GOVERNMENT OF MALAYSIA

FEDERAL GOVERNMENT ACCRUAL ACCOUNTING MANUAL

INVESTMENT PROPERTIES

MAC 2023

ISSUED BY

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DOCUMENT VERSION CONTROL

All amendments made to this Federal Government Accrual Accounting Manual should be tracked. Relevant information such as the document version control reference number, dates of amendment and approval, and section(s) amended are to be recorded in the amendment schedule set out below:

Version No.	Effective Date	Details of Change Section Reference
V4.0	3 March 2023	Amendment: Paragraph 10.3 and Paragraph 10.4 Add: Paragraph 10.5 on Property Held by A Lessee under an operating lease classified as Investment Properties Add: Paragraph 10.6 – 10.8 on Dual Purpose Properties Add: Paragraph 10.9 – 10.10 on Ancillary Services Add: Paragraph 10.11 – 10.12 on Vacant Land Amendment: Paragraph 10.14 and Paragraph 10.15 Add: Paragraph 10.16 on Measurement of Cost Add: Paragraph 10.20 – 10.22 on Transfer Amendment: Paragraph 10.23 Add: Paragraph 10.24 – 10.26 on Disposals and exchange Add: Paragraph 10.28 on Disclosure Requirements Add: Reference – MPSAS 13 – Leases Amendment: Scenario A - Purchase of an Investment Property and its subsequent measurement Add: Scenario B - Transfer from Investment Property to PPE (Transfer Out) Add: Scenario C - Transfer from PPE to IP (Transfer In) Add: Scenario D - Transfer from Investment Property to Inventory (Transfer Out) Amendment: Scenario E - Swap of land with loan

10. 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 property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property if it meets the definition of an investment property;
(e) A building that is vacant, but held to be leased out under an operating lease; or
(f) 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 future use as owner-occupied property; and property held for future development which will be subsequently used as owner-occupied property;
(d) Property occupied by employees;
(e) Owner-occupied property awaiting disposal;
(f) Property that is leased to another entity under a finance lease;
(g) Property held to provide a social service and which also generates cash inflows; and
(h) Property held for strategic purposes which would be accounted for in accordance with MPSAS 17.

<u>Property Held by a Lessee under an operating lease classified as Investment Property</u>

10.5 A lessee may classify the property held under an operating lease as Investment Property if and only if its need meet criteria as below:

(a) the property meet the definition of an investment property, and
(b) the lessee uses the fair value model for the asset recognized. However, all other property in the same class classified as investment property shall be accounted for using the fair value model.

Dual Purpose Properties

10.6 A public sector entity may hold a property to earn rental or for capital appreciation, and at the same time hold the property to meet service delivery objectives. In this case, public sector entities hold the property that comprises:

(a) a portion that is held to earn rentals or for capital appreciation rather than to provide service delivery objectives, and
(b) another portion that is held for use in the production or supply of goods or services or for administrative purposes.

10.7 If these portions could be sold separately or leased out separately under a finance lease, an entity accounts for the portions separately as either property, plant and equipment, or investment property.

10.8 If the portions could not be sold separately, entity shall assess the significant use of the property and account it accordingly whether it is an investment property or owner-occupied property. Owner-occupied property is property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services, or for administrative purposes.

Ancillary Services

10.9 Investment properties are generally passive investments and involve little, if no services to tenants other than the provision of rental space. On the other hand, Property, Plant and Equipment (PPE) are used in the production or supply of goods or services to customers, and therefore involves the provision of significantly more services than for investment properties.

10.10 In order for a property to be classified as investment property, MPSAS 16, paragraph 15 is clearly stated that ancillary services provided to tenants must be **insignificant** to the arrangements as a whole, otherwise the property is considered owner-occupied PPE.

Vacant Land

10.11 Vacant land which has not yet been developed due to various factors beyond entity's control shall be recognized as Investment Property upon confirmation by the Development Division of the User Ministry Department (*Kementerian Jabatan Pengguna*, KJP).

10.12 Vacant land that has already been accounted for as PPE by the entity will be retained as PPE. However, the entity should review the status of the vacant land regularly to determine whether it remains as PPE or should be reclassified as investment property.

Recognition and measurement

Recognition

10.13 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.

