient to capture the provision for tax refund and thus Inland Revenue Board of Malaysia increased the estimation percentage from 2% to 4%. This adjustment is applied prospectively. Starting from the year of revision of estimation percentage, Inland Revenue Board of Malaysia will recognise a higher provision for tax refund.

23.0 ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ERRORS (CONTINUED)

ERRORS

23.15 Errors can arise in respect of the recognition, measurement, presentation, or disclosure of elements of financial statements. Financial statements do not comply with MPSASs if they contain either material errors, or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance, or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are authorized for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period.

23.16 Material prior period errors shall be corrected retrospectively in the first set of financial statements authorized for issue after their discovery by:

(a) Restating the comparative amounts for prior period(s) presented in which the error occurred; or
(b) If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/ equity for the earliest prior period presented.

<u>Limitations of Retrospective Restatement</u>

23.17 A prior period error shall be corrected by retrospective restatement, except to the extent that it is impracticable to determine either the period specific effects or the cumulative effect of the error.

23.18 When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity shall restate the opening balances of assets, liabilities, and net assets/ equity for the earliest period for which retrospective restatement is practicable (which may be the current period).

23.19 When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the entity shall restate the comparative information to correct the error prospectively from the earliest date practicable.

<u>Disclosure requirements</u>

23.20 An entity shall disclose the following:

(a) The nature of the prior period error;
(b) For each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;
(c) The amount of the correction at the beginning of the earliest prior period presented; and
(d) If retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

Financial statements of subsequent periods need not repeat these disclosures.

23.0 ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ERRORS (CONTINUED)

Scenario A - Correction of Prior Period Accounting Error

An entity discovers that revenue from income taxes was incorrect. Income taxes of RM1,000 that should have been recognized in 20X1 were incorrectly omitted from 20X1 and recognized as revenue in 20X2 . The entity's accounting records for 20X2 show revenue from taxation of RM20,000 (including the RM1,000 taxation that should have been recognized in opening balances).

In 20X1, the entity reported:

	RM
Revenue from Taxation	10,000
User Charges	1,000
Other Operating Revenue	10,000
Total Revenue	21,000
Expenses	(2,000)
Surplus	19,000

The omission of taxation revenue in the previous year's financial statements represents a prior period accounting error which must be accounted for retrospectively in the financial statements. The entity shall adjust all comparative amounts presented in the current period's financial statements affected by the accounting error.

Public Sector Entity Statement of Financial Performance

	20X2	20X1 (Restated)
	(RM)	(RM)
Revenue from Taxation (Restated)	19,000	11,000
User Charges	1,000	1,000
Other Operating Revenue	10,000	10,000
Total Revenue	30,000	22,000
Expenses	(2,000)	(2,000)
Surplus	28,000	20,000

Public Sector Entity Statement of Changes In Net Assets / Equity

	Accumulated surplus(Restated)
	(RM)
Balance at 31 December 20X0 as previously reported	20,000
Surplus for the year ended 31 December 20X1 (restated)	20,000
Balance at 31 December 20X1 as restated	40,000
Surplus for the year ended 31 December 20X2	28,000
Closing for the year ended 31 December 20X2	68,000

23.0 ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ERRORS (CONTINUED)

Extract From Notes To Financial Statement

1. Revenue from taxation of RM1,000 was incorrectly omitted from the financial statements of 20X1. The financial statements of 20X1 have been restated to correct this error. The effect of the restatement on those financial statements is summarized below. There is no net effect in 20X2 closing balance.

Effect on 20X1	**RM**
Increase in Revenue	1,000
Increase in Surplus	1,000
Increase in Debtors	1,000
Increase in Net Assets	1,000

Reference

- MPSAS 3 – Accounting Policies, Changes in Accounting Estimates and Errors

24.0 EVENTS AFTER REPORTING DATE

Introduction

24.1 This chapter covers the following matters:

- Types of events
- Recognition
- Disclosures

24.2 Events after the reporting date are those events, both favorable and unfavorable, that occur between the reporting date and the date when the financial statements are authorized for issue.

24.3 The reporting date is the last day of the reporting period to which the financial statements relate. The date of authorization for issue is the date on which the financial statements are tabled at Parliament (i.e. when financial statements receive approval).

Types of events

24.4 Two types of events can be identified:

(a) Those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
(b) Those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

Recognition

<u>Adjusting Event</u>

24.5 For adjusting events after the reporting date, the amounts recognized in the financial statements shall be adjusted to reflect adjusting events after the reporting date.

<u>Non Adjusting Event</u>

24.6 For non-adjusting events after the reporting date, such amounts shall not be adjusted. However, the nature and estimates of financial effects of material non-adjusting events (i.e. those which could influence the economic decisions of the users) shall be disclosed.

24.7 In the period between the reporting date and the date of authorization for issue, elected government officials may announce a government's intentions in relation to certain matters. Whether or not these announced government intentions would require recognition as adjusting events would depend upon:

(a) Whether they provide more information about the conditions existing at reporting date, and
(b) Whether there is sufficient evidence that they can and will be fulfilled. In most cases, the announcement of government intentions will not lead to the recognition of adjusting events. Instead, they would generally qualify for disclosure as non-adjusting events.

24.0 EVENTS AFTER REPORTING DATE (CONTINUED)

Disclosure requirements

Disclosure of Date of Authorization for Issue

24.8 An entity shall disclose the date when the financial statements were authorized for issue and who gave that authorization. If another body has the power to amend the financial statements after issuance, the entity shall disclose that fact.

Disclosure of Adjusting Events After the Reporting Date

24.9 If an entity receives information after the reporting date, but before the financial statements are authorized for issue, about conditions that existed at the reporting date, the entity shall update disclosures that relate to these conditions in the light of the new information.

Disclosure of Non-adjusting Events After the Reporting Date

24.10 If non-adjusting events after the reporting date are material, non-disclosure could influence the economic decisions of users taken on the basis of the financial statements. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the reporting date:

(a) The nature of the event; and
(b) An estimate of its financial effect, or a statement that such an estimate cannot be made.

References

- MPSAS 14 – Events After the Reporting Date

24.0 EVENTS AFTER REPORTING DATE (CONTINUED)

Scenario A - Adjusting event - Confirmation of previously recognized contingent liabilities

In the financial statements for the year ended 31 December 20X1, an entity had disclosed in its financial statement notes of a contingent liability of RM600,000 for a legal case which the entity is sued for damages. The court decided against the entity on 10 February 20X2.

The financial statements are due for issue on 25 February 20X2. The damage liability of RM600,000 should be recognised because the judgment has confirmed the amount and existence of present obligation as at 31 December 20X1. It should no longer be a disclosure note to the financial statements.

Journal entries

1) Finalisation of a contingency

This is an adjusting event. The court case was on-going on 31 December and the settlement occurred on 10 February which removes the uncertainties around the liability of damages that the entity is sued for. Thus, as the future obligation relating to the previously-recognized contingent liability has been confirmed after reporting date and before date of authorization of issue, a liability has to be recognized.

	Amount (RM)	Accounting Code
DR Legal expenses	600,000	B0444XXX
CR Provision	600,000	L0444XXX

Scenario B - Adjusting event – Receipt of information confirming a previously recognized impairment loss

An entity's reporting period ends on 31 December 20X1, and the financial statement are authorized for issue on 15 February 20X2.

An overdue debtor who owed the entity RM20,000 as at 31 December 20X1 was declared bankrupt on 1 February 20X2.

Journal entries

1) To account for the bankruptcy of debtor

This is an adjusting event. The debtor was overdue on 31 December 20X1, bankruptcy simply confirms conditions at the end of the reporting period that debtor could not pay. Account receivable in the financial statement of financial position would be adjusted accordingly.

For the statement of financial performance, accumulated impairment loss will be debited with RM20,000. Upon court ruling, any residual interest received from the liquidation of debtor's company will be used to offset the accumulated impairment loss.

	Amount (RM)	Accounting Code
DR Accumulated impairment loss	20,000	A51XXXXX
CR Account receivable	20,000	A03XXXXX

24.0 EVENTS AFTER REPORTING DATE (CONTINUED)

Scenario C - Non-adjusting event – Fair value revaluation between the reporting date and statement issuance date

An entity's reporting period ends on 31 December 2011 and the financial statement are authorized for issue on 15 February 2012. It has adopted a policy of regularly revaluing property to fair value. On 1 February 2012, a decline in the fair value of property was reported.

Journal entries

1) To account for the revaluation of property to fair value after the end of the reporting period

The fall in fair value does not normally relate to the condition of the property at the reporting date, but reflects circumstances that have arisen in the following period. Therefore, despite its policy of regularly revaluing, an entity would not adjust the amounts recognized in its financial statements for the properties. Similarly, the entity does not update the amounts disclosed for the property as at the reporting date, although it may need to give additional disclosure.

No journal entry required.

25.0 RELATED PARTY DISCLOSURES

Introduction

25.1 This chapter covers the following matters:

- Types of related parties
- Types of related party transactions
- Disclosures

25.2 Related party means parties are considered to be related if one party has the ability to:

(a) Control the other party, or
(b) Exercise significant influence over the other party in making financial and operating decisions, or if the related party entity and another entity are subject to common control.

Types of related parties

25.3 Related party include:

(a) Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by, the reporting entity;
(b) Associates;
(c) Individuals owning, directly or indirectly, an interest in the reporting entity that gives them significant influence over the entity, and close members of the family of any such individual;
(d) Key management personnel, and close members of the family of key management personnel; and
(e) Entities in which a substantial ownership interest is held, directly or indirectly, by any person described above or over which such a person is able to exercise significant influence.

Types of related party transactions

25.4 Related party transaction is a transfer of resources or obligations between related parties, regardless of whether a price is charged. Related party transactions exclude transactions with any other entity that is a related party solely because of its economic dependence on the reporting entity or FGOM of which it forms part.

25.5 The following are examples of situations where related party transactions may lead to disclosures by a reporting entity:

(a) Rendering or receiving of services;
(b) Purchases or transfers/ sales of goods (finished or unfinished);
(c) Purchases or transfers/ sales of property and other assets;
(d) Agency arrangements;
(e) Leasing arrangements;
(f) Transfer of research and development;
(g) License agreements;
(h) Finance (including loans, capital contributions, grants whether in cash or in kind, and other financial support, including cost-sharing arrangements); and
(i) Guarantees and collaterals.

25.0 RELATED PARTY DISCLOSURES (CONTINUED)

25.6 Related party relationships where control exists shall be disclosed, irrespective of whether there have been transactions between the related parties.

Disclosure requirements

25.7 The financial statement shall disclose the following:

Disclosure of Control

25.8 Disclosure of related party relationships where control exists, irrespective of whether there have been transactions between the related parties. This would involve the disclosure of the names of any controlled entities, the name of the immediate controlling entity, and the name of the ultimate controlling entity, if any.

Disclosure of Related Party Transactions

25.9 Other than transactions that would occur within a normal supplier or client/ recipient relationship on terms and conditions no more or less favorable than those which it is reasonable to expect the entity would have adopted if dealing with that individual or entity at arm's length in the same circumstances, the reporting entity shall disclose:

(a) The nature of the related party relationships;
(b) The types of transactions that have occurred; and
(c) The elements of the transactions necessary to clarify the significance of these transactions to its operations and sufficient to enable the financial statements to provide relevant and reliable information for decision making and accountability purposes.

Disclosure of Key Management Personnel

25.10 An entity shall disclose:

(a) The aggregate remuneration of key management personnel and the number of individuals, determined on a full-time equivalent basis, receiving remuneration within this category, showing separately major classes of key management personnel and including a description of each class;
(b) The total amount of all other remuneration and compensation provided to key management personnel, and close members of the family of key management personnel, by the reporting entity during the reporting period, showing separately the aggregate amounts provided to:
    (i) Key management personnel; and
    (ii) Close members of the family of key management personnel; and
(c) In respect of loans that are not widely available to persons who are not key management personnel and loans whose availability is not widely known by members of the public, for each individual member of key management personnel and each close member of the family of key management personnel:
    (i) The amount of loans advanced during the period and terms and conditions thereof;
    (ii) The amount of loans repaid during the period;
    (iii) The amount of the closing balance of all loans and receivables; and
    (iv) Where the individual is not a director or member of the governing body or senior management group of the entity, the relationship of the individual to such body or group.

References

- MPSAS 20 – Related Party Disclosure

26.0 GENERAL GOVERNMENT SECTOR (GGS) FINANCIAL STATEMENTS

26.1 This chapter covers the following matters:

- Purpose of general government sector information
- Statistical bases of financial reporting
- Compliance with MPSAS
- Disclosures

Purpose of General Government Sector Information

26.2 The disclosure of appropriate information about the general government sector (GGS) of a government can enhance the transparency of financial reports, and provide for a better understanding of the relationship between the market and non-market activities of FGOM, and between financial statements and statistical bases of financial reporting.

Statistical Bases of Financial Reporting

26.3 The GGS comprises all organizational entities of the general government as defined in statistical bases of financial reporting.

26.4 Under statistical bases of financial reporting, the public sector comprises the GGS, Public Financial Corporations Sector (PFC), and Public Non-Financial Corporations Sector (PFNC) sector. Additional subgroups within these sectors may be identified for statistical analytical purposes.

<u>General Government Sector</u>

26.5 General government sector consists of:

(a) All resident central, state, and local government units;
(b) Social security funds at each level of government; and
(c) Nonmarket non-profit institutions controlled by government units.

<u>Public Financial Corporations Sector (PFC)</u>

26.6 Public Financial Corporations Sector (PFC) consists of:

(a) Resident government-controlled financial corporations;
(b) Quasi-corporations; and
(c) Non-profit institutions that primarily engage in financial intermediation and the provision of financial services for the market. Included within this sector are government-controlled banks including central banks, and other government financial institutions that operate on a market basis.

<u>Public Non-Financial Corporations Sector (PFNC)</u>

26.7 Public Non-Financial Corporations Sector (PFNC) consists of:

(a) Resident government-controlled non-financial corporations;
(b) Quasi-corporations; and
(c) Non-profit institutions that produce goods or nonfinancial services for the market. Included within this sector are entities such as publicly owned utilities and other entities that trade in goods and services.

26.0 GENERAL GOVERNMENT SECTOR (GGS) FINANCIAL STATEMENTS (CONTINUED)

Compliance with MPSAS

26.8 Financial information about the GGS shall be disclosed in conformity with the accounting policies adopted for preparing and presenting the consolidated financial statements of FGOM, except as required as below:

(a) In presenting financial information about the GGS, entities shall not apply the requirements of MPSAS 6 - Consolidated and separate financial statements, in respect of entities in the PFCs and public NFCS sectors.
(b) The GGS shall recognize its investment in the PFC and public NFCS sectors as an asset, and shall account for that asset at the carrying amount of the net assets of its investees.

Disclosure requirements

26.9 Disclosures made in respect of the GGS shall include at least the following:

(a) Assets by major class, showing separately the investment in other sectors;
(b) Liabilities by major class;
(c) Net assets/equity;
(d) Total revaluation increments and decrements and other items of revenue and expense recognized directly in net assets/equity;
(e) Revenue by major class;
(f) Expenses by major class;
(g) Surplus or deficit;
(h) Cash flows from operating activities by major class;
(i) Cash flows from investing activities; and
(j) Cash flows from financing activities.

26.10 Other disclosures which can be made are as follows:

(a) The significant controlled entities that are included in the GGS
  (i) Any changes in those entities from the prior period;
  (ii) An explanation of the reasons why any such entity that was previously included in the GGS is no longer included;
(b) Disclosures shall be reconciled to the consolidated financial statements of FGOM, showing separately the amount of the adjustment to each equivalent item in those financial statements.

26.11 The Standard does not require a reconciliation of the GGS disclosures in the consolidated financial statements with the GGS disclosures under statistical bases of financial reporting.

References

- MPSAS 22 – Disclosure of Financial Information about the General Government Sector

27.0 TRUST ACCOUNT

Introduction

27.1 This Chapter covers the following matters:

- Consolidated Statements
- Government Trust Account
- Public Trust Accounts
- Deposits

Consolidated Statements

27.2 Going forward, the consolidated statements of FGOM will include government trust accounts, public trust account and deposits.

27.3 Further details on the closure and maintenance of trust accounts as a result of adopting accrual accounting are included in Appendix E.

27.4 Government trust accounts are governed under Section 10 of the Financial Procedure Act 1957. FGOM trust accounts consist, amongst others, of the following:

- Development Fund
- Housing Loan Fund
- Loan Fund / Conveyance Loan Fund (except BSN)
- Conveyance Loan (vehicle) (BSN)
- Contingencies Fund
- Inter-Administration Account, Payroll Deduction Account
- Gains and Loss on Currency Conversion Account
- Trade Account – Unallocated Store

27.5 Public trust funds consist of special trusts incorporated under the relevant acts and general trusts established under Section 9 of the Financial Procedure Act 1957 [Act 61]. Financial sources of these funds are receipts from organizations or individuals for specific purposes.

27.6 All receipts and payments of trust monies are accounted in the consolidated trust accounts in accordance with the requirements of laws, trust acts, trust deeds and trust agreements.

Government Trust Accounts

27.7 All transactions from FGOM trust accounts will be treated as part of the FGOM transactions and will be accounted for in accordance with the relevant MPSAS.

27.8 FGOM trust account surplus or deficit will be included as part of the FGOM financial position.

27.9 Disclosures on the statement of financial position of each trust accounts will also be made in the FGOM financial statements.

27.0 TRUST ACCOUNT (CONTINUED)

Public Trust Accounts

27.10 All transactions from the public trust accounts will not be treated as part of the FGOM transactions.

27.11 However, balances of public trust accounts in respect of unused funds/investments shall be shown in the statement of financial position of the FGOM, with a corresponding liability.

Deposits

27.12 Deposits are treated as financial liability and are covered under Chapter 19 – Financial Instruments.

References

- MPSAS 1 – Presentation of Financial Statement

27.0 TRUST ACCOUNT (CONTINUED)

Scenario A –Generic trust account transactions

Scenario A.1– Establishment of new government trust account

FGOM decides to establish a new government trust account. The FGOM managed to obtain appropriation amounting to RM250,000 for the new government trust account. The trust account is named as ABC account.

Journal entries

1) To record establishment of a new government trust account

The new government trust account is established and credited as a liability at the point appropriations is obtained. The above journal entries are applicable to both types of government trust account, both general government trust account and revolving government trust account.

New government trust account (ABC Fund)

	Amount (RM)	Accounting Code
DR Cash	250,000	A0113XXX
CR Revenue	250,000	H0185300

General Funds

	Amount (RM)	Accounting Code
DR Expense	250,000	B02XXXXX
CR Cash	250,000	A0112XXX

27.0 TRUST ACCOUNT (CONTINUED)

Scenario A.2 - Close down of government trust accounts with surplus or deficit

An entity decides to close down two government trust account on date of adoption. One government trust account has a surplus balance of RM150,000, the other has a deficit balance of RM10,000.

