GOVERNMENT OF MALAYSIA

Federal Government
Accrual Accounting Manual

PUBLIC PRIVATE PARTNERSHIP (PPP)

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Version No.	Effective Date	Approval	Details of Changes	
			Section Reference	Description of Changes

6.0 PUBLIC PRIVATE PARTNERSHIP (PPP)

Introduction

6.1 This chapter covers the following matters:

- Public Private Partnership (PPP)
- Private Finance Initiative (PFI)
- Privatization
- Others
- Recognition of service concession asset
- Recognition of liability
- Disclosures

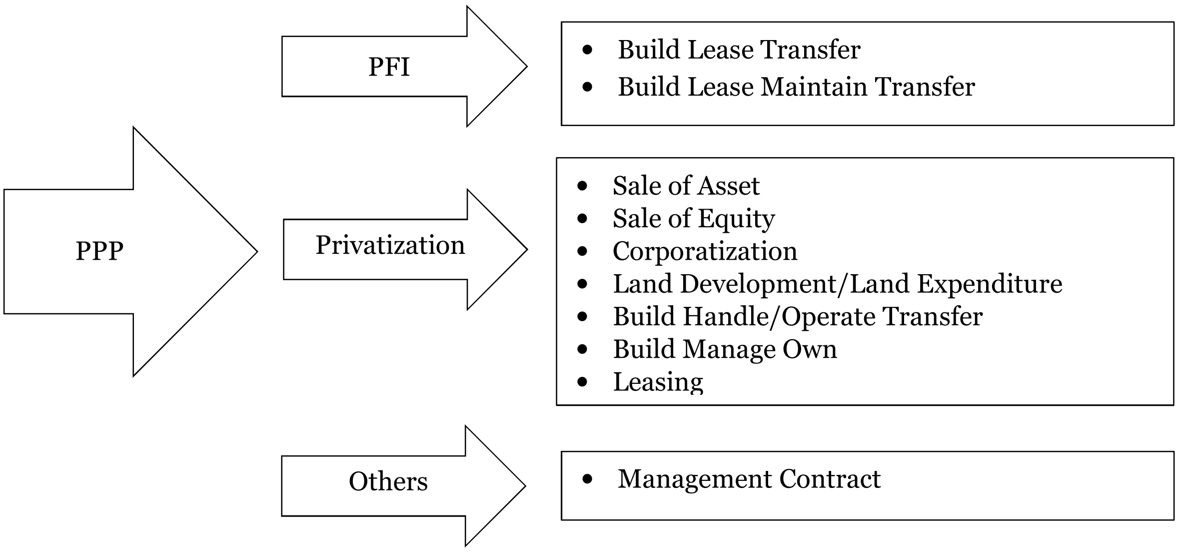
Public Private Partnership (PPP)

6.2 A privatization policy was launched in the early 1980s with the intent of strengthening roles of the private sector in the national economic development.

6.3 The concept of PPP includes PFI and privatization.

6.4 PFI generally has longer concession periods (>20 years) with a higher project cost (100 million).

The below diagram illustrates the different PPP arrangements:



6.0 PUBLIC PRIVATE PARTNERSHIP (PPP) (CONTINUED)

Private Finance Initiative (PFI)

6.5 PFI is a form of public private partnership (PPP) where the public sector is able to procure the provision of public services from the private sector. PFI comes in various forms and identification is based on the substance of arrangements.

6.6 PFI arrangements that do not involve delivery of public service arrangement and where such arrangement contains a lease is dealt with in accordance with the guidance under Chapter 11 - Lease Accounting. Such arrangement may differ from one another and attention needs to be given to its underlying substance and economic reality and not merely its legal form.

6.7 As for arrangements that involve provision of public service by the operator of the service concession agreement, the accounting treatment shall be dealt with in this chapter.

6.8 PFI includes the following concept:

<u>Build Lease Transfer</u>

6.9 This build-lease-transfer method involves a private company building facilities with its own funds. Once completed, the facilities will be utilised by the Government. In return, the company will charge rental to the Government. Ownership will be transferred to the Government at the end of the concession period.

6.10 Examples of projects adopting this method are the development of the Government Complex in Putrajaya and the construction of 10,000 units of the 1st Phase Teachers' Residents in Selangor, Kuala Lumpur, Pahang, Perak, Penang, Kedah, Perlis, Sarawak and Sabah.

