GOVERNMENT OF MALAYSIA

Federal Government
Accrual Accounting Manual

IMPAIRMENT OF ASSETS

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ISSUED BY

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			Section Reference	Description of Changes
V3.0	7 Sept 2021	14.0 Impairment of Assets	Journal Entries – Accounting Code Changes: Scenario A.1 - Depreciated Replacement Cost Approach Changes: A.2 - Restoration Cost Approach Changes: A.3 Restoration Cost Approach Changes: A.4 - Impairment of an abandoned construction of a non-cash generating asset Changes: Scenario B - Impairment of cash generating asset Changes: Scenario C - Reversal of impairment loss	

14.0 IMPAIRMENT OF ASSETS

Introduction

14.1 This chapter covers the following matters:

- Basic principles of impairment
- Identifying assets that may be impaired
- Indicators of impairment
- Measuring and accounting for impairment
- Disclosures

14.2 Cash-generating assets are assets held with the primary objective of generating a commercial return.

14.3 Non-cash-generating assets are assets other than cash-generating assets.

14.4 Most assets held in the public sector are non-cash generating assets as the cash inflow from the economic benefit derived from holding the asset will never exceed the cash outflow from maintaining such an asset.

14.5 An asset may generate cash flows and also be used for non-cash generating purposes.

An example:
A public hospital has ten wards, one of which is used for fee paying patients on a commercial basis, and the rest used for non-fee paying patients. Patients from both wards jointly use other hospital facilities (for example, operating facilities). The extent to which the asset is held with the objective of providing a commercial return needs to be considered to determine whether the entity should apply the provisions of MPSAS 21 –Impairment of non-cash generating assets or MPSAS 26 – Impairment of cash-generating asset.

If, as in this example, the non-cash-generating component is a significant component of the arrangement as a whole, the entity applies MPSAS 21 – Impairment of non-cash-generating asset rather than MPSAS 26 – Impairment of cash-generating asset.

Basic principles of impairment

14.6 An asset is impaired when the carrying amount of the asset exceeds its recoverable service amount (for non-cash generating asset) or recoverable amount (for cash generating asset).

Identifying assets that may be impaired

14.7 An entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable service amount/recoverable amount of the asset.

14.0 IMPAIRMENT OF ASSETS (CONTINUED)

Indicators of impairment

Non-cash-generating assets

14.8 In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

External sources of information

(a) Cessation, or near cessation, of the demand or need for services provided by the asset;
(b) Significant long-term changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, legal, or government policy environment in which the entity operates;

Internal sources of information

(a) Evidence is available of physical damage of an asset;
(b) Significant long-term changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, or plans to dispose of an asset before the previously expected date and reassessing the useful life of an asset as finite rather than indefinite;
(c) A decision to halt the construction of the asset before it is complete or in a usable condition; and
(d) Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected.

Cash-generating assets

14.9 In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

External sources of information

(a) An asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use;
(b) Significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic, or legal environment in which the entity operates, or in the market to which an asset is dedicated;
(c) Market interest rates or other market rates of return on investments have increased during the period that are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.

Internal sources of information

(a) obsolescence or physical damage of an asset;
(b) Significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or the manner in which, an asset is used or is expected to be used. It can include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite;

14.0 IMPAIRMENT OF ASSETS (CONTINUED)

(c) A decision to halt the construction of the asset before it is complete or in a usable condition; and
(d) Economic performance of an asset is, or will be, worse than expected.

Measuring and accounting for impairment

14.10 Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortization). Impairment, therefore, reflects a decline in the utility of an asset to the entity that controls it.

14.11 If the recoverable service amount or recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable service amount or recoverable amount. That reduction is an impairment loss.

14.12 The impairment loss shall be recognized as expense to surplus or deficit. Where the estimated impairment loss is greater than the carrying amount of the asset, the carrying amount of the asset is reduced to zero with a corresponding amount recognized in surplus or deficit. A liability would be recognized only if another MPSAS so requires.

14.13 After the recognition of an impairment loss, the depreciation (amortization) charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

<u>Non cash generating asset</u>

14.14 A non-cash-generating asset is impaired when the carrying amount of the asset exceeds its recoverable service amount. The recoverable service amount is the higher of an asset's fair value less costs to sell and its value in use.