Measurement at recognition

Exchange transaction

10.14 Investment property shall be measured initially at its cost (transaction costs shall be included in this initial measurement).

Non-exchange transaction

10.15 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.

Measurement of cost

10.16 The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. Directly attributable expenditure includes, for example, professional fees for legal services, property transfer taxes, and other transaction costs.

The cost of investment property is not increased by:

(a) Start-up costs (unless they are necessary to bring the property to the condition necessary for it to be capable of operating in the manner intended by management);
(b) Operating losses incurred before the investment property achieves the planned level of occupancy; or
(c) Abnormal amounts of wasted material, labor or other resources incurred in constructing or developing the property.

Subsequent measurement

10.17 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 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 depreciated over the lease period. The depreciation charge for the period is recognized in surplus or deficit.

10.18 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) There is no depreciation charge under the fair value model. The increase/ decrease in fair value is recognized as gain or loss in the surplus 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.

10.19 Impairment of assets refers to Chapter 14 for details.

Transfer

10.20 Transfers into, or out of, investment property are made where there is an evidenced change in use. To conclude that there is a change of use, there should be an assessment of whether or not the definition of investment property is met. This change must be supported by evidence. A change in management's intention, in isolation, does not provide evidence of a change in use.

10.21 A transfer may occur when an entity change the use of the land and building as owner-occupied property or investment property or inventory. An entity may regularly review its land and building to determine whether they are meeting the requirements according to related MPSAS dealing with land and building.

10.22 Transfer to or from investment property shall be made when, and only when, there is a change in use, evidenced by:

(a) Commencement of owner-occupation, for a transfer from investment property to owner-occupied property;

This situation occurs when at the end of the operating lease period, the entity decides to occupy the property. Then the property needs to be classified as PPE when the operating lease period ends.

For a transfer from investment property carried at fair value to owner occupied property, the property's cost for subsequent accounting in accordance with MPSAS 17 shall be its fair value at the date of transfer.

(b) Commencement of development with a view to sale, for a transfer from investment property to inventories;

This situation occurs when the development of a property intended to be rented out under an operating lease contract, however during the development period, the entity decides to sell the property. Then the property needs to be classified as Inventory.

In some cases, the development/ redevelopment is required to enhance the property prior to the sales. In this context, the development/ redevelopment should substantially modify or otherwise enhance the property. However, basic repairs would typically not qualify as a substantial modification that not satisfy the commencement of development until the point that the property meet the criteria to be classified as non-current asset held for sale.

For a transfer from investment property carried at fair value to inventories, the property's cost for subsequent accounting in accordance with MPSAS 12, shall be its fair value at the date of change in use.

When an entity uses the cost model, transfer between investment property, owner-occupied property, and inventories do not change the carrying amount of the property transfer, and they do not change the cost of that property for measurement or disclosure purposes.

(c) End of owner-occupation, for a transfer from owner-occupied property to investment property;

This situation occurs when an entity has a self-occupied property and decides to rent out the property on an operating lease. So the property needs to be classified as an investment property when the operating lease period (on a commercial basis) begins.

If an owner-occupied property becomes an investment property that will be carried at fair value, an entity shall apply MPSAS 17 up to the date of transfer. The entity shall treat any difference at that date between the carrying amount of the property in accordance with MPSAS 17, and its fair value in the same way as a revaluation in accordance with MPSAS 17.

When an entity uses the cost model, transfer between investment property and owner-occupied property, do not change the carrying amount of the property transfer, and they do not change the cost of that property for measurement or disclosure purposes.

(d) Commencement of an operating lease (on a commercial basis) to another party, for a transfer from inventories to investment property.

This situation occurs when property is held for sale and then leased to another party under an operating lease contract (on a commercial basis). At the beginning of the lease contract, the property must be classified as an investment property.

A property under construction, that was previously classified as inventory, is not transferred to investment property solely when the intention to sell changes. The inventory will be transferred to investment property when there is a change in use evidenced, for example, by signing an operating lease to lease all or part of the property to a third party.

For a transfer from inventories to investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognized in surplus or deficit.