<u>Build-Lease-Maintain-Transfer</u>

6.11 Build-lease-maintain-transfer method involves private companies building and maintaining Government facilities with their own funding throughout the concession period. The Government will only issue payments if the service delivered meets the pre-agreed service level or the stipulated Key Performance Indicator – KPI. The facilities will be owned by the Government at the end of the concession period.

6.12 For example, the UiTM campus construction projects in selected areas.

6.13 Based on fact pattern, lease accounting should be applied due to absence of public service and service potential is substantially consumed by the government. Where there is an arrangement that involves provision for public service, then a concession asset and liability is recognised. Refer to 6.52 for details.

Privatization

6.14 Privatization is another method used by FGOM to attract private sector participation in the delivery of services being traditionally provided by the public sector with full or partial control retained by FGOM.

6.15 Similar to PFI, privatization arrangements may differ from one another and attention needs to be given to its underlying substance and economic reality and not merely its legal form.

6.16 Where arrangement does not involve public service arrangements and where such arrangements contain a lease, it is dealt with in accordance with the guidance under Chapter 11 – Lease Accounting.

6.0 PUBLIC PRIVATE PARTNERSHIP (PPP) (CONTINUED)

6.17 Privatization includes the following concepts:

Sale of Assets

6.18 This involves transferring assets owned by FGOM companies to private bodies to enable the company to take over and carry on with the privatised entity commercial activities.

6.19 This may involve the transfer of either all three of the organisational components (management, asset and staff responsibilities) or some of the components. The sales of the assets may involve the assets owned by any FGOM organisation either companies or other entities.

6.20 An example of this method is the takeover of the South East Johore Development Authority (KEJORA), Southeast Pahang Development Authority (DARA), Jengka Regional Development Authority (JENGKA) and MARA Shipyard Engineering Terengganu commercial activities as well as the takeover of the Municipal Council of Penang Island bus services.

6.21 Sale of asset is dealt with in accordance with the derecognition principles of the categories of assets and liabilities in the respective standards.

Sale of Equity

6.22 Equity sales are specifically for government companies and involve title transfers as well as management, asset (with or without liabilities) and staff responsibilities. This form of privatisation may involve selling of some or all the equity of a company. Total equity sales means transferring 100% of Government equity in the company, while partial transfer means less than 100%.

6.23 An example of this method is Mardec Bhd., Naval Dockyard Sdn. Bhd. and Perusahaan Otomobil Nasional (PROTON) Bhd.

6.24 Sale of equity is dealt with in accordance with the guidance under Chapter 9 – Investment. The sale can be treated as a disposal or transfer of investment.

Corporatization

6.25 This method is used to change the status of FGOM agencies into a company under the Companies Act 1965 with company equities in full control by the FGOM.

6.26 Examples are SIRIM Berhad, MIMOS Berhad and Institut Jantung Negara Sdn. Bhd. (IJNSB).

6.27 Corporatization is dealt with in accordance with guidance under Chapter 5 - Property, Plant and Equipment and Chapter 9 – Investment. The corporatization will result in the sale of an asset and an acquisition of equity treated as an investment.

Land Development/Land Transfer

6.28 Land transfer involves the transfer of land to a private company for development. In return, the FGOM is entitled to certain portfolio of the developed lands which may include offices and quarters.

6.29 Land development involves collaborative land development whereby the ownership of the land is not transferred to the company but the fully-developed property will be sold directly to the public. The return for FGOM will be in-kind and cash terms.

6.0 PUBLIC PRIVATE PARTNERSHIP (PPP) (CONTINUED)

6.30 Examples of projects utilising this method are the redevelopment of the Bukit Bintang Girls School site in Kuala Lumpur, Kuala Lumpur City Hall (DBKL) land development in the Batu Sub-district, Bukit Jalil National Sports Complex and the construction of the Malaysian Armed Forces (ATM) camp in Bukit Gedung, Penang Island.

6.31 The land transfer is dealt with in accordance with Chapter 5 – Property, Plant and Equipment. The land transfer/development will be treated as monetary or non-monetary exchange depending on the agreed arrangement.