Journal entries

1) To record close down of government trust account with surplus balance

General Funds

	Amount (RM)	Accounting Code
DR Cash	150,000	A0113XXX
CR Surplus or deficit on general funds*	150,000	H01812XX

Government Trust Account

	Amount (RM)	Accounting Code
DR Surplus or deficit on government trust account *	150,000	B05521XX
CR Cash	150,000	A0112XXX

* Surplus or deficit between funds will be eliminated at FGOM financial statement of position

2) To record close down of government trust account with deficit balance

The deficit balance of FGOM trust account is closed via a transfer of cash from general fund to government trust account. FGOM trust account is then credited with RM10,000 (deficit amount).

General Funds

	Amount (RM)	Accounting Code
DR Surplus or deficit on general funds*	10,000	B04462XX
CR Cash	10,000	A0112XXX

Government Trust Account

	Amount (RM)	Accounting Code
DR Cash	10,000	A0113XXX
CR Surplus or deficit of government trust account*	10,000	H01853XX

* Surplus or deficit between funds will be eliminated at FGOM financial statement of position

APPENDICES

Appendix A List of MPSAS To Be Adopted (with effective date on or after 01 January 2017)

MPSAS	
MPSAS 1	Presentation of Financial Statement
MPSAS 2	Cash Flow Statements
MPSAS 3	Accounting Policies, Changes in Accounting Estimates and Errors
MPSAS 4	The Effect of Changes in Foreign Exchange Rate
MPSAS 5	Borrowing Costs
MPSAS 6*	Consolidated Financial Statements and Accounting for Controlled Entities
MPSAS 7*	Accounting for Investments in Associates
MPSAS 8*	Financial Reporting of Interests in Joint Ventures
MPSAS 9	Revenue From Exchange Transactions
MPSAS 11	Construction Contracts
MPSAS 12	Inventories
MPSAS 13	Leases
MPSAS 14	Events After the Reporting Date
MPSAS 15	Financial Instruments: Disclosure and Presentation (replaced by MPSAS 30)
MPSAS 16	Investment Property
MPSAS 17	Property, Plant and Equipment
MPSAS 18	Segment Reporting
MPSAS 19	Provisions, Contingent Liabilities and Contingent Assets
MPSAS 20	Related Party Disclosures
MPSAS 21	Impairment of Non-Cash-Generating Assets
MPSAS 22	Disclosure of Financial Information about the General Government Sector
MPSAS 23	Revenue From Non- Exchange Transactions (Taxes & Transfers)
MPSAS 24	Presentation of Budget Information in Financial Statement
MPSAS 25	Employee Benefits
MPSAS 26	Impairment of Cash-Generating Assets
MPSAS 27	Agriculture
MPSAS 28	Financial Instruments: Presentation
MPSAS 29	Financial Instruments: Recognition and Measurement
MPSAS 30	Financial Instruments: Disclosures

* Only provision relating to separate financial statement preparation will be adopted.

Appendix B Illustrative Financial Statements

Federal Government of Malaysia
Statement of Financial Performance
As at 31 December 20X2

By Nature

	Notes	20X2	20X1
Revenue			
Taxation revenue	3	xx	xx
Non-taxation revenue	3	xx	xx
Federal territories revenue		xx	xx
Other revenue			
Total Revenue		xx	xx
Expenses			
Wages, salaries and employee benefits	4	xx	xx
Supplies and consumables used	4	xx	xx
Low value asset		xx	xx
Grant and transfer expense		xx	xx
Other expenses		xx	xx
Depreciation and amortization expense	4	xx	xx
Impairment of assets	4	xx	xx
Rental expense		xx	xx
Cost of goods sold		xx	xx
Repair and maintenance of property, plant and equipment		xx	xx
Finance costs	4	xx	xx
Total Expenses		xx	xx
Surplus or deficit for the year		xx	xx

By Function

	Notes	20X2	20X1
Revenue			
Taxation revenue		xx	xx
Non-taxation revenue	3	xx	xx
Revenue from exchange transactions	3	xx	xx
Transfers from other government entities		xx	xx
Other revenue			
Total Revenue		xx	xx
Expenses			
General public services		xx	xx
Defence		xx	xx
Education		xx	xx
Health		xx	xx
Housing and community amenities		xx	xx
Recreational, cultural and religion		xx	xx
Economic affairs		xx	xx
Environmental protection		xx	xx
Other expenses		xx	xx
Finance costs	4	xx	xx
Total Expenses		xx	xx
Surplus or deficit for the year		xx	xx

Appendix B Illustrative Financial Statements (continued)

Federal Government of Malaysia
Statement of Financial Position
As at 31 December 20X2

	Notes	20X2	20X1
ASSETS			
Current assets			
Cash and cash equivalents	5	xx	xx
Recoverable from taxes and transfers	6	xx	xx
Receivables	7	xx	xx
Inventories	8	xx	xx
Other financial assets		xx	xx
Other receivables		xx	xx
Total current assets		xx	xx
Non-current assets			
Recoverable from taxes and transfers	6	xx	xx
Receivables	7	xx	xx
Investments in controlled entities	9	xx	xx
Investments in jointly controlled entities	10	xx	xx
Investments in associates	11	xx	xx
Other financial assets	12	xx	xx
Property, plant and equipment	13	xx	xx
Investment properties	14	xx	xx
Intangible assets	15	xx	xx
Other receivables		xx	xx
Total non-current assets		xx	xx
TOTAL ASSETS		xx	xx
LIABILITIES			
Current liabilities			
Payables under exchange transaction	16	xx	xx
Taxes and transfers payable	17	xx	xx
Provisions	18	xx	xx
Borrowings	19	xx	xx
Pension plan and gratuity	20	xx	xx
Other financial liabilities		xx	xx
Public trust account/Balance of obligation to public			
Deposits			
Total current liabilities		xx	xx
Non-current liabilities			
Borrowings	19	xx	xx
Pension plan and gratuity	20	xx	xx
Other financial liabilities		xx	xx
Public trust account/Balance of obligation to public		xx	xx
Deposits			
Total non-current liabilities		xx	xx
TOTAL LIABILITIES		xx	xx
Net assets		xx	xx
NET ASSETS/ EQUITY			
Accumulated surplus / (deficit) of general fund		xx	xx
Accumulated surplus / (deficit) of government trust account			
Other reserves		xx	xx
Total Net Assets/Equity		xx	xx

Appendix B Illustrative Financial Statements (continued)

Federal Government of Malaysia
Statement of Changes in Net Assets or Equity
As at 31 December 20X2

	Acc. Surplus / (Deficit) or Contributed Fund			Total Net Assets / Equity
	General Fund	Government Trust Accounts	Other reserves*	
	RM'000	RM'000	RM'000	RM'000
Balance at 1 January 20X1				
Changes in net assets/equity for 20X1				
Items directly recognised in equity	xx	xx	xx	xx
Surplus or deficit for the year	xx	xx	xx	xx
Total recognised revenue and expense for the period	xx	xx	xx	xx
Balance as at 31 December 20X1 carried forward	xx	xx	xx	xx
Balance as at 31 December 20X1 brought forward	xx	xx	xx	xx
Changes in net assets/equity for 20X2				
Items directly recognised in equity	xx	xx	xx	xx
Surplus or deficit for the year	xx	xx		xx
Total recognised revenue and expense for the period	xx	xx	xx	xx
Balance as at 31 December 20X2	xx	xx	xx	xx

* The separate disclosure of other reserves on the face of the Statement of Net Assets/Equity will be dependent on the materiality and applicability of their balances.

Appendix B Illustrative Financial Statements (continued)

Federal Government of Malaysia
Cash Flow Statement
As at 31 December 20X2

	Notes	20X2	20X1
CASHFLOWS FROM OPERATING ACTIVITIES:			
Receipts			
Taxation		xx	xx
Sale of goods and services		xx	xx
Grants		xx	xx
Interest received		xx	xx
Other receipts		xx	xx
Payments			
Employee costs		xx	xx
Superannuation		xx	xx
Suppliers		xx	xx
Interest paid		xx	xx
Trust paid		xx	xx
Other payments		xx	xx
Net cash flows from operating activities	24	xx	xx
CASHFLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		xx	xx
Proceeds from sale of property, plant and equipment		xx	xx
Proceeds from sale of investments		xx	xx
Purchase of foreign currency securities		xx	xx
Net cash flows from investing activities		xx	xx
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings		xx	xx
Repayment of borrowings		xx	xx
Distribution/dividend to government		xx	xx
Net cash flows from financing activities		xx	xx
Net increase (decrease) in cash and cash equivalents		xx	xx
Cash and cash equivalents at beginning of the year		xx	xx
Cash and cash equivalents at end of the year		xx	xx

Appendix B Illustrative Financial Statements (continued)

The following illustrative notes do not necessarily represent the final presentation adopted by the FGOM and are subject to changes.

Note 1: Basis of Preparation

(a) Reporting Period and Entity

In accordance with Section 3 of the Financial Procedure Act, 1957 [*Act 61*], the reporting period for the financial statements and the budget of the Federal Government of Malaysia ('FGOM') is the financial year from 1 January to 31 December. The reporting entity includes all federal ministries, federal departments and responsibility centres of FGOM[1].

The financial statements are presented in Malaysian Ringgit.

(b) Statement of Compliance

The financial statements are prepared on an accrual basis.

These financial statements are prepared in accordance with the Financial Procedure Act, 1957 [*Act 61*] and with the Malaysian Public Sector Accounting Standards (MPSAS). The financial statements have been prepared under the historical cost convention except as disclosed in the Summary of Significant Accounting Policies.

These financial statements were authorised for issue jointly by the Secretary General to the Treasury and the Accountant General on [*the date when the financial statements where authorised for issue*].

(c) Judgements and Estimations

The preparation of the financial statements requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Where these judgements significantly affect the amounts recognised in the financial statements they are described in Note 26 to the financial statements.

[1] Description on reporting entity may change if FGOM decides to prepare Consolidated Financial Statements, which consolidates all controlled entities, associates, and jointly controlled entities (MPSAS 6, MPSAS 7 and MPSAS 8).

Appendix B Illustrative Financial Statements (continued)

Note 1: Basis of Preparation (continued)

Note 2: Accounting Policies

(a) Changes in accounting policies

FGOM has elected to prepare the financial statements in accordance with the accrual basis of accounting effective [*1 January 20X2*] and, similarly, adopted all standards and interpretations[2] issued by FGOM Accounting Standards Advisory Board that are effective and applicable for the financial year beginning [*1 January 20X2*], as follows:

[*To list all standards and, if any, interpretations effective and applicable for the first time during the financial year*]

All changes in accounting policies have been made in accordance with the transitional provisions in the respective standards and interpretations. All standards and interpretations adopted by FGOM requires retrospective applications other than:

[*To include as appropriate where the FGOM elects not to apply the transitional provisions*]

A summary of the impact of the above new standards and interpretations and the effects on the financial statements of FGOM is set out in Note [ ] to the financial statements.

(b) Standards that are not yet effective and have not been early adopted

New standards that are mandatory for FGOM's financial statements beginning on or after [*1 January 20X3*], which FGOM has not early adopted, are as follows:

[*To list all standards and, if any, interpretations that have been issued but is not yet effective and have not been early adopted*]

[2] To be removed if FGOM Accounting Standards Advisory Board issues no interpretation.

Appendix B Illustrative Financial Statements (continued)

Note 2: Accounting Policies (continued)

(c) Summary of significant accounting policies

The following accounting policies have been applied consistently in dealing with the items that are considered to be material to the financial statements.

(i) Income

Taxation revenue

FGOM provides many services and benefits that do not give rise to revenue. Further, payment of tax does not of itself entitle a taxpayer to an equivalent value of services or benefits, since there is no relationship between paying tax and receiving services and transfers from FGOM. Such revenue is received through the exercise of the powers through various laws enacted by the Parliament.

FGOM takes advantage of the transitional provision in [state], as described in Note 2(a) to the financial statements in respect of all taxation revenue. During the transitional period, taxation revenue is accounted for on cash basis.

Upon expiry of the abovementioned transitional provision, taxation revenue is recognised at the time the debt to FGOM arises, as follows:

Revenue Type	Revenue Recognition Point
Income tax	Recognised by reference to the earning of assessable income by the taxpayers
Customs and excise duty	When goods become subject to duty, i.e. movement of dutiable goods across customs boundary
Consumption tax (sales tax)	When the services are provided at point of sale

[Note: The list above is non-exhaustive. To list all major types of taxes and the corresponding revenue recognition point]

Revenue earned through operations

Revenue from the supply of goods and services to third parties is measured at the fair value of consideration received. Revenue from the supply of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from the supply of services is recognised by reference to the stage of completion of the transaction.

Appendix B Illustrative Financial Statements (continued)

Note 2: Accounting Policies (continued)

(c) Summary of significant accounting policies (continued)

(i) Income (continued)

Interest income

Interest income is accrued using the effective interest rate method.

The effective interest rate exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this rate to the principal outstanding to determine interest income each period.

Dividend income

Dividend income from investments is recognised when FGOM's rights as a shareholder to receive payment have been established.

Rental income

Rental income is recognised in the statement of financial performance on a straight-line basis over the term of the lease. Lease incentives granted are recognised evenly over the term of the lease as a reduction in total rental income.

Donated or subsidised assets

Where an asset is acquired for nil or nominal consideration, the fair value of the asset received is recognised as income in the statement of financial performance.

(ii) Expenses

General

Expenses are recognised in the period to which they relate.

Appendix B Illustrative Financial Statements (continued)

Note 2: Accounting Policies (continued)

(c) Summary of significant accounting policies (continued)

(ii) Expenses (continued)

Borrowing costs

Borrowing costs consist of interest and other costs that FGOM incurred in connection with the borrowing of funds, and are accrued using the effective interest rate method.

The effective interest rate exactly discounts estimated future cash payments through the expected life of the financial liability to that liability's net carrying amount. The method applies this rate to the principal outstanding to determine the borrowing costs for each period.

[**Note:** *Please choose either of the following*]

[*Benchmark treatment*]

Borrowing costs are recognised in surplus or deficit in the period they are incurred.

[*Allowed alternative treatment*]

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use. All other borrowing costs are recognised in surplus or deficit in the period they are incurred. FGOM takes advantage of the transitional provision in MPSAS 5, as described in Note 2(a) to the financial statements; where only those borrowing costs incurred after 1 July 2001[3] that meet the criteria for capitalisation have been capitalised.

Grants and subsidies

Where grants and subsidies are discretionary until payment, the expense is recognised when the payment is made. Otherwise, the expense is recognised when the specified criteria have been fulfilled and notice has been given to FGOM.

[3] Being the effective date of MPSAS 5. To tailor accordingly depending on the effective date of the localized standard to be determined by FGOM Accounting Standards Advisory Board.

Appendix B Illustrative Financial Statements (continued)

Note 2: Accounting Policies (continued)

(c) Summary of significant accounting policies (continued)

(iii) Employee Benefits

Defined benefit retirement plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. FGOM's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on FGOM bonds. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to FGOM, the recognised asset is limited to the total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in FGOM. An economic benefit is available to FGOM if it is realisable during the life of the plan, or on settlement of the plan liabilities.

All movements in these liabilities, including actuarial gains and losses, are recognised in full in the statement of financial performance in the period in which they occur.

Defined contribution retirement plans

A defined contribution retirement plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity (e.g. the Employees Provident Fund Board and *Lembaga Tabung Angkatan Tentera*) and will have no legal or constructive obligation to pay further amounts. The obligations for contributions to defined contribution retirement plans are recognised as an employee benefit expense in the surplus or deficit in the period during which services are rendered by employees.

Other employee entitlements

Employee entitlements to salaries and wages, annual leave, long service leave, retiring leave and other similar benefits are recognised in the statement of financial performance when they accrue to employees. Employee entitlements to be settled within twelve months are reported at the amount expected to be paid. The liability for long-term employee entitlements is reported as the present value of the estimated future cash outflows.

Appendix B Illustrative Financial Statements (continued)

Note 2: Accounting Policies (continued)

(c) Summary of significant accounting policies (continued)

(iii) Employee Benefits (continued)

Termination benefits

Termination benefits are recognised in the statement of financial performance only when there is a demonstrable commitment to either terminate employment prior to normal retirement date or to provide such benefits as a result of an offer to encourage voluntary redundancy. Termination benefits settled within twelve months are reported at the amount expected to be paid, otherwise they are reported as the present value of the estimated future cash outflows.

(iv) Foreign Currency

Transactions in foreign currencies are initially translated at the foreign exchange rate at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of financial performance.

Non-monetary assets and liabilities measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are translated into Malaysian Ringgit, the functional currency of FGOM, at the exchange rate applicable at the fair value date. The associated foreign exchange gains or losses follow the fair value gains or losses to the statement of financial performance.

(v) Taxes Receivable and Repayable

Taxes receivable are initially assessed at nominal amount or face value; that is, the receivables reflect the amount of tax owed. These receivables are subsequently adjusted for penalties and interest as they are charged, and tested for impairment. Interest and penalties charged on taxes receivable are presented as tax revenue in the statement of financial performance.

Taxes repayable represent refunds due to taxpayers and are recognised at their nominal value. They are subsequently adjusted for interest once account and refund reviews are complete.

Taxes receivable and taxes repayable are offset if a legally enforceable right exists to set off, and the taxes relate to the same taxation authority (i.e. the Inland Revenue Board and Royal Malaysian Customs).

Appendix B Illustrative Financial Statements (continued)

Note 2: Accounting Policies (continued)

(c) Summary of significant accounting policies (continued)

(vi) Financial Instruments

Financial assets

Financial assets are designated into the following categories:
- loans and receivables;
- available for sale;
- held-to-maturity; and
- designated as fair value through surplus and deficit.

This designation is made by reference to the purpose of the financial instruments, policies and practices for their management, their relationship with other instruments and the reporting costs and benefits associated with each designation. The maximum loss due to default on any financial asset is the carrying value reported in the statement of financial position.

Loans and receivables are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method (see Note 2(c)(ii) to the financial statements in respect of the accounting policy for borrowing costs). Loans and receivables issued with duration of less than twelve months are recognised at their nominal value, unless the effect of discounting is material. In addition, the difference between the loan proceeds of a concessionary loan and the fair value (based on market terms) is treated as an expense in surplus or deficit on initial recognition. Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that the asset is impaired. Interest, impairment losses and foreign exchange gains and losses are recognised in the statement of financial performance.

Financial assets held for trading and financial assets designated as fair value through surplus or deficit are recorded at fair value with gains or losses recognised in the statement of financial performance.

A financial asset is designated as fair value through surplus or deficit if acquired principally for the purpose of trading in the short term. It may also be designated into this category if the accounting treatment results in more relevant information because it either significantly reduces an accounting mismatch with related liabilities or is part of a group of financial assets that is managed and evaluated on a fair value basis. Gains or losses from interest, foreign exchange and other fair value movements are separately reported in the statement of financial performance. Transaction costs are expensed as they are incurred.