Disposals and exchanges

10.23 An investment property shall be derecognized (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

10.24 Gain or loss on disposal of an investment property is the net disposal proceeds (difference between the sale price of an asset and any cost that relates to the disposal) less the carrying amount of the investment property (difference between the cost and accumulated depreciation) (unless MPSAS 13 requires otherwise on a sale and leaseback) in the period of disposal.

10.25 A non-monetary exchange is the transfer of assets and/or liabilities with another entity. The most common situation is when two organizations exchange assets, such as a land/ building swap or the exchange of one land/ building for another. The accounting for a non-monetary exchange is based on the fair values of the assets transferred. This results in the following set of alternatives for determining the recorded cost of a non-monetary asset acquired in an exchange, in declining order of preference:

(a) At the fair value of the asset transferred in exchange for it; or
(b) At the fair value of the asset received, if the fair value of this asset is more evident than the fair value of the asset transferred in exchange for it; or
(c) At the recorded amount of the surrendered asset, if no fair values are determinable or the transaction has no commercial substance.

10.26 Treatment for non-monetary exchange of Investment Property is similar to non-monetary exchange of Property, Plant and Equipment in Chapter 5.

Disclosure requirements

10.27 Investment properties are presented under the 'Investment Property' heading on the Statement of Financial Position.

10.28 An entity shall disclose:

(a) Whether it applies the fair value or the cost model; in the significant accounting policy disclosed in the notes to the account.

Disclosure relating to Fair Value Model

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, showing the following:

(i) Additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognized in the carrying amount of an asset;
(ii) Additions resulting from acquisitions through entity combinations;
(iii) Disposals; Net gains or losses from fair value adjustments;

(iv) The net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;
(v) Transfers to and from inventories and owner-occupied property; and
(vi) Other changes.

Disclosure relating to Cost Model

If it applies the cost model and the entity cannot determine the fair value of the investment property reliably, the 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.

(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;
(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;

(f) Contractual obligations to purchase, construct, or develop investment property or for repairs, maintenance, or enhancements; and

(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.

References

- MPSAS 12 – Inventories
- 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
- Accounting Policy and Interpretation

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

In 20X1, an entity purchased a building in a major city with the intention to rent out under operating lease at market rate for 10 years. The purchase price of the building is RM 500 million and the fair value of the investment property at the reporting date in 20X2 is RM 550 million. Thus, the property should be classified as an investment property.

Journal entries

(1) Initial Recognition

To record the purchase of an investment property

	Amount (RM)	Accounting Code
DR Investment properties	500,000,000	A2232102
CR Bank	500,000,000	A011xxxxx

(2) Subsequent Measurement

To record the measurement of investment property after its initial recognition. The fair value of the investment property at the reporting date in 20X2 is RM 550 million.

<u>(a) Using the Fair Value Model</u>

FGOM currently practising Cost Model. The scenario below is purposely to illustrate for the application for Fair Value Model.

The gain RM 50 million (RM 550 million – RM 500 million = RM 50 million) is recognized in the current year Statement of Financial Performance. This will increase the value of the investment property to RM 550 million in the Statement of Financial Position.

	Amount (RM)	Accounting Code
DR Investment properties	50,000,000	A2232102
CR Gain on change in fair value	50,000,000	H0187202

(b) Using the Cost Model

Under the Cost Model, the investment property is depreciated regularly at RM10 million = RM 500 million / 50 years (Assuming a useful life of 50 years). The gain of RM 50 million from increased in the Fair Value (RM 550 million – RM 500 million = RM 50 million) is not recognized but only disclosed in the Notes to The Account.

	Amount (RM)	Accounting Code
DR Depreciation expense	10,000,000	B3732102
CR Accumulated depreciation	10,000,000	A3732102

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

Scenario B – Transfer from Investment Property (IP) to Property, Plant and Equipment (PPE) (Transfer Out)

Continuing from Scenario A, at the end of 20X3 the entity expanding their operation that require more office space. Therefore, the entity decided to occupy the whole building as owner occupied property.

Journal entries

(a) Under the Fair Value Model

The fair value of the asset at 20X3 is RM 580 mil.

(i) To transfer (reclassification) the carrying amount of IP to PPE

	Amount (RM)	Accounting Code
DR PPE	580,000,000	A1432102
CR Investment properties	580,000,000	A2232102

The fair value of the building is deemed to be the cost of PPE at the date of transfer. The building will continue to be depreciated over its remaining useful life of 47 years.