Build – Handle/Operate – Transfer

6.32 This method is used for the privatization of projects traditionally implemented by the private sector such as infrastructure and public facilities projects. It involves the construction of a public facility by a private body with its own funding. The Company will manage the facility for a certain concession period and it will be surrendered to FGOM without cost at the end of the concession period. The Company will be allowed to collect charges and fees from consumers utilising the service.

6.33 Examples of projects adopting this method are tolled highways, light rail services and sewerage.

6.34 This method is dealt with in accordance with guidance set out in this chapter where concession asset and liabilities is recognized when provision for public service is present and conditions met.

Build - Manage/Operate – Own

6.35 This method involves a private company funding the construction and managing the facilities without surrendering the asset to FGOM. Within the concession period, the company is allowed to charge for the usage of the facilities or services.

6.36 Examples of projects adopting this method are Penjanakuasa Elektrik Persendirian (IPP) and Bekalan Air Dingin Putrajaya.

6.37 This method is dealt with in accordance to MPSAS 1 where cost of services and payments made are accounted for as expense.

Lease

6.38 This method involves the transfer of rights using assets and facilities with leasing rental payment. This method is usually used for the privatization of entities with high-value assets and is strategically located such as ports and airports.

6.39 This method does not involve transfer of assets to concession companies but the regulations may be established for the lease holder to purchase the asset at the end of the leasing period. The leasing period is the same as the concession period.

6.40 Examples of projects adopting this method are Kuantan Port and leasing of the container terminal in Port Klang.

6.41 This method is dealt with in accordance with Chapter 11 – Leasing.

6.0 PUBLIC PRIVATE PARTNERSHIP (PPP) (CONTINUED)

Others

Management Contract

6.42 This method involves the utilisation of the private sector's management expertise to manage an activity or execute services which were previously self-executed by FGOM through a short-term contract.

6.43 This method involves payment of services by FGOM for a certain concession period and involves transfer of staff, management responsibilities and movable assets to the particular company.

6.44 Examples of projects adopting this method are the maintenance of Federal Roads and hospital support services for FGOM hospitals under the Ministry of Health Malaysia.

6.45 This method is dealt with in accordance to MPSAS 1 where cost of services and payments made are accounted for as expense.

6.46 A service concession arrangement is a binding arrangement between a grantor and an operator in which:

(a) The operator uses the service concession asset to provide a public service on behalf of the grantor for a specified period of time; and
(b) The operator is compensated for its services over the period of the service concession arrangement.

Recognition of service concession asset

6.47 The grantor shall recognize an asset provided by the operator and an upgrade to an existing asset of the grantor as a service concession asset if:

(a) The grantor controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price;
(b) The grantor controls—through ownership, beneficial entitlement or otherwise—any significant residual interest in the asset at the end of the term of the arrangement; and
(c) Assets used in a service concession arrangement for its entire useful life (a 'whole-of-life' asset), given the condition (a) is met.

6.48 The grantor shall initially measure the service concession asset at its fair value. After initial recognition or reclassification, service concession assets shall be accounted for as a separate class of assets in accordance with MPSAS 17 - Property, plant and equipment or in rare circumstances, MPSAS 31 - Intangible asset.

Recognition of liability

6.49 Where a grantor recognizes a service concession asset, the grantor shall also recognize a liability. The grantor shall not recognize a liability when an existing asset of the grantor is reclassified as a service concession asset, except in circumstances where additional consideration is provided by the operator.

6.0 PUBLIC PRIVATE PARTNERSHIP (PPP) (CONTINUED)

6.50 The liability recognized shall be initially measured at the same amount as the service concession asset adjusted by the amount of any other consideration (e.g., cash) from the grantor to the operator, or from the operator to the grantor.

6.51 In exchange for the service concession asset, the grantor may compensate an operator for the service concession asset by a combination of:

(a) Making payments to the operator (the 'financial liability' model);
(b) Compensating the operator by other means (the 'grant of a right to the operator' model) such as:
   (i) Granting the operator the right to earn revenue from third-party users of the service concession asset; or
   (ii) Granting the operator access to another revenue-generating asset for the operator's use (e.g., a private wing of a hospital where the remainder of the hospital is used by the grantor to treat public patients or a private parking facility adjacent to a public facility).

Financial Liability Model

6.52 Where the grantor has an unconditional obligation to pay cash or another financial asset to the operator for the construction, development, acquisition, or upgrade of a service concession asset, the grantor shall account for the liability recognized as a financial liability.