Appendix B Illustrative Financial Statements (continued)

Note 2: Accounting Policies (continued)

(c) Summary of significant accounting policies (continued)

(vi) Financial Instruments (continued)

Financial assets (continued)

Available for sale financial assets are initially recorded at fair value plus transaction costs. Subsequently, such instruments are recorded at fair value by reference to the quoted market price, with any resultant fair value gains or losses recognised in net asset / equity. Instruments which are unquoted and whose fair value cannot be reliably measured are subsequently carried at cost. Impairment losses are recognised in the statement of financial performance. At derecognition, the cumulative fair value gain or loss previously recognised in net asset / equity is recognised in the statement of financial performance.

Cash and cash equivalents include cash on hand, cash in transit, bank accounts and deposits.

Fair values of quoted investments are based on current bid prices. Regular way purchases and sales of all financial assets are accounted for at trade date. If the market for a financial asset is not active, fair values for initial recognition and, where appropriate, subsequent measurement are established by using valuation techniques, as set out in the notes to the financial statements. At each balance date an assessment is made whether there is objective evidence that a financial asset or group of financial assets is impaired.

Major Financial Asset Type	Designation
Trade and other receivables	Loans and receivables
Loans to staff	Loans and receivables
Subscription paid to international organisations	Available for sale
Investments in foreign debt securities	Held-to-maturity

[**Note:** *The list above is non-exhaustive. To list all major types of financial assets and the respective designation*]

Appendix B Illustrative Financial Statements (continued)

Note 2: Accounting Policies (continued)

(c) Summary of significant accounting policies (continued)

(vi) Financial Instruments (continued)

Financial liabilities

Financial liabilities held for trading and financial liabilities designated as fair value through surplus or deficit are recorded at fair value with any gains or losses recognised in the statement of financial performance. A financial liability is designated as fair value through surplus or deficit if acquired principally for the purpose of trading in the short term. It may also be designated into this category if the accounting treatment results in more relevant information because it either eliminates or significantly reduces an accounting mismatch with related assets or is part of a group of financial liabilities that is managed and evaluated on a fair value basis. Gains or losses from interest, foreign exchange and other fair value movements are separately reported in the statement of financial performance. Transaction costs are expensed as they are incurred.

Other financial liabilities are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate method (see Note 2(c)(ii) to the financial statements in respect of the accounting policy for borrowing costs). Financial liabilities entered into with a duration of less than twelve months are recognised at their nominal value. Amortisation and, in the case of monetary items, foreign exchange gains and losses, are recognised in the statement of financial performance as is any gain or loss when the liability is derecognised.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due. Financial guarantee contracts are recognised initially as a liability at fair value, net of transaction costs. Subsequent to initial recognition, financial guarantee contracts are recognised as income in surplus or deficit over the period of the guarantee. If the debtor fails to make payment relating to financial guarantee contract when it is due and FGOM, as the issuer, is required to reimburse the holder for the associated loss, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount initially recognised less cumulative amortisation.

Major Financial Liability Type	Designation
Trade and other payables	Designated at amortised cost
Borrowings	Designated at amortised cost
Guarantees issued	Financial guarantee contract

[**Note:** *The list above is non-exhaustive. To list all major types of financial liabilities and the respective designation*]

Appendix B Illustrative Financial Statements (continued)

Note 2: Accounting Policies (continued)

(c) Summary of significant accounting policies (continued)

(vii) Inventories

Inventories are recorded at the lower of cost and net realisable value. Inventories held for distribution for public benefit purposes are recorded at the lower of cost and current replacement cost. Where inventories are acquired at no cost, or for nominal consideration, the cost is deemed to be the fair value at the date of acquisition.

Cost of inventories, comprising all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition, are calculated using a weighted average method[4].

(viii) Property, Plant and Equipment

Items of property, plant and equipment are initially recorded at cost. Where an asset is acquired for nil or nominal consideration the asset is recognised initially at fair value, where fair value can be reliably determined, and as income in the statement of financial performance.

Revaluations are carried out for certain classes of property, plant and equipment to reflect the service potential or economic benefit obtained through control of the asset. Revaluation is based on the fair value of the asset, with changes reported by class of asset.

FGOM takes advantage of the transitional provision in MPSAS 17, as described in Note 2(a) to the financial statements in respect of the recognition of certain classes of property, plant and equipment. For classes of property, plant and equipment previously acquired that have been capitalised in the current financial year, the effects of the initial recognition have been adjusted to the opening balance of accumulated surpluses or deficits.[5]

[4] To tailor accordingly depending on the choice of cost formula. MPSAS 12 allows the use of first-in-first-out ('FIFO') or weighted average cost formulas in assigning cost of inventories.

[5] The applicability of this paragraph is dependent on FGOM's decision in applying the transitional provision.

Appendix B Illustrative Financial Statements (continued)

Note 2: Accounting Policies (continued)

(c) Summary of significant accounting policies (continued)

(viii) Property, Plant and Equipment (continued)

Subsequent to initial recognition, classes of property, plant and equipment which have been capitalised to date are accounted for as set out below.

Class of PPE	Accounting Policy
Land and buildings	Land and buildings are recorded at fair value less impairment losses and, for buildings, less depreciation accumulated since the assets were last revalued. When revaluing buildings, there must be componentisation to the level required to ensure adequate representation of the material components of the buildings. At a minimum, this requires componentisation to three levels: structure, building services and fit-out.
Aircraft	Aircraft (excluding specialised military equipment) are recorded at fair value less depreciation and impairment losses accumulated since the assets were last revalued.
Other plant and equipment	Other plant and equipment, which includes motor vehicles and office equipment, are recorded at cost less depreciation and impairment losses accumulated since the assets were purchased.

[**Note:** *The list above is non-exhaustive. To list all major classes of property, plant and equipment, as well as the respective accounting policies*]

Appendix B Illustrative Financial Statements (continued)

Note 2: Accounting Policies (continued)

(c) Summary of significant accounting policies (continued)

(viii) Property, Plant and Equipment (continued)

Revaluation

Classes of property, plant and equipment carried at revalued amounts are revalued at least every five years[6] or whenever the carrying amount differs materially to fair value.

Items of property are revalued to fair value for the highest and best use of the item on the basis of the market value of the item, or on the basis of market evidence, such as discounted cash flow calculations. If no market evidence of fair value exists, an optimised depreciated replacement cost approach is used as the best proxy for fair value. Where an item of property is recorded at its optimised depreciated replacement cost, this cost is based on the estimated present cost of constructing the existing item of property by the most appropriate method of construction, less allowances for physical deterioration and optimisation for obsolescence and relevant surplus capacity. Where an item of property is recorded at its optimised depreciated replacement cost, the cost does not include any borrowing costs.

To the extent that a revaluation gain reverses a revaluation loss previously charged to the statement of financial performance for the asset class, the revaluation gain is credited to the statement of financial performance. Otherwise, revaluation gains are credited to a revaluation reserve for that class of asset. To the extent that there is a balance in the revaluation reserve for the asset class, any revaluation loss is debited to the reserve. Otherwise, revaluation losses are reported in the statement of financial performance.

Disposal

Gains or losses arising from disposal of property, plant and equipment are recognised in the statement of financial performance in the period in which the transaction occurs. Any balance attributable to the disposed asset in the asset revaluation reserve is transferred to accumulated surpluses or deficits.

[6] To tailor accordingly depending on FGOM's policy. In accordance with MPSAS 17 para 44, revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

Appendix B Illustrative Financial Statements (continued)

Note 2: Accounting Policies (continued)

(c) Summary of significant accounting policies (continued)

(viii) Property, Plant and Equipment (continued)

Impairment

Where an asset's recoverable amount is less than its carrying amount, it is reported at its recoverable amount and an impairment loss is recognised. The main reason for holding some assets is to generate cash. For these assets the recoverable amount is the higher of the amount that could be recovered by sale (after deducting the costs to sell) or the amount that will be generated by using the asset through its useful life. Some assets do not generate cash and for those assets, depreciated replacement cost is used. Losses resulting from impairment are reported in the statement of financial performance, unless the asset is carried at a revalued amount in which case any impairment loss is deducted from the revaluation reserve.

Depreciation

Depreciation is charged on a straight-line basis at rates calculated to allocate the cost or valuation of an item of property, plant and equipment, less any estimated residual value, over its remaining useful life.

Typically, the estimated useful lives of different classes of property, plant and equipment are as follows:

Class of PPE	Estimated Useful Lives
Buildings	25 to 60 years
Aircraft	10 to 20 years
Other plant and equipment	3 to 30 years

[**Note:** *The above are provided for illustrative purposes only and may not reflect the actual useful lives of assets*.]

The residual value, useful life, and depreciation method are reviewed at each financial year end, and adjusted prospectively, if appropriate.

Appendix B Illustrative Financial Statements (continued)

Note 2: Accounting Policies (continued)

(c) Summary of significant accounting policies (continued)

(ix) Investments in Controlled Entities, Associates and Jointly Controlled Entities

Investments in controlled entities, associates, and jointly controlled entities are stated at cost less impairment losses. On the disposal of such investments, the difference between the net disposal proceeds and their carrying amounts is included in the surplus or deficit.[7]

(x) Biological Assets

Biological assets managed for harvesting into agricultural produce or for transforming into additional biological assets are measured at fair value less estimated costs to sell, with any fair value gains or losses reported in the statement of financial performance. Where fair value cannot be reliably determined, the asset is recorded at cost less accumulated depreciation and accumulated impairment losses.

For biological assets and agricultural produce carried forward from previous financial year, the effects of the initial recognition during the financial year have been adjusted to the opening balance of accumulated surpluses or deficits in accordance with the transitional provision described in Note 2(a) to the financial statements.

Biological assets not managed for harvesting into agricultural produce, or being transformed into additional biological assets are reported as heritage assets in accordance with the policies for property, plant and equipment.

(xi) Investment Property

Investment property is property held primarily to earn rentals or for capital appreciation or both. It does not include property held primarily for strategic purposes or to provide a social service even though such property may earn rentals or appreciate in value – such property is reported as property, plant and equipment.

Investment properties are initially measured at transacted amounts, and subsequently measured at fair value. Gains or losses arising from fair value changes are included in the statement of financial performance.

[7] In the event where FGOM prepares Consolidated Financial Statements, this policy is applicable to the accounting of controlled entities, associates and jointly controlled entities in FGOM's Separate Financial Statements only. The accounting policies relating to the combination of controlled entity, associates and jointly controlled entities shall be disclosed in the Consolidated Financial Statements.

Appendix B Illustrative Financial Statements (continued)

Note 2: Accounting Policies (continued)

(c) Summary of significant accounting policies (continued)

(xii) Intangible Assets

Intangible assets are initially recorded at cost.

The cost of an internally generated intangible asset represents expenditure incurred in the development phase of the asset only. The development phase occurs after the following can be demonstrated: technical feasibility; ability to complete the asset; intention and ability to sell or use; and development expenditure can be reliably measured. Expenditure incurred on the research phase of an internally generated intangible asset is expensed when it is incurred. Where the research phase cannot be distinguished from the development phase, the expenditure is expensed when it is incurred.

Intangible assets with finite lives [*e.g. computer software*] are subsequently recorded at cost less any amortisation and impairment losses. Amortisation is charged to the statement of financial performance on a straight-line basis over the useful life of the asset. Typically, the estimated useful life of computer software is three to five years[8]. The expected useful life and amortisation method are reviewed at each financial year end, and adjusted prospectively, if appropriate.

Intangible assets with indefinite useful lives [*e.g. goodwill*] are not amortised, but are tested annually for impairment. Gains and losses arising from disposal of intangible assets are recognised in the statement of financial performance in the period in which the transaction occurs.

Intangible assets with finite lives are reviewed annually to determine if there is any indication of impairment. Where an intangible asset's recoverable amount is less than its carrying amount, it is reported at its recoverable amount and an impairment loss is recognised. Losses resulting from impairment are reported in the statement of financial performance.

[8] The estimated useful life herein described is provided for illustrative purposes only and may not reflect the actual useful lives of intangible assets owned by FGOM.

Appendix B Illustrative Financial Statements (continued)

Note 2: Accounting Policies (continued)

(c) Summary of significant accounting policies (continued)

(xiii) Leases

Finance leases transfer, to FGOM as lessee, substantially all the risks and rewards incidental to the ownership of a leased asset. Initial recognition of a finance lease results in an asset and liability being recognised at amounts equal to the lower of the fair value of the leased property or the present value of the minimum lease payments. The capitalised values are amortised over the period in which FGOM expects to receive benefits from their use.

Operating leases, where the lessor substantially retains the risks and rewards of ownership, are recognised in a systematic manner over the term of the lease. Leasehold improvements are capitalised and the cost is amortised over the unexpired period of the lease or the estimated useful life of the improvements, whichever is shorter. Lease incentives received are recognised evenly over the term of the lease as a reduction in rental expense.

(xiv) Other Liabilities and Provisions

Other liabilities and provisions are recorded at the best estimate of the expenditure required to settle the obligation. Liabilities and provisions to be settled beyond twelve months are recorded at the present value of their estimated future cash outflows.

(xv) Contingent Liabilities and Contingent Assets

Contingent liabilities and contingent assets are reported at the point at which the contingency is evident. Contingent liabilities are disclosed if the possibility that they will crystallise is not remote. Contingent assets are disclosed if it is probable that the benefits will be realised.

Appendix B Illustrative Financial Statements (continued)

Note 3: Revenue

	20X1	
	Actual RM	*Actual* RM
Taxation Revenue		
Income tax	x	x
Other direct taxes	x	x
Customs duties	x	x
Excise duties	x	x
Sales tax	x	x
Service tax	x	x
Levy	x	x
Miscellaneous indirect taxes	x	x
	X	X
Non-taxation Revenue		
Licenses, registration fees and permit	x	x
Service and services fees	x	x
Sales of goods	x	x
Rentals	x	x
Interest income	x	x
Dividends received from investments	x	x
Fines and penalties	x	x
Exploration of oil and gas	x	x
	X	X

All interest income earned during the financial year are attributed to financial assets measured at amortised cost.

	20X1	
	Actual RM	*Actual* RM
Miscellaneous Income		
Fair value gains on investment properties (Note 14)	x	x
[*Specify*]	*x*	*x*
[*Specify*]	*x*	*x*
	X	X
Federal Territories Revenue		
Tax revenue from Federal Territories	x	x
Non-tax revenue from Federal Territories	x	x
	X	X
Total Revenue	XX	XX

Appendix B Illustrative Financial Statements (continued)

Note 4: Expenses

The following items have been included in arriving at total expenses for the financial year:

(a) Wages, salaries and employee benefits

	20X1	
	Actual RM	*Actual* RM
Salaries and wages	x	x
Allowance and fixed emoluments	x	x
Contributions to defined contribution plan	x	x
Overtime payment	x	x
Other financial benefits	x	x
[*Specify*]	*x*	*x*
[*Specify*]	*x*	*x*
	X	X

(b) Supplies and consumables used

	20X1	
	Actual RM	*Actual* RM
Transportation	x	x
Communications and utilities	x	x
Spares	x	x
Office supplies	x	x
Professional fees	x	x
[*Specify*]	*x*	*x*
[*Specify*]	*x*	*x*
	X	X

(c) Depreciation and amortisation

	20X1	
	Actual	*Actual*
Depreciation expense		
Buildings	x	x
Aircrafts	x	x
Other plant and equipment	x	x
[*Specify*]	*x*	*x*
[*Specify*]	*x*	*x*
Total depreciation expense	x	x
Amortisation of intangible assets	x	x
[*Specify*]	*x*	*x*
[*Specify*]	*x*	*x*
Total depreciation and amortisation	X	X

Appendix B Illustrative Financial Statements (continued)

Note 4: Expenses (continued)

(d) Impairment of assets

	20X1	
	Actual RM	*Actual* RM
Impairment of financial assets		
- Held-to-maturity	x	x
- Loans and receivables	x	x
- Available for sale	x	x
	x	x
Impairment of property, plant and equipment	x	x
Impairment of intangible assets	x	x
	X	X

(e) Finance cost

All finance cost incurred during the financial year are interest expenses arising from borrowings measured at amortised cost.

COMMENTARY

Note 4 illustrates the analysis of five different expense items only. Preparers should expand the extent by analysing all material expenses, where appropriate.

Appendix B Illustrative Financial Statements (continued)

Note 5: Cash and Cash Equivalents

Cash and cash equivalents at the end of the financial year comprises:

	20X1	
	Actual	*Actual*
	RM	RM
Cash at banks	x	x
Petty cash	x	x
Short term deposits:		
- Licensed banks	x	x
- Crown agent	x	x
- Other financial institutions	x	x
[*Specify*]	*x*	*x*
[*Specify*]	*x*	*x*
	X	X

Cash at banks do not earn any interest. Short term deposits are made for varying periods of between [ ] months and [ ] months depending on the immediate cash requirements of FGOM, and earn interests at the respective short term deposit rates. The weighted average effective interest rates as at 31 December 20X2 was [ ]% per annum (20X1: [ ]% per annum).

Cash at banks and short term deposits with licensed banks amounting to RM[ ] and RM[ ] respectively (20X1: RM[ ] and RM[ ] respectively) are monies held in trust and hence, the utilisation is restricted in accordance with the relevant laws or trust deeds.

Note 6: Recoverable from Taxes and Transfers

	20X1	
	Actual	*Actual*
	RM	RM
Current		
Taxes recoverable	x	x
Levies receivable	x	x
Fines and penalties receivable	x	x
[*Specify*]	*x*	*x*
[*Specify*]	*x*	*x*
	x	x
Non-current		
Taxes recoverable	x	x
Levies receivable	x	x
Fines and penalties receivable	x	x
[*Specify*]	*x*	*x*
[*Specify*]	*x*	*x*
	x	x
Total recoverable from taxes and transfers	X	X

Appendix B Illustrative Financial Statements (continued)

Note 6: Recoverable from Taxes and Transfers (continued)

In determining the recoverability of taxes and transfers, FGOM uses information derived from statistical methods about the extent to which the tax or levy payer is contesting the assessment and experience of the outcomes of such disputes, from lateness of payment, and other information obtained from credit collection actions taken. Due to the size of the tax base, the concentration of credit risk is limited and this is not a risk that is managed.

FGOM does not hold any collateral or any other credit enhancements over receivables which are past due.

All recoverable from taxes and transfers are denominated in Malaysian Ringgit.

(a) Taxes recoverable

The Inland Revenue Board ('IRB') and Royal Malaysian Customs ('RMC') administer the taxes recoverable portfolios of direct taxes and indirect taxes respectively. The recoverable amounts are calculated by forecasting the expected repayments based on analysis of historical debt data, deducting the estimate of service costs and discounting at the current market rate. If the recoverable amounts are less than the carrying amounts, the carrying amounts are reduced to the recoverable amounts.

