GOVERNMENT OF MALAYSIA

Federal Government
Accrual Accounting Manual

ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ERRORS

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ISSUED BY

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			Section Reference	Description of Changes

OTHER RELATED CHAPTERS

23.0 ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ERRORS

Introduction

23.1 This chapter covers the requirements of MPSAS 3 – Accounting policies, changes in accounting estimates and errors, that shall be applied in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates, and correction of prior period errors.

CHANGES IN ACCOUNTING POLICIES

23.2 A change in accounting policy is:

(a) A change from one basis of accounting to another basis of accounting.
(b) A change in the accounting treatment, recognition, or measurement of a transaction, event, or condition within a basis of accounting.

23.3 Accounting policy shall be changed only if the change is required by MPSAS or if it results in the financial statements providing reliable and more relevant information about the effects of transactions, other events, and conditions of the entity's financial position, financial performance, or cash flows.

23.4 An entity shall account for a change in accounting policy resulting from the initial application of an MPSAS in accordance with the specific transitional provisions, if any, in that Standard.

23.5 When an entity changes an accounting policy upon initial application of an MPSAS that does not include specific transitional provisions applying to that change, or change an accounting policy voluntarily, it shall apply the change retrospectively.

23.6 A change in accounting policy shall be applied retrospectively, except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change or unless otherwise required under the transitional provision upon first time adoption of specific MPSASs.

23.7 When it is impracticable to determine the period-specific effects on one or more prior periods presented, the entity shall apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected component of net assets/equity for that period.

23.8 When it is impracticable to determine the cumulative effect of applying a new accounting policy to all prior periods, the entity shall adjust the comparative information to apply the new accounting policy prospectively from the earliest date practicable.

23.0 ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ERRORS (CONTINUED)

<u>Disclosures</u>

23.9 When initial application of an MPSAS (i) has an effect on the current period or any prior period, (ii) would have such an effect, except that it is impracticable to determine the amount of the adjustment, or (iii) might have an effect on future periods, an entity shall disclose:

(a) The title of the Standard;
(b) When applicable, that the change in accounting policy is made in accordance with its transitional provisions;
(c) The nature of the change in accounting policy;
(d) When applicable, a description of the transitional provisions;
(e) When applicable, the transitional provisions that might have an effect on future periods;
(f) For the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;
(g) The amount of the adjustment relating to periods before those presented, to the extent practicable; and
(h) If the required retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

23.0 ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ERRORS (CONTINUED)

Scenario A - Change in depreciation method

The entity bought an equipment on 1 January 20X2 at a cost of RM100,000. The details of the equipment are as per below:

	Amount
Cost	RM100,000
Useful life	5 years
Residual value	0
Yearly depreciation expense (straight line method)	RM20,000

The entity depreciates the equipment using the straight line depreciation method and recognises depreciation expense of RM20,000 for year ended 20X2. The Statement of Financial Position (Extract) and Statement of Financial Performance (Extract) are as per below:

Statement of Financial Position (Extract)	20X2 Amount (RM)
Property, plant and equipment	
- Cost	100,000
- Less: Accumulated depreciation	(20,000)
- Net book value	80,000

Statement of Financial Performance (Extract)	20X2 Amount (RM)
Revenue	120,000
Less: Depreciation expense	(20,000)
Net surplus	100,000

In year 20X3, the entity decides to change its depreciation method from straight line method to double declining/diminishing balance method due to significant change in the expected pattern of consumption of the equipment's future economic benefits. The depreciation rate is now accelerated to 40% (1 over 5 years useful life multiply by 2 i.e. 1/5 x 2). Using the double declining balance method, the depreciation amount that would be recognised on net book value will be as follows:

Year	Net book value (opening)	Depreciation %	Depreciation expense	Accumulated depreciation	Net book value (closing)
	-	40%	-	-	100,000
20X2	100,000	40%	40,000	40,000	60,000
20X3	60,000	40%	24,000	64,000	36,000
20X4	36,000	40%	14,400	78,400	21,600
20X5	21,600	40%	8,640	87,040	12,960
20X6	12,960	40%	5,184	92,224	7,776*

* At the end of 5 years, an assessment for impairment can be made to assess if carrying value is greater than recoverable service amount. Guidance on impairment accounting is detailed in Chapter 14 – Impairment of Assets.