6.53 The grantor has an unconditional obligation to pay cash if it has guaranteed to pay the operator:

(a) Specified or determinable amounts; or
(b) The shortfall, if any, between amounts received by the operator from users of the public service and any specified or determinable amounts even if the payment is contingent on the operator ensuring that the service concession asset meets specified quality or efficiency requirements.

6.54 The grantor shall allocate the payments to the operator and account for them according to their substance as a reduction in the liability recognized, a finance charge, and charges for services provided by the operator. The finance charge and charges for services provided by the operator in a service concession arrangement shall be accounted for as expenses.

Grant of Right to the Operator Model

6.55 Where the grantor does not have an unconditional obligation to pay cash or another financial asset to the operator for the construction, development, acquisition, or upgrade of a service concession asset, and grants the operator the right to earn revenue from third-party users or another revenue-generating asset, the grantor shall account for the liability recognized as the unearned portion of the revenue arising from the exchange of assets between the grantor and the operator.

6.56 The grantor shall recognize revenue and reduce the liability recognized according to the economic substance of the service concession arrangement. Unearned revenue shall be recognized arising from the exchange of assets between the grantor and the operator. Revenue and reduction of the liability shall be recognized according to the economic substance of the service concession arrangement.

6.0 PUBLIC PRIVATE PARTNERSHIP (PPP) (CONTINUED)

<u>Dividing the Arrangement</u>

6.57 If the grantor pays for the construction, development, acquisition, or upgrade of a service concession asset partly by incurring a financial liability and partly by the grant of a right to the operator, it is necessary to account separately for each part of the total liability recognized. The amount initially recognized for the total liability shall be the same amount as the service concession asset, adjusted by the amount of any other consideration (e.g., cash) from the grantor to the operator, or from the operator to the grantor.

Disclosure requirements

6.58 The statement of financial position should disclose the book value of lease asset and the leased finance liability of PFI under the heading non-current assets and non-current liabilities respectively. Refer to Chapter 11 – Lease Accounting for detailed disclosures.

6.59 The statement of financial position should disclose the book value of concession assets under the heading non-current assets and concession liabilities under the heading non-current liabilities.

6.60 A grantor shall disclose the following information in respect of service concession arrangements in each reporting period:

(a) A description of the arrangement
(b) Significant terms of the arrangement that may affect the amount, timing, and certainty of future cash flows (e.g., the period of the concession, re-pricing dates, and the basis upon which re-pricing or re-negotiation is determined);
(c) The nature and extent (e.g., quantity, time period, or amount, as appropriate) of:
 (i) Rights to use specified assets;
 (ii) Rights to expect the operator to provide specified services in relation to the service concession arrangement;
 (iii) Service concession assets recognized as assets during the reporting period, including existing assets of the grantor reclassified as service concession assets;
 (iv) Rights to receive specified assets at the end of the service concession arrangement;
 (v) Renewal and termination options;
 (vi) Other rights and obligations (e.g., major overhaul of service concession assets); and
 (vii) Obligations to provide the operator with access to service concession assets or other revenue-generating assets; and
(d) Changes in the arrangement occurring during the reporting period.

References

- MPSAS 32 – Service Concession Arrangements: Grantor

6.0 *PUBLIC PRIVATE PARTNERSHIP (PPP) (CONTINUED)*

Scenario A - The grantor makes a predetermined series of payments to the operator (using financial liability model)

An entity, the grantor, entered into a service concession agreement with a local concessionaire, Company C, the operator to deliver public service arrangement. The terms of the arrangement require an operator to construct a road-completing construction within two years—and maintain and operate the road to a specified standard for eight years (i.e. years 3–10).

The cost of constructing the road amounts to RM1,050,000 as advised by operator. The annual depreciation taken by the grantor is on a straight-line basis.

The terms of the arrangement requires the grantor to pay the operator RM200,000 per year in years 3–10 for making the road available to the public. The total consideration (payment of RM200,000 in each of years 3–10) is intended to cover the cost of constructing the road and annual service expense of RM12,000.

The terms of the arrangement also require the operator to resurface the road when the original surface deteriorates. The operator estimates that it will undertake resurfacing at the end of year 8 at a fair value of RM110,000.