Taxes recoverable are classified as past due when any outstanding tax is not paid by the taxpayer's due date. Due dates will vary depending on the type of tax outstanding and the taxpayer's balance date. Past due debt includes debt collected under instalment, debt under dispute, default assessments and debts of taxpayers who are bankrupt, in receivership or in liquidation. Both the IRB and RMC have debt management policies and procedures to actively manage the collection of past due debt.

The carrying amounts of taxes recoverable provide a reasonable approximation of their fair values.

The ageing analysis of taxes recoverable past due are as follows:

	20X2	20X1
	RM	RM
Less than 6 months	x	x
6 months to 1 year	x	x
1 to 2 years	x	x
More than 2 years	x	x
	X	X

COMMENTARY

Quantitative disclosures on risk exposure, as required by MPSAS 30, should be made for each type of risk arising from financial instruments. The illustration provided above uses taxes recoverable and its associated credit risk as an example.

Appendix B Illustrative Financial Statements (continued)

Note 7: Receivables

	20X1	
	Actual	*Actual*
	RM	RM
Current		
Trade receivables	x	x
less: Allowance for impairment	(x)	(x)
Trade receivables, net	x	x
Staff loans	x	x
Concessionary loans	x	x
Interest receivable	x	x
Deposits	x	x
[*Specify*]	*x*	*x*
[*Specify*]	*x*	*x*
	x	x
Non-current		
Staff loans	x	x
Concessionary loans	x	x
Deposits	x	x
[*Specify*]	*x*	*x*
[*Specify*]	*x*	*x*
	x	x
Total receivables	X	X

(a) Trade receivables

Trade receivables are non-interest bearing and are generally on [ ] day to [ ] month terms (20X1: [ ] day to [ ] month). They are recognised at fair values at initial recognition. For amounts expected to be recovered within twelve months, they are recognised at their original invoice amounts. Otherwise, they are recognised at present value of the original invoice amounts. Trade receivables are denominated in Malaysian Ringgit. The ageing analysis of trade receivables (at gross) are as follows:

	20X2	20X1
	RM	RM
Neither past due nor impaired	x	x
1 to 3 months	x	x
3 to 6 months	x	x
6 to 12 months	x	x
More than 12 months	x	x
	x	x
Impaired	x	x
	X	X

Appendix B Illustrative Financial Statements (continued)

Note 7: Receivables (continued)

(a) Trade receivables (continued)

Concentration of credit risk is limited and this is not a risk that is managed.

Trade receivables that are impaired at the end of the financial year and the movement of the allowance accounts used to record the impairment are as follows:

	20X2	20X1
	RM	RM
Collectively impaired		
Trade receivables, gross	x	x
less: Allowance for impairment	(x)	(x)
	x	x
Individually impaired		
Trade receivables, gross	x	x
less: Allowance for impairment	(x)	(x)
	x	x
Total		
Trade receivables, gross	x	x
less: Allowance for impairment	(x)	(x)
	x	x
Movement in allowance account		
At 1 January	x	x
- Charge for the financial year	x	x
- Written-off	(x)	(x)
- Reversal of impairment losses	(x)	(x)
At 31 December	x	x

(b) Staff loans

Breakdown at the end of the financial year are as follows:

	20X2	20X1
	RM	RM
Housing loan	x	x
Computer loan	x	x
Car loan	x	x
[*Specify*]	x	x
[*Specify*]	x	x
	x	x

Appendix B Illustrative Financial Statements (continued)

Note 7: Receivables (continued)

(b) Staff loans

The loans are recognised initially at fair value and bear interests of 4% per annum. Other than computer loan and miscellaneous staff loans, which are unsecured, all other loans are secured by way of a charge over the relevant asset in favour of FGOM. Staff loans are denominated in Malaysian Ringgit.[9]

Credit risk over the staff loans is insignificant as the outstanding amounts are recovered on monthly basis through payroll deductions.

(c) Concessionary loans

Concessionary loans are granted to State Governments and are interest free. On initial recognition, the difference between the fair value (based on market terms) and the loan proceeds is treated as an expense in surplus or deficit (Note 4 to the financial statements[10])

Note 8: Inventories

	20X1	
	Actual RM	*Actual* RM
At cost		
Inventories held for sale	x	x
Military inventories	x	x
Other consumables	x	x
[*Specify*]	*x*	*x*
[*Specify*]	*x*	*x*
	x	x
At net realisable value		
Inventories held for sale		
[*Specify*]	*x*	*x*
[*Specify*]	*x*	*x*
	x	x

[9] To tailor accordingly based on the risk exposure and risk management policies of FGOM.
[10] The corresponding expense item is not illustrated in Note 4

Appendix B Illustrative Financial Statements (continued)

Note 8: Inventories (continued)

	20X1	
	Actual	*Actual*
	RM	RM
At current replacement cost		
Military inventories	x	x
[*Specify*]	*x*	*x*
[*Specify*]	*x*	*x*
	x	x
Total inventories	X	X

Amount of inventories recognised in the surplus or deficit as cost of goods sold during the financial year was RM[ ] (20X1: RM[ ]). Write down of inventories during the year amounted to RM[ ] (20X1: RM[ ]).

Note 9: Investments in Controlled Entities

	20X1	
	Actual	*Actual*
	RM	RM
At cost	x	x
less: Impairment	(x)	(x)
	X	X

Name	**Country of incorporation**	**Principal activities**	**Proportion of ownership** 20X2	20X1
			%	%
[*Specify*]	[*Specify*]	[*Specify*]	*x*	*x*
[*Specify*]	[*Specify*]	[*Specify*]	*x*	*x*

Appendix B Illustrative Financial Statements (continued)

Note 10: Investments in Jointly Controlled Entities

	20X1	
	Actual	*Actual*
	RM	RM
At cost	x	x
less: Impairment	(x)	(x)
	X	X

Name	Country of incorporation	Principal activities	Proportion of ownership 20X2	Proportion of ownership 20X1
			%	%
[*Specify*]	[*Specify*]	[*Specify*]	*x*	*x*
[*Specify*]	[*Specify*]	[*Specify*]	*x*	*x*

Note 11: Investments in Associates

	20X1	
	Actual	*Actual*
	RM	RM
At cost	x	x
less: Impairment	(x)	(x)
	X	X

Name	Country of incorporation	Principal activities	Proportion of ownership 20X2	Proportion of ownership 20X1
			%	%
[*Specify*]	[*Specify*]	[*Specify*]	*x*	*x*
[*Specify*]	[*Specify*]	[*Specify*]	*x*	*x*

Appendix B Illustrative Financial Statements (continued)

Note 12: Other Financial Assets

	20X1	
	Actual RM	*Actual* RM
Held-to-maturity financial assets	x	x
Available-for-sale financial assets		
- Quoted equity securities	x	x
- Unquoted equity securities	x	x
	X	X

Held-to-maturity financial assets, comprising investments in debt securities, have interest rates of [ ]% to [ ]% (20X1: [ ]% to [ ]%) per annum and mature in [ ] to [ ] years.

FGOM holds investments in quoted equity securities. The fair value of quoted equity securities is determined by reference to published price quotations in an active market.

In addition, FGOM also holds non-controlling interests in non-listed entities, where it has entered into research collaboration. Due to the absence of quoted market prices and the inability to reliably estimate the fair value, investments in unquoted equity securities are measured at cost less accumulated impairment losses.

Appendix B Illustrative Financial Statements (continued)

Note 13: Property, Plant and Equipment

	Original Budget RM	**Revised Budget** RM	**Land and buildings** RM	**Specialised military equipment** RM	**Aircrafts** RM	**Other plant and equipment** RM	[*Specify*] RM	**Total** RM
Net book value								
At 1 January 20x2	x	x	x	x	x	x	*x*	xx
- Additions	x	x	x	x	x	x	*x*	xx
- Disposals	(x)	(x)	(x)	(x)	(x)	(x)	*(x)*	(xx)
- Depreciation charges	(x)	(x)	(x)	(x)	(x)	(x)	*(x)*	(xx)
At 31 December 20x2	X	X	X	X	X	X	*X*	XX
At 1 January 20x1	x	x	x	x	x	x	*x*	xx
- Additions	x	x	x	x	x	x	*x*	xx
- Disposals	(x)	(x)	(x)	(x)	(x)	(x)	*(x)*	(xx)
- Depreciation charges	(x)	(x)	(x)	(x)	(x)	(x)	*(x)*	(xx)
At 31 December 20x1	X	X	X	X	X	X	*X*	XX
At 31 December 20x2								
Cost / Valuation	x	x	x	x	x	x	*x*	xx
Accumulated depreciation	(x)	(x)	(x)	(x)	(x)	(x)	*(x)*	(xx)
Net book value	X	X	X	X	X	X	*X*	XX
At 31 December 20x1								
Cost / Valuation	x	x	x	x	x	x	*x*	xx
Accumulated depreciation	(x)	(x)	(x)	(x)	(x)	(x)	*(x)*	(xx)
Net book value	X	X	X	X	X	X	*X*	XX
At 1 January 20x1								
Cost / Valuation	x	x	x	x	x	x	*x*	xx
Accumulated depreciation	(x)	(x)	(x)	(x)	(x)	(x)	*(x)*	(xx)
Net book value	X	X	X	X	X	X	*X*	XX

Appendix B Illustrative Financial Statements (continued)

Note 13: Property, Plant and Equipment (continued)

(a) Assets under construction

FGOM's land building at the end of the financial year included RM[ ] (20X1: RM[ ]) which relate to expenditure for infrastructures in the course of construction.

(b) Capitalisation of borrowing costs

FGOM's land and building include borrowing costs arising from loans borrowed specifically for the purpose of the construction of infrastructure. During the financial year, the borrowing costs capitalised as cost of land and building amounted to RM[ ] (20X1: RM[ ]).

(c) Assets held under finance leases

The carrying amount of land and buildings held under finance leases (Note 19 to the financial statements) at the reporting date was RM[ ] (20X1: RM[ ]).

(d) Assets pledged as securities

Certain land and building with a carrying amount of RM[ ] (20X1: RM[ ]) are pledged to securities for a financing facilities extended to FGOM, as disclosed in Note 19 to the financial statements.

Note 14: Investment Properties

	20X1	
	Actual RM	*Actual* RM
At 1 January	x	x
- Additions from acquisition	x	x
- Additions from subsequent expenditure	x	x
- Fair value gains recognised in surplus or deficit	x	x
At 31 December	X	X

Appendix B Illustrative Financial Statements (continued)

Note 14: Investment Properties (continued)

(a) Valuation of investment properties

Investment properties are stated at fair value, which has been determined based on valuations at the reporting date. Valuations are performed by accredited valuers with recent experience in the location and category of properties being valued.[11] The valuations are based on the income method that makes reference to estimated market rental values and equivalent yields.

(b) Assets pledged as securities

Certain investment properties with a carrying amount of RM[ ] (20X1: RM[ ]) are pledged to securities for a financing facilities extended to FGOM, as disclosed in Note 19 to the financial statements.

Note 15: Intangible Assets

	Development Costs	**Brands**	[*Specify*]	**Total**
	RM	RM	RM	RM
Net book value				
At 1 January 20X2	x	x	*x*	xx
- Additions	-	x	*x*	x
- Internal development	x	-	*x*	x
- Amortisation	(x)	-	*(x)*	(x)
- Impairment loss	-	(x)	*(x)*	(x)
At 31 December 20X2	X	X	*X*	XX
At 1 January 20X1	x	x	*x*	xx
- Additions	-	x	*x*	x
- Internal development	x	-	*x*	x
- Amortisation	(x)	-	*(x)*	(x)
- Impairment loss	-	(x)	*(x)*	(x)
At 31 December 20X1	X	X	*X*	XX
At 31 December 20X2				
Cost	x	x	*x*	xx
Accumulated amortisation and accumulated impairment losses	(x)	(x)	*(x)*	(x)
Net book value	X	X	*X*	XX

[11] An entity is encouraged but not required to determine fair value on the basis of a valuation by an independent valuer who holds a recognised and relevant professional qualification. If there has been no such valuation performed by an independent valuer, that fact should be disclosed.

Appendix B Illustrative Financial Statements (continued)

Note 15: Intangible Assets (continued)

	Development Costs RM	Brands RM	[*Specify*] RM	Total RM
At 31 December 20X1				
Cost	x	x	*x*	xx
Accumulated amortisation and accumulated impairment losses	(x)	(x)	*(x)*	(x)
Net book value	X	X	*X*	XX
At 1 January 20X1				
Cost	x	x	*x*	xx
Accumulated amortisation and accumulated impairment losses	(x)	(x)	*(x)*	(x)
Net book value	X	X	*X*	XX

(a) Development Costs

FGOM research and development initiatives are concentrated on the development of e-Government applications, which have an average remaining amortising period of [ ] years (20X1: [ ] years). All research costs and development costs not eligible for capitalisation have been expensed to the surplus or deficit.

(b) Brands

Brands relate to the [*specify*] brand name acquired in 20X1 and [*specify*] brand name acquired during the year in respect of FGOM's tourism-related initiatives. The useful life of these brands is estimated to be indefinite.

Note 16: Payables under Exchange Transactions

	20X1	
	Actual RM	*Actual* RM
Trade payables	x	x
Other payables	x	x
Accruals	x	x
Interest payable	x	x
[*Specify*]	*x*	*x*
[*Specify*]	*x*	*x*
	X	X

Appendix B Illustrative Financial Statements (continued)

Note 16: Payables under Exchange Transactions (continued)

Terms and conditions of the above financial liabilities:

- Trade payables and other payables are non-interest bearing and are normally settled on [ ]-day terms.
- Interest payable is normally settled quarterly throughout the financial year.

Note 17: Taxes Payable

	20X1	
	Actual RM	*Actual* RM
Taxes payable	x	x
[*Specify*]	*x*	*x*
[*Specify*]	*x*	*x*
	x	x

Taxes repayable represent refunds due to the taxpayer as a result of assessments being filed. Refunds are issued to taxpayers once account and refund reviews are complete. The carrying value is a reasonable approximation of the fair value for taxes repayable.

Note 18: Provisions

	Unutilised Compensated Absences RM	**Legal Claims** RM	[*Specify*] RM	**Total** RM
At 1 January 20X2	x	-	*x*	xx
- Arose during the financial year	x	x	*x*	x
- Utilised	(x)	-	*x*	(x)
- Unused amounts reversed	(x)	-	*(x)*	(x)
At 31 December 20X2	X	X	*X*	XX

Appendix B Illustrative Financial Statements (continued)

Note 18: Provisions (continued)

(a) Unutilised Compensated Absences

A provision is recognised for unutilised accumulating compensated absences when compensated absences are carried forward to be used in future periods, based on the expected amount of additional payments that are expected to arise solely from the accumulation of benefits due to the employees.

(b) Legal Claims

On 30 June 20X2, a group of citizens made various claims at the High Court of Malaya against FGOM for alleged sub-standard medical care in a public hospital. At the reporting date, FGOM is in the process of negotiating a settlement agreement with the plaintiffs. The provision made represents FGOM's estimate of the settlement consideration. The settlement and compensation are expected to be concluded in 20X3.

Note 19: Borrowings

	20X1	
	Actual RM	*Actual* RM
Current (secured)		
Finance leases (Note 21(c))	x	x
Loans:		
- Treasury bills	x	x
- Malaysian Government Securities	x	x
[*Specify*]	*x*	*x*
	x	x
Non-current (secured)		
Finance leases (Note 21(c))	x	x
Loans:		
- Malaysian Government Securities	x	x
- Market loan	x	x
- Sukuk	x	x
[*Specify*]	*x*	*x*
	x	x
Total borrowings	X	X

Appendix B Illustrative Financial Statements (continued)

Note 19: Borrowings (continued)

(a) Finance leases

These obligations are secured by a charge over the leased assets (Note 13). The average discount rate implicit in the leases is [ ]% (20X1: [ ]%) per annum. These obligations are denominated in Malaysian Ringgit.

(b) Treasury bills

This loan is secured by a first charge over certain land and buildings (Note 13) and is repayable in full on 25 March 20X3. The average interest rate of this loan is [ ]% (20X1: [ ]%) per annum. Treasury bills are denominated in Malaysian Ringgit.

(c) Malaysian Government Securities

Malaysian Government Securities are denominated in Malaysian Ringgit, and is secured by a first charge over certain investment properties (Note 14). This loan is repayable over ten equal semi-annual instalments due between 30 June 20X3 and 31 December 20X7. The average interest rate of this loan is [ ]% (20X1: [ ]%) per annum.

(d) Market loan

This loan is denominated in United States Dollar and is secured by a first charge over certain investment properties (Note 14). This loan bears an interest of [ ]% (20X1: [ ]%) per annum, and is repayable on 31 December 20X5.

(e) Sukuk

Sukuk is secured by a first charge over certain land and buildings (Note 13) and is denominated in Malaysian Ringgit. The average profit rate of Sukuk is [ ]% (20X1: [ ]%) per annum, and is repayable on 31 December 20X4.

Appendix B Illustrative Financial Statements (continued)

Note 20: Pension Plan and Gratuity

FGOM operates a defined benefit retirement plan for pensionable employees. The employees' entitlements are defined in the Pensions Act, 1980 [*Act 227*]. The pension and gratuity obligation has been calculated by FGOM Actuary as at 31 December 20X2. A Projected Unit Credit Method is used for the valuation. This method requires the benefits payable in respect of past service to be estimated and then discounted back to the valuation date.

Amounts recognised in the financial statements in respect of the pension and gratuity obligation is as follows:

	20X1	
	Actual RM	*Actual* RM
Net benefit expense		
Current service cost	x	x
Interest cost on benefit obligations	x	x
Expected return on plan assets	x	x
Net actuarial (gains)/losses	(x)	x
Net benefit expense	x	x
Actual return on plan assets	x	x
Benefit liability		
Defined benefit obligation	x	x
Fair value of plan assets	(x)	(x)
	x	x
Unrecognised actuarial losses	(x)	(x)
Unrecognised past service cost	(x)	(x)
Benefit liability	x	x
Changes in the present value of the defined benefit obligation are as follows:		
Defined benefit obligations at 1 January	x	x
Interest cost	x	x
Current service cost	x	x
Benefits paid	(x)	(x)
Actuarial losses on obligations	x	x
Defined benefit obligations at 31 December	x	x

Appendix B Illustrative Financial Statements (continued)

Note 20: Pension Plan and Gratuity (continued)

Changes in the fair value of plan assets are as follows:

	20X1	
	Actual	*Actual*
	RM	RM
Fair value of plan assets at 1 January	x	x
Expected return	x	x
Contributions by FGOM	x	x
Benefits paid	(x)	(x)
Actuarial losses	(x)	(x)
Fair value of plan assets at 31 December	x	x

In accordance with Section 12B of the Pensions Act, 1980 [*Act 227*], FGOM shall make contributions at the rate of 17.5% of the pensionable employees' salary. FGOM expects to make a total contribution of RM[ ] in 20X3.

