GOVERNMENT OF MALAYSIA

Federal Government
Accrual Accounting Manual

REVENUE

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ISSUED BY

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			Section Reference	Description of Changes

FINANCIAL PERFORMANCE AND RELATED NOTES

20.0 REVENUE

Introduction

20.1 This chapter covers the following matters:

- Types of revenue
- Recognition and measurement
- Disclosures

Types of Revenue

20.2 Revenue is defined by 2 main categories – exchange revenue and non-exchange revenue.

<u>Exchange Revenue</u>

20.3 In accordance to MPSAS 9 - exchange revenue comes from transactions where there is an exchange of approximately equal value, for example:

- The rendering of services
- The sale of goods
- Interest
- Royalties
- Dividends
- Rental

<u>Non Exchange Revenue</u>

20.4 In accordance to MPSAS 23 - Revenue from non-exchange transactions, non-exchange revenue is recognized when an entity receives resources and provide no or nominal consideration directly in return. For example, collection of taxes, fines and penalties.

20.5 There is a further group of non-exchange transactions where the entity may provide some consideration directly in return for the resources received but the consideration does not approximate the fair value of the resources received. In these cases, the entity determines whether there is a combination of exchange and non- exchange transaction and examines the substance of the transaction. For example, a hospital provides service for a nominal consideration, where the transaction is conducted at a subsidized price, a price not equating to the fair value of the goods sold, then that transactions falls within the definition of a non - exchange transaction.

20.6 Non exchange revenue mainly comprises of:

- Income tax
- Consumption tax
- Stamp duty
- Property tax
- Quit rent assessment
- Custom duties
- Excise duties
- Miscellaneous indirect taxes
- Fines and penalties
- Contributions and compensation from foreign countries and local contributors
- Licenses, registration fees and permits
- Public service

20.0 REVENUE (CONTINUED)

Recognition and measurement

Exchange revenue recognition

Type of Revenue	Timing for Recognition
Rendering of services Examples: • Housing • School transport • Management of toll roads • Processing of court cases • Admission fee	(a) When the amount of revenue can be measured reliably (b) It is probable that the economic benefits or service potential associated with the transaction will flow to the entity (c) The stage of completion of the transaction at the reporting date can be measured reliably (d) The costs incurred for the transaction and the costs to complete the transaction can be measured reliably
Sales of goods	(a) When the entity has transferred to the purchaser the significant risks and rewards of ownership of the goods (b) The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold (c) The amount of revenue can be measured reliably (d) It is probable that the economic benefits or service potential associated with the transaction will flow to the entity (e) The cost incurred or to be incurred in respect of the transaction can be measured reliably
Interest (using effective interest rate - EIR)	On a time proportion basis that takes into account the effective yield of the asset. Refer to Scenario A.2 for determination of EIR.
Royalties Examples: • Exploration of oil and gas	Based on the substance of the agreement.
Dividends	When shareholder's or the entity's right to receive payment is established.
Rentals	On straight line basis over the lease term, where FGOM acts as a lessor.