The road surface is recognised as a separate component of the initial fair value of the service concession asset and measured at the estimated fair value of the resurfacing and depreciated over years 3 – 8.

The rate implicit in the service concession agreement specific to asset is 6.18%.

The road has an economic life of 25 years. At the end of the concession period, the ownership of the road is transferred to the grantor and the road will have a remaining useful life of 15 years.

Fair value of the contract component:

Contract component	Fair value (RM)
Road – base layer	940,000
Road – original surface layer	110,000
Total fair value – as advised by operator	1,050,000
Annual service component	12,000
Effective interest rate	6.18%

6.0 PUBLIC PRIVATE PARTNERSHIP (PPP) (CONTINUED)

Journal entries

1) To record the recognition of service concession asset (classed as AUC) when the highway is being constructed

The cost of materials, labour and other directly attributable costs are recognized as AUC using the percentage of completion method. Based on the stage of completion, the work in progress will be recognized gradually and the concession liability will be recognized accordingly. Grantor recognises a financial liability of fair value equal to the fair value of AUC at the end of Year 1. The liability is increased at the end of Year 2 to reflect both fair value of AUC and finance charge on outstanding liabilities.

Year 1	Amount (RM)	Accounting Code
DR Assets under construction (AUC)	525,000	A2033101
CR Concession liability*	525,000	L0924200

Year 2	Amount (RM)	Accounting Code
DR Assets under construction (AUC)	525,000	A2033101
CR Concession liability*	525,000	L0924200

* Concession liability payable within 12 months is disclosed as current liabilities.

Please refer to Table A.3 statement of financial position for recognition of concession asset and concession liability.

2) To record the recognition of service concession asset when the highway construction is completed

Once the service concession asset has been finish constructed, the work in progress will be credited and will instead be debited to property, plant and equipment. The remaining cost incurred on the construction of the road will be recognized as property, plant and equipment. The offsetting credit entry is to recognize the corresponding amount in concession liability.

	Amount (RM)	Accounting Code
DR Concession asset	1,050,000	A1833101
CR AUC	1,050,000	A2033101

Please refer to Table A.3 statement of financial position for recognition of concession asset.

3) To record the depreciation of the service concession asset during the operations period, once the service concession asset is recognized

The annual depreciation is taken by grantor on a straight line basis. The depreciation expense will start to be recognized on the third year where the road construction is completed. The total fair value of the road is RM1,050,000 comprised of RM940,000 relating to base layer and RM110,000 relating to surface layer. Annual depreciation for base layer amounts to RM38,000 (RM940,000/25 years) and surface layer amounts to RM18,000 (RM110,000/6 years). Annual depreciation charge amounts to RM56,000.

	Amount (RM)	Accounting Code
DR Depreciation expense	56,000	B3133101
CR Accumulated depreciation	56,000	A3133101

The depreciation expense recognised is illustrated in Table A.2 statement of financial performance.

6.0 PUBLIC PRIVATE PARTNERSHIP (PPP) (CONTINUED)

Journal entries

4) To record the service expense

The service expense is only recognised from Year 3 onwards. The service expense recognised over 8 years will be the same.

	Amount (RM)	Accounting Code
DR Service expense	12,000	B0228201
CR Concession liability	12,000	L0924200

Please refer to Table A.2 Statement of financial performance for the service expense recognised.

5) To record the finance charge

Finance charge will start to be recognised from Year 2 onwards.

	Amount (RM)	Accounting Code
DR Finance cost	32,000	B0445701
CR Concession liability	32,000	L0924200

Please refer to Table A.2 Statement of financial performance cost recognised.

6) To record the yearly compensation paid to the operator

When the grantor make yearly payment to the operator / concessionaire, the payment will be recognized as a reduction in concession liability. In addition, the cash account will recognize the corresponding amount accordingly.

	Amount (RM)	Accounting Code
DR Concession liability	200,000	L0924999
CR Cash	200,000	A0112000

Please refer to Table A.1 Cash flow for payments recognised.