The plan assets include properties occupied by FGOM with a fair value of RM[ ] (20X1: RM[ ]).

The overall expected rate of return on assets is determined based on the market expectations prevailing on that date, applicable to the period over which the obligation is to be settled. These are reflected in the principal assumptions below.

The principal assumptions used for the purpose of actuarial valuations are shown below:

	20X2	20X1
	Actual	*Actual*
	%	%
For following year		
Discount rate	x	x
Expected return on plan assets	x	x
Expected rate of salary increases	x	x
Expected rate of inflation	x	x
Beyond next year		
Discount rate	x	x
Expected return on plan assets	x	x
Expected rate of salary increases	x	x
Expected rate of inflation	x	x

Appendix B Illustrative Financial Statements (continued)

Note 20: Pension Plan and Gratuity (continued)

Historical Analysis

Amounts for the current and previous four financial years are as follows:

	20X2	20X1	20X0	20X9	20X8
	RM	RM	RM	RM	RM
Defined benefit obligation	x	x	x	x	x
Fair value of plan assets	(x)	(x)	(x)	(x)	(x)
Present value of unfunded defined benefit obligations	x	x	x	x	x
Experience adjustments on:					
- plan liabilities	x	x	x	x	x
- plan assets	x	x	x	x	x
Changes in actuarial assumptions	x	x	x	x	x

Sensitivity Analysis

The present value of the pension and gratuity obligation is sensitive to underlying assumptions such as the discount rate, inflation rates, and expected salary increases. If the discount rate was to change in isolation, this would impact the measurement of pension and gratuity obligation, as follows:

	20X2	20X1
	Actual	*Actual*
	RM	RM
Discount rate: +1%	x	x
Discount rate: -1%	x	x

[*To disclose additional sensitivity analysis for changes in other assumptions that may affect the pension obligation estimates*]

Appendix B Illustrative Financial Statements (continued)

Note 21: Commitments

(a) Operating lease commitments (as lessee)

FGOM has entered into commercial leases of certain office space. These leases have an average tenure of three to six years with no renewal option or contingent rent provision included in the contracts. Minimum lease payments recognised in surplus or deficit during the financial year amounted to RM[ ] (20X1: RM[ ]).

Future minimum rentals payable under non-cancellable operating leases at the reporting date are as follows:

	20X2 *Actual* RM	20X1 *Actual* RM
Not later than 1 year	x	x
Later than 1 year but not later than 5 years	x	x
Later than 5 years	x	x
	x	x

(b) Operating lease commitments (as lessor)

FGOM has entered into commercial property leases on its investment properties. These non-cancellable leases have remaining lease terms of between two and eight years.

Future minimum rentals receivable under non-cancellable operating leases at the reporting date are as follows:

	20X2 *Actual* RM	20X1 *Actual* RM
Not later than 1 year	x	x
Later than 1 year but not later than 5 years	x	x
Later than 5 years	x	x
	x	x

Appendix B Illustrative Financial Statements (continued)

Note 21: Commitments (continued)

(c) Finance lease commitments

FGOM has finance leases for certain items of plant and equipment and motor vehicles. These leases do not have terms of renewal, but some of the contracts have purchase options at nominal values at the end of the lease term.

Future minimum rentals payable under finance leases together with the present value of the net minimum lease payments at the reporting date are as follows:

	20X2 *Actual* RM	20X1 *Actual* RM
Minimum lease payments:		
Not later than 1 year	x	x
Later than 1 year but not later than 5 years	x	x
Later than 5 years	x	x
Total minimum lease payments	x	x
Less: Finance charges	(x)	(x)
Present value of minimum lease payments	x	x
Present value of payments:		
Not later than 1 year	x	x
Later than 1 year but not later than 5 years	x	x
Later than 5 years	x	x
Present value of minimum lease payments	x	x
Less: Amount due within 12 months (Note 19)	(x)	(x)
Amount due after 12 months	x	x

(d) Capital commitments

Capital expenditure which have been approved and contracted for as at the reporting date are as summarised below:

	20X2 *Actual* RM	20X1 *Actual* RM
Property, plant and equipment	x	x
Investment properties	x	x
Intangible assets	x	x
	x	x

Appendix B Illustrative Financial Statements (continued)

Note 22: Contingencies

(a) Contingent liability

On 30 September 20X2, a citizen commenced an action against FGOM in respect of damaged goods, allegedly caused by mishandling by the authorities. The estimated payout is RM[ ] should the action be successful. A trial date has not yet been set and therefore it is not practicable to state the timing of any payment. FGOM has been advised by the Attorney-General Chambers that it is possible, but not probable, that the action will succeed and accordingly no provision for any liability has been made in the financial statements.

(b) Contingent asset

A legal claim of RM[ ] was lodged against a contractor by FGOM in respect of construction works claimed to be sub-standard. Based on the advice from the Attorney-General Chambers, FGOM is confident that the dispute will be settled in its favour.

Appendix B Illustrative Financial Statements (continued)

Note 23: Trust Accounts

Trust accounts comprises:

	Government Trust				**Public Trust**				
	[*Specify*] RM	[*Specify*] RM	[*Specify*] RM	**Sub-total** RM	[*Specify*] RM	[*Specify*] RM	[*Specify*] RM	**Sub-total** RM	**Total** RM
At 1 January 20x2	*x*	*x*	*x*	x	*x*	*x*	*x*	x	xx
• Government's contribution into funds held under trust	*x*	*X*	*x*	x	-	-	-	x	xx
• Public contribution into funds held under trust	*x*	-	-	x	*x*	*x*	*x*	x	xx
• Receipts (eg interests/dividends/ticket sales/course fees)	*x*	*X*	*x*	x	*x*	*x*	*x*	x	xx
• Utilisation of funds held under trust	*(x)*	*(x)*	*(x)*	(x)	*(x)*	*(x)*	*(x)*	(x)	(xx)
At 31 December 20x2	*X*	*X*	*X*	X	*X*	*X*	*X*	X	XX
At 1 January 20x1	*x*	*X*	*x*	x	*x*	*x*	*x*	x	xx
• Government's contribution into funds held under trust	*x*	*X*	*x*	x	-	-	-	x	xx
• Public contribution into funds held under trust	*x*	-	-	x	*x*	*x*	*x*	x	xx
• Receipts (eg interests/dividends/ticket sales/course fees)	*x*	*X*	*x*	x	*x*	*x*	*x*	x	xx
• Utilisation of funds held under trust	*(x)*	*(x)*	*(x)*	(x)	*(x)*	*(x)*	*(x)*	(x)	(xx)
At 31 December 20x1	*X*	*X*	*X*	X	*X*	*X*	*X*	X	XX

Appendix B Illustrative Financial Statements (continued)

Note 24: Net Cash Flows from Operating Activities

	20X1	
	Actual RM	*Actual* RM
Surplus for the financial year	x	x
Adjustments for:		
Depreciation of property, plant and equipment	x	x
Amortisation of intangible assets	x	x
Impairment losses on intangible assets	x	x
Change in fair value of investment properties	x	x
Interest income	(x)	(x)
Finance cost	x	x
[*Specify*]	*x*	*x*
[*Specify*]	*x*	*x*
	x	x
Changes in receivables	x	x
Changes in payables	(x)	(x)
Changes in inventories	(x)	(x)
[*Specify*]	*x*	*x*
[*Specify*]	*x*	*x*
Cash generated from operations	x	x
Interest received	x	x
Interest paid	(x)	(x)
Grants paid	(x)	(x)
Trust payments	(x)	(x)
[*Specify*]	*x*	*x*
[*Specify*]	*x*	*x*
Net cash flows from operating activities	X	X

Note 25: Subsequent Events

On 5 March 20X3, parts of the State of Terengganu experienced serious floods. FGOM is likely to incur significant direct costs as a result. These costs will include:

- Repairs to Government owned infrastructure;
- Provision of social assistance, either through new or existing programmes; and
- Contributions towards the replacement of infrastructure owned by state and local governments.

The financial effects of this event cannot be reliably measured at this stage. Some costs will be covered by existing insurance arrangements.

Appendix B Illustrative Financial Statements (continued)

Note 26: Significant Accounting Judgements and Estimates

The preparation of financial statements requires FGOM to make judgements, estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities, and the disclosure of contingent liabilities and contingent assets at the end of the financial year. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

(a) Judgements made in applying accounting policies

In the process of applying the accounting policies detailed in Note 2(c) to the financial statements, FGOM has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

(i) Operating leases (as lessor)

FGOM has entered into commercial leases of office space vacated by various ministries in Kuala Lumpur. FGOM has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

(ii) Impairment of equity securities classified as available-for-sale financial assets

FGOM records impairment losses on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, FGOM evaluates, among other factors, historical share price movements and the duration and extent to which the fair value of an investment is less than its cost. Based on the judgement that a 'significant' decline is greater than 20%, and a 'prolonged' period as greater than 12 months, none of the available-for-sale equity investments were impaired during the financial year.

[**Note:** *The above is purely an illustration and should not be included in FGOM's financial statements without exercising the required judgement. The extent of this disclosure is dependent on the extent of judgements made in the preparation of financial statements. All material judgements with significant effects to the financial statements shall be disclosed.*]

Appendix B Illustrative Financial Statements (continued)

Note 26: Significant Accounting Judgements and Estimates (continued)

(b) Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Useful lives of plant and equipment

The costs of plant and equipment for healthcare services are depreciated on a straight-line basis over the assets' estimated economic useful lives. FGOM estimates the useful lives of these plant and equipment to be within [ ] to [ ] years. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets and hence, future depreciation charges could be revised.

(ii) Impairment of loans and receivables

FGOM assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, FGOM considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics.

[**Note:** *The above is purely an illustration and should not be included in FGOM's financial statements if they do not reflect the key estimations made in the preparation of financial statements. The extent of this disclosure is dependent on the extent of estimations made in the preparation of financial statements, as well as the significance of uncertainties in these estimations.*]

Appendix B Illustrative Financial Statements (continued)

Note 27: Financial Risk Management and Policies

FGOM is exposed to market, credit risk and liquidity risk. The relevant functions within the Ministry of Finance oversee the management of these risks. The policies for managing each of these risks are summarised below.

(a) Market risk

FGOM's activities expose it primarily to the financial risks of changes in interest rates, foreign exchange rates and equity markets. These risks are managed at portfolio level consistent with the policy purpose of the portfolio and risk management objectives. Detailed information on the exposure to market risk and policies for managing this risk are available in the separate financial statements prepared by the Manager for each portfolio.

FGOM's exposure to market risk reflects the combination of these portfolio management practices. While the activities of Bank Negara Malaysia collectively manage FGOM's core exposure to foreign exchange, there is no other centralised management of market or other risk.

There has been no change to the manner in which FGOM reporting entities that manage FGOM's portfolios, manage and measure risks from previous year. A variety of derivative financial instruments are used across the portfolios to manage exposure to interest rate, foreign currency and electricity sector risk including:

[*Provide examples*]

(i) Interest rate risk management

FGOM is exposed to interest rate risk as entities in FGOM borrow and invest funds at both fixed and floating interest rates. The risk is managed at the entity level in accordance with their capital objectives and risk management policies. These objectives and policies include maintaining an appropriate mix between fixed and floating rate borrowings, by the use of interest rate swap contracts and forward interest rate contracts.

[*To perform sensitivity analysis on the effects of increase/decrease of interest rates*]

(ii) Foreign currency risk management

FGOM undertakes transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts. The carrying amounts of FGOM's foreign currency denominated financial assets and financial liabilities translated to Malaysian Ringgit at the reporting date are as follows:

[*To present currency profile of all financial assets and financial liabilities*]

[*To perform sensitivity analysis on the effects of the strengthening/weakening of Malaysian Ringgit*]

Appendix B Illustrative Financial Statements (continued)

Note 27: Financial Risk Management and Policies (continued)

(b) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to FGOM. The carrying value of financial assets equates to the maximum exposure to credit risk as at balance date. Credit risk is managed in accordance with their capital objectives and risk management policies. These objectives and policies include limits to individual and industry counterparty exposure, collateral requirements, and counterparty credit ratings.

Concentrations of credit exposure classified by credit rating, geography and industry of the counterparty are provided in the following tables. The credit exposure of financial assets that are neither past due nor impaired is not materially different to the total credit exposure of FGOM.

[*To present concentration of credit exposure of financial assets based on how they are monitored, e.g. by credit rating, geographical or industry of counterparty*]

(c) Liquidity risk management

Liquidity risk refers to the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Liquidity risk is managed on an individual entity basis generally by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows.

The following table details FGOM's remaining contractual maturity for its financial liabilities. The table has been drawn up based on:

- the undiscounted cash flows of financial liabilities based on the earliest date on which FGOM can be required to pay; and
- both interest and principal cash flows.

[*To present ageing profile of all financial liabilities*]

FGOM has access to financing facilities, of which the total unused amount at 31 December 20X2 was RM[ ] (20X1: RM[ ]). FGOM expects to meet its obligations from operating cash flows, from the results of bond tenders, and proceeds of maturing financial assets.

COMMENTARY

The financial risk management and policies described above are presented for illustration purposes only and may not reflect the actual characteristics of FGOM's financial risk management and policies. Such disclosure shall be based on the facts and circumstances surrounding an entity's exposure to risks and how such risks are being managed.

Appendix C Property, Plant and Equipment Classification and Useful Lives

Categories	Useful life (Years)
Land and Building	
Land	
Leasehold Land	Lease term
Freehold Land	Infinity
Building	
Residential Building	25 – 50
Office Building	25 – 50
Others Building	25 – 50
Works and Infrastructure	
Land Transport Facilities	10 – 50
Air Transport Facilities	10 – 15
Water Transport Facilities	20 – 100
Public Park and Recreation	5 – 10
Drainage and Irrigation Facilities	50-100
Flood Control Facilities	20 – 100
Sewerage Facilities	20 – 100
Power Generating facilities	20 – 30
Machinery and Equipment	
Plant and Machinery	8 – 20
Office Equipment and Appliances	3 – 10
Furniture	3 – 10
ICT Equipment and Appliances	5 – 13
Communication Equipment and Appliances	3 – 20
Broadcasting and Musical Equipment and Appliances	3 – 38
Lab Equipment and Appliances	3 – 40
Environments Equipment and Appliances	3 – 10
Sports and Recreation Equipment and Appliances	5 – 10
Agriculture/Forestry/Marine Equipment & Appliances	5 – 25
Medical Equipment & Appliances	5 – 20
Security Equipment & Appliances	3 – 30
Engineering Equipment & Appliances	3 – 20
Defense assets	
Vehicles	
Robotic Vehicles	5 – 10
Cars	5 – 10
Bus	5 – 15
Motorcycles	5 -10
Lorry/Trucks	5 – 15
Boats and Ships	5 – 20
Aeroplanes and Helicopters	12 – 30
Others Vehicles	5 – 15
Assets under capital lease	
Category same as other PPE	Shorter of lease term or its useful life
Service concession asset	
Category same as other PPE	Same as other PPE
Life assets	
Dogs	3 – 10
Horses	3 – 15

Appendix D Transitional Notes

With the commencement of implementation of accrual accounting in 2015, entities will be required to account for economic events specific to their entities on: a) an accrual accounting basis and b) an appropriations basis.

Accrual Accounting

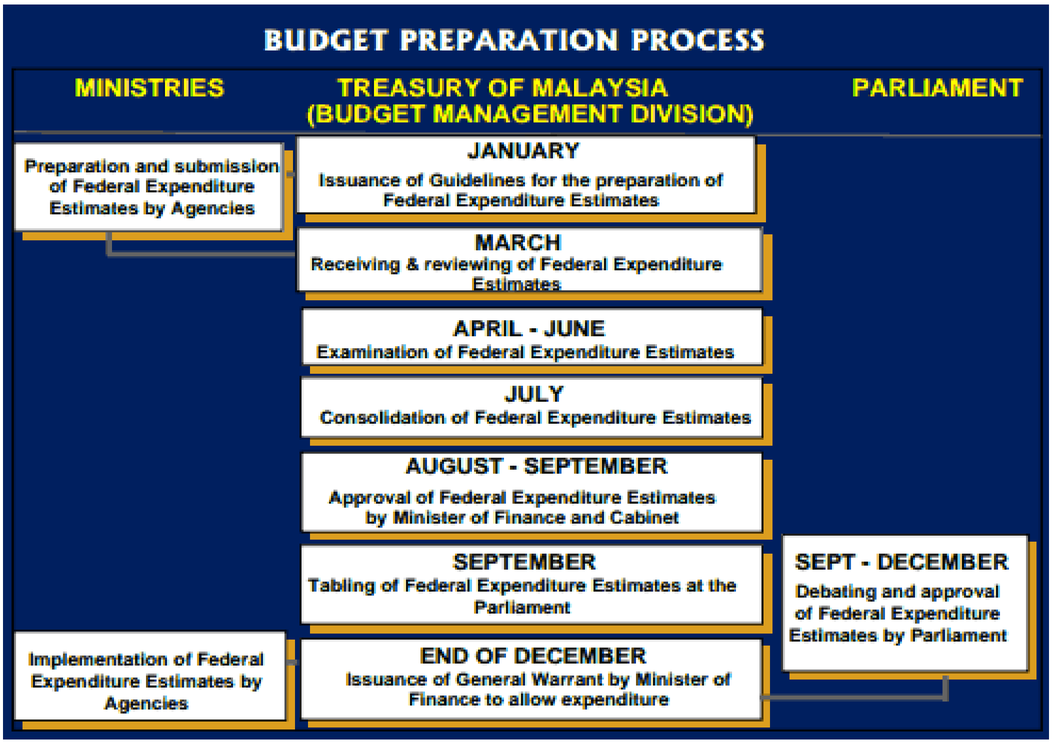
Accrual accounting recognizes transactions when the underlying economic event occurs, not just when cash is received or paid. In accrual accounting, transactions are classified as assets, liabilities, equity, revenues or expenses.

The objective of accrual accounting is to ensure that events that affect an entity's financial statements are recorded in the periods in which they occur, rather than in the periods in which the entity uses its appropriation. Accrual accounting means recognizing revenue when earned (rather than when cash is received) and recognizing expenses when incurred (rather than just when paid). Over the long run, trends in expenses and revenues, since they reflect the underlying economic consequences of operating decisions for a time period are generally more meaningful than trends in payments and cash receipts or charges to an appropriation.

The accrual basis provides users with information about matters such as the resources controlled by the entity, the cost of its operations and other information useful in assessing its financial position and changes in it over a particular time period, and in assessing whether a particular entity is operating economically and/or efficiently.