20.0 REVENUE (CONTINUED)

Non exchange revenue recognition

Type of Revenue	Timing for recognition
Income tax – Examples: • Corporate income tax • Individual income tax • Petroleum income tax	Recognized by reference to the earning of assessable income by the taxpayers. Income tax deductions received through the Pay as You Earn is recognized at the point of receipt.
Consumption tax Examples: • Sales tax • Services tax • Goods and services tax	Sales tax – Point of sale of taxable goods and services. Services tax – Point of payment receipt on taxable goods and services. Goods and services tax – Recognized upon declaration by the taxpayer.
Stamp Duty	Point of collection of the revenue.
Property Tax	Point of occurrence of taxable event.
Quit rent assessment	Point of occurrence of taxable event.
Custom duties Examples: • Export and import duties	Point of the movement of dutiable goods across custom boundaries and custom controlled warehouses.
Excise duties Examples: • Tobacco • Vehicles produced locally	Point of occurrence of taxable events being movement of dutiable goods. Recognized when the vehicles are sold. If not sold after 4th year of removal from manufacturing plant, vehicles are deemed as sold and excise duties shall be accrued as a receivable.
Miscellaneous indirect taxes Examples: • Levies	Levy for agriculture produce – Point of declaration. Levy for vehicle leaving and entering Malaysia – Point of levy imposed and received.
Fines and penalties	(a) Point of fine/penalty being imposed: i. Penalty for late payment of tax imposed by Inland Revenue Board. ii. Penalty for late payment of assessment imposed by the relevant authorities. (b) Traffic fine. When payment is received and not when the fine is imposed because the amount of fines cannot be reliably measured in view of the various discount/waiver.
Contributions and compensation from foreign countries and local contributors Examples: • Gifts and donations	Point of future economic benefits or service potential flows to the entity and the fair value can be measured reliably, e.g. when the amount is pledged, memorandum of understanding.
Licenses, registration fees and permit Examples: (a) Visa (b) Passport (c) Birth/Death Certificate	Point of licenses and permits issued
Public Service	Where service is rendered
Confiscated goods • Custom • Road Transport Department • Police	Upon disposal of items or goods according to respective laws • Disposal upon court decision • Disposal upon court decision • Disposal upon notice period ends

20.0 REVENUE (CONTINUED)

Measurement (non-exchange and exchange transaction)

20.7 Revenue shall be measured at the fair value of the consideration received or receivable.

Disclosure Requirements

20.8 Revenues are to be recorded on the statement of financial performance.

20.9 An entity shall disclose for non-exchange transactions:

(a) The amount of revenue from non-exchange transactions recognized during the period by major classes showing separately:
- Taxes, showing separately major classes of taxes; and
- Transfers, showing separately major classes of transfer revenue.

(b) The amount of receivables recognized in respect of non-exchange revenue;
(c) The amount of liabilities recognized in respect of transferred assets subject to conditions;
(d) The amount of liabilities recognized in respect of concessionary loans that are subject to conditions on transferred assets
(e) The amount of assets recognized that are subject to restrictions and the nature of those restrictions;
(f) The existence and amounts of any advance receipts in respect of non-exchange transactions; and
(g) The amount of any liabilities forgiven.
(h) The accounting policies adopted for the recognition of revenue from non-exchange transactions;
(i) For major classes of revenue from non-exchange transactions, the basis on which the fair value of inflowing resources was measured;
(j) For major classes of taxation revenue that the entity cannot measure reliably during the period in which the taxable event occurs, information about the nature of the tax; and
(k) The nature and type of major classes of bequests, gifts, and donations, showing separately major classes of goods in-kind received.

20.10 An entity shall disclose for exchange transactions:

(a) The accounting policies adopted for the recognition of revenue, including the methods adopted to determine the stage of completion of transactions involving the rendering of services;
(b) The amount of each significant category of revenue recognized during the period, including revenue arising from:
- The rendering of services;
- The sale of goods;
- Interest;
- Royalties; and
- Dividends or similar distributions; and

(c) The amount of revenue arising from exchanges of goods or services included in each significant category of revenue.

References

- MPSAS 9 – Revenue from Exchange Transactions
- MPSAS 23 – Revenue from Non Exchange Transactions
- Accounting Policy and Interpretation

20.0 REVENUE (CONTINUED)

Scenario A -Exchange Revenue Transactions

Scenario A.1 - Recognition of revenue for sale of goods to external party

An entity sells information products to an outside party for RM1,500.

Journal entries

1) An entity delivered information products to an outside party for RM1,500

At this point the entity should recognize the revenue since the amount is known and the risks and rewards of ownership have been transferred to the buyer and the seller has completed all significant acts. Once the goods have been provided, the revenue should be recorded in the entity's books.

