GOVERNMENT OF MALAYSIA

FEDERAL GOVERNMENT ACCRUAL ACCOUNTING MANUAL

PLANT, PROPERTY AND EQUIPMENT

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ISSUED BY

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All amendment made to this Federal Government Accrual Accounting Manual should be tracked. Relevant information such as the document version control reference number, dates of amendment and approval, and section(s) amended are to be recorded in the amendment schedule set out below:

Version No.	Effective Date	Details of Change Section Reference
V3.0	7 Sept 2021	Add: Paragraph 5.28 Add: Paragraph 5.31 Add: Scenario B (ii) – Repair and maintenance Add: Scenario B (iii) – Major replacement part of Property, Plant and Equipment Add: Scenario F (ii) – Asset under construction (AUC) with penultimate payment Add: Scenario M (ii) – Non-monetary transfer of property, plant and equipment with revaluation surplus Add: Scenario Q – Renovation work in building not owned by entity
V4.0	12 Dec 2022	Add: Paragraph 5.33 – 5.36 on Government Land

5. PROPERTY, PLANT AND EQUIPMENT

Introduction

5.1 This chapter covers the following matters:

* Initial recognition and measurement
* Measurement subsequent to initial recognition
* Concept and methods of depreciation
* Revaluation
* Disposal and exchanges
* Other specific assets
* Disclosures

Initial recognition and measurement

5.2 Property, plant and equipment are tangible items that:

(a) Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
(b) Are expected to be used for more than one reporting period.

5.3 Property, plant and equipment acquired through an exchange transaction shall be initially recognised as an asset at cost if, and only if:

(a) It is probable that the future economic benefits or service potential associated with the item will flow to the entity; and
(b) The cost or fair value of the item can be measured reliably.

5.4 Proposed capitalization threshold for property, plant and equipment is RM 2,000 per item subject to regular review. Asset below RM 2,000 (low value asset) shall be expenses off but recorded in the assets register for record and control purpose.

<u>Measurement of cost</u>

5.5 The cost of an item of property, plant, and equipment comprises:

(a) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
(b) Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
(c) The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired, or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

5.6 Examples of directly attributable of costs are:

(a) Cost of employee benefits that arise directly from the construction or acquisition of the item
(b) The costs of site preparation
(c) Initial delivery and handling costs
(d) Installation and assembly costs

(e) Professional fees
(f) Cost of testing whether the asset is working properly

Spare parts and servicing equipment

5.7 Spare parts and servicing equipment are usually carried as inventory and recognised in surplus or deficit as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when an entity expects to use them for more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

Componentization of asset

5.8 Componentization is the separation of an asset into its significant component. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item and has a different useful life will need to be componentized separately.

For example:

(a) An aircraft and its engines may need to be treated as separate depreciable assets.
(b) The building and air conditioning system/ lifts may need to be treated as separate depreciable assets.

Subsequent costs

5.9 Once an item of property, plant and equipment has been capitalized, there may be further costs on that asset at a later date. Subsequent costs should be capitalized only when it is probable that future economic benefit/ services potential associated with the item will flow to the entity and the cost of the item can be measured reliably.

5.10 Examples are where the subsequent costs result in either an increase in productive capacity, an additional ability to generate future economic benefits/ service potential or an extension in useful life.

5.11 All other subsequent costs should be recognized as an expense in the period in which they are incurred. The cost of the day-to-day servicing of an item property, plant and equipment is not recognised as an asset because they do not add to the future economic benefits/ service potential of the item.

Subsequent measurement

5.12 After recognition as an asset, an item of property, plant and equipment shall be carried at cost, less any accumulated depreciation and any accumulated impairment loss (cost model).

Concept and methods of depreciation

Depreciation

5.13 Depreciation is charged on a straight-line basis at rates calculated to allocate the cost of an item of property, plant and equipment measured at cost less any estimated residual value, over its remaining useful life. For freehold land, it is not necessary to depreciate but for leasehold land, it shall be amortized over the lease period. The depreciation charge for the period is recognized in surplus or deficit.

5.14 Classification of property, plant and equipment and its useful life is illustrated under Appendix C.

Impairment

5.15 Where an asset's recoverable service amount or recoverable amount is less than its carrying amount, it is reported at its recoverable service amount or recoverable amount and an impairment loss is recognised.

5.16 An entity would impair the cost of a property, plant and equipment when it can demonstrate that the reduction in future economic benefits is expected to be permanent. Conditions that may indicate that the future economic benefits associated with a property, plant and equipment have reduced and impairment is appropriate include:

(i) A change in the extent to which the asset is used;
(ii) A change in the manner in which the asset is used;
(iii) Significant technological developments;
(iv) Physical damage;
(v) Removal of the asset from the service;
(vi) A decline in or cessation of the need for the services provided by the asset;
(vii) A decision to halt construction of the asset before it is complete or in usable or saleable condition; and
(viii) A change in the law or environment affecting the extent to which the asset can be used.

Please refer to Chapter 14 – Impairment of assets for further illustration of impairment of assets.

Revaluation

5.17 Where the current policy is changed, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount being its fair value at revaluation date less any subsequent depreciation and accumulated impairment losses. Revaluations shall be made with sufficient regularity.

5.18 The frequency of revaluations depends upon the changes in the fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. Some items of property, plant and equipment experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three or five years.

5.19 Where the carrying amount of a class of asset is increased as a result of a revaluation, the increase shall be credited directly to revaluation surplus. However, the increase shall be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same class of assets previously recognised in surplus or deficit.

5.20 Where the carrying amount of a class of asset is increased as a result of a revaluation, the increase shall be recognised in surplus or deficit to the extent that it reverses the impairment loss previously recognised in surplus or deficit.

5.21 If the carrying amount of a class of asset is decreased because of a revaluation, the decrease shall be recognised in surplus or deficit. However, the decrease shall be debited to revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that class of assets.

Other specific assets

Assets Under Construction (AUC)

5.22 An asset under construction (AUC) is an asset an entity is currently constructing, which is not yet being used for its final intended purpose.

5.23 The cost of an AUC is determined using the same cost measurement principles above. AUC is not depreciated during the period of construction. When the asset is ready for use, the AUC will need to reclassified to its appropriate category of property, plant and equipment and commence depreciation.

5.24 Recognition of cost in the carrying amount of an item of property, plant and equipment ceases when the asset in the location and condition necessary for it to be capable of operating in the manner intended by the management. AUC shall be classified as Property, Plant and Equipment when completed and Certificate of Practical Completion (CPC) issued. Amount to be recognised at the point of CPC issued shall be the total project cost (including variation order). Total project cost includes penultimate payment which accrued at the point of CPC.