14.15 The value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

There are 3 approaches to estimate the present value of the asset's remaining service potential for non-cash generating assets

(a) Depreciated replacement cost approach – where an asset's present value is determined based on the cost to replace to assets gross service potential after taking into account its accumulated depreciation over consumed service potential asset life.
(b) Restoration cost approach - is the cost of restoring the service potential of an asset to its pre-impaired level. Under this approach, the present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment.
(c) Service units approach – where the asset's present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment to conform to the reduced number of service units expected from the asset in its impaired state. As in the restoration cost approach, the current cost of replacing the remaining service potential of the asset before impairment is usually determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

14.0 IMPAIRMENT OF ASSETS (CONTINUED)

Cash generating asset

14.16 Similar to non-cash generating asset, an impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

14.17 Unlike non-cash generating asset, to estimate the recoverable amount, an entity will need to look into its cash flow projections to derive value in use. In measuring value in use, an entity shall:

(a) Base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset.
(b) Base cash flow projections on the most recent financial budgets/forecasts approved by management, but shall exclude any estimated future cash inflows or outflows expected to arise from future restructurings or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts shall cover a maximum period of five years, unless a longer period can be justified; and
(c) Estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified.

14.18 Estimates of future cash flows shall include:

(a) Projections of cash inflows from the continuing use of the asset;
(b) Projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
(c) Net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

14.19 Future cash flows shall be estimated for the asset in its current condition. Estimates of future cash flows shall not include estimated future cash inflows or outflows that are expected to arise from:

(a) A future restructuring to which an entity is not yet committed; or
(b) Improving or enhancing the asset's performance.

14.20 Estimates of future cash flows shall not include:

(a) Cash inflows or outflows from financing activities; or
(b) Income tax receipts or payments.

14.0 IMPAIRMENT OF ASSETS (CONTINUED)

Reversal of impairment of loss

14.21 The increased carrying amount of an asset attributable to a reversal on an impairment loss shall not exceed the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior periods.

14.22 A reversal of an impairment loss for an asset shall be recognized immediately in surplus or deficit.

14.23 After a reversal of an impairment loss is recognized, the depreciation (amortization) charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Disclosure Requirements

14.24 An entity shall disclose the following for each class of assets:

(a) The amount of impairment losses recognized in surplus or deficit during the period and the line item(s) of the statement of financial performance in which those impairment losses are included.
(b) The amount of reversals of impairment losses recognized in surplus or deficit during the period and the line item(s) of the statement of financial performance in which those impairment losses are reversed.

14.25 An entity shall disclose the following for each material impairment loss recognized or reversed during the period:

(a) The events and circumstances that led to the recognition or reversal of the impairment loss.
(b) The amount of the impairment loss recognized or reversed.
(c) The nature of the asset.
(d) The segment to which the asset belongs, if the entity reports segment information in accordance with MPSAS 18 – Segment reporting.
(e) Whether the recoverable service amount of the asset is its fair value less costs to sell or its value in use.
(f) If the recoverable service amount is fair value less costs to sell, the basis used to determine fair value less costs to sell (such as whether fair value was determined by reference to an active market).
(g) If the recoverable service amount is value in use, the approach used to determine value in use.

References

- MPSAS 21 – Impairment of Non-Cash-Generating Asset
- MPSAS 26 – Impairment of Cash-Generating Asset
- Accounting Policy and Interpretation

14.0 IMPAIRMENT OF ASSETS (CONTINUED)

Scenario A - Impairment of non-cash generating asset

Scenario A.1 - Depreciated Replacement Cost Approach

In 1999, the entity purchased a software license for an application for its new mainframe computer for RM350,000. The entity estimated that the useful life of the software would be seven years and that it would receive economic benefits and service potential from the software on a straight-line basis over the life of the software.

By 20X2, usage of the application had declined to 15 per cent of its originally anticipated demand. A license for a software application to replace the remaining service potential of the impaired software application costs RM70,000.