A receivable must be set up to record the amount to be received by the outside party. Where an invoice has not been issued, an accrued receivable for an estimated amount should be set up. This accrual can be reversed in the next period before the invoice is issued.

	Amount (RM)	Accounting Code
DR Accounts receivable	1,500	A0373100
CR Non tax revenue - Sales of goods	1,500	H0273199

2) An entity received cash for the information products delivered to an outside party for RM1,500.

When cash is received from the outside party, the accounts receivable is reversed and cash account is debited.

	Amount (RM)	Accounting Code
DR Cash	1,500	A0113000
CR Accounts receivable	1,500	A0373100

20.0 REVENUE (CONTINUED)

Scenario A.2 - Accruing interest revenue using the effective interest rate

An entity purchases a 5 year RM100,000 bond at 9% when the market rate of interest is 8%. The fair value of the bond amounts to RM104,100.

Journal entries

1) To record initial bond purchase

Bond receivable is created upon the bond purchase. The difference between the market rate and bond interest rate results in a bond premium on bonds receivable of RM4,100.

	Amount (RM)	Accounting Code
DR Bonds receivable	100,000	A1311115
DR Premium on bonds receivable	4,100	A1361105
CR Cash	104,100	A0112000

2) To record bi-yearly interest revenue receipt and interest revenue recognition

The bond premium of (RM104,100 – RM100,000 = 4,100) RM4,100 is amortised as interest revenue over the life of the bond. The table below shows the detailed calculation:

A	B	C	D	E	F	G
Date	Interest receipt stated 4.5 x Face (9%/2)	Interest receipt Market 4% x Previous BV in G (8%/2)	Amortisa-tion of Bond Premium (C minus B)	Debit balance in Bond Premium Account	Debit balance in Bonds Receivable Account	Book value (BV) of the Bond F plus E
	Debit cash (RM)	Credit interest revenue (RM)	Credit Bond Premium (RM)	(RM)	(RM)	(RM)
Jan 1, 2013				4,100	100,000	104,100
Jun 30, 2013	4,500	4,164	(336)	3,764	100,000	103,764
Dec 31, 2013	4,500	4,151	(349)	3,415	100,000	103,415
Jun 30, 2014	4,500	4,137	(363)	3,052	100,000	103,052
Dec 31, 2014	4,500	4,122	(378)	2,674	100,000	102,674
Jun 30, 2015	4,500	4,107	(393)	2,281	100,000	102,281
Dec 31, 2015	4,500	4,091	(409)	1,872	100,000	101,872
Jun 30,2016	4,500	4,075	(425)	1,447	100,000	101,447
Dec 31,2016	4,500	4,058	(442)	1,005	100,000	101,005
Jun 30,2017	4,500	4,040	(460)	545	100,000	100,545
Dec 31,2017	4,500	3,955	(545)	0	100,000	100,000
Total	**45,000**	**40,900**	**(4,100)**			

The first interest revenue on 30 June 2013 of RM4,500 sees an interest revenue recognition of RM4,164. The remaining RM336 reduces the provision on bonds receivable account.

	Amount (RM)	Accounting Code
DR Cash	4,500	A0113000
CR Interest revenue	4,164	H0275000
CR Premium on bond receivable	336	A1361105

20.0 REVENUE (CONTINUED)

Scenario B - Non Exchange Revenue Transactions

Scenario B.1 - Recognition, receipts and refund of corporate/individual tax

On 28 November 2012, Company A submits tax estimate to Inland Revenue Board of Malaysia for the financial year of 2013. The income tax estimate amounts to RM150,000. On 10 February 2013, Company A remits payment of RM12,500 (RM150,000 /12 months). Subsequent to that, Company A remits monthly payment of RM12,500 on the 10th of each month in 2013.

