GOVERNMENT OF MALAYSIA

# Federal Government
# Accrual Accounting Manual

# LEASE ACCOUNTING

September 2021

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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 | Approval | Details of Changes | |
|---|---|---|---|---|
| | | | Section Reference | Description of Changes |
| | | | | |

# *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.

Classification indicators

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.

Inception and commencement

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.<br><br>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.<br><br>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.<br><br>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.<br><br>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.<br><br>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.<br><br>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.<br><br>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).<br><br>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.<br><br>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.<br><br>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**

<u>Finance lease</u>

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.

<u>Operating lease</u>

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
- Accounting Policy and Interpretation

## 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 | A7135000 |
| DR Lease asset – equipment | 100,000 | A1535000 |
| CR Lease liability- equipment* | 119,910 | L0724999 |

* 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 | L0724999 |
| CR Cash | 23,982 | A0112000 |

**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 | B3235000 |
| CR Accumulated depreciation - equipment (leased) | 20,000 | A3235000 |

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 | L0724999 |
| DR Interest expense | 7,602 | B0445801 |
| CR Cash | 23,982 | A0112000 |
| CR Interest in suspense | 7,602 | A7135000 |

# 11.0 *LEASE ACCOUNTING (CONTINUED)*

**Scenario B - 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 | A0113000 |
| DR Finance lease receivable | 400,000 | A0374100 |
| CR Property, Plant and Equipment – Land | 1,200,000 | A1431104 |
| CR Gain on disposal | 700,000 | H0284101 |

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 | A0374100 |
| CR Gain on finance lease | 200,000 | H0274199 |

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 | A1431104 |
| CR Finance lease receivable | 600,000 | A0374100 |

## *11.0 LEASE ACCOUNTING (CONTINUED)*

**Scenario C - 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 | B0224202 |
| CR Cash | 10,000 | A0112000 |

**Scenario D - 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 | A0113000 |
| CR Lease revenue | 10,000 | H0274202 |

# APPENDICES

## Appendix A.1 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 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 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 |
| **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 & Joint Ventures |
| **MPSAS 37** | Joint Arrangements |
| **MPSAS 38** | Disclosure of Interest in Other Entities |

# 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** | 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 recognized 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 recognized at cost. Revenue from the investment is recognized 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 summarizes 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.