



GOVERNMENT OF MALAYSIA

Federal Government Accrual Accounting Manual

EMPLOYEE BENEFITS

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ISSUED BY

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			Section Reference	Description of Changes

21.0 EMPLOYEE BENEFITS

Introduction

21.1 This chapter covers the following matters:

- Types of benefits
- Initial recognitions and measurement
- Subsequent measurement to initial recognition
- Disclosures

Types of benefits

Short term employee benefits

21.2 Short term employee benefits include items such as:

- (a) Wages, salaries and social security contributions;
- (b) Short-term compensated absences (such as paid annual leave and paid sick leave) where the absences are expected to occur within twelve months after the end of the period in which the employees render the related employee service;
- (c) Performance related bonuses and profit-sharing payable within twelve months after the end of the period in which the employees render the related service; and
- (d) Non-monetary benefits (such as medical care, housing, cars and free or subsidized goods or services) for current employees.

Long term employee benefits

21.3 Long term employee benefits are employee benefits (other than post-employment benefits) and termination benefits that are due to be settled more than 12 months after the end of the period in which the employee renders the services.

Post-employment benefits

21.4 Post-employment benefits include, for example:

- (a) Retirement benefits, such as pensions, gratuity and unutilised carry forward leave capped to 150 days;
- (b) Other post-employment benefits, such as post-employment life insurance and post-employment medical care.

21.5 Arrangements whereby an entity provides post-employment benefits are post-employment benefit plans. Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan as derived from its principal terms and conditions.

Initial recognitions and measurements of benefits

Short term employee benefits

21.6 Accounting for wages and salaries is generally straightforward. A liability and an expense (unless capitalisation is appropriate) are recognized when an employee has rendered services. Capitalisation of employee benefits as part of an asset is dealt with in MPSAS 12 – Inventories, MPSAS 17 – Property plant and equipment and MPSAS 31 – Intangible assets.

21.0 EMPLOYEE BENEFITS (CONTINUED)

- 21.7 Other short term compensations, bonuses and arrangements are also straightforward. A liability and an expense (unless capitalisation is permitted as described above) are recognized when the reporting entity has a present legal or constructive obligation to make payments as a result of past events and a reliable estimate can be made of the payable amount.
- 21.8 A reliable estimate can be made when and only when:
- (a) The formal terms of bonus plans or other arrangements contain a formula for determining the payable amount
 - (b) Payable amount is determined before the financial statements are authorised for issue
 - (c) Past practice that gives clear evidence on the entity constructive obligation on its payable amount.
- 21.9 Compensated absences can be accumulating (i.e. carried forward leave that can be used in future periods) and non-accumulating (maternity leave, jury service, sick leave) type of holiday benefits in nature.
- 21.10 Where benefit is accumulating and earned over time and capable of being carried forward, the reporting entity should provide for the expected cost. On the other hand, where benefit is non-accumulating, the reporting entity should not recognize liability or expense until the absence occurs.
- 21.11 Non-monetary benefits (including housing, cars and free or subsidised goods/services) should be recognized according to the same principles as benefits payable in cash. The amounts are recognized as liability and an expense should be measured at the cost to the employer providing the benefit.
- 21.12 The entity shall recognize the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, an entity shall recognize that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or cash refunds.

Long term employee benefits

- 21.13 The measurement of long term employee benefits is not usually subject to the same degree of uncertainty as the measurement of post- employment benefits. Its method differs from the accounting required for post-employment benefits as follow:
- (a) Actuarial gains and losses are recognized immediately
 - (b) All past service cost are recognized immediately.
- 21.14 The amount recognized as a liability for other long-term employee benefits shall be the net total of the following amounts:
- (a) The present value of the defined benefit obligation at the reporting date. An entity shall use the 'projected unit credit method' to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost.
 - (b) Minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

21.0 EMPLOYEE BENEFITS (CONTINUED)

- 21.15 The 'projected unit credit method' (sometimes known as the accrued benefit method prorated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Post-employment benefits

- 21.16 In order to be classified as a defined contribution plan, a post-employment benefit plan must require the entity to pay fixed contributions into a separate entity.

- 21.17 Under a defined contribution plan:

- (a) The entity's constructive obligation is limited to the amount that it agrees to contribute to the fund. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an entity (and perhaps also the employee) to a post-employment benefit plan, together with investment returns arising from the contributions; and
- (b) In consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall on the employee.

- 21.18 Under a defined benefit plan:

- (a) The entity's obligation is to provide the agreed benefits to current and former employees; and
- (b) Actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the entity. If actuarial or investment experience is worse than expected, the entity's obligation may be increased.