5.25 Where the AUC is earmarked for transfer at inception, the treatment will depend on the substance of the contractual agreement as well as nay legislation that could supplement or override those contractual terms.

5.26 For those development projects carried out by the ministry who legally own the assets, but the assets are transferred to third party when completed, during construction period, AUC shall be capitalised. When such AUC are completed and transferred to third party, AUC shall be expensed off to current year as surplus or deficit.

5.27 For those development projects carried out by the ministry as legally required but ministry has no control over the asset and has no legal ownership, then the AUC shall be expensed off as a grant to a third party. Guidance on grant accounting is included in Chapter 15 – Grants.

Heritage Asset

5.28 Heritage assets are assets because of their cultural, environmental or historical significance. Examples of heritage assets include historical building and monuments, archaeological sites, conservation areas and nature reserves, and works of art. Certain characteristics, including the following, are often displayed by heritage assets (although these characteristics are not exclusive to such assets):

(a) Their value in cultural, environmental, education and historical terms is unlikely to be fully reflected in a financial value based purely on a market price;
(b) Legal and/ or statutory obligations may impose prohibitions or severe restrictions on disposal by sale;
(c) They are often irreplaceable and their value may increase over time, even if their physical condition deteriorates; and
(d) It may be difficult to estimate their useful lives, which in some cases could be several hundred years.

5.29 Heritage asset shall be recorded if it is gazetted under National Heritage Act 2005. If cost is available, it shall be measured at cost. If it is impractical to determine the cost, it shall be measured at nominal cost of RM1.

5.30 Some heritage assets have future economic benefits or service potential other than their heritage value, for example, an historic building being used for office accommodation. In these cases, they are recognised and measured on the same basis as other items of property, plant and equipment.

<u>Ownership of Government Asset on Third Party Land</u>

5.31 Legally, any structure sitting on a piece of land belongs to the land owner in accordance to Section 5 of National Land Code 1965. As a result, government building sitting on third party land shall not be accounted for as property, plant and equipment as FGOM is not the land owner.

5.32 However, government building sitting on state/ third party land can be accounted for as property, plant and equipment if ownership or control over the building can be demonstrated under the following circumstances:

(a) Formal agreement/ lease arrangement with the land owner that gives the government the right to control/ use the building for a specific period of time.
(b) Control given by a legal stature (i.e. Water and Services Industry Act) that gives the government the right to control/ use the building.

<u>Government Land</u>

5.33 Federal Land Commissioner (FLC) consists of:

(a) Alienated Lands (registered under FLC);
(b) Federal Reserve Lands (which gazette under Sec.62, National Land Code 1965);
(c) Federal Reserve Lands (which gazette preceded by National Land Code 1965);
(d) Federal Reserve Lands (stipulated under Article 166(3), Federal Constitution); and
(e) Federal Reserve Lands (stipulated under Article 166(4), Federal Constitution)

5.34 All alienated lands above which registered under Federal Land Commissioner (FLC) shall be recorded by each related Ministries/ Department. However, there are a possibilities of amendment the land's supervision subject to consent by the FLC. The FLC will recorded any registered lands without custodian from Ministries/ Departments.

5.35 The related documents are as follows:

Region	Alienation		Reserve	Other Documents
	In Perpetuity	Leasehold		
Peninsular Malaysia	i. Form 11A, Form 5B (Grant) ii. Form 11B and Form 5D (Mukim Grant)	i. Form 11A. Form 5C (State Lease) ii. Form 11B, Form 5E (Mukim Lease)	Gazette	Comprises of Temporary Grant, Cover Letter/ Notification Notice of FLC/ JKPTG and other documents issued by authorities.
Sabah	-	Registered Land Grant		
Sarawak	-	Grant		

Notes: The name of the forms/ documents will be varied as stipulated by the relevant authorities.

5.36 Recognition and measurement is further explained in the Interpretation of Accounting Policies.

Assets Obtained Through Non-exchange Transaction

5.37 When asset is acquired through non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition. In a non-exchange transaction, an entity either received 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.

Disposal and exchanges

5.38 When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. This method is often used when an asset is revalued by means of applying an index to its depreciated replacement costs.

5.39 Revaluation increases and decreases relating to individual assets within a class of property, plant and equipment must be offset against one another within that class but must not be offset in respect of assets in different classes.

Gains or Losses on Disposal of Assets

5.40 Gains or losses arising from disposal of property, plant and equipment are recognised in the statement of financial performance in the period in which the transaction occurs.

Non-monetary Exchange of Property, Plant and Equipment

5.41 Non-monetary exchanges are exchanges of non-monetary assets, liabilities or services for other non-monetary assets, liabilities or services with little or no monetary consideration involved.

5.42 Property, plant and equipment acquired through non-monetary exchange is measured at fair value unless:

(a) The exchange transaction lacks commercial substance; or
(b) The fair value of neither the asset received, nor the asset given up is reliably measurable.

5.43 Useful life of property, plant and equipment acquire through non-monetary exchange must be estimated by the recipient entity according to requirement under MPSAS 17 Property, Plant and Equipment and Interpretation of Accounting Policies. The useful life of the asset transferred must be reflected to the future economic benefit or service potential embodied in the asset to be used by the entity.

Disclosure requirements

5.44 An entity shall disclose the following:

(a) Property, plant and equipment and heritage assets is reported under the heading ‘Non-current assets’ in the statement of financial position;
(b) The net book value of tangible capital assets not being amortised because they are under construction or development; and
(c) For property, plant and equipment where the net book value is already nil, the original historic cost, as an indication of their existence.

5.45 For each class of property, plant and equipment (including heritage assets):

(a) The measurement bases used for determining the gross carrying amount;
(b) The depreciation methods used;
(c) The useful lives or the depreciation rates used;
(d) The gross carrying amount and the accumulated depreciation (aggregated with accumulated depreciation impairment losses) at the beginning and end of the period; and
(e) A reconciliation of the carrying amount at the beginning and end of the period showing:

(i) Additions;
(ii) Disposals;
(iii) Acquisition through entity combinations;
(iv) Increases or decreases resulting from revaluations under and from impairment losses (if any) recognized or reversed directly in net assets/ equity accordance with MPSAS 21 – Impairment of Non-Cash-Generating Asset;
(v) Impairment loses recognised in surplus or deficit in accordance with MPSAS 21 – Impairment of Non-Cash-Generating Asset;
(vi) Impairment losses reversed in surplus or deficit in accordance with MPSAS 21 – Impairment of Non-Cash-Generating Asset;
(vii) Depreciation;
(viii) The net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity; and
(ix) Other changes.