Journal entries

1) To record the impairment loss in year ended 20X2 of RM120,000

		(RM)
a.	Acquisition cost, 1999	350,000
	Accumulated depreciation, 20X2 (a ÷ 7 x 4)	200,000
b.	Carrying amount, 20X2	150,000
c.	Replacement cost	70,000
	Accumulated amortization (c ÷ 7 x 4)	40,000
d.	Recoverable Service Amount	30,000
	Impairment loss (b-d)	120,000

As illustrated above, the carrying amount of RM150,000 is greater than the recoverable service amount of RM30,000. Hence, impairment loss of RM120,000 would be recognized as expense and the corresponding entry is recognised as accumulated impairment loss.

	Amount (RM)	Accounting Code
DR Impairment loss expense	120,000	B483xxxx
CR Accumulated impairment loss	120,000	A483xxxx

Refer to Scenario C for reversal of impairment loss.

14.0 IMPAIRMENT OF ASSETS (CONTINUED)

Scenario A.2 - Restoration Cost Approach

In 1998, the entity acquired a bus at the cost of RM200,000 to help students from a nearby village to commute free of charge. The school estimated a useful life of 10 years for the bus. In 20X2, the bus sustained damage in a road accident requiring RM40,000 to be restored to a usable condition. The restoration will not affect the useful life of the asset. The cost of a new bus to deliver a similar service is RM250,000 in 20X2.

Journal entries

1) To record the impairment loss in year ended 20X2 of RM15,000.

		(RM)
a.	Acquisition cost, 1998	200,000
	Accumulated depreciation, 20X2 (a ÷ 10 x 5)	100,000
b.	Carrying amount, 20X2	100,000
c.	Replacement cost	250,000
	Accumulated depreciation (c ÷ 10 x 5)	125,000
d.	Depreciated replacement cost (undamaged state)	125,000
	Less: restoration cost	40,000
e.	Recoverable Service Amount	85,000
	Impairment loss (b-e)	15,000

As illustrated above, the carrying amount of RM100,000 is greater than the recoverable service amount of RM85,000. Hence, impairment loss of RM15,000 would be recognized as expense and the corresponding entry is recognised as accumulated impairment loss.

	Amount (RM)	Accounting Code
DR Impairment loss expense	15,000	B413xxxx
CR Accumulated impairment loss	15,000	A413xxxx

Refer to Scenario C for reversal of impairment loss.

14.0 IMPAIRMENT OF ASSETS (CONTINUED)

Scenario A.3 - Service Units Approach

In 1998, the entity purchased a new printing machine at a cost of RM40 million. The entity estimated that the useful life of the machine would be 40 million copies of books to be printed over 10 years for use by elementary school students. In 20X2, it was reported that an automated feature of the machine's function does not operate as expected resulting in a 25 per cent reduction in the machine's annual output level over the remaining 5 years of the useful life of the asset. The replacement cost of a new printing machine is RM45 million in 20X2.

Journal entries

1) To record the impairment loss in year ended 20X2 of RM3,125,000.

		(RM)
a.	Acquisition cost, 1998	40,000,000
	Accumulated depreciation (a ÷ 10 x 5)	20,000,000
b.	Carrying amount, 20X2	20,000,000
c.	Replacement cost	45,000,000
	Accumulated depreciation (c ÷ 10 x 5)	22,500,000
d.	Depreciated replacement cost before adjustment for remaining units	22,500,000
e.	Recoverable Service Amount (d x 75%)	16,875,000
	Impairment loss (b-e)	3,125,000

As illustrated above, the carrying amount of RM20,000,000 is greater than the recoverable service amount of RM 16,875,000. Hence, impairment loss of RM3,125,000 would be recognized as expense and the corresponding entry is recognised as accumulated impairment loss.

	Amount (RM)	Accounting Code
DR Impairment loss expense	3,125,000	B413xxxx
CR Accumulated impairment loss	3,125,000	A413xxxx

Refer to Scenario C for reversal of impairment loss.

14.0 IMPAIRMENT OF ASSETS (CONTINUED)

Scenario A.4 - Impairment of an abandoned construction of a non-cash generating asset

In January 20X8, the FGOM granted to Contractor A a contract to construct a hospital at an overall agreed cost of work amounting to RM200 million. Work commenced in March 20X8. The duration of construction was expected to be 2 years.