6.0 PUBLIC PRIVATE PARTNERSHIP (PPP) (CONTINUED)

Table A.1 Cash Flows (RM'000)

Year	1	2	3	4	5	6	7	8	9	10	Total
Predetermined series of payments	-	-	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(1,600)
Net inflow/ (outflow)	-	-	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(1,600)

Table A.2 Statement of Financial Performance (RM'000)

Year	1	2	3	4	5	6	7	8	9	10	Total
Service expenses	-	-	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(96)
Finance charge	-	(32)	(67)	(59)	(51)	(43)	(34)	(25)	(22)	(11)	(344)
Depreciation base layers	-	-	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(304)
Depreciation original surface layer	-	-	(18)	(19)	(18)	(18)	(19)	(18)	-	-	(110)
Depreciation replacement surface layer	-	-	-	-	-	-	-	-	(18)	(19)	(37)
Total depreciation	-	-	(56)	(57)	(56)	(56)	(57)	(56)	(56)	(57)	(451)
Annual surplus/ (deficit)	-	(32)	(135)	(128)	(119)	(111)	(103)	(93)	(90)	(80)	(891)

NOTES:
Depreciation in year 3 – 8 reflects the depreciation on the initially-constructed road surface. It is fully depreciated over that period. Depreciation in years 9 – 10 reflects the depreciation on the new service concession asset component (surface) recognised in year 8.

6.0 PUBLIC PRIVATE PARTNERSHIP (PPP) (CONTINUED)

Table A.3 Statement of Financial Position (RM'000)

Year	1	2	3	4	5	6	7	8	9	10
Service concession asset – based layers	525	940	902	864	826	788	750	712	674	636
Service concession asset –original surface layer	-	110	92	73	55	37	18	-	-	-
Service concession asset – replacement surface layer	-	-	-	-	-	-	-	110	92	73
Total service concession asset	525	1,050	994	937	881	825	768	822	766	709
Cash	-	-	(200)	(400)	(600)	(800)	(1,000)	(1,200)	(1,400)	(1,600)
Financial liability	(525)	(1,082)	(961)	(832)	(695)	(550)	(396)	(343)	(177)	-
Cumulative surplus or deficit	-	32	167	295	414	525	628	721	811	891

NOTES:

1. In this example, the resurfacing occurs as expected in year 8, when the initially-constructed road surface is fully depreciated. If the resurfacing occurred earlier, the initially-constructed road surface would not be fully depreciated, and would need to be derecognised in accordance with MPSAS 17 before the new component of the service concession asset related to the resurfacing is recognised.
2. The new component of the service concession asset related to the resurfacing is recognised in year 8. Years 9 – 10 reflect depreciation on this additional component (Table A.2).
3. The financial liability is increased in year 8 for the recognition of the new component of the service concession asset.

6.0 PUBLIC PRIVATE PARTNERSHIP (PPP) (CONTINUED)

Table A.4 Changes in Financial Liability (RM'000)

Year	1	2	3	4	5	6	7	8	9	10
Balance brought forward	-	525	1,082	961	832	695	550	396	343	177
Liability recognised along with initial service concession asset	525	525	-	-	-	-	-	-	-	-
Finance charge added to liability prior to payments being made	-	32	-	-	-	-	-	-	-	-
Portion of predetermined series of payments that reduces the liability	-	-	(121)	(129)	(137)	(145)	(154)	(163)	(166)	(177)
Liability recognised along with replacement surface layers	-	-	-	-	-	-	-	110	-	-
Balance carried forward	525	1,082	961	832	695	550	396	343	177	-

6.0 *PUBLIC PRIVATE PARTNERSHIP (PPP) (CONTINUED)*

Scenario B - The grantor gives the operator the right to charge users a toll for use of the road (using grant of right to operator model)

Following on from Scenario A, the terms of the arrangement now only grants the operator the right to allow the operator to collect tolls from drivers using the road. The operator forecasts that vehicle numbers will remain constant over the duration of the arrangement and that it will receive tolls of RM200,000 in each of years 3–10.

The compensation for maintenance and operating the road is included in the tolls the operator expects to earn over the term of the service arrangement.

Journal entries

1) To record the recognition of work in progress when the highway is being constructed

As consideration for the service concession asset, the grantor recognises a liability (i.e. deferred revenue) under the grant of a right to the operator model for granting the operator the right to collect tolls. Liability is recognised as the asset is recognised.

Year 1	Amount (RM)	Accounting Code
DR Assets under construction (AUC)	525,000	A2033101
CR Deferred revenue	525,000	L0388000

Year 2	Amount (RM)	Accounting Code
DR Assets under construction (AUC)	525,000	A2033101
CR Deferred revenue	525,000	L0388000

Please refer to Table B.3 statement of financial position for the asset recognised.