(f) For each class of property, plant and equipment recognised in the financial statements:

(i) The existence and amounts of restrictions on title and property, plant and equipment pledged as securities for liabilities;
(ii) The amount of expenditures recognised in the carrying amount of an item of property, plant and equipment in the course of its construction;
(iii) The amount of contractual commitments for the acquisition of property, plant and equipment; and
(iv) If it is not disclosed separately on the face of the statement of financial performance, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in surplus or deficit.

(g) In accordance with MPSAS 3 – Accounting Policies, Changes in Accounting Estimates and Errors, an entity discloses the nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in subsequent periods. For property, plant and equipment (not including heritage assets), such disclosure may arise from changes in estimates with respect to:

(i) Residual values;
(ii) The estimated costs of dismantling, removing or restoring items of property, plant and equipment;
(iii) Useful lives; and
(iv) Depreciation methods.

(h) If a class of property, plant and equipment is stated at revalued amounts, the following shall be disclosed:

(i) The effective date of the revaluation;
(ii) Whether an independent valuer was involved;

(iii) The methods and significant assumptions applied in estimating the assets' fair values;

(iv) The extent to which the assets' fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms, or were estimated using other valuation techniques;

(v) The revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders or other equity holders;

(vi) The sum of all revaluation surpluses for individual items of property, plant and equipment within that class; and

(vii) The sum of all revaluation deficits for individual items of property, plant and equipment within that class.

References

* MPSAS 17 – Property, Plant and Equipment
* Accounting Policies and Interpretations

Scenario A – Purchase and depreciation of a property, plant and equipment

The entity purchased and received a vehicle for RM 23,500 on 31 January 20X7. Delivery costs are an additional RM 500. Payment takes place on the 15 February 20X7. The vehicle has a useful life of 10 years with no estimated value.

Journal entries

(1) To record the purchase and receipt of the vehicle on 31 January 20X7

(a) Delivery with invoice

The entity should capitalise the asset as property, plant and equipment (vehicle) account, since it is above RM 2,000 capitalization threshold. Delivery costs should be capitalised as part of the cost of the asset. Since the entity has not paid for the vehicle, a liability must be recorded for the amount owing.

	Amount (RM)	Accounting Code
DR Property, plant and equipment (vehicle)	24,000	A1434100
CR Accounts payable	24,000	L0134100

(b) Delivery without invoice

Similar to 1(a), an entity received the asset without the supporting invoice. In such an instance, the goods received but invoice not received (GRIR), a transit account, is credited.

	Amount (RM)	Accounting Code
DR Property, plant and equipment (vehicle)	24,000	A1434100
CR Goods received invoiced not received (GRIR)	24,000	L1312959

Once invoice is in receipt, a transfer journal of liability is done from the GRIR account to accounts payable.

(2) To record the depreciation expense for January 20X7

It is necessary to allocate the cost of the asset as an expense in a rational and systematic manner over those periods expected to benefit from the use of the asset. Using the straight-line depreciation, the monthly charge to depreciation expense and accumulated would be RM 200 (RM 24,000/ 10yrs = RM 2,400/ year; RM 2,400/12mths = RM 200/ month).

	Amount (RM)	Accounting Code
DR Depreciation expense	200	B3134100
CR Accumulated depreciation	200	A3134100

Full month of depreciation is charged regardless of the purchase timing of an asset in a given month (i.e. a mid-month purchase).

(3) To record the payment of vehicle on 15 February 20X7

When the entity makes a payment, the liability account is reversed and cash account is reduced accordingly.

	Amount (RM)	Accounting Code
DR Accounts payable	24,000	L0134100
CR Cash	24,000	A0112000

Scenario B (i) – Treatment of subsequent cost incurred

The entity purchased a building on 31 January 20X7 for RM 300,000 with a useful life of 50 years. Subsequently after 10 years, the centralised air condition was removed and reinstalled with a new system. The cost of the original air condition system was RM 50,000 and was accounted for as a separate component of asset.

The new air condition system was valued at RM 70,000. At this point, the net book value of the original air condition was RM 40,000. The cost of the air condition system was accounted for as a separate asset from the building.

Journal entries

(1) To record the removal of the old centralised air condition system

The net book value of the old air conditioner system amounts to RM 40,000 at the point when it is removed.

	Amount (RM)	Accounting Code
DR Accumulated depreciation	10,000	A3135301
DR Write off expense	40,000	B0551211
CR Property, plant and equipment (air conditioner)	50,000	A1435301

Full month of depreciation is charged regardless of the removal timing of an asset in a given month (i.e. a mid-month removal).

(2) To record the installation of the new centralised air condition system

The new air condition system installed amounts to RM 70,000. At the point of installation, property, plant and equipment account is debited and the cash account is reduced accordingly.

	Amount (RM)	Accounting Code
DR Property, plant and equipment (air conditioner)	70,000	A1435301
CR Cash	70,000	A0112000

(3) To record the depreciation expense of new centralised air conditioner system

The new centralised air conditioner system will be depreciated over the remaining useful life of the building (i.e. 40 years). The yearly depreciation expense amounts of RM 1,750 (RM 70,000/ 40yrs).

	Amount (RM)	Accounting Code
DR Depreciation expense	1,750	B3135301
CR Accumulated depreciation	1,750	A3135301

Scenario B (ii) – Repair and maintenance

The entity purchased a vehicle on 31 January 20X1 for RM 300,000 with an estimated useful life of 10 years. During 20X2, the vehicle involve in an accident and the cost to repair the damage is RM 10,000 and during the year the entity also incurred annual routine maintenance for the vehicle amounting RM 5,000.

Journal entries

(1) The cost to repair the vehicle will not increase the capability of the vehicle and to bring the asset back to the earlier condition. Hence, these costs will be expense-off.

	Amount (RM)	Accounting Code
DR Repair and maintenance	10,000	B0228xxx
CR Bank	10,000	A011xxxx

(2) To record the cost of routine maintenance

Routine maintenance such as engine tune up, oil changes, radiator flushing and etc are day to day servicing item to keep the asset operating of it present obligation. Hence, these cost will be expense-off.

	Amount (RM)	Accounting Code
DR Repair and maintenance	5,000	B0228xxx
CR Bank	5,000	A011xxxx

Scenario B (iii) – Major replacement part of property, plant and equipment

In 20X5, the vehicle engine is broken and need to be replaced. The cost of replacement amounting RM100,000. The carrying amount of the broken engine is estimated RM50,000 (determined based on depreciated replacement cost approach).

Journal entries

(1) To derecognised carrying amount of broken engine

It is necessary to derecognise the carrying amount of broken engine. Since the cost of engine is not componentised from the vehicle, entity need to estimate the carrying amount. One of the method can be used is depreciated replacement cost approach as calculated below.

