GOVERNMENT OF MALAYSIA

Federal Government Accrual Accounting Manual

INVESTMENTS

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ISSUED BY

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

9.0 *INVESTMENTS*

Introduction

9.1 This chapter covers the following matters:

- Types of investments
- Initial recognition and measurement
- Measurement subsequent to initial recognition
- Disclosures

Types of investments

9.2 Investments in controlled entities, jointly controlled entities and associates are equity investments in companies, statutory bodies and international agencies.

9.3 For purposes of the FGOM and using the first time adoption for investments as stipulated in Chapter 3, investments in controlled entities, jointly controlled entities and associates are to be accounted for in the separate financial statements under the equity method.

Initial recognition and measurement

9.4 The initial recognition and measurement criteria are as follows:

	Investment in controlled entities	Investment in associates	Investment in jointly controlled entities
Initial recognition	An entity is said to have established control of another entity for financial reporting purposes when one of the following criteria are fulfilled: (a) The entity benefit from the activities of the other entity; (b) The entity have the power to govern the financial and operating policies of the other entity;	The entity will classify an investment as an associate when there is existence of significant influence. The existence of significant influence by an investor is usually evidenced in one or more of the following ways: (a) Representation on the board of directors or equivalent governing body of the investee; (b) Participation in policy-making processes, including participation in decisions about dividends or other distributions; (c) Material transactions between the investor and the investee;	The existence of a binding arrangement conferring similar rights and obligations on the parties to it will differentiate an investment in jointly controlled entities from investment in associates.

9.0 INVESTMENTS (CONTINUED)

	Investment in controlled entities	Investment in associates	Investment in jointly controlled entities
Initial recognition (continued)	(c) The entity's power to govern the financial and operating policies of the other entity is exercisable. There is a presumption that the investment is a controlled entity if the FGOM owns >50% interest.	(d) Interchange of managerial personnel; (e) Provision of essential technical information. There is a presumption that the investment is an associate if the FGOM owns between 20%-50% interest in an entity.	
Initial measurement	For FGOM, investment in controlled entities, jointly controlled entities and associates shall be accounted for using the equity method. This policy may be subject to change. Simple investment shall be accounted for as 'available for sale' (AFS) assets. Investment in statutory bodies where FGOM receives variable returns from the entity shall be accounted for as investment in controlled entities using the equity method. Seed fund or grants given to statutory bodies where FGOM does not receive any variable returns from the entry shall be expensed.		

Subsequent measurement

9.5 When separate financial statements are prepared, investments in controlled entities, jointly controlled entities, and associates shall be accounted for using one of the following methods:

(a) Using the equity method;
(b) At cost; or
(c) As a financial instrument.

<u>Application of the equity method</u>

9.6 Under the equity method:

(a) The investment is stated as one line item, initially recognised at cost.
(b) The carrying amount of the investment is increased or decreased to recognise the investor's share of the profit or loss of the associate after the date of acquisition.
(c) The investor's share of the profit or loss of the associate is adjusted for the effect of any fair value adjustments recognised upon initial recognition and is recognised in the investor's income statement.
(d) Any distributions received from the associate reduce the investment's carrying amount.
(e) Adjustments to the associate's carrying amount may also be necessary for changes in the investor's proportionate interest in the associate that arises from changes in the associate's other comprehensive income, that have not been recognised in the associate's profit or loss. Such changes will include those arising from the revaluation of property, plant, and equipment and available for sale investments and from foreign exchange translation differences.

9.0 INVESTMENTS (CONTINUED)

Application of the cost method

9.7 Under the cost method:

(a) The investment continues to be recognized at cost.
(b) The investor recognizes revenue from the investment only to the extent that the investor is entitled to receive distributions from accumulated surpluses of investee arising after date of acquisition.
(c) Entitlements received are regarded as a recovery of investment and recognized as a reduction of the cost of investment.

Application as financial instruments

9.8 The accounting treatment as a financial instrument is outlined in Chapter 19 – Financial Instruments.

Disclosure requirements

9.9 Investment in controlled entities, associates and jointly controlled entities should be disclosed under the heading Non- current assets in the Statement of Financial Position.

