ACCOUNTANT GENERAL'S DEPARTMENT

ACCOUNTING POLICIES

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Prepared by:
Accountant General's Department
No. 1, Persiaran Perdana, Kompleks Kementerian Kewangan Presint 2,
Pusat Pentadbiran Kerajaan Persekutuan
62594 Putrajaya
Tel : 03-88821000
Faks : 03-88821765
Web: http://www.anm.gov.my

Introduction

1. This policy document outlines the accounting policies of the Malaysian Government which need to be complied with by all federal ministries and departments. The accounting policies are drawn up to assist users in the application of the Malaysian Public Sector Accounting Standards (MPSASs). MPSASs are accrual basis accounting standards issued by Accountant General's Department of Malaysia which are drawn up primarily from the International Public Sector Accounting Standards(IPSASs) Issued by IFAC. The only divergences are when IPSASs contradict with local legislations, in that situation, local legislation shall prevail.

2. Accounting policies are the specific principles, bases, conventions, rules, and practices applied by an entity in preparing and presenting financial statements.

Accounting Policies

3. General

3.1 Components of Financial Statements

The components of Financial Statements shall consist of:

a. Statement of Financial Position
b. Statement of Financial Performance
c. Statement of Changes in Net Assets/Equity
d. Cash Flow Statement
e. Statement of Budget Performance and
f. Notes to the accounts

3.2 Accounting Entity

The accounting entities for the Federal Government to which this policy applies shall consist of:

a. All Federal Ministries and
b. All Federal Departments

3.3. Reporting Period

Reporting period for the Federal Government is the year ending 31 December.

3.4 Accounting Basis

The accounting basis shall be Accrual Basis of Accounting and on historical cost convention unless specified otherwise.

3.5 Going Concern Assumption

It is based on the assumption that the entity will continue in operations and able to meet its statutory obligations for the foreseeable future.

3.6 Application of Materiality

An item is material if it's omission from, or misstatement in, the financial statements could influence a user's judgments made on the basis of the statements. Materiality depends on the nature or size of the item, or a combination of both.

3.7 Consistence of Presentation

The presentation and classification of items in the financial statements shall be retained from one period to the next unless:

(a) It is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in MPSAS 3; or

(b) An MPSAS requires a change in presentation.

3.8 Comparative Information.

Comparative information shall be disclosed in respect of the previous period for all amounts reported in the financial statements. Comparative information shall be included for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.

3.9 Current/Non-current Distinction

An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its statement of financial position. For each asset and liability line item that combines amounts expected to be recovered or settled:

(a) no more than twelve months after the reporting date, and
(b) more than twelve months after the reporting date

4. Consolidated Fund

The concept of Consolidated Fund will be maintained under the accrual basis of accounting but the three accounts under the Consolidated Fund will be treated as follow:

a. Consolidated Revenue Account shall be closed and the balance as at the date of implementation shall be transferred to the Accumulated Surplus/Deficit in the Statement of Net Assets/Equity.

b. Consolidated Loan Account shall be closed and the balance as at the date of implementation shall be transferred to the Accumulated Surplus/Deficit in the Statement of Net Assets/Equity.

c. All balances of government trust accounts shall be shown as trust reserves and as a single line item in the Statement of Financial Position under Net Assets/Equity. Balances of public trust accounts and deposits shall be shown as liabilities and as a single line item in statement of financial position.

5. Assets

Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity

An item is recognized as an asset in an entity's financial statements if:

(a) the asset meets the definition of an asset and
(b) the amount can be measured reliably

5.1 Cash and Cash Equivalents

Cash and cash equivalents consists of Cash at Bank, Current Account (including 3/12 Imprest) and Deposits (not exceeding three months), Cash in Hand (Petty cash) and Cash in Transit.

5.2 Recoverable From Taxes and Transfers

Recoverable from taxes and transfer and the corresponding taxation revenue are recognized at the time the debt to the Government arises.

It shall be initially measured at transaction amount (fair value of the consideration) and subsequently at amortized cost (i.e. the amount measured at initial recognition, minus principal repayments received, minus/plus cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility).