Journal entries

1) To record the remittance of tax instalment payment of RM12,500 on 10 February 2013 and subsequently 10th of each month in 2013

When cash payments are received from Company A, cash is debited and the revenue is recognized accordingly. The journal entries for the cash payment on the 10th of subsequent months are same as above. Income tax deductions received through the Pay As You Earn scheme shall be recognized as revenue at the point of receipt.

	Amount (RM)	Accounting Code
DR Cash	12,500	A0113000
CR Tax revenue	12,500	H0161102

2) To record the recognition of potential refunds of overpayment or underpayment of tax

When the amount of actual tax payment is known upon receipt of the tax submission, the Inland Revenue Board of Malaysia will assess whether there is an over or underpayment of tax.

a) Recognition of over payment

At the end of the financial period, Company A's actual tax payment is RM125,000. Within the financial period of 2013, Company A submits form and elects for refund of tax payment. Inland Revenue Board of Malaysia proceeds to refund the income tax payment of RM25,000.

	Amount (RM)	Accounting Code
DR Tax revenue	25,000	H0161102
CR Tax refund fund	25,000	L0161100

To record the refund of overpayment of tax

When taxpayer submits form and elects for refund of tax payment, the Inland Revenue Board will make payment by crediting cash and debiting tax refund fund.

	Amount (RM)	Accounting Code
DR Tax refund fund	25,000	L0161100
CR Cash	25,000	A0112000

20.0 REVENUE (CONTINUED)

Journal entries

b) Recognition of under payment

At the end of the financial period, Company A's actual tax payment is RM170,000. Within the financial period of 2013, Company A submits form and agrees to make further tax payment of RM20,000.

	Amount (RM)	Accounting Code
DR Tax receivable	20,000	A0261102
CR Tax revenue	20,000	H0161102

To record the receipt of underpayment of tax in current financial year

When taxpayer submits forms, agrees and make payments, the Inland Revenue Board will recognise this eventual cash receipt as tax receivable account accordingly.

	Amount (RM)	Accounting Code
DR Cash	20,000	A0113000
CR Tax receivable	20,000	A0261102

Scenario B.2 - Recognition of quit rent assessment revenue

Land authority issues a bill for quit rent amounting to RM10,000. The entity has yet to receive quit rent assessment payment.

The individual involved subsequently make a cash payment.

Journal entries

1) To record the quit rent assessment revenue

The land authority should recognize the revenue since the amount is known and billed and there is certainty on the receivable. A receivable is created to record the amount to be received by the individual.

	Amount (RM)	Accounting Code
DR Tax receivable	10,000	A0291101
CR Tax revenue	10,000	H0191101

2) To record the cash received for quit rent assessment

The land authority reduces the tax receivable account accordingly.

	Amount (RM)	Accounting Code
DR Cash	10,000	A0113000
CR Tax receivable	10,000	A0291101

20.0 REVENUE (CONTINUED)

Scenario B.3 - Recognition of revenue for penalty on late payment of corporate tax

Company A is required to remit monthly payment of RM12,500 starting 10 of January 2013.As at end of the financial year of 2013, Company A has failed to remit any monthly payments. Company A incurred a penalty on late payment of corporate tax amounting to RM2,500. Company A subsequently made full payment of the penalty.

Journal entries

1) To record the penalty incurred for late payment of corporate tax

Inland Revenue Board will recognize a penalty amounting to RM2,500, the penalty incurred will be recognized as income tax receivable and also credited as income tax revenue.

	Amount (RM)	Accounting Code
DR Penalty receivable	2,500	A0276100
CR Non tax revenue-penalty	2,500	H0176102

2) To record the cash received for the penalty incurred

When cash is received, revenue is recognized and the cash account is debited.

	Amount (RM)	Accounting Code
DR Cash	2,500	A0113000
CR Penalty receivable	2,500	A0276100

20.0 REVENUE (CONTINUED)

Scenario B.4 - Receipt of cash for summon payment

As at 15 June 2013, individual A commits a traffic offence and was issued a summon by the traffic officer. The summon was due for payment immediately amounting to RM100. However, individual A only remitted summon payment on 1 August 2013. Since the payment is still within the stipulated time period, no penalties are incurred.