Depreciated Replacement Cost

Replacement cost	RM100,000
Accumulated Depreciation (RM100,000 / 10 years) x 5 years	RM50,000
Depreciated replacement cost/ carrying amount	RM50,000

	Amount (RM)	Accounting Code
DR Write-off expense	50,000	B055xxxx
DR Accumulated depreciation	50,000	A31xxxxx
CR Vehicle (engine)	100,000	A143xxxx

(2) To record the cost of replacement

The replacement of engine is main component of the vehicle and it will increase the capability and useful life of the vehicle. Hence, these cost will be capitalised.

	Amount (RM)	Accounting Code
DR Vehicle	100,000	A143xxxx
CR Bank	100,000	A011xxxx

Scenario C – Purchase of a property, plant and equipment that can be componentised

The entity purchased an aircraft which amounts to be RM350,000 on 31 January 20X7. Upon assessment, the engine of the aircraft should componentised and is valued at RM100,000. The aircraft is said to have an estimated useful life of 20 years while the engine has a useful life of 40 years.

Journal entries

(1) To record the purchase and receipt of the aircraft on 31 January 20X7

The entity should capitalise this asset as a property, plant and equipment account, since it is above the RM 2,000 capitalization threshold. Furthermore, both the aircraft and engine will need to be treated as two separate assets as the costs are significant and both have different useful life.

	Amount (RM)	Accounting Code
DR Property, plant and equipment (aircraft)	250,000	A1434105
DR Property, plant and equipment (engine)	100,000	A1434107
CR Accounts payable	350,000	L0134100

Scenario D – Cost of construction of asset

An entity plans to construct an asset which functions to provide benefit to the entity over a useful life of 10 years. The construction of the asset is scheduled to be completed in 4 months. The entity incurs the following costs in constructing the asset:

(a) Feasibility assessment studies which costs RM3,000
(b) Cost of evaluating sites for the asset amounting to RM3,000
(c) Materials and supplies amounting to RM6,000
(d) Labour cost of RM5,000

Journal entries

(1) To record the asset under construction

Only costs that are directly attributable to the construction of the assets is capitalised as under construction. The materials and supplies cost and the labour cost incurred to construct the asset is capitalised asset under construction. However, the cost of conducting the feasibility assessment studies and also the cost of evaluating sites for the asset are generally not cost directly attributable to constructing the asset, thus it is expensed off at the period it is incurred.

	Amount (RM)	Accounting Code
DR Asset under construction	11,000	A2030000
CR Accounts payable	11,000	L0130000

Scenario E – Entity purchases a computer but work is still required to get it ready for use

Entity buys computer hardware for RM200,000. The equipment is not functional until it has been installed properly and is ready for use. Until that time the equipment will not be depreciated. The following costs associated with getting the equipment ready for use:

(a) Freight charges – RM500
(b) Computer consultants to set up the hardware – RM35,000
(c) Additional circuits required to modify the hardware to adapt to entity's needs – RM5,000

Journal entries

(1) To record the purchase of the computer hardware

The asset is over the threshold RM2,000 amount and must be capitalised. Since the asset is not ready for use, the asset should not be depreciated.

	Amount (RM)	Accounting Code
DR Property, plant and equipment – asset under construction	200,000	A2035201
CR Accounts payable	200,000	L0135200

(2) To record and capitalise cost of computer consultants amounting to RM35,0000 directly attributable to the computer equipment as part of the asset

	Amount (RM)	Accounting Code
DR Property, plant and equipment – asset under construction	35,000	A2035201
CR Cash	35,000	A0112000

(3) To record additional expenses of RM5,500 (freight and additional circuits charges) related to the computer hardware installation

Similar journey entry as (2) above. Total computer cost capitalised will amount to RM240,500.

(4) The computer is ready for use.

	Amount (RM)	Accounting Code
DR Property, plant and equipment – computer hardware	240,500	A1435201
CR Property, plant and equipment – asset under construction	240,500	A2035201

Depreciation of the asset commence once the asset is ready for use.

A reclassification transfer journey entry is required to move asset from AUC to computer hardware. Useful life of computer hardware is expected to be 5 years and depreciation will now commence based on the cost value of RM240,500. Similar journal entry under Scenario A applies.

Scenario F (i) – Asset under construction with progressive payments

Contractor A Sdn Bhd secured a project to build a school with the cost of work RM10 million. The work commenced on 1 Mei 20X1. On 1 June 20X1, FGOM made an advance payment to Contractor A amounting to RM1 million. The project was expected to be completed on 1 August 20X2.

For each government project, the contractor has to provide deposit (akin to Performance Guarantee Sum) amounting to five percent (5%) of the contract sum to secure the performance of the contractor's obligation under the contract. The contractor may opt to use Performance Bond issued by an approved licensed bank or in the form a performance guarantee sum whereby deduction shall be made from every interim payment. Contractor A has opted for a performance guarantee sum.

The progress billing and payment schedule for project is as per below:

Date	Payment Schedule	Progress Billing	Advance payment	Performance Guarantee Sum (5%)	Cash outflow
01 June 20X1	Advance	-	(1,000,000)	-	(1,000,000)
01 August 20X1	1st progress payment	(3,000,000)	250,000	300,000	(2,450,000)
01 October 20X1	2nd progress payment	(2,000,000)	250,000	200,000	(1,550,000)
01 December 20X1	3rd progress payment	(1,000,000)	250,000	-	(750,000)
01 February 20X2	4th progress payment	(1,000,000)	250,000	-	(750,000)
01 April 20X2	5th progress payment	(1,000,000)	-	-	(1,000,000)
01 June 20X2	6th progress payment	(1,000,000)	-	-	(1,000,000)
01 August 20X2	7th progress payment	(1,000,000)	-	-	(1,000,000)
Total		**(10,000,000)**	**-**	**500,000**	**(9,500,000)**

Performance Guarantee circular: 10% for each progress billing up until 5% of overall performance guarantee sum is reached.

Journal entries

(1) To record the advance cash payment to Contractor A

	Amount (RM)	Accounting Code
DR Advance payment*	1,000,000	A0591000
CR Cash	1,000,000	A0112000

* Where advance payment is held for less than 12 months, this account is classed as current asset. Otherwise, it is classed as non-current asset.

(2) To record the first progressive payment on 1 August 20X1

On 1 August 20X1, the FGOM accrued for the first progress payment based on completion progress certificate and progress bill of RM3 million to Contractor A.

	Amount (RM)	Accounting Code
DR Asset under construction	3,000,000	A2032102
CR Account payable	3,000,000	L0132100

At settlement point, a 10% performance guarantee sum was retained by FROM as required by Treasury's circular. The advance payment account was also utilised towards this payment.

	Amount (RM)	Accounting Code
DR Account payable	3,000,000	L0132100
CR Advance payment	250,000	A0591000
CR Performance guarantee sum	300,000	L1111107
CR Cash	2,450,000	A0112000

(3) To record the second progress payment on 1 October 20X1

On 1 October 20X1, the FGOM accrued for the second progress payment of RM2 million to Contractor A.