Estimate of tax receivable based on prior year experience is to be made and accrued at the end of financial year.

5.3 Receivables

Receivables shall be recognized when goods are transferred, services are rendered and when the invoices are raised.

Trade Receivables shall be measured at transaction amount (fair value of the consideration) initially and subsequently at amortized cost and minus any provision for doubtful debts.

5.4 Inventories

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.

Inventory shall be measured initially at cost or, if acquired through a non-exchange transaction, at fair value as at date of acquisition.

Inventories are subsequently recorded at the lower of cost and net realizable value. For Inventories held for distribution for public benefit (held for distribution at no charge or for nominal charge e.g. medical supplies at public hospitals) are recorded at the lower of cost and current replacement cost.

Cost of inventories, comprising all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition are calculated using Weighted Average method, First In First Out (FIFO), First Expired First Out (FEFO) or other suitable method.

When inventories are sold, exchange or distributed, the amounts are recognize as an expense in the period in which the related revenue is recognized.

Amounts written-down to the net realizable value or current replacement cost are to be expensed in the period where the write-down is made.

5.5 Prepayments

Prepayments shall be recognized as current asset at transacted cost. Subsequently, no requirement for re-measurement but the amount is transferred to expenses or other class of asset, where appropriate, when the related goods or services have been received.

5.6 Other financial assets

Other Financial assets consist of Financial Assets At fair value through surplus or deficit (held for trading), Loans and receivables, Held-to maturity Investment and available for sale financial assets;

a. **Financial Assets at fair value through surplus or deficit (FVTSD)** (held for trading) shall be initially measured at fair value and subsequently measured at fair value with changes in fair value recognized in surplus or deficit.

b. **Loans and receivables (LAR)** shall be initially measured at fair value plus transaction cost and subsequently measured at amortized cost less impairment losses.

c. **Held to maturity investment (HTM)** shall be initially measured at fair value plus transaction cost and subsequently measured at amortized cost less impairment losses.

d. **Available for sale financial assets (AFS)** shall be initially measured at fair value plus transaction cost and subsequently measured as follow:

   i. Fair value; or
   ii. Cost less impairment (only for investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured
   iii. Recognized all cumulative changes in fair value in a separate component of net assets/equity until subsequent derecognition or impairment, when the entity shall transfer that cumulative gain or loss to surplus or deficit. Such impairment losses shall not be reversed through surplus or deficit.

5.7 Investment in Controlled Entities

Reporting Entity for Federal Government only consists of Federal Government ministries and departments, therefore Investment in controlled entities would be initially accounted as investment at cost, using equity method or as a financial asset and subsequently carried at cost or as a financial asset, and assessed for impairment where there is evidence of impairment.

5.8 Investment in Jointly Controlled Entities

Reporting Entity for Federal Government only consists of Federal Government ministries and departments, therefore Investment in Jointly_controlled entities would be initially accounted as investment at cost, using equity method or as a financial asset and subsequently carried at cost, using equity method or as a financial asset, and assessed for impairment where there is evidence of impairment.

5.9 Investment in Associate

Reporting Entity for Federal Government only consists of Federal Government ministries and departments, therefore Investment in controlled entities would be initially accounted as investment at cost, using equity method or as a financial asset and subsequently carried at cost, using equity method or as a financial asset, and assessed for impairment where there is evidence of impairment.

5.10 Property, Plant and Equipment and Investment Property

a. **Property, Plant and Equipment (PPE)**

Property, plant, and equipment are tangible items that:

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

PPE shall be initially recognized as an asset at cost if, and only if:

i. it is probable that future economic benefits or service potential associated with the item will flow to the entity; and
ii. the cost or fair value of the item can be measured reliably.

Asset acquired through a non-exchange transaction shall be measured at its fair value at date of acquisition.

Military assets shall be disclosed as a single line item in the notes to the accounts.

Proposed capitalization threshold for PPE is RM2,000 per item subject to review from time to time. Asset below RM2,000 or low value assets shall be expensed off but recorded in the assets register for record and control purpose.

Replacement cost for part of an asset that increases the economic benefits, service potential and life span of an asset shall be is capitalized with a corresponding derecognition of the parts that are replaced.