Accounting for Appropriations

An appropriation is an authority of Parliament to pay money out of the Consolidated Fund. The budget formulation process is as per below:



Appendix D Transitional Notes (continued)

As seen from the above diagram, the ministries will prepare and submit estimation of Federal Expenditure by agencies. The Finance Authority and Cabinet will review and examine the Federal Expenditure estimates. Federal Expenditure estimates that have been approved by the Finance Authority and the Cabinet will be tabled at the Parliament. The Parliament will then debate and approve the Federal Expenditure estimates deemed appropriate. A general warrant will be issued by the Finance Authority to allow expenditure by ministries.

An appropriation is required before funds can be spent by the entities. The expense appropriated must not exceed the approved limits authorized by a Supply Act or authorized by law in accordance with Article 102 of the Federal Constitution. The sums appropriated shall be accounted in the Consolidated Fund.

Appropriations from FGOM trust fund is governed by Trust Funds Act 1988. Public trust funds do not require appropriation as no budget was prepared and approval from parliament is not required. Management of public trust funds is governed by a trustee committee.

If in respect of any financial year it is found:

- that the amount appropriated by the Supply Act is insufficient, or that a need has arisen for expenditure for which no amount has been appropriated by the Supply Act; or
- that any moneys have been expended in excess of the amount (if any) appropriated by the Supply Act,

a supplementary estimate showing the sums required or spent shall be laid before the parliament and the purposes of any such expenditure shall be included in a Supply Bill.

Every warrant issued for the service of any financial year shall lapse and cease to have any effect at the close of one calendar month following the financial year. Payment for work performed, goods received, and services rendered or any other contractual arrangement prior to the end of the financial year authorized under the warrant shall be made during the one calendar month following the financial year. The expense should be properly chargeable to the accounts of that year also.

As a general rule, transactions are recorded against an appropriation on ‘cash basis’. However, there are certain expenditures which are not charged to an appropriation until a payment is required e.g. various allowance or provision accounts currently set up by entities such as employee benefit costs for accrued vacation pay, severance pay, etc.

Currently, accounting for the use of appropriations provides the Finance Authority with control over most expenditures of FGOM, for both amount and purpose. However, it does not give a complete financial picture of FGOM since it lacks information on assets and some liabilities and skews information on program costs. For example, if an entity purchases a building, the entity will record the full expenditure against a particular appropriation in the year acquired notwithstanding that the building will provide benefits over a number of years.

The Statement of Budget Performance is prepared in accordance to MPSAS 24 –Presentation of budget information in financial statement, on the appropriations basis with a comparison of the budget and actual amounts, as required by the Federal Constitution. Please refer to Chapter 4 – Presentation of Financial Statement for further illustration.

Appendix D Transitional Notes (continued)

Identifying Key Differences between Accrual Accounting and Accounting for Appropriations

In order to understand the primary differences between accrual accounting and accounting for the use of appropriations, terminology becomes increasingly important. It is necessary to distinguish between certain terms, to ensure that all users are consistent when describing a transaction, preparing a journal entry or providing rationale for various accounting treatments.

Expenditures versus Expenses

Expenditures may be cash outlays for capital assets (capital expenditures) or cash outlays for operating purposes (operating expenditures). A capital expenditure, for example the purchase of a vehicle, generally does not immediately result in an expense, although expenses will follow later as the asset is consumed and depreciation or amortization expenses are accrued. An operating expenditure may follow an expense.

Expenses, as per Accrual Accounting Policies, are defined as 'decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrence of liabilities that result in decreases in net assets/ equity, other than those relating to distributions to owners.'

To further clarify the difference, expenditure refers to the acquisition of a good or service whereas an expense refers to the use of the good or service acquired. For example, the acquisition cost of a tangible capital asset would be an expenditure and the amortization of the cost of that asset would be an expense in the statement of financial performance for the period. Conceptually, the cost of an asset is deferred and recognized as an amortization expense over the period when the assets are used in delivering government programs.

Revenues versus Receipts

Revenues, from an accrual accounting perspective, are defined as 'the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/ equity, other than increases relating to contributions from owners.' Revenues should be accounted for in the period in which the transactions or events occurred that gave rise to the revenues. For example, user fees should be recorded in the period the goods or services are provided, sales and excise taxes should be recorded in the period when the sales are made, and transfer payments for shared cost agreements should be recorded in the period the costs are incurred. Items not practicably measured until cash is received would be accounted for at that time. Accounting for all of government's revenues ensures that related financial assets are accounted for in the period they are created.

Revenue earned which is not yet collected in the year would be accounts receivable. Receipts refer to moneys received, whether through cash, cheque or by electronic transfer of funds.

Appendix E Concept of Consolidated Fund Accounts Before and After Migration

Before migration to accrual account

Before migration to accrual accounting, the FGOM accounts for transactions based on the cash basis of accounting. Cash basis of accounting recognised revenue when cash is received and recognised expenses when payments are made. The financial statements under the cash basis of accounting consist of different account balances in one consolidated fund.

In accordance to Section 7 of the Financial Procedure Act 1957, the Consolidated Fund consists of three separate accounts:

- The Consolidated Revenue Account which accounts for all receipts and payments of the Fund;
- The Consolidated Loan Account in which account shall be kept of all moneys received by way of loan upon the public credit of the Federation or of the State; and
- The Consolidated Trust Account in which account shall be kept of all moneys received subject to a trust and to be applied in accordance with the terms of the trust.

The consolidated funds only records cash movement i.e. cash inflow and cash outflow. The funds maintained a modified cash accounting whereby it did accrue for payments under Accounts Payable and receipts under Accounts Receivable separately.

After migration to accrual accounting

After migration, the concept of Consolidated Fund will still be maintained under the accrual basis of accounting but the three accounts under the Consolidated Fund will be treated as follows:

(a) Consolidated Revenue Account shall be closed and the balance as at the date of implementation shall be transferred to the Accumulated Surplus or Deficit in the Statement of Net Assets/Equity under General Funds.

(b) Consolidated Loan Account shall be closed and the balance as at the date of implementation shall be transferred to the Accumulated Surplus or Deficit in the Statement of Net Assets/Equity under General Funds.

(c) For Consolidated Trust Accounts, all balances of government trust accounts shall be shown as trust reserves and as a single line item in the Statement of Financial Position under Net Assets/Equity. Balances of public trust accounts and deposits shall be shown as liabilities as a single line item in statement of financial position.

A diagrammatic view of this concept is seen below:

Appendix E Concept of Consolidated Fund Accounts Before and After Migration (continued)

Before Migration	After Migration	FGOM
Consolidated Revenue Account Consolidated Loan Account	• General Funds	All transactions
Consolidated Trust Account	• Government Trust Account	All transactions
	• Public Trust Account	Unused funds/investment and liability
	• Deposits	Liability

The FGOM accounts will include all transactions under the general funds and government trust account. Public trust account will only include the unused cash/investment and liability as part of the FGOM financial statements. Deposits will form part of FGOM's financial liabilities.

Accounting for general fund, government trust account and public trust account will be differentiated by a system coding structure (Fund).

<u>Accounting for government trust account</u>

All payment and receipt transactions shall be accounted for by applying accrual basis of accounting.

Asset purchase including investment shall be debited as asset and not debited as expense to the trust account. Liability incurred shall be credited as liability and not credited as expense to trust account.

Expense incurred shall be debited as expense for the trust account. Revenue collected shall be credited as revenue to the trust account. Depreciation for trust fund's asset shall be debited as expense to the trust account.

Assets and liabilities including cash belonging to trust account shall be clearly identified by trust account.

Statement of Financial Performance and Financial Position shall be prepared for each of the trust accounts.

All revenues, expenses, assets and liabilities of the government trust accounts shall be consolidated with revenues, expenses, assets and liabilities of the General Fund for the preparation of FGOM.

The net assets/equity of government trust accounts shall be aggregated and reported separately as trust reserves and as a single line item in the Statement of Financial Position under Net Assets/Equity.

Appendix E Concept of Trust Accounts Before and After Migration (continued)

Accounting for public trust account

All payment and receipt transactions shall be accounted for by applying accrual basis of accounting.

Only financial asset purchased including investment shall be debited as asset and not debited as expense to the trust account. Non-financial asset purchased shall be expensed off and debited as expense to the trust account.

Financial liability incurred shall be credited as liability and not credited as expense to the trust account.

Expense incurred shall be debited as expense for to the trust account. Revenue collected shall be credited as revenue for the trust account.

Financial assets and financial liabilities including cash belonging to trust account shall be clearly identified by trust account (fund).

Statement of Financial Performance and Financial Position shall be prepared for each of the trust accounts.

All revenues, expenses, non-financial assets and non-financial liabilities of the public trust accounts shall not be consolidated with the revenues, expenses, non-financial assets and non-financial liabilities of the General Fund. Only financial assets and financial liabilities of the public trust accounts shall be consolidated with the assets and liabilities of the General Fund for the preparation of FGOM.

The balances of public trust accounts shall be aggregated and reported as liabilities and as a single line item in the Statement of Financial Position.

Accounting for deposits

All payment and receipt transactions shall be accounted for by applying accrual basis of accounting.

The balances of deposits shall be aggregated and reported as liabilities and as a single item in the Statement of Financial Position of FGOM.

Appendix E Concept of Trust Accounts Before and After Migration (continued)

Simulation E.1 – Composition of FGOM Statement of Financial Position

The following illustrates the composition of FGOM Statement of Financial Position which has been added for educational information purpose to complement the understanding of FGOM Statement of Financial Position as illustrated in 4.12. The following table need not be disclosed in the FGOM financial statements.

	FGOM 20X2	General funds	Government Trust Accounts (β – Sim. E.3.3)	Public Trust Accounts (μ - Sim E.5.3)
	(A + B + C)	(A)	(B)	(C)
	(RM)	(RM)	(RM)	(RM)
ASSETS				
Current assets				
Cash and cash equivalents	xx	xx	xx	xx
Recoverable from taxes and transfers	xx	xx	-	-
Receivables	xx	xx	xx	-
Inventories	xx	xx	xx	-
Prepayments	xx	xx	xx	-
Other current assets	xx	xx	Xx	-
Total current assets	**xx**	**xx**	**xx**	**xx**
Non-current assets				
Recoverable from taxes and transfers	xx	xx	-	-
Receivables	xx	xx	xx	-
Investments in controlled entities	xx	xx	xx	-
Investments in jointly controlled entities	xx	xx	xx	-
Investments in associates	xx	xx	xx	-
Other financial assets	xx	xx	xx	-
Property, plant and equipment	xx	xx	xx	-
Investment properties	xx	xx	xx	-
Intangible assets	xx	xx	xx	-
Other non-current assets	xx	xx	xx	-
Total non-current assets	xx	xx	xx	-
TOTAL ASSETS	**xx**	**xx**	**xx**	**xx**

Appendix E Concept of Trust Accounts Before and After Migration (continued)

Simulation E.1 – Composition of FGOM Statement of Financial Position (continued)

	FGOM 20X2 (A + B + C) (RM)	General funds (A) (RM)	Government Trust Accounts (β – Sim. E.3.3) (B) (RM)	Public Trust Accounts (± - Sim D5.3) (C) (RM)
LIABILITIES				
Current liabilities				
Payables under exchange transaction	xx	xx	xx	
Taxes and transfers payable	xx	xx	-	-
Provisions	xx	xx	xx	-
Borrowings	xx	xx	xx	
Pension plan and gratuity	xx	xx	-	-
Balance of obligation to public	xx	-	-	xx
Deposits				
Other financial liabilities	xx	-	-	-
Total current liabilities	**xx**	**xx**	**xx**	**xx**
Non-current liabilities				
Borrowings	xx	xx	xx	-
Pension plan and gratuity	xx	xx	-	-
Balance of obligation to public	xx	-	-	xx
Deposits				
Other financial liabilities	xx	-	-	-
Total non-current liabilities	**xx**	**xx**	**xx**	**xx**
TOTAL LIABILITIES	**xx**	**xx**	**xx**	**xx**
Net assets	**xx**	**xx**	**xx**	**-**
Accumulated surplus or deficit of general fund	xx	xx	-	-
Accumulated surplus or deficit of government trust account	xx	-	xx	-
Other reserves	xx	xx	-	-
Total Net Assets/Equity	**xx**	**xx**	**xx**	**-**

Appendix E Concept of Trust Accounts Before and After Migration (continued)

Simulation E.2 – Composition of FGOM Statement of Financial Performance

The following illustrates the composition of FGOM statement of financial performance which has been added for educational information purpose to complement the understanding of FGOM Statement of Financial Performance as illustrated in 4.18. The following table need not be disclosed in the FGOM financial statements.

	FGOM 20X2 (A + B) (RM)	General Funds (A) (RM)	Government Trust Accounts (α – Sim.E.4.3) (B) (RM)
Revenue			
Taxation revenue	xx	xx	-
Non-taxation revenue	xx	xx	xx
Federal territories revenue	xx	xx	-
Other revenue	xx	xx	xx
Total Revenue	**xx**	**xx**	**xx**
Expenses			
Wages, salaries and employee benefits	xx	xx	-
Supplies and consumables used	xx	xx	xx
Low value asset	xx	xx	xx
Grant and transfer expense	xx	xx	xx
Other expenses	xx	xx	xx
Depreciation and amortization expense	xx	xx	xx
Impairment of assets	xx	xx	xx
Rental expense	xx	xx	xx
Cost of goods sold	xx	xx	xx
Repair and maintenance of property, plant and equipment	xx	xx	xx
Finance costs	xx	xx	xx
Total Expenses	xx	xx	xx
Surplus or deficit for the year	**xx**	**xx**	**xx**

Appendix E Concept of Trust Accounts Before and After Migration (continued)

Simulation E.3 – Aggregation of Government Trust Accounts' Statement of Financial Position

Simulation E.3.1 – Aggregation of a Government Trust Account (i.e. Government Trust Account 1) into FGOM

	Government Trust Account 1 (* – Sim.E.3.3)		Treasury	Ministry
	(A + B)		(A)	(B)
	(RM)		(RM)	(RM)
ASSETS				
Cash	xx		xx	-
Property, plant and equipment	xx		-	xx
(Due to)/Due from	-		xx	(xx)
Work in progress	xx		-	xx
Loan receivable	xx		xx	-
Total assets	**xx**		**xx**	**xx**
LIABILITIES				
Payables under exchange transactions	xx		xx	-
Borrowings	xx		-	xx
Provisions	xx		-	xx
Total liabilities	**xx**		**xx**	**xx**
NET ASSET	**xx**		**xx**	**xx**
Accumulated surplus or deficit	xx		xx	xx
TOTAL NET ASSETS/EQUITY	**xx**		**xx**	**xx**

Simulation E.3 – Aggregation of Government Trust Accounts' Statement of Financial Position

Simulation E.3.2 – Aggregation of a Government Trust Account (i.e. Government Trust Account 2) into FGOM

	Government Trust Account 2 (∞ – Sim.E.3.3)		Treasury	Ministry
	(A + B)		(A)	(B)
	(RM)		(RM)	(RM)
ASSETS				
Cash	xx		xx	-
Property, plant and equipment	xx		-	xx
(Due to)/Due from	-		xx	(xx)
Work in progress	xx		-	xx
Loan receivable	xx		xx	-
Total assets	**xx**		**xx**	**xx**
LIABILITIES				
Payables under exchange transactions	xx		xx	-
Borrowings	xx		-	xx
Provisions	xx		-	xx
Total liabilities	**xx**		**xx**	**xx**
NET ASSET	**xx**		**xx**	**xx**
Accumulated surplus or deficit	xx		xx	xx
TOTAL NET ASSETS/EQUITY	**xx**		**xx**	**xx**

Appendix E Concept of Trust Accounts Before and After Migration (continued)

Simulation E.3.3 – Aggregation of all Government Trust Accounts into FGOM

The line items illustrated in the following statement is not exhaustive. Depending on the materiality of the items, separate line items may be created.

	Aggregated amount	***Individual government trust accounts***			
	FGOM (β – Sim.E.1)	**Government Trust Account 1 (* – Sim.E.3.1)**	**Government Trust Account 2 (∞ – Sim.E.3.2)**	***[To specify]***	***[To specify]***
	(A + B + C + D)	**(A)**	**(B)**	**(C)**	***(D)***
	(RM)	**(RM)**	**(RM)**	**(RM)**	**(RM)**
	20X2				
ASSETS					
Cash	xx	xx	xx	xx	xx
Property, plant and equipment	xx	xx	xx	xx	xx
Work in progress	xx	xx	xx	xx	xx
Loan receivable	xx	xx	xx	xx	xx
Due to / due from	xx	xx	xx	xx	xx
Total assets	xx	xx	xx	xx	xx
Liabilities					
Payables under exchange transactions	xx	xx	xx	xx	xx
Borrowings	xx	xx	xx	xx	xx
Total liabilities	**xx**	**xx**	**xx**	**xx**	**xx**
NET ASSET	**xx**	**xx**	**xx**	**xx**	**xx**
Accumulated surplus or deficit	xx	xx	xx	xx	xx
TOTAL NET ASSETS/EQUITY	**xx**	**xx**	**xx**	**xx**	**xx**

Appendix E Concept of Trust Accounts Before and After Migration (continued)

Simulation E.4 – Aggregation of Government Trust Accounts' Statement of Financial Performance

Simulation E.4.1 – Aggregation of a Government Trust Account (i.e. Government Trust Account 1) into FGOM

	Government Trust Account 1 (© - Sim.E.4.3)		Treasury	Ministry
	(A + B)		(A)	(B)
	(RM)		(RM)	(RM)
Revenue				
Transfer from General Fund – Loans Proceeds	xx		xx	-
Transfer from General Fund	xx		xx	-
Gain on disposal	xx		-	xx
Total Revenue	xx		xx	xx
Expenses				
Development expenditure	xx			xx
General expenses	xx		-	xx
Depreciation	xx		-	xx
Impairment	xx		-	xx
Surplus or deficit of the year	xx		xx	xx

Simulation E.4.2 – Aggregation of a Government Trust Account (i.e. Government Trust Account 2) into FGOM

	Government Trust Account 2- Sim.E.4.3)		Treasury	Ministry
	(A + B)		(A)	(B)
	(RM)		(RM)	(RM)
Revenue				
Transfer from General Fund – Loans Proceeds	xx		xx	-
Transfer from General Fund	xx		xx	-
Gain on disposal	xx		-	xx
Total Revenue	xx		xx	xx
Expenses				
Development expenditure	xx			xx
General expenses	xx		-	xx
Depreciation	xx		-	xx
Impairment	xx		-	xx
Surplus or deficit of the year	xx		xx	xx

Appendix E Concept of Trust Accounts Before and After Migration (continued)

Simulation E.4.3 – Aggregation of all Government Trust Accounts into FGOM

The line items illustrated in the following statement is not exhaustive. Depending on the materiality of the items, separate line items may be created.