(b) Under the Cost Model

Reclassify the building from IP to PPE at their carrying amount at the date of reclassification. The carrying amount as at 20X3 is RM 470 million (RM 500 mil - RM 30 mil). The accumulated depreciation is calculated as RM 500 million / 50 years x 3 years.

Journal entries

(i) To transfer (reclassification) the carrying amount of IP to PPE

	Amount (RM)	Accounting Code
DR PPE	500,000,000	A1432102
DR Accumulated Depreciation - Investment properties	30,000,000	A3732102
CR Investment properties	500,000,000	A2232102
CR Accumulated Depreciation-PPE	30,000,000	A3132102

The building will continue to be depreciated over its remaining useful life of 47 years.

Scenario C – Transfer from PPE to IP (Transfer In)

In 20X1, an entity purchased an office building for its own use for RM 10 million. In 20X6, the entity decided to lease out the office building to the third party under an operating lease at market rate. In this case, the office building will be reclassified from PPE to IP. The fair value of the office building at the date of transfer in 20X6 is RM 15 million and the depreciation for 20X6 prior the transfer will not be charged.

Journal entries

(a) Under the Fair Value Model

To record cost of Investment Property

	Amount (RM)	Accounting Code
DR Investment properties	15,000,000	A2232102
DR Accumulated Depreciation-PPE	1,000,000	A3132102
CR Revaluation Surplus	6,000,000	E0132102
CR PPE	10,000,000	A1432102
Historical cost = RM 10 million Annual depreciation: (RM 10 million / 50 years) = RM 200,000 Accumulated depreciation: RM 200,000 x 5 years = RM 1 million Carrying amount: RM 10 million – RM 1 million = RM 9 million Reserve surplus = RM 15 million – RM 9 million = RM 6 million		

(b) Under the Cost Model

To record cost of Investment Property

	Amount (RM)	Accounting Code
DR Investment properties	10,000,000	A2232102
DR Accumulated Depreciation - PPE	1,000,000	A3132102
CR PPE	10,000,000	A1432102
DR Accumulated Depreciation - Investment properties	1,000,000	A3732102
Historical cost = RM 10 million Annual depreciation: (RM 10 million / 50 years) = RM 200,000 Accumulated depreciation: RM 200,000 x 5 years = RM 1 million		

Scenario D – Transfer from Investment Property to Inventory (Transfer Out)

In 20X1, Entity A purchase a building RM 20 million for rental purposes that currently classified as investment property. In 20X6, Entity A planned to sell the building in the near future. Fair value of the building is RM 30 million.

The building is going to be redeveloped prior to sale. The redevelopment will significantly improve and enhance the building with the cost of RM 5 million.

Entity A wishes to transfer the building from investment property to inventory at the date when the redevelopment and basic repair works commence.

Journal entries

(a) Under the Fair Value Model

(i) To record the reclassification from Investment Properties to Inventory at the commencement date to redevelop with a view to sale.

	Amount (RM)	Accounting Code
DR Inventory - WIP	30,000,000	A0732201
CR Investment Property	30,000,000	A2232101
Historical cost = RM 20 mil FV of the building in 20X6 = RM 30 mil		

The fair value of investment property is deemed to be the cost of inventory at the date of transfer.

ii) To record the enhancement cost

Same as using the Cost Model

iii) To record the completion of the building as finished Inventory

	Amount (RM)	Accounting Code
DR Inventory Held for Sale	35,000,000	A0732101
CR Inventory - WIP	35,000,000	A0732201

(b) Under the Cost Model

(i) To record the reclassification from Investment Properties to Inventory at the commencement date to redevelop with a view to sale.