	Amount (RM)	Accounting Code
DR Asset under construction	2,000,000	A2032102
CR Account payable	2,000,000	L0132100

At settlement point, 10% performance guarantee sum was retained by FGOM. At this stage, all advance payment is now utilised for the first and second progress payments.

	Amount (RM)	Accounting Code
DR Account payable	2,000,000	L0132100
CR Advance payment	250,000	A0591000
CR Performance guarantee sum	300,000	L1111107
CR Cash	1,550,000	A0112000

Treasury's circular requires 10% of performance guarantee sum to be retained from each progress billing settlement until 5% of overall contract performance guarantee sum is reached. 5% contract performance guarantee is reached by the 2nd progress hence no further performance guarantee sum is retained from subsequent progress billing.

(4) To record the completion of construction and to recognise the asset under construction as asset.

On 1 August 20X2, the FGOM issued the Certificate of Practical Completion. At that point of time, the total of work cost paid to Contractor A is RM9.5 million and Performance Guarantee Sum reached its equivalent amount totalling 5% of the contract sum of RM500,000.

This triggers a transfer journal to move asset from AUC to building.

	Amount (RM)	Accounting Code
DR Property, plant and equipment – building (school)	10,000,000	A1432102
CR Asset under construction	10,000,000	A2032102

Subsequent payment towards building will need to be expensed unless it meets the capitalisation criteria.

(5) To record release of performance guarantee on 1 September 20X2

(a) Assume no defect identified during retention period, thus full release of performance guarantee sum

Upon successful completion and sign off from FGOM, the performance guarantee is approved for release to Contractor A.

	Amount (RM)	Accounting Code
DR Performance guarantee sum	500,000	L1111107
CR Cash	500,000	A0112000

(b) Assume defect identified during retention period, thus partial release of performance guarantee sum

During the warranty period, the FGOM found that the contractor needed to repair a classroom and toilet due to defect of materials and workmanship. The contractor was reluctant to carry out the repair. The entity incurred RM200,000 to carry out the repair works.

(i) The repair work was carried out by Contractor B and the accompanying subsequent cost of repair is reduced from performance guarantee sum as it lowers the financial obligation to Contractor A.

	Amount (RM)	Accounting Code
DR Performance guarantee sum	200,000	L1111107
CR Cash (Contractor B)	200,000	A0112000

(ii) The remaining balance of RM300,000 was paid to Contractor A as a partial payment on release of performance guarantee sum.

	Amount (RM)	Accounting Code
DR Performance guarantee sum	300,000	L1111107
CR Cash (Contractor A)	300,000	A0112000

(6) To record penalty imposed

Where the project was unreasonably delayed and behind schedule, action was taken to Contractor A by imposing penalty of RM100,000 and by deducting penalty from the final payment. The final 7th progress billing of the project is RM1,000,000.

(i) Penalty imposed treated as a compensation to a loss of revenue by FGOM

	Amount (RM)	Accounting Code
DR Asset under construction	1,000,000	A2032102
CR Non tax revenue – penalty*	100,000	H0176102
CR Account payable	900,000	L0132100

* The accounting treatment for penalty is based on substance of compensation expected from the developer. Where the penalty charge is expected to compensate loss of revenue, then this charges is taken to surplus or deficit, else the charge is reflected via an overall reduction

to asset under construction.

(ii) Penalty imposed treated as a reduction/ discount given by Contractor A.

	Amount (RM)	Accounting Code
DR Asset under construction	900,000	A2032102
CR Account payable	900,000	L0132100

(7) To record the payment for an extension of building

On 15 August 20X2, the FGOM instructed the contractor to carry out the variation order to extend the building for a store room. The payment for variation order was made to the contractor amounting to RM200,000.

As the additional cost incurred will generate future economic benefit, this cost is capitalised and added to current building cost.

	Amount (RM)	Accounting Code
DR Property, plant and equipment – building (school)	200,000	A132102
CR Cash	200,000	A0112000

(8) To record impairment upon halt of construction

Refer to Scenario A.4 under Chapter 14 – Impairment of Assets.

Scenario F (ii) – Asset under construction (AUC) with penultimate payment

Contractor A Sdn Bhd secured a project to build a training centre with the cost of work of RM40 million. The construction has been completed and CPC has been issued on July 20X3. Cost of construction has been accounted as AUC is RM36 million and remaining RM4 million of penultimate payment expected to be paid in 20X4 (before final account issued by department of work).

Journal entries

(1) To accrued penultimate payment

	Amount (RM)	Accounting Code
DR AUC	4,000,000	A203xxxx
CR Payable AUC	4,000,000	L013xxxx

(2) To record settlement of AUC to PPE

	Amount (RM)	Accounting Code
DR PPE	40,000,000	A143xxxx
CR AUC	40,000,000	A203xxxx

(3) Penultimate billing received from the contractor

	Amount (RM)	Accounting Code
DR Clearing Account	4,000,000	B033xxxx
CR Payable	4,000,000	L0191101

(4) Payment made to contractor

	Amount (RM)	Accounting Code
DR Payable	4,000,000	L0191101
CR Bank	4,000,000	A011xxxx

(5) Reduce payable AUC

	Amount (RM)	Accounting Code
DR Payable AUC	4,000,000	L013xxxx
CR Clearing Account	4,000,000	B033xxxx

Scenario G – Disposal via sale of property, plant and equipment

On 1 May 20X7, an entity purchased informatics hardware for RM32,000 with an estimated service life of 5 years and an estimated residual value after 5 years of RM2,000. The entity uses straight-line depreciation and decides to sell the asset on 1 November 2011.

Journal entries

(1) To record the disposal of the asset and related gain

The consideration agreed for the disposal is assumed at RM8,000. The entity should record the proceeds received of RM8,000. The equipment and related accumulated depreciation should be removed/ derecognised from the books. The resulting gain will be credited to the Gain on Disposal account.

The accumulated depreciation is RM27,000 and is calculated as follows (RM32,000 – RM2,000 = RM30,000) (RM30,000/ 60mths = RM500/ mths) (54mths x RM500 = RM27,000).

	Amount (RM)	Accounting Code
DR Cash	8,000	A0113000
DR Accumulated depreciation – information hardware	27,000	A3135201
CR Information hardware	32,000	A1435201
CR Gain from disposal of property, plant and equipment	3,000	H0284500

Full month of depreciation is charged regardless of the disposal timing of an asset in a given month (i.e. a mid-month disposal).

(2) To record the disposal of the asset and the related loss.

Assuming the circumstance is the same as above except the entity decides to sell the asset for RM3,000 on 1 November 20X7. In this case, the resulting loss will be debited to the Loss on Disposal account.