	Aggregated amount	*Individual government trust accounts*			
	FGOM (α - Sim.E.2)	**Government Trust Account 1 (© - Sim E.4.1)**	**Government Trust Account 2 (® - Sim E.4.2)**	***[To specify]***	***[To specify]***
	(A + B + C + D)	**(A)**	**(B)**	**(C)**	***(D)***
	(RM)	**(RM)**	**(RM)**	**(RM)**	**(RM)**
	20X2				
Revenue					
Borrowing proceeds	xx	xx	xx	xx	xx
Transfer from general funds	xx	xx	xx	xx	xx
Donation and contributions	xx	xx	xx	xx	xx
Gain on investment in fixed deposit	xx	xx	xx	xx	xx
Interest income	xx	xx	xx	xx	xx
Gain on sale of goods and services	xx	xx	xx	xx	xx
Total revenue	xx				
Expenses					
Development expenditure	xx	xx	xx	xx	xx
Miscellaneous expenses	xx	xx	xx	xx	xx
Depreciation	xx	xx	xx	xx	xx
Impairment	xx	xx	xx	xx	xx
Total expenses	xx	xx	xx	xx	xx
Surplus or deficit for the year	xx	xx	xx	xx	xx

Appendix E Concept of Trust Accounts Before and After Migration (continued)

Simulations E.5 – Aggregation of Public Trust Account's Statement of Financial Position

Simulations E.5.1 – Aggregation of a Public Trust Account (i.e. Public Trust Account 1)

	Public Trust Account 1 (• - Sim.E.5.3) (A + B) (RM)	Treasury (A) (RM)	Ministry (B) (RM)
ASSETS			
Cash	xx	xx	-
(Due to)/due from	-	(xx)	xx
TOTAL ASSETS	xx	-	xx
LIABILITIES			
Public trust account **(Note 1)**	xx*		xx
TOTAL LIABILITIES	xx		xx
NET ASSETS	-		-

Note 1	
Public trust account	
Opening balance	xx
Accumulated surplus or deficit	xx
Closing balance	xx*

Simulations E.5.2 – Aggregation of a Public Trust Account (i.e. Public Trust Account 2)

	Public Trust Account 2 (x - Sim.E.5.3) (A + B) (RM)	Treasury (A) (RM)	Ministry (B) (RM)
ASSETS			
Cash	xx	xx	-
(Due to)/due from	-	(xx)	xx
TOTAL ASSETS	xx	-	xx
LIABILITIES			
Public trust account **(Note 1)**	xx*		xx
TOTAL LIABILITIES	xx		xx
NET ASSETS	-		-

Note 1	
Public trust account	
Opening balance	xx
Accumulated surplus or deficit	xx
Closing balance	xx*

Appendix E Concept of Trust Accounts Before and After Migration (continued)

Simulations E.5.3 – Aggregation of Public Trust Accounts into FGOM

	Aggregated amount	*Individual Public Trust Accounts*			
	FGOM (µ - Sim.E.1) (RM)	Public Trust Account 1 (● – Sim E.5.1) (RM)	Public Trust Account 2 (× - Sim E.5.2) (RM)	*[To specify]* (RM)	*[To specify]* (RM)
ASSETS					
Cash	xx	xx	xx	xx	xx
(Due to)/due from	-	-	-	-	-
TOTAL ASSETS	xx	xx	xx	xx	xx
LIABILITIES					
Public trust account **(Note 1)**	xx*	xx	xx	xx	xx
TOTAL LIABILITIES	xx	xx	xx	xx	Xx
NET ASSETS	**-**	**-**	**-**	**-**	**-**

Note 1	
Public trust account	
Opening balance	xx
Accumulated surplus or deficit	xx
Closing balance	xx*

Appendix E Concept of Trust Accounts Before and After Migration (continued)

Simulations E.6 – Aggregation of Public Trust Account Statement of Financial Performance

Simulations E.6.1 – Aggregation of a Public Trust Account (i.e. Public Trust Account 1) into FGOM

Public trust accounts like bankruptcy trustee account financial performance is not consolidated with FGOM Statement of Financial Performance.

	Public Trust Account 1 (@- Sim.E.6.3)		Treasury	Ministry
	(A + B)		(A)	(B)
	(RM)		(RM)	(RM)
Revenue				
Deposits receipt	-		-	xx
Liquidated assets	-		-	xx
Interest	-		-	xx
Total revenue	-		-	xx
Expenses				
Management of trust account expenses	-		-	xx
Fixed deposit payment	-		-	xx
Dividend payment	-		-	xx
Surplus or deficit for the year	**-**		**-**	**xx**

Simulations E.6.2 – Aggregation of a Public Trust Account (i.e. Public Trust Account 2)

Public trust accounts like miscellaneous trust account financial performance is not consolidated with FGOM Statement of Financial Performance.

	Public Trust Account 2 (£ - Sim.E.6.3)		Treasury	Ministry
	(A + B)		(A)	(B)
	(RM)		(RM)	(RM)
Revenue				
Deposits receipt	-		-	xx
Liquidated assets	-		-	xx
Interest	-		-	xx
Total revenue	-		-	xx
Expenses				
Management of trust account expenses	-		-	xx
Fixed deposit payment	-		-	xx
Dividend payment	-		-	xx
Surplus or deficit for the year	**-**		**-**	**xx**

Appendix E Concept of Trust Accounts Before and After Migration (continued)

Scenario A – Under a Government Trust Account (within Development Fund)

Scenario A.1 – Opening balance at first time adoption

Property, plant and equipment amounting to RM100,000 is recognized as opening balance at the ministry.

In addition, negative cash balance/ overdraft amounting to RM1,000 is recognized as opening balance at treasury.

Journal entries

1) To record opening balance of property, plant and equipment amounting to RM100,000

Development fund

Treasury	Amount (RM)	Ministry	Amount (RM)	FGOM	Amount (RM)
-	-	DR Property, plant and equipment	100,000	DR Property, plant and equipment	100,000
-	-	CR Development fund	100,000	CR Development fund	100,000

2) To record opening balance of negative cash balance amounting to RM1,000

Development fund

Treasury	Amount (RM)	Ministry	Amount (RM)	FGOM	Amount (RM)
DR Cash	(1,000)	-	-	DR Cash	(1,000)
CR Development fund	(1,000)	-	-	CR Development fund	(1,000)

Appendix E Concept of Trust Accounts Before and After Migration (continued)

Scenario A.2 - Transfer funds from general fund to development fund

Appropriations are obtained to transfer funds from general fund to development fund by treasury, amounting to RM1,000.

Journal entries

1) To record contribution from the general fund to development fund

Cash is credited from the treasury of general fund and is debited in the treasury of development fund. The transfer will be recognized as expenses for the general fund and will be recognized as revenue for the development fund.

General fund

Treasury	Amount (RM)	Ministry	Amount (RM)	FGOM	Amount (RM)
DR Expense	1,000	-		DR Expense	1,000
CR Cash	1,000	-		CR Cash	1,000

Development fund

Treasury	Amount (RM)	Ministry	Amount (RM)	FGOM	Amount (RM)
DR Cash	1,000	-	-	DR Cash	1,000
CR Development fund	1,000	-	-	CR Development fund	1,000

Appendix E Concept of Trust Accounts Before and After Migration (continued)

Scenario A.3 – Transfer borrowing proceeds from general fund to development fund

Borrowings are obtained under general funds amounting to RM300 by treasury. The borrowing proceeds are subsequently transferred to development fund by treasury.

Journal entries

1) To record borrowing obtained under general funds

General fund

Treasury	Amount (RM)	Ministry	Amount (RM)	FGOM	Amount (RM)
DR Cash	300	-	-	DR Cash	300
CR Borrowing- external loan	300	-	-	CR Borrowing – external loan	300

2) To record transfer of borrowing from general fund to development fund

General fund

Treasury	Amount (RM)	Ministry	Amount (RM)	FGOM	Amount (RM)
DR Accumulated surplus or deficit (general fund)	300	-	-	DR Accumulated surplus or deficit (general fund)	300
CR Cash	300	-	-	CR Cash	300

Development fund

Treasury	Amount (RM)	Ministry	Amount (RM)	FGOM	Amount (RM)
DR Cash	300	-	-	DR Cash	300
CR Development fund	300	-	-	CR Development fund	300

Appendix E Concept of Trust Accounts Before and After Migration (continued)

Scenario A.4 - Disbursement of loans

The treasury using the development fund disbursed loans amounting to RM400. 6 months later, the vendor made the first loan repayment amounting to RM50.

Journal entries

1) To record the disbursement of loan

Development fund

Treasury	Amount (RM)	Ministry	Amount (RM)	FGOM	Amount (RM)
DR Loan receivable	400	-	-	DR Loan receivable	400
CR Cash	400	-	-	CR Cash	400

2) To record the first loan repayment amounting to RM50

Development fund

Treasury	Amount (RM)	Ministry	Amount (RM)	FGOM	Amount (RM)
DR Cash	50	-	-	DR Cash	50
CR Loan receivable	50	-	-	CR Loan receivable	50

Scenario A.5 – Payment of expense incurred

Appropriations are obtained by ministry from the development fund for miscellaneous expenses. The miscellaneous expense amounts to RM10.

Journal entries

1) To record development expense incurred

The expense is recognized by debiting the expense against surplus or deficit of government trust account and crediting cash.

Development fund

Treasury	Amount (RM)	Ministry	Amount (RM)	FGOM	Amount (RM)
DR Due to / due from	10	DR Expenses	10	DR Expenses	10
CR Cash	10	CR Due to / due from	10	CR Cash	10

Appendix E Concept of Trust Accounts Before and After Migration (continued)

Scenario A.6 - Purchase of property, plant and equipment

A ministry uses the development fund to finance the purchase of a property amounting to RM8,000. The purchase of the property is paid by cash 3 months after the transactions.

Journal entries

1) To record the liability incurred by ministry on purchase of a property, plant and equipment

The purchase of property is recognised at the point the liability to pay arises. The asset is recognised by debiting property and the corresponding liability is recognised by crediting accounts payable.

Development fund

Treasury	Amount (RM)	Ministry	Amount (RM)	FGOM	Amount (RM)
-	-	DR Property, plant and equipment	8,000	DR Property, plant and equipment	8,000
-	-	CR Accounts payable	8,000	CR Accounts payable	8,000

2) To record the payment of cash by treasury to settle the liability incurred

The payment of cash to settle the liability is recorded as a credit to the cash account and the accounts payable account is reversed accordingly.

Development fund

Treasury	Amount (RM)	Ministry	Amount (RM)	FGOM	Amount (RM)
DR Due to/due from	8,000	DR Accounts payable	8,000	DR Accounts payable	8,000
CR Cash	8,000	CR Due to/due from	8,000	CR Cash	8,000

Scenario A.7 – Recognition of depreciation

The property financed by the development fund is depreciated on a straight line basis with an annual depreciation charge of RM4,000 by ministry.

Journal entries

1) To record the depreciation expense incurred

Development fund

Treasury	Amount (RM)	Ministry	Amount (RM)	FGOM	Amount (RM)
-	-	DR Depreciation expense	4,000	DR Depreciation expense	4,000
-	-	CR Accumulated depreciation	4,000	CR Accumulated depreciation	4,000

Appendix E Concept of Trust Accounts Before and After Migration (continued)

Scenario A.8 - Sale of property

A ministry sold one of its property at market value of RM5,000 that was initially purchased through the development fund and recognizes a gain on sale of RM2,000. The original cost and accumulated depreciation of the property before the sale is RM6,000 and RM3,000 respectively.

Journal entries

1) To record the gain on sale of property

At the point of sale of property, the cost of the property and the accumulated depreciation of the property are reversed.

Development fund

Treasury	Amount (RM)	Ministry	Amount (RM)	FGOM	Amount (RM)
DR Cash	5,000	DR Accumulated depreciation	3,000	DR Accumulated depreciation	3,000
CR Due to/due from	5,000	DR Due to/due from	5,000	DR Cash	5,000
-	-	CR Property, plant and equipment	6,000	CR Property, plant and equipment	6,000
-	-	CR Gain on sale of property	2,000	CR Gain on sale of property	2,000

Scenario A.9 – Recognition of asset under construction

A ministry started construction of a building using funds from development fund and progressive billing amounting to RM5,000 was recognised by the ministry.

Journal entries

1) To record the first payment for asset under construction

Development fund

Treasury	Amount (RM)	Ministry	Amount (RM)	FGOM	Amount (RM)
DR Due to / due from	5,000	DR Asset under construction	5,000	DR Asset under construction	5,000
CR Cash	5,000	CR Due to/due from	5,000	CR Cash	5,000

Appendix E Concept of Trust Accounts Before and After Migration (continued)

Scenario A.10 – Transfer of asset under construction to property, plant and equipment

A ministry commenced development that was completed recently and thus a transfer journal was raised. The asset under construction amounted to RM3,000.

Journal entries

1) To record the transfer of asset under construction to property, plant and equipment

Development fund

Treasury	Amount (RM)	Ministry	Amount (RM)	FGOM	Amount (RM)
		DR Property, plant and equipment	3,000	DR Property, plant and equipment	3,000
		CR Asset under construction	3,000	CR Asset under construction	3,000

Scenario A.11 – Impairment of asset

A ministry realised its carrying value of an asset was higher than its recoverable service amount and thus impairment amounting to RM1,500 was provided.

Journal entries

1) To record the impairment of asset

Development fund

Treasury	Amount (RM)	Ministry	Amount (RM)	FGOM	Amount (RM)
		DR Impairment expense	1,500	DR Impairment expense	1,500
		CR Accumulated impairment	1,500	CR Accumulated impairment	1,500

Appendix E Concept of Trust Accounts Before and After Migration (continued)

Scenario B – Simulation of government trust account financial statements resulting from transactions under scenarios A

Scenario B.1 – Simulation of Government Trust Account Statement of Financial Performance

	Development Fund (A + B) (RM)	Treasury (A) (RM)	Ministry (B) (RM)
Revenue			
Transfer from General Fund – Loans Proceeds	300	300	-
Transfer from General Fund	1,000	1,000	-
Gain on disposal	2,000	-	2,000
Total Revenue	**3,300**	**1,300**	**2,000**
Expenses			
Development expenditure	(10)	-	(10)
Depreciation	(4,000)	-	(4,000)
Impairment	(1,500)	-	(1,500)
Total expenses	**(5,510)**	-	**(5,510)**
Surplus or deficit of the year	**(2,210)**	**1,300**	**(3,510)**

Scenario B.2 – Simulation of Government Trust Account Statement of Financial Position

	Development Fund (A + B) (RM)	Treasury (A) (RM)	Ministry (B) (RM)
ASSETS			
Cash	(8,060)	(8,060)	-
Property, plant and equipment	105,000	-	105,000
Accumulated depreciation	(1,000)	-	(1,000)
Accumulated impairment	(1,500)	-	(1,500)
Asset under construction	2,000	-	2,000
Loan receivable	350	350	-
Due to/due from	-	8,010	(8,010)
TOTAL ASSETS	**96,790**	**300**	**96,490**
NET ASSETS / EQUITY			
Opening balance of PPE/cash	99,900	(1,000)	100,000
Accumulated surplus or deficit	(2,210)	1,300	(3,510)
TOTAL NET ASSETS / EQUITY	**96,790**	**300**	**96,490**

Appendix E Concept of Trust Accounts Before and After Migration (continued)

Scenario C – Under Public Trust Account

Scenario C.1 – Opening balance at first time adoption

Cash balance maintained at treasury amounting to RM388,002,923 and short term deposit amounting to RM650,000,000 is recognized as opening balance.

Journal entries

1) To record opening balance of cash and financial asset – short term deposit

Bankruptcy trustee account

Treasury	Amount (RM)	Ministry	Amount (RM)	FGOM	Amount (RM)
DR Cash	388,002,923	DR Due to / due from	1,038,002,923	DR Cash	388,002,923
DR Financial asset – short term deposit	650,000,000	CR Bankruptcy trustee account	1,038,002,923	DR Financial asset – short term deposit	650,000,000
CR Due to / due from	1,038,002,923			CR Bankruptcy trustee account	1,038,002,923

Appendix E Concept of Trust Accounts Before and After Migration (continued)

Scenario C.2 - Petitioner court approve petition for bankruptcy

Prior to the approval of petition for bankruptcy, the petition fee received is credited in the bankruptcy deposit account maintained at the ministry. Upon the approval of the court's petition for bankruptcy, the funds in the bankruptcy deposit account is transferred to the bankruptcy trustee account, a public trust account. The funds involved amounts to RM2,000.

The bankruptcy deposit account is classified as a deposit account, whereas bankruptcy trustee account is classified as a public trust account.

Journal entries

1) To record the petition fee received

Bankruptcy Deposit Account

Treasury	Amount (RM)	Ministry	Amount (RM)	FGOM	Amount (RM)
DR Cash	2,000	DR Due to / due from	2,000	DR Cash	2,000
CR Due to / due from	2,000	CR Bankruptcy deposit account	2,000	CR Bankruptcy deposit account	2,000

2) To record the transfer of funds from the bankruptcy deposit account to the bankruptcy trustee account

Bankruptcy Deposit Account

Treasury	Amount (RM)	Ministry	Amount (RM)	FGOM	Amount (RM)
DR Due to/due from	2,000	DR Bankruptcy deposit account	2,000	DR Bankruptcy deposit account	2,000
CR Cash	2,000	CR Due to/due from	2,000	CR Cash	2,000

Bankruptcy Trustee Account

Treasury	Amount (RM)	Ministry	Amount (RM)	FGOM	Amount (RM)
DR Cash	2,000	DR Due to/due from	2,000	DR Cash	2,000
CR Due to/due from	2,000	CR Bankruptcy trustee account	2,000	CR Bankruptcy trustee account	2,000

Appendix E Concept of Trust Accounts Before and After Migration (continued)

Scenario C.3 -Expenses incurred to manage the bankruptcy trustee account

A ministry incurs expenses for managing the bankruptcy trustee account which amounts to RM1,500.

Journal entries

1) To record the miscellaneous expenses incurred

Bankruptcy Trustee Account

Treasury	Amount (RM)	Ministry	Amount (RM)	FGOM	Amount (RM)
DR Due to/due from	1,500	DR Bankruptcy trustee account	1,500	DR Bankruptcy trustee account	1,500
CR Cash	1,500	CR Due to/due from	1,500	CR Cash	1,500

Scenario C.4 - Receipt of cash from liquidation of assets

Assets of the bankruptcy trustee account are liquidated at RM100,000 by a ministry. A fixed 5% charge on liquidated amount shall be paid to the general fund.