- 21.19 The FGOM follows a defined benefit plan for its post-employment benefits. Accounting by an entity for defined benefit plans involves the following steps:

- (a) Using actuarial techniques to make a reliable estimate of the amount of benefit that employees have earned in return for their service in the current and prior periods. This requires an entity to determine how much benefit is attributable to the current and prior periods and to make estimates (actuarial assumptions) about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs) that will influence the cost of the benefit;
- (b) Discounting that benefit using the Projected Unit Credit Method in order to determine the present value of the defined benefit obligation and the current service cost;
- (c) Determining the fair value of any plan assets;
- (d) Determining the total amount of actuarial gains and losses and the amount of those actuarial gains and losses to be recognized;
- (e) Where a plan has been introduced or changed, determining the resulting past service cost; and
- (f) Where a plan has been curtailed or settled, determining the resulting gain or loss.

Subsequent recognition

- 21.20 Actuarial gains and losses arising from adjustments and changes in actuarial assumptions are charged or credited to accumulated surplus or deficit in the period in which they arise.

- 21.21 An entity needs to determine the present value of a defined benefit obligation with sufficient regularity that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the financial position date.

21.0 EMPLOYEE BENEFITS (CONTINUED)**Disclosure requirements**Short term & long term employee benefits

- 21.22 MPSAS 25 – Employee benefits, does not require specific disclosures about long term employee benefits, other Standards may require disclosures; for example, where the expense resulting from such benefits is material and so would require disclosure in accordance with MPSAS 1 – Presentation of Financial Statements. When required by MPSAS 20 – Related Party Disclosures, an entity discloses information about other long-term employee benefits for key management personnel.

For termination benefits

- 21.23 Where there is uncertainty about the number of employees who will accept an offer of termination benefits, a contingent liability exists.
- 21.24 As required by MPSAS 19 – Provisions, contingent liabilities and contingent assets, an entity discloses information about the contingent liability unless the possibility of an outflow in settlement is remote. As required by MPSAS 1 – Presentation of Financial Statements, an entity discloses the nature and amount of an expense if it is material. Termination benefits may result in an expense needing disclosure in order to comply with this requirement. Where required by MPSAS 20 – Related Party Disclosures, an entity discloses information about termination benefits for key management personnel.

Post-employment benefits

- 21.25 An entity shall disclose information that enables users of financial statements to evaluate the nature of its defined benefit plans and the financial effects of changes in those plans during the period. An entity shall disclose the following information about defined benefit plans:
- (a) The entity’s accounting policy for recognizing actuarial gains and losses;
 - (b) A general description of the type of plan;
 - (c) A reconciliation of opening and closing balances of the present value of the defined benefit obligation showing separately, if applicable, the effects during the period attributable to each of the following:
 - (i) Current service cost;
 - (ii) Interest cost;
 - (iii) Contributions by plan participants;
 - (iv) Actuarial gains and losses;
 - (v) Foreign currency exchange rate changes on plans measured in a currency different from the entity’s presentation currency;
 - (vi) Benefits paid;
 - (vii) Past service cost;
 - (viii) Entity combinations;
 - (ix) Curtailments; and
 - (x) Settlements.
 - (d) An analysis of the defined benefit obligation into amounts arising from plans that are wholly unfunded and amounts arising from plans that are wholly or partly funded;

21.0 EMPLOYEE BENEFITS (CONTINUED)

- (e) A reconciliation of the opening and closing balances of the fair value of plan assets and of the opening and closing balances of any reimbursement right recognized as an asset the effects during the period attributable to each of the following:
 - (i) Expected return on plan assets;
 - (ii) Actuarial gains and losses;
 - (iii) Foreign currency exchange rate changes on plans measured in a currency different from the entity's presentation currency;
 - (iv) Contributions by the employer;
 - (v) Contributions by plan participants;
 - (vi) Benefits paid;
 - (vii) Entity combinations; and
 - (viii) Settlements

- (f) A reconciliation of the present value of the defined benefit obligation in (c) and the fair value of the plan assets in (e) to the assets and liabilities recognized in the statement of financial position, showing at least:
 - (i) The net actuarial gains or losses not recognized in the statement of financial position;
 - (ii) The past service cost not recognized in the statement of financial position;
 - (iii) Any amount not recognized as an asset, because of the limit wherein present value of economic benefits is not available
 - (iv) The fair value at the reporting date of any reimbursement right recognized as an asset (with a brief description of the link between the reimbursement right and the related obligation); and
 - (v) The other amounts recognized in the statement of financial position

- (g) The total expense recognized in the statement of financial performance for each of the following, and the line item(s) in which they are included:
 - (i) Current service cost
 - (ii) Interest cost;
 - (iii) Expected return on plan assets;
 - (iv) Expected return on any reimbursement right recognized as an assets
 - (v) Actuarial gains and losses;
 - (vi) Past service cost;
 - (vii) The effect of any curtailment or settlement
 - (viii) The effect of the limit where present value of economic benefits is not available.