	Amount (RM)	Accounting Code
DR Cash	3,000	A0113000
DR Accumulated depreciation – Information hardware	27,000	A3135201
DR Loss on disposal of property, plant and equipment	2,000	B0553501
CR Information hardware	32,000	A1435201

Scenario H – Acquisition of property, plant and equipment via trade-in

The entity trades in an old piece of research equipment for a new piece of research equipment. The old equipment has an accumulated depreciation of RM7,000 and an original cost of RM8,000. Trade-in price RM600. The new equipment has a value of RM10,000.

Journal entries

(1) To record the new acquisition via trade-in

The cost of the old equipment and related accumulated depreciation should be removed/ derecognised from the books. The loss on the disposal of the trade-in is RM400.

	Amount (RM)	Accounting Code
DR Property, plant and equipment (new)	10,000	A1435901
DR Accumulated depreciation - equipment (old)	7,000	A3135901
DR Loss on disposal of assets	400	B0553501
CR Property, plant and equipment (old)	8,000	A1435901
CR Accounts payable (net of trade in amount)	9,400	L0135900

Scenario I – Write-off of property, plant and equipment

Informatics hardware originally costing RM120,000 with a useful life of 5 years has a RM60,000 accumulated depreciation balances on 1 April 20X7. It is amortised at RM2,000 per month. In July, a fire caused substantial damage to the equipment. The entity decides the equipment has no future benefits and should be written off immediately.

Journal entries

(1) To record the write-off property, plant and equipment (bringing the value of the informatics hardware to zero)

The cost of the equipment and related accumulated depreciation (after adding an additional RM6,000 in depreciation expense in 20X7) should be written off from the books. The net result of these items will result in a write off RM54,000.

	Amount (RM)	Accounting Code
DR Accumulated depreciation – Informatics hardware	66,000	A3135201
DR Write off expense	54,000	B0551211
DR Informatics hardware	120,000	A1435201

Scenario J – Impairment of property, plant and equipment

A computer equipment has a cost of RM400,000 and accumulated depreciation of RM40,000. The entity determines that the computer equipment will not provide the full benefits expected (e.g. the computer equipment cannot handle the volume of processing required and new additional equipment will have to be purchased to supplement it). The entity determine that the cost of the computer equipment should be reduced by RM100,000 to reflect the decline in the asset's value.

Journal entries

(1) To record the write-down of property, plant and equipment

The decline in asset's value is recorded as an impairment loss expense. The credit is to accumulated impairment loss to reflect the decrease in the net book value of the asset.

	Amount (RM)	Accounting Code
DR Impairment loss expense	100,000	B4135201
CR Accumulated impairment loss	100,000	A4135201

Scenario K – Revaluation of property, plant and equipment

An entity purchased a building at cost of RM500,000 on 1 January 20X1. Building asset is depreciated on a straight line basis over 25 years with an annual depreciation charge of RM20,000. By year 20X5, the building had appreciated in gross value by RM200,000. The accumulated depreciation was at RM100,000.

Where an item of property, plant and equipment is revalued, any accumulated depreciation at the date of revaluation is restated proportionately with the change in the gross carrying amount of asset so that the carrying amount of the asset after revaluation equals its revalued amount.

Hence, the increase in asset value is recorded as a revaluation surplus and accumulated depreciation is increased in line with the higher gross revalued amount.

Subsequent to the revaluation in Year 20X5, the asset value appreciated further in gross value by RM500,000 in Year 20X6 due to increased popularity in the area where building resides.

Details of property, plant and equipment after revaluation on a depreciated replacement cost basis area are as follows:

	20X6	20X5
Property, plant and equipment at cost	700,000	500,000
Increase on revaluation	500,000	200,000
Property, plant and equipment at revalued gross replacement cost	1,200,000	700,000
Accumulated depreciation	140,000	100,000
Accumulated depreciation on revaluation	100,000	40,000
Accumulated depreciation after revaluation	240,000	140,000
Total increase on revaluation:		
Increase in cost	500,000	200,000
Increase in accumulated depreciation	(100,000)	(40,000)
Total increase on revaluation	400,000	160,000

Journal entries

(1) To record the revaluation of building in 20X5

Total increase on revaluation in 20X5 amounted to RM160,000.

	Amount (RM)	Accounting Code
DR Property, plant and equipment (Building)	200,000	A1432100
CR Accumulated depreciation	40,000	A3132100
CR Revaluation surplus	160,000	E0132100

In 20X5, the accumulated depreciation on the revalued asset is increased in the same proportionate increase as the carrying amount. The gross carrying amount increased by 40% (RM200,000 increase) from RM500,000 to RM700,000.

Accordingly accumulated depreciation increased by the same proportionate of 40% (RM40,000 increase) from RM100,000 to RM140,000.

(2) To record further increment of revaluation in 20X6.

Total increase on revaluation in 20X6 amounted to RM400,000.

	Amount (RM)	Accounting Code
DR Property, plant and equipment (Building)	500,000	A1432100
CR Accumulated depreciation	100,000	A3132100
CR Revaluation surplus	400,000	E0132100

In 20X6, the accumulated depreciation on the revalued asset is increased in the same proportionate increase as the carrying amount. The gross carrying amount increased by 71% (RM500,000 increase) from RM700,000 to RM1,200,000.

Accordingly accumulated depreciation increased by the same proportionate of 71% (RM100,000 increase) from RM140,000 to RM240,000.

(3) To record the disposal of building at year end 20X6.

The building was subsequently disposed at a selling price of RM1,0000,000 at the end of year 20X6. Revaluation surplus is reversed with a net gain on disposal of RM600,000.

	Amount (RM)	Accounting Code
DR Cash	1,000,000	A0113000
DR Accumulated depreciation	240,000	A3132100
DR Revaluation surplus	560,000	E0132100
CR Property, plant and equipment (Building)	1,200,000	A3132100
CR Gain on disposal	600,000	H0284201

Scenario L – Upward and downward revaluations

Any entity purchased a freehold land at a cost of RM100,000.

(1) Upward revaluation and subsequent downward revaluation.

In Year 1, the carrying amount of the freehold land was revalued upward to RM110,000. Subsequently in Year 3, the same freehold was revalued downward to RM90,000.

(2) Downward revaluation and subsequent upward revaluation.

In Year 1, the carrying amount of the freehold land was revalued downward to RM95,000. Subsequently in Year 5, the same freehold was revalued upward to RM105,000.

Journal entries

(1) To record upward revaluation and subsequent downward revaluation

(a) Upward revaluation of freehold land to RM110,000 with an increase in carrying value by RM10,000 (RM110,000 – RM100,000).