Journal entries

1) To record the cash in hand prior to cash banked in

The summon payment received is recognised as cash in hand at the point of receipt. Summon is recognised as revenue when payment is received and not when summon is issued.

	Amount (RM)	Accounting Code
DR Cash in hand	100	A0122000
CR Non tax revenue- fines and penalties	100	H0176102

2) To record the cash in hand deposited in bank

When the cash in hand is deposited in bank, the cash in hand account is credited and the cash in bank account is debited.

	Amount (RM)	Accounting Code
DR Cash	100	A0113000
CR Cash in hand	100	A0122000

20.0 REVENUE (CONTINUED)

Scenario B.5 - Recognition of deposit as revenue

There are scenarios that result in recognition of deposit as revenue. These are three examples:

(a) For cheques and electronic funds transfer cancellation, deposits that are long overdue after 6 years are recognized as revenue.
(b) For other refundable deposits (excluding cheque and electronic funds transfer cancellation), the deposit will be gazette once it is overdue for more than 1 year. If the deposits remained unclaimed after gazette for more than 3 months, the refundable deposits will be recognized as revenue.
(c) The vendor failed to abide by the terms and conditions of the contract. As a result, its deposits are being forfeited. The forfeited deposits will be recognized as revenue.

The point of recognition of revenue for the above scenarios are different, however the journal entries to recognize revenue for the above scenarios are the same. The journal entries below illustrate scenario C where the vendor's deposits are forfeited but will be applicable to the other scenarios also.

A vendor failed to finish the construction of a public project. As per a clause in the agreement, the deposit remitted by the vendor will be forfeited should the vendor failed to abide by the conditions stated. The deposit forfeited amounts to RM2,000.

Journal entries

1) To record the revenue recognized from confiscated deposit

The deposit confiscated will be recognized as revenue and the deposit account is reduced by that amount.

	Amount (RM)	Accounting Code
DR Liability – Deposits	2,000	L1111107
CR Revenue	2,000	H0176103

20.0 REVENUE (CONTINUED)

Scenario B.6 - Recognition of excise duties revenue

An entity manufactures national cars locally. The entity starts the distribution of car to showrooms and to various sales agents. Each national car has a selling price of RM50,000. The entity distributed 100 cars to 2 showrooms on 1 January 20X1 and 100 cars to 10 sales agents.

As at 31 December 20X1, sales agents sold all 100 cars. The showrooms were only able to sell 20 cars. As at 31 December 20X4, there was a balance of 15 unsold cars. Assume excise duties to be 10%, payable to FGOM.

Vehicles that are produced locally will recognise excise duties as revenues when vehicles are sold and not when the vehicles leave the factory. Excise duties shall be accrued as receivable at the end of 4th year after vehicles leave the factory even though not sold.

Journal entries

1) To record excise tax on cars sold as at 31 December 20X1

Total number of cars sold were 120 and hence total of RM6 million attracts the 10% excise duties and is received by FGOM. This is recognised as tax revenue.

	Amount (RM)	Accounting Code
DR Cash	600,000	A0113000
CR Tax revenue	600,000	H0162318

2) To record excise tax receivable on 31 December 20X4

Total number of unsold cars after point of leaving factory stands at 15 and hence total of RM750,000 attracts 10% excise duties as receivable. This receivable is recognised as tax revenue.

	Amount (RM)	Accounting Code
DR Account receivable	75,000	A0262300
CR Tax revenue	75,000	H0162318

When tax amounts are received, account receivable and cash account are updated accordingly.

20.0 REVENUE (CONTINUED)

Journal entries

3) To record excise duty exemptions on unsold cars granted by authorities

(a) A full application was made to authorities to exempt manufacturer from excise duties payment. When approved by authorities, the excise duties receivable and revenue recognised is reversed.