Up until January 20X0, a total of RM180 million was paid out to Contractor A based on periodic progress billing and certificate of progress completion. The building was 90% completed.

By this time, major disputes arose between the FGOM and Contractor A and as the disputes were unresolved, the Contractor activated the break clause and terminated his contract with FGOM.

The project was abandoned for approximately 2 years before a new Contractor B was assigned to complete the construction of the hospital. Contractor B estimates a further RM50 million to complete the construction. The estimated RM50 million includes RM20 million for restoration work and RM30 million to complete construction. Replacement cost of the building was estimated at RM210 million.

Journal entries

1) To record construction cost incurred until January 20X0

	Amount (RM)	Accounting Code
DR Asset under construction	180,000,000	A203xxxx
CR Bank	180,000,000	A011xxxx

2) To record impairment on asset under construction

Assessment was made on asset under construction to check for impairment indicators and consequently assess the recoverable service amount.

Impairment indicators assessed are:

- A decision to halt completion or in a usable condition; no impairment as there was intention to complete construction.
- Evidence available on physical damage; there was evidence of damage hence restoration was subsequently pursued.

Evaluation of impairment	(RM'000)
a) Acquisition cost at 20X0 (at 90%)/current value	180,000
b) Replacement cost (Fair value at 90% of RM210 million)*	189,000
Less: Restoration cost	(20,000)
c) Recoverable service amount	169,000
Impairment loss (a – c)	11,000

* The replacement cost of a 90% completed building approximates to RM189 million.

	Amount (RM)	Accounting Code
DR Impairment loss expense	11,000,000	B573xxxx
CR Accumulated impairment loss	11,000,000	A573xxxx

14.0 IMPAIRMENT OF ASSETS (CONTINUED)

Journal entries

3) To record restoration expense incurred in 20X2

During 20X2, Contractor B restored building to its original state and completed construction on the remaining building structure.

a) The RM20 million is added to asset under construction in year 20X2

	Amount (RM)	Accounting Code
DR Asset under construction	20,000,000	A203xxxx
CR Bank (Contractor B)	20,000,000	A011xxxx

b) To record the remaining RM30 million incurred to bring asset to its current service potential

	Amount (RM)	Accounting Code
DR Asset under construction	30,000,000	A203xxxx
CR Bank (Contractor B)	30,000,000	A011xxxx

Upon full completion and certificate of completion obtained, the asset can be transferred from asset under construction to property plant and equipment (building).

Subsequently, the asset was revalued at a higher replacement cost of RM240 million. The asset's current recoverable amount at present is RM219 million (RM180 million + RM50 million – less impairment of RM11 million). The asset can now be increased to its recoverable service amount.

The entire impairment loss provided for under journal entry 2 is now reversed.

	Amount (RM)	Accounting Code
DR Accumulated impairment loss	11,000,000	A573xxxx
CR Impairment loss expense	11,000,000	B573xxxx

The increased carrying amount of the asset attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior period.

14.0 *IMPAIRMENT OF ASSETS (CONTINUED)*

Scenario B - Impairment of cash generating asset

At the beginning of 20X0, an entity puts into service a power plant that it constructed at the cost of RM250 million. At the beginning of 20X3, power plants constructed by competitors are put into service, resulting in a reduction in the revenue produced by the entity. Reduction in revenue was due to lower than expected volume of electricity generated and lower than expected electricity price and stand-by capacities. The reduction in revenue is evidence that the economic performance of the asset is worse than expected.

The following are the details of the power plant:

Cost	RM250,000,000
Useful life	20 years
Residual value	0
Depreciation method	Straight line

Consequently, the entity is required to determine the asset's recoverable amount. Since it is not possible to determine the fair value less costs to sell of the power plant, recoverability can only be determined through the calculation of value in use.