	Amount (RM)	Accounting Code
DR Property, plant and equipment (Freehold Land)	10,000	A1431102
CR Revaluation surplus	10,000	E0131102

(b) Downward revaluation of freehold land to RM90,000 with a decrease in carrying value by RM20,000 (RM110,000 – RM90,000).

	Amount (RM)	Accounting Code
DR Revaluation surplus	10,000	A1431102
DR Impairment loss expenses	10,000	B4131102
CR Property, plant and equipment (Freehold Land)	20,000	A1431102

The decrease in carrying value is reversed from a revaluation surplus to the extent of any credit balance existing in respect of that class of asset. The remaining decrease in carrying value is recognised in that current year surplus or deficit.

(2) To record downward revaluation and subsequent upward revaluation

(a) Downward revaluation of freehold land to RM95,000 with a decrease in carrying value by RM5,000 (RM100,000 – RM95,000).

	Amount (RM)	Accounting Code
DR Impairment loss expense	5,000	B4131102
CR Property, plant and equipment (Freehold Land)	5,000	A1431102

(b) Upward revaluation of freehold land to RM105,000 with an increase in carrying value by RM10,000 (RM105,000 – RM95,000)

	Amount (RM)	Accounting Code
DR Property, plant and equipment (Freehold Land)	10,000	A1431102
CR Revaluation surplus	5,000	E0131102
CR Impairment loss expense	5,000	B4131102

As the carrying amount of that class of asset increased as a result of a subsequent upward revaluation, the increase shall be recognised directly in surplus or deficit to the extent that it reverses the impairment loss previously recognised in surplus or deficit.

Any remaining increase from that upward revaluation is credited directly to a revaluation surplus.

Scenario M (i) – Non-monetary transfer of property, plant and equipment

The education service entity transfers software and hardware equipment to the health services entity (i.e. inter entity transfer). This transfer of asset is done at no consideration. The asset is transferred at its gross value of RM115,000 with accumulated depreciation value of RM20,000.

Journal entries

(1) To record the disposal at the transferring entity i.e. at the education service entity

The transferring entity is seen to record Transfer Out – Non-Financial Asset on disposal.

	Amount (RM)	Accounting Code
DR Transfer Out – Non-Financial Asset	95,000	B0555501
DR Accumulated depreciation (IT equipment)	20,000	A3135201
CR Property, plant and equipment (IT equipment) – (gross)	115,000	A1435201

(2) To record the acquisition at the receiving entity i.e. at the health service entity.

The receiving entity is seen to record Transfer In – Non-Financial Asset on acquisition.

	Amount (RM)	Accounting Code
DR Property, plant and equipment (IT equipment)	115,000	A1435201
DR Accumulated depreciation (IT equipment)	20,000	A3135201
CR Transfer In Non-Financial Asset	95,000	H0284501

At FGOM Statement of Financial Performance, gain on acquisition and loss on disposal will eliminate.

(3) To record transfer of similar asset using the same scenario from education service entity to a local university, an entity outside FGOM.

As the transfer of asset is not within the entity, the transfer is done at net book value of RM95,000 with no consideration given.

	Amount (RM)	Accounting Code
DR Loss on disposal	95,000	B0555501
CR Property, plant and equipment*	95,000	A1435201

* System can continue recording this transfer at gross less accumulated depreciation.

Scenario M (ii) – Non-monetary transfer of property, plant and equipment with revaluation surplus

The defence service entity transfers ship to the coast guard services entity (i.e. inter entity transfer). This transfer of asset is done at no consideration. The asset is transferred at its gross value of RM350,000,000 with the accumulated depreciation value of RM200,000,000 and revaluation surplus o RM12,000,000.

Journal entries

(1) To record the disposal at the transferring entity i.e. at the defence service entity

The transferring entity is seen to record Transfer Out – Non-Financial Asset on disposal.

	Amount (RM)	Accounting Code
DR Transfer Out – Non-Financial Asset	150,000,000	H0186204
DR Accumulated depreciation (Ship)	200,000,000	A3134299
CR Property, plant and equipment (Ship) – (revalued amount)	350,000,000	A1434299

(2) To zeroized revaluation surplus of the asset transferred

	Amount (RM)	Accounting Code
DR Revaluation surplus – Revaluation of assets	12,000,000	E013xxxx
CR Transfer Out – Gain on Transfer	12,000,000	H0186204

(3) To record the acquisition at the receiving entity i.e. at the coast guard service entity

The receiving entity is seen to record Transfer In – Non-Financial Asset on acquisition.

	Amount (RM)	Accounting Code
DR Property, plant and equipment (Ship)	350,000,000	A1434299
CR Accumulated depreciation (Ship)	200,000,000	A3134299
CR Transfer In – Non-Financial Asset	150,000,000	H0186204

(4) To record transfer reserve of the asset transferred

	Amount (RM)	Accounting Code
DR Transfer In-Non-Financial Asset	12,000,000	H0186204
CR Revaluation surplus – Revaluation of assets	12,000,000	E013xxxx

At FGOM Statement of Financial Performance, gain on acquisition and loss on disposal will eliminate.

(5) To record transfer of similar asset using the same scenario from defence service entity to a local university, Universiti Pertahanan Nasional Malaysia (UPNM), an entity outside FGOM.

As the transfer of asset is not within the entity, the transfer is done at net book value of RM150,000,000 with no consideration given.

	Amount (RM)	Accounting Code
DR Loss on disposal	150,000,000	B0554xxx
DR Accumulated depreciation (Ship)	200,000,000	A3134299
CR Property, plant and equipment	350,000,000	A1434299

(6) To realised revaluation surplus of the asset disposed

	Amount (RM)	Accounting Code
DR Revaluation surplus – Revaluation of assets	12,000,000	E013xxxx
CR Loss on disposal	12,000,000	B0554xxx

Scenario N – Non-monetary exchange of property, plant and equipment

An entity arranges to exchange with an outside party research equipment (Equipment A) with book value of RM135,000 (cost RM150,000 less accumulated depreciation RM15,000) for the another research equipment (Equipment B). Both equipment's fair values cannot be reliably measured and the expected cash flows generated by Equipment B will not differ from Equipment A's future cash flows.

Journal entries

(1) To record the exchange of similar assets with no monetary consideration

Equipment B will be recorded at net book value of Equipment A RM135,000 (RM150,000 – RM15,000) i.e. the book value of the asset given up. This is because this exchange transaction lacks commercial substance (no impact on future cash flows) and both equipment's fair values cannot be reliably measured.