	Amount (RM)	Accounting Code
DR Tax revenue	75,000	H0162318
CR Account receivable	75,000	A0262300

(b) A full application was made and authorities provided only partial approval on exemption amounting to RM35,000.

Assume full settlement of excise duties after journal entry 2 was entered before exemption approval was granted.

	Amount (RM)	Accounting Code
DR Cash	75,000	A0113000
CR Account receivable	75,000	A0262300

Reversal of partially recognised revenue and refund is triggered once authorities grant exemption approval.

	Amount (RM)	Accounting Code
DR Revenue	35,000	B0551106
CR Cash – refund	35,000	A0112000

20.0 REVENUE (CONTINUED)

Scenario B.7 - Recognition of deferred import duties revenue

A petroleum company makes an advance payment of import duty for purposes of oil importations via a road oil tanker from Singapore via customs entry point. The advance payment is an amount equal to the estimated import duty. For purpose of this scenario, the advance payment has been estimated at RM500,000. This amount was paid beginning of January 20x2.

When each importation takes place, the import duty to be paid is reversed from the advance payment received from petroleum company. For purpose of this scenario, each oil importation via a road oil tanker is estimated at RM45,000. During the month of January 20x2, a total of 10 oil importations crossed customs entry point from Singapore.

The petroleum company also tops up advance payment on a monthly basis or whenever the balance of the advance payment falls below the agreed threshold.

Journal entries

1) To record advance payment received beginning January 20x2

	Amount (RM)	Accounting Code
DR Cash	500,000	A0113000
CR Deferred revenue – import duties	500,000	L0262200

Advance payment received is recognised as deferred revenue.

2) To record recognition of import duties as revenue during the month of January 20x2

Upon occurrence of oil importations, an equivalent revenue of RM450,000 (RM45,000 x 10 importations) is reversed from deferred revenue account and recognised as revenue in current year surplus or deficit.

	Amount (RM)	Accounting Code
DR Deferred revenue – import duties	450,000	L0262200
CR Import duties revenue	450,000	H0162201

3) To record subsequent advance payment received beginning February 20x2

A follow on payment of RM500,000 was received from petroleum company.

	Amount (RM)	Accounting Code
DR Cash	500,000	A0113000
CR Deferred revenue – import duties	500,000	L0262200

Balance in deferred revenue account beginning February 20x2 totals to RM550,000 after taking into account journal 2 above.

20.0 REVENUE (CONTINUED)

Scenario B.8 -Recognition of tax refundable or tax receivable at year end

FGOM financial period is from 1 January 20X2 to 31 December 20X2. The Inland Revenue Board of Malaysia receives tax estimates from tax payers by 31 January 20X2 and actual tax returns are only due to be submitted on 30 July 20X3.

At 31 December 20X2, Inland Revenue Board will be required to make provision for any tax refund (from tax over payment) or accrue receivable (from unpaid tax).

Inland Revenue Board makes provision and/or accruals of tax receivable based on tax collection to date. Inland Revenue Board decides to make a provision for tax refund of RM400,000 and a tax accrual amounting to RM200,000.

Journal entries

1) To record the provision for tax refund at 31 December 20X2

At year end, when it is determined that there is a possibility of tax refund and the amount can be reliably estimated, the amount will be recognized as provision for tax refund.

	Amount (RM)	Accounting Code
DR Tax revenue	400,000	H0161102
CR Provision for tax refund	400,000	L0161100

2) To record the accrual of tax receivables at 31 December 20X2

At year end, when it is determined that there is a probable inflow of economic benefits relating to financial period 20X2 and the amount can be reliably estimated, the receivables are accrued at year end.

	Amount (RM)	Accounting Code
DR Tax receivable	200,000	A0261101
CR Tax revenue	200,000	H0161101

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.