9.10 When a controlling entity or venturer with an interest in a jointly controlled entity, or an investor in an associate prepares separate financial statements, those separate financial statements shall disclose:

(a) The fact that the statements are separate financial statements and the reasons why those statements are prepared if not required by law, legislation, or other authority;
(b) A list of significant controlled entities, jointly controlled entities, and associates, including the name; the jurisdiction in which the entity operates (when it is different from that of the controlling entity); proportion of ownership interest; and, where that interest is in the form of shares, the proportion of voting power held (only where this is different from the proportionate ownership interest); and
(c) A description of the method used to account for the entities listed.

9.11 The following additional disclosures for investment in associates shall be made:

(a) The fair value of investments in associates for which there are published price quotations;
(b) Summarized financial information of associates, including the aggregated amounts of assets, liabilities revenues and surplus or deficit;
(c) The reasons why the presumption that an investor does not have significant influence is overcome if the investor holds, directly or indirectly through controlled entities, less than 20 percent of the voting or potential voting power of the investee but concludes that it has significant influence;
(d) The reasons why the presumption that an investor has significant influence is overcome if the investor holds, directly or indirectly through controlled entities, 20 percent or more of the voting power of the investee but concludes that it does not have significant influence;
(e) The reporting date of the financial statements of an associate, when such financial statements are used in applying the equity method and are as of a reporting date or for a period that is different from that of the investor, and the reason for using a different reporting date or different period;

9.0 INVESTMENTS (CONTINUED)

(f) The nature and extent of any significant restrictions (e.g., resulting from borrowing arrangements or regulatory requirements) on the ability of associates to transfer funds to the investor in the form of cash dividends, or similar distributions, or repayment of loans or advances;
(g) The unrecognized share of losses of an associate, both for the period and cumulatively, if an investor has discontinued recognition of its share of losses of an associate;
(h) The fact that an associate is not accounted for using the equity method; and
(i) Summarized financial information of associates, either individually or in groups, which are not accounted for using the equity method, including the amounts of total assets, total liabilities, revenues and surplus or deficit.

9.12 A venturer shall make the following additional disclosures:

(a) Method used to recognise its interest in jointly controlled entities;
(b) The aggregate amount of the following contingent liabilities, unless the possibility of any outflow in settlement is remote, separately from the amount of other contingent liabilities:
(c) Any contingent liabilities that the venturer has incurred in relation to its interests in joint ventures, and its share in each of the contingent liabilities that have been incurred jointly with other venturers;
(d) Its share of the contingent liabilities of the jointly controlled entities themselves for which it is contingently liable; and
(e) Those contingent liabilities that arise because the venturer is contingently liable for the liabilities of the other venturers of a jointly controlled entity;
(f) A brief description of the following contingent assets and, where practicable, an estimate of their financial effect, where an inflow of economic benefits or service potential is probable:
  (i) Any contingent assets of the venturer arising in relation to its interests in jointly controlled entity and its share in each of the contingent assets that have arisen jointly with other venturers
  (ii) Its share of the contingent assets of the jointly controlled entity themselves.
(g) A listing and description of interests in significant joint ventures and the proportion of ownership interest held in jointly controlled entities; and
(h) The aggregate amounts of each of current assets, non-current assets, current liabilities, non-current liabilities, revenue, and expenses related to its interest in jointly controlled entities.

9.13 A venturer shall disclose the aggregate amount of the following:

(a) Commitments in respect of its interests in jointly controlled entity separately from other commitments;
(b) Any capital commitments of the venturer in relation to its interests in jointly controlled entity and its share in the capital commitments that have been incurred jointly with other venturers; and
(c) Its share of the capital commitments of the jointly controlled entity themselves.

References

- MPSAS 6 - Consolidated and Separate Financial Statement
- MPSAS 7 - Investments in Associates
- MPSAS 8 - Investments in Joint Ventures
- Accounting Policy and Interpretation

9.0 *INVESTMENTS (CONTINUED)*

Scenario A - Recognising investment using cost method

Scenario A.1 - Initial recognition of investment in a controlled entity on acquisition of that entity

Entity A acquires Company B by purchasing 60% of its equity for RM200 million in cash.