- (h) The total amount recognized in the statement of changes in net assets/equity for each of the following:
 - (i) Actuarial gains and losses; and
 - (ii) The effect of the limit where present value of economic benefits is not available

- (i) For entities that recognize actuarial gains and losses in the statement of changes in net assets/equity, the cumulative amount of actuarial gains and losses recognized in that statement;

- (j) For each major category of plan assets, which shall include, but is not limited to, equity instruments, debt instruments, property, and all other assets, the percentage or amount that each major category constitutes of the fair value of the total plan assets;

- (k) The amounts included in the fair value of plan assets for:
 - (i) Each category of the entity's own financial instruments; and
 - (ii) Any property occupied by, or other assets used by, the entity.

21.0 EMPLOYEE BENEFITS (CONTINUED)

- (l) A narrative description of the basis used to determine the overall expected rate of return on assets, including the effect of the major categories of plan assets;
- (m) The actual return on plan assets, as well as the actual return on any reimbursement rights recognized as an asset;
- (n) The principal actuarial assumptions used as at the reporting date, including, when applicable:
 - (i) The discount rates;
 - (ii) The basis on which the discount rate has been determined;
 - (iii) The expected rates of return on any plan assets for the periods presented in the financial statements;
 - (iv) The expected rates of return for the periods presented in the financial statements on any reimbursement right recognized as an asset;
 - (v) The expected rates of salary increases (and of changes in an index or other variable specified in the formal or constructive terms of a plan as the basis for future benefit increases);
 - (vi) Medical cost trend rates; and
 - (vii) Any other material actuarial assumptions used.

An entity shall disclose each actuarial assumption in absolute terms (for example, as an absolute percentage) and not just as a margin between different percentages or other variables:

- (o) The effect of an increase of one percentage point and the effect of a decrease of one percentage point in the assumed medical cost trend rates on:
 - (i) The aggregate of the current service cost and interest cost components of net periodic post-employment medical costs; and
 - (ii) The accumulated post-employment benefit obligation for medical costs.

For the purposes of this disclosure, all other assumptions shall be held constant. For plans operating in a high inflation environment, the disclosure shall be the effect of a percentage increase or decrease in the assumed medical cost trend rate of a significance similar to one percentage point in a low inflation environment;

- (p) The amounts for the current annual period and previous four annual periods of:
 - (i) The present value of the defined benefit obligation, the fair value of the plan assets and the surplus or deficit in the plan; and
 - (ii) The experience adjustments arising on:
 - The plan liabilities expressed either as (1) an amount or (2) a percentage of the plan liabilities at the reporting date; and
 - The plan assets expressed either as (1) an amount or (2) a percentage of the plan assets at the reporting date.
- (q) The employer's best estimate, as soon as it can reasonably be determined, of contributions expected to be paid to the employee.

References

- MPSAS 25 – Employee Benefits
- Accounting Policy and Interpretation

21.0 EMPLOYEE BENEFITS (CONTINUED)**Scenario A - Staff claims****Scenario A.1 - Short term employee benefits: monetary staff claims**

An entity reimbursed its staff's mobile phone bill based on phone bills submitted. A staff submits phone bill for the month amounting to RM1,000.

Journal entries

- 1) To record staff claims on monetary benefit

The cost of providing this monetary benefit is recognised as a staff benefit expense, measured at cost to the employer.

	Amount (RM)	Accounting Code
DR Staff benefit expense	1,000	B0115101
CR Cash	1,000	A0112000

Scenario A.2 - Short term employee benefits: non-monetary staff claims

An entity provides its staff a mobile phone for use upon them joining the entity. Each mobile phone costs RM2,000.

Journal entries

- 1) To record staff claim on non-monetary benefit

The cost of providing non-monetary benefits (including mobile phones, tablets etc) should be recognised according to policies in place whereby staff may be required to return non-monetary benefit upon termination of service.

Staff is not required to return non-monetary asset i.e. the mobile phone received, thus the asset is expensed off.