Journal entries

1) To record the cash received from the liquidation of assets

Bankruptcy Trustee Account

Treasury	Amount (RM)	Ministry	Amount (RM)	FGOM	Amount (RM)
DR Cash	100,000	DR Due to/due from	100,000	DR Cash	100,000
CR Due to/due from	100,000	CR Bankruptcy trustee account	100,000	CR Bankruptcy trustee account	100,000

2) To record the fixed fee paid of 5% to the general fund

Bankruptcy Trustee Account

Treasury	Amount (RM)	Ministry	Amount (RM)	FGOM	Amount (RM)
DR Due to/due from	5,000	DR Bankruptcy trustee account	5,000	DR Bankruptcy trustee account	5000
CR Cash	5,000	CR Due to/due from	5,000	CR Cash	5,000

General fund

Treasury	Amount (RM)	Ministry	Amount (RM)	FGOM	Amount (RM)
DR Cash	5,000	DR Due to/ due from	5,000	DR Cash	5,000
CR Due to / due from	5,000	CR Revenue	5,000	CR Revenue	5,000

Appendix E Concept of Trust Accounts Before and After Migration (continued)

Scenario C.5 – Payment of dividend

A ministry paid a petitioner dividend amounting to RM75,500 from the trustee account.

Journal entries

1) To record payment of dividend

Bankruptcy Trustee Account

Treasury	Amount (RM)	Ministry	Amount (RM)	FGOM	Amount (RM)
DR Due to/due from	75,500	DR Bankruptcy trustee account	75,500	DR Bankruptcy trustee account	75,500
CR Cash	75,500	CR Due to/due from	75,500	CR Cash	75,500

Scenario C.6 - Investing using funds in deposits

Treasury invested a portion of the funds in bankruptcy trustee account in fixed deposit. The investment amounts to RM15,000.

Journal entries

1) To record the investment in fixed deposit

Bankruptcy Trustee Account

Treasury	Amount (RM)	Ministry	Amount (RM)	FGOM	Amount (RM)
DR Short term investment – fixed deposit	15,000			DR Short term investment – fixed deposit	15,000
CR Cash	15,000			CR Cash	15,000

Appendix E Concept of Trust Accounts Before and After Migration (continued)

Scenario C.7 - Recognising return on investment

The fixed deposit invested using portion of funds from the deposit trust fund generates a return on investment for Ministry. The return on investment generated is interest income on the fixed deposit amounting to RM5,000.

The investment was handled by Treasury.

Journal entries

1) To record the return on investment

Bankruptcy Trustee Account

Treasury	Amount (RM)	Ministry	Amount (RM)	FGOM	Amount (RM)
DR Cash	5,000	-	-	DR Cash	5,000
CR Interest income on fixed deposit	5,000	-	-	CR Interest income on fixed deposit*	5,000

*Amount is eventually moved to liability as a balance of obligation to public within the statement of financial position

Scenario C.8 – Purchase of property, plant and equipment financed by public trust account

A ministry purchases a property, plant and equipment worth RM10,000 financed by bankruptcy trust account.

Journal entries

1) To record the purchase of property, plant and equipment

Bankruptcy trust account

Treasury	Amount (RM)	Ministry	Amount (RM)	FGOM	Amount (RM)
DR Due to/ due from	10,000	DR Bankruptcy accounts - expense	10,000	DR Bankruptcy trust accounts - expense	10,000
CR Cash	10,000	CR Due to/ due from	10,000	CR Cash	10,000

Appendix E Concept of Trust Accounts Before and After Migration (continued)

Scenario D – Simulation of public trust account financial statements resulting from transactions under scenarios C

Scenario D.1 – Simulation of Public Trust Account Statement of Financial Performance

	Bankruptcy Trustee Account (A + B) (RM)	Treasury (A) (RM)	Ministry (B) (RM)
Revenue			
Deposits receipt	-	-	2,000
Liquidated assets	-	-	100,000
Interest	-	-	5,000
Total revenue	-	-	107,000
Expenses			
Management of trust account expenses	-	-	(1,500)
Fixed deposit payment	-	-	(5,000)
Dividend payment	-	-	(75,500)
Expense on purchase of asset	-	-	(10,000)
Total expenses	**-**	**-**	**(92,000)**
Surplus or deficit for the year	**-**	**-**	**15,000**

Scenario D.2 – Simulation of Public Trust Account Statement of Financial Position

	Bankruptcy Trustee Account (A + B) (RM)	Treasury (A) (RM)	Ministry (B) (RM)
ASSETS			
Cash	388,002,923	388,002,923	
Financial assets	650,015,000	650,015,000	-
Due to/due from	-	(1,038,017,923)	1,038,017,923
TOTAL ASSETS	**1,038,017,923**	**-**	**1,038,017,923**
LIABILITIES			
Public trust account **(Note 1)**	1,038,017,923	-	1,038,017,923
TOTAL LIABILITIES	**1,038,017,923**	**-**	**1,038,017,923**
NET ASSETS	**-**	**-**	**-**

Note 1:	
Public trust account	
Opening balance at 1 Jan	1,038,032,923
Accumulated surplus or deficit	15,000
Closing balance at 31 Dec	1,038,017,923

List Of Acronyms

Acronym	Description
AGD	Accountant General's Department
AUC	Asset under construction
BSN	Bank Simpanan Nasional
CR	Credit
CDS	Central Depository Securities
CGU	Cash Generating Unit
DR	Debit
EIR	Effective Interest Rate
FELDA	The Federal Land Development Authority
FIFO	First In First Out
Financial Statements	Accounts
EFT Payment	Electronic Fund Transfer Payment
FGOM	Federal Government of Malaysia
FPA	Financial Procedure Act
F.V.	Fair Value
GGS	General Government Sector
IFRS	International Financial Reporting Standard
IPSAS	International Public Sector Accounting Standards
JANM	Jabatan Akauntan Negara Malaysia
MGS	Malaysian Government Securities
MoF	Ministry of Finance Malaysia
MPSAS	Malaysian Public Sector Accounting Standards
PFC	Public Financial Corporations sector
PFI	Private Finance Initiative
PNFC	Public Non-Financial Corporations sector
PPE	Property, plant and equipment
PPP	Public Private Partnership
RM	Ringgit Malaysia
U.S.	The United States of America
USD	American Dollar

Glossary

Accounting basis is the accrual, modified accrual, modified cash or cash basis of accounting.

Accounting policies are the specific principles, bases, conventions, rules and practices applied by the entity in preparing and presenting financial statements.

Accrual basis is the accounting basis under which transactions and other events are recognised when they occur (and not only when cash or its equivalent is received or paid). Therefore, transactions and events are recorded in the accounting records and recognised in the financial statements of the periods to which they relate. The elements recognised under accrual accounting are assets, liabilities, net assets/equity, revenue and expenses.

Active market is a market in which: a) the items traded are homogeneous; b) willing buyers and sellers can normally be found at any time; and c) prices are available to the public.

Actual amounts (for budgetary purposes) are presented as part of the comparison schedule as well as a basis of a reconciliation schedule, resulting from the execution of the budget. For the purposes of MPSAS 24 – Presentation of budget information in financial statements, they include actual expenses and obligations that are comparable to the final budget presented.

Actuarial gains and losses comprise: a) experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and b) the effects of changes in actuarial assumptions.

Amortization is the systematic allocation of the amortizable amount of an intangible asset over its estimated useful life.

Appropriation is an authorization granted by a legislative body to allocate funds for purposes specified by the legislature or similar authority.

Assets are resources controlled by the entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity. Assets used to deliver goods and services in accordance with the Entity's objectives, but which do not directly generate net cash inflows, are often described as having a service potential.

Associate is an entity in which an investor has significant influence and that is neither a controlled entity nor a joint venture of the investor.

Betterment: The cost incurred to enhance the service potential of asset is a betterment. Service potential may be enhanced when there is an increase in the previously assessed service capacity, associated operating costs are lowered, the useful life is extended or the quality of output is improved. The cost incurred in the maintenance of the service potential of an asset is a repair, not a betterment.

Borrowing costs are interest and other expenses incurred by an entity in connection with borrowings.

Carrying amount of a liability is the amount at which a liability is recognised in the statement of financial position.

Carrying amount of an asset is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

Cash consists of cash on hand and demand deposits.

Glossary (continued)

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.

Cash flows are inflows and outflows of cash and cash equivalents.

Cash-generating assets are assets held to generate a commercial return.

Cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not a correction of errors.

Change in accounting policy is a change from one basis of accounting to another basis of accounting. A change in the accounting treatment, recognition or measurement of a transaction, event or condition within a basis of accounting is also regarded as a change in accounting policy.

Closing rate is the spot exchange rate at the reporting date – i.e. the exchange rate used to translate foreign currency monetary balances at the end of a reporting period.

Commitments are obligations to outside organisation or individuals that will become liabilities if and when the terms of contracts, agreements or legislation are met.

Consolidated financial statements are the financial statements of an economic entity presented as those of a single entity.

Construction contract is a contract or a similar binding arrangement specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function, or their ultimate purpose or use.

Constructive obligation is an obligation that derives from the Entity's actions where: a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

Contingent liability is: a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or b) a present obligation that arises from past events but which is not recognised because it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation or because the amount of the obligation cannot be measured with sufficient reliability.

Contract: An agreement between two or more parties that has clear economic consequences that the parties have little, if any, discretion to avoid, usually because the agreement is enforceable .

Contractual commitment: Represents a legal obligation to outside organization or individual as a result of contract.

Glossary (continued)

Control is the power to govern the financial and operating policies of another entity so as to benefit from its activities.

Controlled entity is an entity under the control of another entity (known as the controlling entity).

Controlling entity is an entity that has one or more controlled entities.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.

Cost method is a method of accounting for an investment whereby it is recognised at cost. Revenue from the investment is recognised only to the extent that the investor is entitled to receive distributions from accumulated surpluses arising after the date of acquisition.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Current replacement cost is the cost the entity would incur to acquire the asset on the reporting date.

Deferred revenue: Amounts received before the transactions or events that give rise to revenue occurs.

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Defined contribution plans are post-employment benefit plans under which the entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior financial periods.

Depreciated replacement cost is an approach where an asset's present value is determined based on cost to replace the asset's gross service potential after taking into account its accumulated depreciation over consumed service potential asset life.

Depreciation is the systematic allocation of the depreciable amount of a tangible asset over its estimated useful life.

Effective interest rate is the interest rate on a loan/financial product restated from the nominal interest rate as an interest rate with annual compound interest payable in arrears.

Employee benefits are all forms of consideration given by the entity in exchange for service rendered by employees. Employee benefits mean all entitlements, salaries, allowances, benefits and incentives.

Entities include federal ministries, federal departments and federal commission from FGOM.

Equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Events after the reporting date are those events, both favorable and unfavorable, that occur between the reporting date and the date when the financial statements are authorized for issue. Two types of event can be identified -adjusting and non-adjusting events.

Exchange difference is the difference resulting from reporting the same number of units of a foreign currency in the reporting currency at different exchange rates.

Glossary (continued)

Exchange rate is the ratio for exchange of two currencies.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrence of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Title may or may not eventually be transferred.

Financial asset is any asset that is: a) cash; b) a contractual right to receive cash or another equivalent asset from another entity; c) a contractual right to exchange financial instruments with another entity under conditions that are potentially favourable; or d) an equity instrument of another entity.

Financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial liability is any liability that is a contractual obligation: a) to deliver cash or another financial asset to another entity; or b) to exchange financial instruments with another entity under conditions that are potentially unfavorable.

Financing activities are activities that result in changes in the size and composition of the contributed capital and borrowings of the entity.

Foreign currency is a currency other than the functional currency of the entity.

Foreign operation is an entity that is a controlled entity, associate, joint venture or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.

Functional currency is the currency of the primary economic environment in which the entity operates. For the entity this is considered to be the RM.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.

Inception of the lease is the earlier of the date on which a lessor and lessee enter into a lease agreement and the date on which the parties commit to the principal provisions of the lease. As at this date a) a lease is classified as either an operating or a finance lease; and b) in the case of a finance lease, the amounts to be recognised at the commencement of the lease term are determined.

Intangible assets are identifiable non-monetary assets without physical substance.

Interest cost is the increase during a financial period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Glossary (continued)

Inventories are assets: a) in the form of materials or supplies to be consumed in the production process; b) in the form of materials or supplies to be consumed or distributed in the rendering of services; c) held for sale or distribution in the ordinary course of operations; or d) in the process of production for sale or distribution.

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Investment property is property (land or a building – or part thereof) held to earn rentals or for capital appreciation or both, rather than for: a) use in the production or supply of goods or services or for administrative purposes; or b) sale in the ordinary course of operations.

Joint control is the agreed sharing of control over an activity by a binding arrangement.

Joint venture is a binding arrangement whereby two or more parties are committed to undertake an activity that is subject to joint control.

Key management personnel are defined under MPSAS as those officials who are responsible for the planning, directing and controlling activities of the reporting entity.

Lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

Lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Legal obligation is an obligation that derives from: a) a contract (through its explicit or implicit terms); or b) legislation; or c) other operation of law.

Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loans guarantees are a type of contingent liability.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk, and other price risk.

Market value is the amount obtainable from the sale or payable on the acquisition, of a financial instrument in an active market.

Material omissions or misstatements are omissions or misstatements of items which could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature and size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

Glossary (continued)

Modified cash basis is the accounting basis under which revenue and expenses are usually reported when cash is received or a payment is made, but with some exceptions. Notably, expenditures can be reported prior to the payment of cash on the basis that the cash will need to be paid out soon after the end of the financial year. Under this basis, investments in physical assets and intangibles are expensed immediately, and employee benefit liabilities are not required to be reported in the financial statements.

Monetary items are units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.

Net assets/equity is the residual interest in the assets of the entity after deducting all its liabilities. This is the residual measure in the statement of financial position.

Net realizable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Non-cash-generating assets are assets other than cash-generating assets.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Non-monetary items are items that are not monetary items.

Notes are disclosures which contain information in addition to that presented in the statement of financial position, statement of financial performance, statement of changes in net assets/equity and cash flow statement. Notes provide narrative descriptions or disaggregation of items disclosed in those statements and information about items that do not qualify for recognition in those statements.

Obligating event is an event that creates a legal or constructive obligation that results in the entity having no realistic alternative to settling that obligation.

Operating activities are the activities of the entity that are not investing or financing activities.

Operating lease is a lease other than a finance lease.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that do not fall due wholly within 12 months after the end of the financial period in which the employees render the related service.

A financial asset is **past due** when a counterparty has failed to make a payment when contractually due.

Past service cost is the increase in the present value of the defined benefit obligation for employee service in prior financial periods, resulting in the current financial period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (where benefits are introduced or improved) or negative (where benefits are reduced).

Glossary (continued)

Percentage of completion method is an accounting method to account for asset under construction.

Plan assets comprise: a) assets held by a long-term employee benefit fund; and b) qualifying insurance policies.

Post-employment benefits are employee benefits (other than termination benefits) that are payable after the completion of employment.

Present value is the future amount of money that has been discounted to reflect its current value, as if it existed today.

Post-employment benefit plans are formal or informal arrangements under which the entity provides post-employment benefits for one or more employees.

Present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior financial periods.

Presentation currency is the currency in which the financial statements are presented. For the entity this is the RM.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior financial periods, arising from a failure to use or a misuse of reliable information that a) was available when financial statements for those financial periods were authorized for issue; and b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Projected unit credit method is used to determine the present value of a defined benefit obligation and the related current service cost and the applicable past service costs.

Property, plant and equipment, or **PPE**, are tangible items that are a) held for use in the production or supply of goods or services, for rental to others or for administrative purposes; and b) expected to be used during more than one reporting period. Property, plant and equipment should not be confused with inventories as defined above, although they may be counted and physically verified.

Provision is a liability of uncertain timing or amount.

Private finance initiatives is a form of public private partnership where the public sector is able to secure the provision of public services from the private sector.

Public private partnership is a government service or private business venture which is funded and operated through a partnership of government and one or more private sector companies.

Qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Recoverable amount is the higher of an asset's or a cash-generating unit's fair value less costs to sell and its value in use.

Related parties are parties considered to be related if one party has the ability to control, or exercise significant influence over, the other party in making financial and operating decisions, or if the related party entity and another entity are subject to common control.

Glossary (continued)

Related party transaction is a transfer of resources or obligations between related parties, regardless of whether a price is charged. Related party transactions exclude transactions with any other entity that is a related party solely because of its economic dependence on the reporting entity or the government of which it forms part.

Remuneration of key management personnel is any consideration or benefit derived directly or indirectly by key management personnel from the reporting entity for services provided in their capacity as members of the governing body or otherwise as employees of the reporting entity.

Reporting date is the date of the last day of the reporting period to which the financial statements relate. In the case of the Entity, it is 31st December of each year.

Reporting period is the basic accounting period that applies to all financial recording and reporting of the Entity. The financial period begins 1st January, lasts for 12 months and ends on 31st December.

Residual value is the estimated amount that the entity would currently obtain from disposal of an asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Retrospective application is the application of a new accounting policy to transactions, other events and conditions as if that policy had always been applied.

Retrospective restatement is a revision, correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.

Segment is a distinguishable activity or group of activities of the entity for which it is appropriate to separately report financial information for the purpose of evaluating the entity's past performance in achieving its objectives and for making decisions on the future allocation of resources.

Segment assets are those operating assets that are employed by a segment in its operating activities and that are either directly attributable to the segment or that can be allocated to the segment on a reasonable basis.

Segment expense is an expense resulting from the operating activities of a segment that is directly attributable to the segment and the relevant portion of an expense that can be allocated on a reasonable basis to the segment. These include expenses relating to the provision of goods and services to external parties, and expenses relating to transactions with other segments of the same entity.

Segment liabilities are those operating liabilities that result from the operating activities of a segment and that are either directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment revenue is revenue reported in the entity's statement of financial performance that is directly attributable to a segment and the relevant portion of entity revenue that can be allocated on a reasonable basis to a segment, whether from budget appropriations or similar, grants, transfers, fines, fees or sales to external customers or from transactions with other segments of the same entity.

Glossary (continued)

Separate financial statements are those presented by a controlling entity, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct net assets/equity interest rather than on the basis of the reported results and net assets of the investees.

Service potential is the anticipated future benefits to be obtained from an asset. Assets that are used to deliver goods and services in accordance with the Entity's objectives but which do not directly generate net cash inflows are often described as embodying service potential.

Short-term employee benefits are employee benefits (other than termination benefits) that fall due wholly within 12 months after the end of the financial period in which the employees render the related service.

Significant influence is the power to participate in the financial and operating policy decisions of an activity but is not control or joint control over those policies.

Statement of financial performance is a financial statement that measures an entity's financial performance over a specific accounting period.

Statement of financial position is a financial statement that summarises an entity's asset and liabilities at a specific point in time.

Spot exchange rate is the exchange rate for immediate delivery.

Termination benefits are employee benefits payable as a result of either: a) the Entity's decision to terminate an employee's employment before the normal retirement date; or b) an employee's decision to accept voluntary redundancy in exchange for these benefits.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Useful life is either: a) the period over which an asset is expected to be available for use by the Entity; or b) the number of production or similar units expected to be obtained from the asset by the Entity.

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

Venturer is a party to a joint venture and has joint control over that joint venture.