Journal entries

1) To record the purchase of 60% interest in Company B

The investment in controlled entity is recorded at cost of RM200 million in cash.

	Amount (RM)	Accounting Code
DR Investment in controlled entities	200,000,000	A1021101
CR Cash	200,000,000	A0112000

The same journal entry is applicable for similar scenarios for investment in associates and jointly controlled entities.

Scenario A.2 - Initial recognition of investment in a controlled entity on forming that entity

Entity A created Company B to achieve some of its objectives with control presumed to exist in terms of (a) power (via voting interest) and (b) benefit (via extraction of distribution of assets from the other entity).

Entity A incurred RM100 million (in cash) in forming Company B and to support Company B's initial financial and operating policies.

Journal entries

1) To record cost of investment in newly created Company B

The investment in controlled entity is recorded at cost of RM100 million

	Amount RM	Accounting Code
DR Investment in controlled entities*	100,000,000	A1021101
CR Cash	100,000,000	A0112000

* This is assuming that the full amount is equity in nature.

9.0 INVESTMENTS (CONTINUED)

Scenario A.3 - Subsequent measurement of investment in controlled entities

Entity A acquires Company B by purchasing 60% of its entity for RM200 million in cash. Subsequent to that, Company B recognises dividend of RM10 million from its accumulated surplus.

Journal entries

1) To record Entity A's share of distribution from Company B

Entity A recognises revenue from its investment in Company B only to the extent the investor is entitled to i.e. RM6 million of 60% out of total distribution of RM10 million.

The investment in controlled entity is recorded at cost of RM200 million in cash.

	Amount RM	Accounting Code
DR Cash	6,000,000	A0113000
CR Gain on investments	6,000,000	H0275299

The same journal entry is applicable for similar scenarios for investment in associated and jointly controlled entities.

Scenario A.4 - Divestment of investment in controlled entity

Entity A decides to dispose its interest in Company B. The consideration to be received amounts to RM250,000 for the 60% ownership interest. The net book value of the 60% ownership interest amounts to RM230,000.

Journal entries

1) To record the sale of 60% ownership interest in Company B

The sale of the 60% ownership interest in Company B is recognized by crediting the investment in controlled entities account and debiting the corresponding cash account recognized. The difference between the two accounts is recognized as gain on divestment.

	Amount (RM)	Accounting Code
DR Cash	250,000	A0113000
CR Gain on divestment of controlled entity	20,000	H0275499
CR Investment in controlled entity	230,000	A1021000

The same journal entries are applicable for similar scenarios for investment in associates and jointly controlled entities.

Same journal entry is also applicable for divestment where equity method is applied.

9.0 INVESTMENTS (CONTINUED)

Scenario A.5 - Impairment of investment in controlled entity

The investment in controlled entities is periodically reviewed for impairment assessment. During a recent review, an investment company was declared bankrupt and an impairment loss on investment in controlled entity amounting to RM100,000 was included in the accounts. Assume no revaluation reserve.

Journal entries

1) To record the impairment loss in the investment in controlled entities

Impairment loss is recognized against the current year surplus or deficit.

	Amount (RM)	Accounting Code
DR Impairment loss expense	100,000	B5421101
CR Accumulated impairment loss	100,000	A5421101

The same journal entry is applicable for similar scenarios for investment in associates and jointly controlled entities.

Same journal entry is also applicable for impairment where equity method is applied.

9.0 *INVESTMENTS (CONTINUED)*

Scenario B - Recognition investment using equity method

Scenario B.1 - Subsequent measurement of investment in a controlled entity – equity method

Entity A acquires Company B by purchasing 60% of its equity for RM200 million in cash. Subsequent to that, Company B's book value increased by RM3 million.

Journal entries

1) To record entity A's share of Company B's increase in book value

Entity A subsequently measures value of Company B using equity method. Book value of Company B has increased by RM3 million. Company A accounts for this increase in book value of Company B at its share of 60% of RM3 million, being RM1.8 m (RM3m x 60%).

	Amount (RM)	Accounting Code
DR Investment in controlled entities	1,800,000	A1021101
CR Revenue	1,800,000	H0275299

The same journal entry is applicable for similar scenarios for investment in associates and jointly controlled entities.