2) To record the recognition of service concession asset when the highway construction is completed.
   Same as Scenario A, journal entry (2).

3) To record the depreciation of the service concession asset during the operations period, once the service concession asset is recognized
   Same as Scenario A, journal entry (3)

4) To record the liability reduction over years 3 – 10.

The grantor will recognise revenue on the basis of access to service concession asset is expected to be provided evenly over the (8 years) term of concession arrangement from point at which the asset is capable of providing economic benefits.

Yearly liability reduction to revenue amounts to RM145,000 (RM1,050,000 + RM110,000)/(8 years).

	Amount (RM)	Accounting Code
DR Deferred revenue	145,000	L0388000
CR Revenue on concession asset	145,000	H0288302

Please refer to Table B.2 Statement of financial performance for the deferred revenue recognised.

6.0 *PUBLIC PRIVATE PARTNERSHIP (PPP) (CONTINUED)*

Table B.1 Cash Flows (RM'000)

Because there is no payment made to the operator, there are no cash flow impacts for this scenario.

Table B.2 Statement of Financial Performance (RM'000)

Year	1	2	3	4	5	6	7	8	9	10	Total
Revenue (reduction of liability)	-	-	145	145	145	145	145	145	145	145	1,160
Depreciation base layers	-	-	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(304)
Depreciation original surface layer	-	-	(18)	(19)	(18)	(18)	(19)	(18)	-	-	(110)
Depreciation replacement surface layer	-	-	-	-	-	-	-	-	(18)	(19)	(37)
Total depreciation	-	-	(56)	(57)	(56)	(56)	(57)	(56)	(56)	(57)	(451)
Annual surplus/ (deficit)	-	-	89	88	89	89	88	89	89	88	709

NOTES:

1. Depreciation in year 3 – 8 reflects the depreciation on the initially-constructed road surface. It is fully depreciated over that period.
2. Depreciation in years 9 – 10 reflects the depreciation on the new service concession asset component (surface) recognised in year 8.
3. The revenue (reduction of the liability) includes revenue from the additional liability (Table 2.3).
4. All revenue is recognised evenly over the term of the arrangement.

6.0 PUBLIC PRIVATE PARTNERSHIP (PPP) (CONTINUED)

Table B.3 Statement of Financial Position (RM'000)

Year	1	2	3	4	5	6	7	8	9	10
Service concession asset – based layers	525	940	902	864	826	788	750	712	674	636
Service concession asset –original surface layer	-	110	92	73	55	37	18	-	-	-
Service concession asset – replacement surface layer	-	-	-	-	-	-	-	110	92	73
Total service concession asset	525	1,050	994	937	881	825	768	822	766	709
Cash	-	-	-	-	-	-	-	-	-	-
Liability (Deferred revenue)	(525)	(1,050)	(905)	(760)	(615)	(470)	(325)	(290)	(145)	-
Cumulative surplus or deficit	-	-	(89)	(177)	(266)	(355)	(443)	(532)	(621)	(709)

NOTES:

1. In this example, the resurfacing occurs as expected in year 8, when the initially-constructed road surface is fully depreciated. If the resurfacing occurred earlier, the initially-constructed road surface would not be fully depreciated, and would need to be derecognised in accordance with MPSAS 17 before the new component of the service concession asset related to the resurfacing is recognised.
2. The new component of the service concession asset related to the resurfacing is recognised in year 8. Years 9 – 10 reflect depreciation on this additional component (Table 2.2).
3. The financial liability is increased in year 8 for the recognition of the new component of the service concession asset.

6.0 *PUBLIC PRIVATE PARTNERSHIP (PPP) (CONTINUED)*

Table B.4 Changes in Liability (RM'000)

Year	1	2	3	4	5	6	7	8	9	10
Balance brought forward	-	525	1,050	905	760	615	470	325	290	145
Liability recognised along with initial service concession asset	525	525	-	-	-	-	-	-	-	-
Revenue (reduction of liability)	-	-	(145)	(145)	(145)	(145)	(145)	(145)	(145)	(145)
Liability recognised along with replacement surface layers	-	-	-	-	-	-	-	110	-	-
Balance carried forward	525	1,050	905	760	615	470	325	290	145	-

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.