	Amount (RM)	Accounting Code
DR Staff benefit expense	2,000	B0115110
CR Cash	2,000	A0112000

21.0 EMPLOYEE BENEFITS (CONTINUED)**Scenario B - Short term employee benefits: refunds from staff**

An entity has been paying staff housing allowance of RM1,000 per month since 01 January 20X3. A change in entity staff benefit policy was introduced on 1 March 20X3 whereby monthly housing allowance dropped to RM800. Entity has been paying staff RM1,000 and realized the overpayment in December 20X3. Entity overpaid housing allowance from March – December by RM200 per month amounting to RM2,000 (RM200 x 10 months).

Journal entries

- 1) To record the housing allowance paid as 31 December 20X3

The cost of monthly staff housing allowance incurred until 31 December 20X3 is recorded as an expense.

	Amount (RM)	Accounting Code
DR Staff housing allowance	12,000	B0112102
CR Cash	12,000	A0112000

- 2) To record the refund of housing allowance overpaid to staff from March 20X3 to December 20X3 via a lower staff allowance paid in current or subsequent month

The cost of monthly staff housing allowance incurred and overpaid until 31 December 20X3 is recovered via current or subsequent month's lower staff allowance payment.

	Amount (RM)	Accounting Code
DR Cash (via lower payment)	2,000	A0113000
CR Staff housing allowance (net allowance)	2,000	B0112102

21.0 EMPLOYEE BENEFITS (CONTINUED)**Scenario C - Post-employment benefits**

An entity is a member of an employer-sponsored defined benefit pension plan. At year ended 20X2, the present value of the defined benefit obligation was RM15,000,000 while the market value of plan assets totalled RM14,250,000.

During the year ended 30 June 20X3, the entity paid out benefit to retirees (i.e. for pension gratuity, medical, etc...) amounting to RM500,000 from the pension liability. This will have a direct impact of reducing pension plans asset and liability.

At the same time, the company contributed RM400,000 towards its pension plan. The estimated current service cost is RM700,000 and the estimated interest cost is RM750,000.

At 30 June 20X3, an actuary determined that the present value of the defined benefit obligation as RM16,250,000 (an illustrative actuary report template is included below for reference). The market value of the plan assets was measured as RM15,200,000.

An illustrative extract of an actuarial summary report (RM):

Statement of Financial Performance	20X3
Profit and loss account	
Current service cost	700,000
Interest cost	750,000
Total pension cost	1,450,000

Statement of Financial Position	20X3
Present value of wholly or partly funded obligations / Benefit obligation at year end	16,250,000
Fair value of plan assets	15,200,000
Deficit (surplus) for funded plan (amount recognised as pension liability)	1,050,000

Movement of Benefit Obligation	20X3
Change in benefit obligation	
Opening balance	750,000
Current service cost	700,000
Interest cost	750,000
Deficit for funded plan	300,000
Actuarial (gain)/loss	-
Contribution paid from company	(400,000)
Return on plan asset	(1,050,000)
Closing balance	1,050,000

21.0 EMPLOYEE BENEFITS (CONTINUED)**Journal entries**

- 1) To record the contribution paid out during 20X3 to pension plan

The contribution paid up RM400,000 in 20X3 would reduce the total liability balance.

	Amount (RM)	Accounting Code
DR Pension liability*	400,000	L0546100
CR Cash	400,000	A0112000

* Where there is no pension liability created, the contribution is expensed to the statement of financial performance.

- 2) To record pension expense during 20X3

The pension liability is increased by RM1,450,000 (including the estimated current service cost of RM700,000 and the estimated interest cost of RM750,000).

	Amount (RM)	Accounting Code
DR Pension expense	1,450,000	B0446100
CR Pension liability	1,450,000	L0546100

- 3) To record re-measurement of pension plan

- a) To record pension liability

At year ended 20X3, pension liability is re-measured to RM16,250,000, being the present value of the defined benefit obligation. The carrying amount of the benefit obligation will need to be increased by RM300,000 after taking into accruing of current year service cost of RM700,000 and interest cost of RM750,000 plus RM500,000 of the pension payment paid out.

	Amount (RM)	Accounting Code
DR Pension expense	300,000	B0446100
CR Pension liability*	300,000	L0546100

Where the post-employment benefit fund is unfunded, i.e. no contribution is accrued, only entry (2) and (3) will be done.

- b) To record pension liability

At year ended 20X3, pension asset is re-measured to RM15,200,000, being the fair value of the asset. The carrying amount of the asset will need to be increased by RM1,050,000 after taking into account pension contribution of RM400,000 plus RM500,000 of the pension payment paid out.

	Amount (RM)	Accounting Code
DR Pension asset*	1,050,000	L0546100
CR Pension expense	1,050,000	B0446100

* This is reflected on a net basis in the statement of financial position.

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.