23.0 ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ERRORS (CONTINUED)

Journal entries

1) To record the depreciation expense recognised in year 1 (20X2) under straight line method

The depreciation expense recognised will be debited as an expense and credit the accumulated depreciation account. The accumulated depreciation will reduce the net book value of the equipment.

	Amount (RM)	Accounting Code
DR Depreciation expense	20,000	B3135200
CR Accumulated deprecation	20,000	A3135200

2) To record the depreciation expense recognised in year 2 (20X3) under the double declining method and to restate the account balance for year 20X2

The depreciation expense recognised in year 20X3 using the double declining balance method will be in accordance to the calculation illustrated above.

	Amount (RM)	Accounting Code
DR Depreciation expense	24,000	B3135200
CR Accumulated depreciation	24,000	A3135200

Statement of Financial Position (Extract)	20X3 Amount (RM)	(Restated) 20X2 Amount (RM)	
Property, plant and equipment			
- cost	100,000	100,000	
- less: accumulated depreciation	64,000	40,000	(restated)
- net book value	36,000	60,000	(restated)

Statement of Financial Performance (Extract)	20X3 Amount (RM)	(Restated) 20X2 Amount (RM)	
Revenue	140,000	120,000	
Less: Depreciation expense	(24,000)	(40,000)	(restated)
Net surplus	116,000	80,000	(restated)

23.0 ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ERRORS (CONTINUED)

CHANGES IN ACCOUNTING ESTIMATES

23.10 As a result of the uncertainties inherent in delivering services, conducting trading, or other activities, many items in financial statements cannot be measured with precision but can only be estimated. Estimation involves judgments based on the latest available, reliable information. For example, estimates may be required of:

(a) Tax revenue due to government;
(b) Bad debts arising from uncollected taxes;
(c) Inventory obsolescence;
(d) The fair value of financial assets or financial liabilities;
(e) The useful lives of, or expected pattern of consumption of future economic benefits or service potential embodied in, depreciable assets, or the percentage completion of road construction;
(f) Warranty obligations; and
(g) Pension obligation.

23.11 An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error.

23.12 Changes shall be recognized prospectively by including it in the surplus and deficit in the period of change (if the change affects the period only), or the period of change and future periods (if the change affects both). Prospective recognition of the effect of a change in an accounting estimate means that the change is applied to transactions, other events, and conditions from the date of the change in estimate.

23.13 To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of net assets/ equity, it shall be recognized by adjusting the carrying amount of the related asset, liability, or net assets/ equity item in the period of change.

<u>Disclosures</u>

23.14 An entity shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect on future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate the effect.

Scenario A - Change in Estimate of Useful Life

Entity A purchased an asset on 1 January 20X0 for RM100,000 and the asset had an estimated useful life of 10 years and a residual value of nil. The entity has charged depreciation using the straight-line method at RM10,000 per annum. 4 years later, on 1 January 20X4, the asset's net book value is RM60,000, the asset's estimated life is reviewed and it is concluded that the asset will be useful for a another 4 years. In other words, its useful life is two years shorter than the initial estimated useful life. The company should amend the annual provision for depreciation to charge the unamortised cost (namely, RM60,000) over the revised remaining life of 4 years. The adjustment is made prospectively.

23.0 ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ERRORS (CONTINUED)

Scenario B - Change in Estimate of Residual Value

During the year ended 20X1, Entity A reviewed the residual value of one of its vehicles. The estimated useful economic life was 10 years, and has been depreciated for 5 years up to 20X1. The initial cost of the vehicle was RM100,000, and had an accumulated depreciation of RM40,000. The expected residual value of the vehicle has been revised from RM20,000 to zero and the remaining economic life of the asset remains the same (5 years).

Prior to 20X1, the vehicle cost is RM100,000, the useful life is 10 years, and the residual value is RM20,000. The annual depreciation expense is RM8000, being (100,000-20,000)/ 10 years. After 20X1, the residual value has been reviewed down to zero. The net book value of vehicle is RM60,000, and remaining useful life is 5 years. Hence, the annual depreciation expense has now increased to RM12,000, being (60,000 – 0)/ 5 years.