	Amount (RM)	Accounting Code
DR Property, plant and equipment (Equipment B)	135,000	A1435901
DR Accumulated depreciation (Equipment A)	15,000	A3135901
CR Property, plant and equipment (Equipment A)	150,000	A1435901

Scenario O – Non-monetary exchange of property, plant and equipment assets (with commercial substance)

An entity arranged to exchange with an outside party research equipment (Equipment A) with book value of RM135,000 (Cost: RM150,000 less accumulated depreciation: RM15,000) for the another research equipment (Equipment B). Equipment A's fair value was RM170,000 and the expected cash flows generated by Equipment B would differ from Equipment A's expected cash flows.

Journal entries

(1) To record the exchange of Equipment A for Equipment B

Equipment B would be recorded at the fair value of the asset given up RM170,000. Equipment B's fair value will be used if Equipment A's fair value is not available or less reliable.

	Amount (RM)	Accounting Code
DR Property, plant and equipment (Equipment B)	170,000	A1435901
DR Accumulated depreciation (Equipment A)	15,000	A3135901
CR Property, plant and equipment (Equipment A)	150,000	A1435901
CR Gain on exchange	35,000	H0284901

Scenario P – Low value asset

An entity purchased office equipment costing RM1,500. These have been classed as low value and will need to be expensed off.

Journal entries

(1) To record low valued asset purchased.

As the machine parts purchased costs lower than the capitalisation threshold of RM2,000, the low value asset will be expensed off.

	Amount (RM)	Accounting Code
DR Expense	1,500	B0335101
CR Cash	1,500	A0112000

Scenario Q – Renovation work in building not owned by entity

An entity enters a building rental agreement for five (5) years and undergo renovation in order to operate their office. The renovation includes installation of partition wall and furniture amount consisted below:

	Amount (RM)
Cost of partition installation (Cost of dismantling removing or restoring the partition estimated to be RM8,000)	20,000
Furniture	1,500

Journal entries

(1) To record the cost of partition installation

The cost of enhancements are recognised as an asset because without them, the entity is unable to operate. Thus, the cost of partition installation shall be capitalised. In this case, it is necessary to depreciate the asset over the term specified in the rental agreement (5 years).

The journal entries are similar as Scenario A.

(2) To record the cost of dismantling, removing or restoring

At initial recognition of property, plant and equipment, the cost of dismantling and removing are recognised as an asset because the costs are directly attributable to bringing the building condition necessary for it to be capable of operating in the manner intended by management. The entity shall initially estimate the cost and capitalised them by taking into account the time value of money factor (present value).

	Amount (RM)	Accounting Code
DR Property, plant and equipment	8,000	A143xxxx
CR Provision of dismantling	8,000	L043xxxx

The estimation of cost of dismantling, removing or restoring shall be revised accordingly in accordance with requirement of MPSAS 3 Accounting Policies, Changes in Accounting Estimates and Errors.

APPENDICES

Appendix A.1 List of MPSASs to Be Adopted (with effective date on or after 1 January 2017)

MPSAS	
MPSAS 1	Presentation of Financial Statements
MPSAS 2	Cash Flow Statements
MPSAS 3	Accounting Policies, Changes in Accounting Estimates and Errors
MPSAS 4	The Effect of Changes in Foreign Exchange Rates
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 Disclosure
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: Disclosure
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 and Joint Ventures
MPSAS 37	Joint Arrangements
MPSAS 38	Disclosure of Interest in Other Entities
MPSAS 40	Public Sector Combinations

Appendix C: Property, Plant and Equipment Classification and Useful Lives

Categories	Useful life (Years)
Land and Building	
Land	
Leasehold Land	Lease term
Freehold Land	Infinity
Building	
Residential Building	25 – 50
Office Building	25 – 50
Others Building	25 – 50
Works and Infrastructure	
Land Transport Facilities	7 – Infinity
Air Transport Facilities	10 – 15
Water Transport Facilities	20 – 100
Public Park and Recreation	5 – 10
Drainage and Irrigation Facilities	50-100
Flood Control Facilities	20 – 100
Sewerage Facilities	20 – 100
Power Generating facilities	20 – 30
Machinery and Equipment	
Plant and Machinery	8 – 20
Office Equipment and Appliances	3 – 10
Furniture	3 – 10
ICT Equipment and Appliances	5 – 13
Communication Equipment and Appliances	3 – 20
Broadcasting and Musical Equipment and Appliances	3 – 38
Lab Equipment and Appliances	3 – 40
Environments Equipment and Appliances	3 – 10
Sports and Recreation Equipment and Appliances	5 – 10
Agriculture/Forestry/Marine Equipment & Appliances	5 – 25
Medical Equipment & Appliances	5 – 20
Security Equipment & Appliances	3 – 30
Engineering Equipment & Appliances	3 – 20
Defense Assets	
Vehicles	
Robotic Vehicles	5 – 10
Cars	5 – 10
Bus	5 – 15
Motorcycles	5 -10
Lorry/Trucks	5 – 15
Boats and Ships	5 – 20
Aero planes and Helicopters	12 – 30
Others Vehicles	5 – 15
Assets Under Capital Lease	
Category same as other PPE	Shorter of lease term or its useful life
Service Concession Asset	
Category same as other PPE	Same as other PPE
Biological Assets (Animals)	
Security, defense and service operations	3 – 15
Animal conservation operations	3 – 60

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	Malaysia Public Sector Accounting Standards
PFC	Public Financial Corporation 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.

Agriculture activity is the management of biological transformation and harvesting og biological resources used by the entity for:

(a) Sales;
(b) Distribution without charge or with a minimal fee; or
(c) Conversion to agricultural output or to other biological resources for sale or distribution without charge or with a minimal fee.

Amortization is the systematic allocation of the amortizable amount of an intangible asset over its estimated useful life.

Animal refers to any living thing that is not a person, including all mammals, birds, reptiles and insects, with exception of aquatic life, fish and tortoises.

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 generated 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.

Biological asset referred to as living this that the entity owns or is in control.

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.

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 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.

Conversation activity is to sustain the stability of the ecosystem and avoid extinction, the process of coordinated protection, reproduction, care, monitoring and conversation.

Conservation operation is the process of rescuing or protecting wildlife in conservation activities using domesticated wild animal such as wild elephants.

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 independent 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;
(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 occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

Contingent liability is:

(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 recognised 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 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 organisation or individual as a result of contract.

Control is the power to govern the financial and operational 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 recognised at cost. Revenue from the investment is recognised 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 contributions plans are post-employment benefits 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 favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of event can be identified which are 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.

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 on 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 unfavourable.

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;
(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.

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.

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);
(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. Materially 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.

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 the 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 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 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).

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 authorised 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, of if the related party entity and another entity are subject to common control.

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 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 inflows of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/ equity, other than increase 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 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.

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 as 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 twelve (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 summarized 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 inflow 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.

Useful life (animal) is the animal's useful life begins at the point of it can be used in the manner required by the management until unable to perform its function.

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.