	Amount (RM)	Accounting Code
DR Inventory - WIP	18,000,000	A0732201
DR Accumulated Depreciation - Investment properties	2,000,000	A3732102
CR Investment Property	20,000,000	A2232101
Historical cost = RM 20 million Annual depreciation: (RM 20 million/ 50 years) = RM 400,000 Accumulated depreciation: RM 400,000 x 5 years = RM 2 million Carrying amount: RM 20 million – RM 2 million = RM 18 million		

(ii) To record the enhancement cost

	Amount (RM)	Accounting Code
DR Inventory - WIP	5,000,000	A0732201
CR Bank	5,000,000	A011xxxxx

(iii) To record the completion of the building as finished Inventory

	Amount (RM)	Accounting Code
DR Inventory Held for Sale	23,000,000	A0732101
CR Inventory - WIP	23,000,000	A0732201

Scenario E - Swap of land with loan

An entity issued loan amounting to RM 50 million 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 RM 53 million and deemed to be classified as an investment property as future use of the land is yet to be determined.

Journal entries

(i) To record the issuance of loan

The entity recognizes the loan receivable of RM 50 million and reducing the cash account of RM50 million.

	Amount (RM)	Accounting Code
DR Loan receivable	50,000,000	A0411300
CR Cash	50,000,000	A0112000

(ii) To record the repayment of loan by providing a land to the entity/ receiving a land from the third party

Since the fair value of the land is more than the value of the loan receivable, the gain 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	53,000,000	A2231103
CR Exchange of Loan Receivable With Other Assets	3,000,0000	H0284801
CR Loan receivable	50,000,000	A0411300

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

The accounting entry similar to Chapter 5 – Property, Plant and Equipment - Scenario O

APPENDICES

Appendix A.1 List of MPSASs to Be Adopted (with effective date on or after 1 January 2017)

MPSAS	
MPSAS 1	Presentation of Financial Statements
MPSAS 2	Cash Flow Statements
MPSAS 3	Accounting Policies, Changes in Accounting Estimates and Errors
MPSAS 4	The Effect of Changes in Foreign Exchange Rates
MPSAS 5	Borrowing Costs
MPSAS 9	Revenue From Exchange Transactions
MPSAS 11	Construction Contracts
MPSAS 12	Inventories
MPSAS 13	Leases
MPSAS 14	Events After the Reporting Date
MPSAS 16	Investment Property
MPSAS 17	Property, Plant and Equipment
MPSAS 19	Provisions, Contingent Liabilities and Contingent Assets
MPSAS 20	Related Party Disclosure
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: Disclosure
MPSAS 31	Intangible Assets
MPSAS 32	Service Concession Arrangements: Grantor
MPSAS 33	First-Time Adoption of Accrual Basis MPSASs
MPSAS 34	Separate Financial Statements
MPSAS 35	Consolidated Financial Statements
MPSAS 36	Investments in Associates and Joint Ventures
MPSAS 37	Joint Arrangements
MPSAS 38	Disclosure of Interest in Other Entities
MPSAS 40	Public Sector Combinations

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
EFT	Electronic Fund Transfer
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	Malaysia Public Sector Accounting Standards
PFC	Public Financial Corporation 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.

Agriculture activity is the management of biological transformation and harvesting og biological resources used by the entity for:
(a) Sales;
(b) Distribution without charge or with a minimal fee; or
(c) Conversion to agricultural output or to other biological resources for sale or distribution without charge or with a minimal fee.

Amortization is the systematic allocation of the amortizable amount of an intangible asset over its estimated useful life.

Animal refers to any living thing that is not a person, including all mammals, birds, reptiles and insects, with exception of aquatic life, fish and tortoises.

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 generated 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.

Biological asset referred to as living this that the entity owns or is in control.

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.

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 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.

Conversation activity is to sustain the stability of the ecosystem and avoid extinction, the process of coordinated protection, reproduction, care, monitoring and conversation.

Conservation operation is the process of rescuing or protecting wildlife in conservation activities using domesticated wild animal such as wild elephants.

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 independent 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;
(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 occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

Contingent liability is:
(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 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 organisation or individual as a result of contract.

Control is the power to govern the financial and operational 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 contributions plans are post-employment benefits 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 favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of event can be identified which are 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.

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 on 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 unfavourable.

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;
(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.

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.

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 in 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);
(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. Materially 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.

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 the 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 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 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).

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 authorised 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, of if the related party entity and another entity are subject to common control.

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 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 inflows of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/ equity, other than increase 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 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.

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 as 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 twelve (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 summarized 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 inflow 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.

Useful life (animal) is the animal's useful life begins at the point of it can be used in the manner required by the management until unable to perform its function.

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.