Scenario B.2 - Dividend received from jointly controlled entities - where equity method of accounting is applicable

Entity A was entitled to dividend from Company B for the 60% ownership interest in Company B. The dividend of RM3,000 was declared on 1 February 20X7 and received on April 20X1.

Journal entries

1) To record the entitlement to the dividend of 1 February 20X1

The dividend receivable will be recognized as a deductible to the cost of investment balance and the receivable account is increased accordingly to the amount expected to be received.

	Amount (RM)	Accounting Code
DR Receivable	3,000	A0375400
CR Investment in controlled entities	3,000	A1021101

2) To record the receipt of dividend or 1 April 20X1

The dividend received will result in an increase in the cash balance and the corresponding reversal of the receivable balance.

	Amount (RM)	Accounting Code
DR Cash	3,000	A0113000
CR Receivable	3,000	A0375400

The same journal entries are applicable for similar scenarios for investments in associates and jointly controlled entities.

9.0 *INVESTMENTS (CONTINUED)*

Scenario C - Recognising investment as a financial instrument (available for sale)

The scenario for available for sale type of investment is covered under Scenario C of Chapter 19 – Financial Instruments.

Scenario D - Consolidation of a controlled entity

The FGOM acquires an investee by acquiring 80% of the shares in Entity A for a cost of RM2.76 million total shares on 1 January 20X9. The acquisition results in FGOM acquiring 80% ownership interest in Entity A.

It is assumed that:

(a) There are no intra-group transactions
(b) The investee and FGOM share the same year end of 31 December
(c) No differences in accounting policies adopted
(d) No goodwill arises on consolidation

The Consolidated Statement of Financial Position and Financial Performance of the FGOM and investee are illustrated below:

Statement of Financial Position	FGOM (RM'000)	Entity A (RM'000)	Consolidation adjustment (RM'000)	Consolidated statement (RM'000)
Tangible fixed assets	1,000	3,000	-	4,000
Investment in Entity A	2,760	-	(2,760)	-
Other current assets	2,600	1,200	-	3,800
Other current liabilities	(600)	(100)	(130)	(830)
	5,760	4,100		6,970
Share capital	2,000	1,000	(1,000)	2,000
Reserves	3,760	3,100	(2,450)	4,410
Minority interest	-	-	690	560
			(130)	
	5,760	4,100		6,970

Statement of Financial Performance	FGOM (RM'000)	Entity A (RM'000)	Consolidation adjustment (RM'000)	Consolidated statement (RM'000)
Revenue	10,000	4,000	-	14,000
Expenses	(8,600)	(3,200)	-	(11,800)
Taxation	(200)	(150)	-	(350)
Surplus or deficit after tax	1,200	650		1,850
Minority interest	-	-	(130)	(130)
	1,200	650		1,720

9.0 INVESTMENTS (CONTINUED)

Scenario E - Converting loan to voting shares

An entity issues loan to a corporation amounting to RM100,000 with a maturity period of 5 years. At the end of the maturity period, the corporation enters into an agreement with the entity to convert loan to voting shares. The shares are valued at a fair value of RM100 per unit. The corporation offers 1,000 units of shares.

Journal entries

1) To record the issuance of loan to the corporation

When the entity issues loan to a corporation, the loan is recognised as loan receivable and the cash account is reduced accordingly.

	Amount (RM)	Accounting Code
DR Loan receivable	100,000	A0411300
CR Cash	100,000	A0112000

2) To record the conversion of loan to shares

When the entity agrees to accept shares in lieu of loan repayment, the entity recognises the shares received as investments (as it was intended to be held for non-trading purposes) and reduces the loan receivable account. Depending on the ownership and control levels of the entity in the corporation, the investment will be recognised as an investment in controlled entity, associates or in jointly controlled entities.

In this case, we assume the shares offered by the corporation results in an ownership of 25% in the corporation, thus, an investment in associates account is debited.

	Amount (RM)	Accounting Code
DR Investment in associate	100,000	A1221101
CR Loan receivables	100,000	A0411300

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.