In order to determine the value in use of the power plant, the entity is required to:

(a) Prepares pre-tax cash flow forecasts derived from the most recent financial budgets/forecasts for the next five years (year 20X4 – 20X8) approved by management;
(b) Estimates subsequent pre-tax cash flows (years 20Y0 – 20Y9) based on declining growth rates ranging from -6 per cent per annum to -3 per cent per annum; and
(c) Select a 6 per cent discount rate which represents a rate that reflects current market assessments of the time value of money and the risks specific to the entity's power plant.

14.0 IMPAIRMENT OF ASSETS (CONTINUED)

Journal entries

1) To record the impairment of loss in year ended 20X3 amounting to RM78.9 million.

		(RM)
a.	Acquisition cost	250,000,000
	Accumulated depreciation (a ÷ 20 x 4)	(50,000,000)
b.	Carrying amount	200,000,000
c.	Recoverable amount (value in use)	121,100,000
d.	Impairment loss (b – c)	78,900,000

As illustrated above, the carrying amount of RM200 million exceeds the recoverable amount of RM121.1 million (value in use) by RM78.9 million (RM200 million – RM121.1 million).

The determination of the value in use of the power plant at the end of the 20X3 is as illustrated in Table A.1 – Calculation of The Value in Use of The Entity's Power Plant.

Hence, the impairment loss of RM78.9 million is recognised as expense and the corresponding entry is recognised as accumulated impairment loss.

	Amount (RM)	Accounting Code
DR Impairment loss expense	78,900,000	B413xxxx
CR Accumulated impairment loss	78,900,000	A413xxxx

Refer to Scenario C for reversal of impairment loss.

Table A.1 – Calculation of the Value in Use of The Entity's Power Plant at the end of 20X3:

Year	Long-term growth rates	Future (pre-tax) cash flows (RM'm)	Present value factor at 6% discount rate$^{\beta}$	Discounted future (pre-tax) cash flow (RM'm)
20X4		16.8*	0.94340	15.8
20X5		14.4*	0.89000	12.8
20X6		14.2*	0.83962	11.9
20X7		14.1*	0.79209	11.2
20X8		13.9*	0.74726	10.4
20Y0	(6%)	13.1±	0.70496	9.2
20Y1	(6%)	12.3±	0.66506	8.2
20Y2	(6%)	11.6±	0.62741	7.3
20Y3	(5%)	11.0±	0.59190	6.5
20Y4	(5%)	10.5±	0.55839	5.9
20Y5	(5%)	10.0±	0.52679	5.3
20Y6	(4%)	9.6±	0.49697	4.8
20Y7	(4%)	9.2±	0.46884	4.3
20Y8	(3%)	8.9±	0.44230	3.9
20Y9	(3%)	8.6±	0.41727	3.6
				121.1

Value in use

* Based on management's best estimate of net pre-tax cash flow projections.

± Based on an extrapolation from preceding year cash flow using declining growth rates.

β The present value factor is calculated as $k = 1/1\ (1+a)^n$, where a = discount rate and n = period discount.
As stated in MPSAS 26 – Impairment of cash generating assets, discount rate is a pre-tax rate that reflects current market assessment of:
(a) The time value of money represented by the current risk-rate rate of interests; and
(b) The risks specific to the asset for which the future pre-tax cash flow estimates have not been adjusted.

14.0 IMPAIRMENT OF ASSETS (CONTINUED)

Scenario C - Reversal of impairment loss

Following on from Scenario A.1 where an impairment loss of RM120,000 was recognised due to usage of a software application decreased to below its originally anticipated demand. This impairment loss was subsequently reversed as usage of the software application rebounded, where the value in value/recoverable service amount is now greater than the carrying amount.

Journal entries

1) To record the reversal of impairment loss

When there are signs of reversal of impairment loss, the accumulated impairment loss account is debited and the impairment loss account is credited.

The same journal entry applies when recognition and reversal of write down straddles over two financial years.

	Amount (RM)	Accounting Code
DR Accumulated impairment loss	120,000	A483xxxx
CR Impairment loss expense	120,000	B483xxxx

Note: The same journal entry is applicable for similar reversal of impairment loss scenarios for both cash generating and non-cash generating assets regardless whether the depreciated replacement cost approach, restoration cost approach, service units approach, CGU approach or the value in use approach are adopted.

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.