Scenario C - Changes in Basis of Tax Estimates

At a financial year end, Inland Revenue Board of Malaysia is required to estimate provision for tax refund or accrued tax receivable. Inland Revenue Board of Malaysia has been estimating provision for tax refund at 2% of the total tax payment received. However, analysis shows that 2% is not sufficient to capture the provision for tax refund and thus Inland Revenue Board of Malaysia increased the estimation percentage from 2% to 4%. This adjustment is applied prospectively. Starting from the year of revision of estimation percentage, Inland Revenue Board of Malaysia will recognise a higher provision for tax refund.

23.0 ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ERRORS (CONTINUED)

ERRORS

23.15 Errors can arise in respect of the recognition, measurement, presentation, or disclosure of elements of financial statements. Financial statements do not comply with MPSASs if they contain either material errors, or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance, or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are authorized for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period.

23.16 Material prior period errors shall be corrected retrospectively in the first set of financial statements authorized for issue after their discovery by:

(a) Restating the comparative amounts for prior period(s) presented in which the error occurred; or
(b) If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/ equity for the earliest prior period presented.

<u>Limitations of Retrospective Restatement</u>

23.17 A prior period error shall be corrected by retrospective restatement, except to the extent that it is impracticable to determine either the period specific effects or the cumulative effect of the error.

23.18 When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity shall restate the opening balances of assets, liabilities, and net assets/ equity for the earliest period for which retrospective restatement is practicable (which may be the current period).

23.19 When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the entity shall restate the comparative information to correct the error prospectively from the earliest date practicable.

<u>Disclosure requirements</u>

23.20 An entity shall disclose the following:

(a) The nature of the prior period error;
(b) For each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;
(c) The amount of the correction at the beginning of the earliest prior period presented; and
(d) If retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

Financial statements of subsequent periods need not repeat these disclosures.

23.0 ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ERRORS (CONTINUED)

Scenario A - Correction of Prior Period Accounting Error

An entity discovers that revenue from income taxes was incorrect. Income taxes of RM1,000 that should have been recognized in 20X1 were incorrectly omitted from 20X1 and recognized as revenue in 20X2 . The entity's accounting records for 20X2 show revenue from taxation of RM20,000 (including the RM1,000 taxation that should have been recognized in opening balances).

In 20X1, the entity reported:

	RM
Revenue from Taxation	10,000
User Charges	1,000
Other Operating Revenue	10,000
Total Revenue	21,000
Expenses	(2,000)
Surplus	19,000

The omission of taxation revenue in the previous year's financial statements represents a prior period accounting error which must be accounted for retrospectively in the financial statements. The entity shall adjust all comparative amounts presented in the current period's financial statements affected by the accounting error.

Public Sector Entity Statement of Financial Performance

	20X2	20X1 (Restated)
	(RM)	(RM)
Revenue from Taxation (Restated)	19,000	11,000
User Charges	1,000	1,000
Other Operating Revenue	10,000	10,000
Total Revenue	30,000	22,000
Expenses	(2,000)	(2,000)
Surplus	28,000	20,000

Public Sector Entity Statement of Changes In Net Assets / Equity

	Accumulated surplus (Restated)
	(RM)
Balance at 31 December 20X0 as previously reported	20,000
Surplus for the year ended 31 December 20X1 (restated)	20,000
Balance at 31 December 20X1 as restated	40,000
Surplus for the year ended 31 December 20X2	28,000
Closing for the year ended 31 December 20X2	68,000

23.0 ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ERRORS (CONTINUED)

Extract From Notes To Financial Statement

1. Revenue from taxation of RM1,000 was incorrectly omitted from the financial statements of 20X1. The financial statements of 20X1 have been restated to correct this error. The effect of the restatement on those financial statements is summarized below. There is no net effect in 20X2 closing balance.

Effect on 20X1	**RM**
Increase in Revenue	1,000
Increase in Surplus	1,000
Increase in Debtors	1,000
Increase in Net Assets	1,000

Reference

- MPSAS 3 – Accounting Policies, Changes in Accounting Estimates and Errors
- Accounting Policy and Interpretation

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.