Repair and maintenance expenses shall not be capitalized.

Subsequently, PPE shall be measured using Cost model or Revaluation model:

i. **Cost Model**

Carried at cost, less accumulated depreciation and any accumulated impairment losses.

ii. **Revaluation Model**

Carried at revalued amount, being the fair value at the date of the revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation is to be credited directly to revaluation surplus or expensed in surplus or deficit.

b. **Investment Properties**

Investment Properties (IP) shall be initially recognized as an asset at cost when and only when:

i. it is probable that future economic benefits or service potential associated with the investment property will flow to the entity; and
ii. the cost or fair value of the item can be measured reliably.

Where an IP is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.

IP shall be subsequently measured using Fair Value Model or Cost model:

i. **Fair Value Model**

Measure at fair value unless the fair value is not reliably determinable on a continuous basis.

Gain or loss arising from the change in the fair value is recognized in the surplus or deficit for the period in which it arises.

A property interest held by lessee under an operating lease may be classified and accounted for as IP if it meets the definition of IP and the use of fair value model is mandatory.

ii. **Cost Model**

Measure at cost less accumulated depreciation and accumulated impairment losses.

Depreciation

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

Impairment

Where an asset's recoverable amount is less than its carrying amount, it is reported at its recoverable amount and an impairment loss is recognized. The main reason for holding some assets is to generate cash. For these assets the recoverable amount is the higher of the amount that could be recovered by sale (after deducting the costs of sale) or the amount that will be generated by using the asset through its useful life. Some assets do not generate cash and for those assets, if the recoverable service amount is less than its carrying amount, the assets shall be reported at its recoverable service amount. Losses resulting from impairment are reported in the statement of financial performance, unless the asset is carried at a revalued amount in which case any impairment loss is treated as a revaluation decrease.

Disposal

Gains or losses arising from disposal of PPE and IP are recognized in the statement of financial performance in the period in which the transaction occurs. Any balance attributable to the disposed asset in the asset revaluation reserve is transferred to accumulated surpluses or deficits.

5.11 Agriculture (Biological assets and Agriculture Produce)

Biological asset or agricultural produce shall be recognized when and only when:

a. The entity controls the asset as a result of past events;
b. It is probable that future economic benefits or service potential associated with the asset will flow to the entity; and
c. The fair value or cost of the asset can be measured reliably.

Biological asset shall be initially measured_at fair value less costs to sell. If fair value cannot be measured reliably, measured at cost. Subsequently it shall be measured at fair value less costs to sell. If cost was used at initial recognition, and fair value still cannot be measured reliably, it shall be measured at cost less any accumulated depreciation and any accumulated impairment losses.

Agricultural produce shall be initially measured at fair value less costs to sell, at the point of harvest. It shall be accounted for as inventories.

5.12 Intangible Assets

An intangible asset is an identifiable non-monetary asset without physical substance. It shall be initially recognized as an asset if:

a. it meets the definition of an intangible asset;
b. it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and
c. cost or fair value of the asset can be measured reliably.

Intangible Assets shall be measured initially at:

a. cost of an intangible asset in an exchange transaction,
b. cost to internally generate an intangible asset, or
c. fair value of an intangible asset acquired through a non-exchange transaction.

Subsequently intangible assets are measured as follow:

a. Intangible assets with finite useful lives
   i. Cost model (cost less amortization and impairment); or
   ii. Revaluation model
b. Intangible assets with indefinite useful lives
   Shall not be amortized, but is required to test for impairment annually and whenever there is an indication that the intangible asset may be impaired.

License fee for software

License fee for software shall be capitalized as intangible asset and yearly maintenance fee shall be expensed off. Enhancement (upgrade) of the system shall be capitalized.

6. Liabilities

Liability is defined as the “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.”

An item is recognized as a liability in an entity’s financial statements if:

(a) The obligation meets the definition of a liability and
(b) the amount at which the settlement will take place can be measured reliably.

6.1 Payable under exchange transactions

Payables/accruals shall be recognized when goods or services are received or enjoyed.

For goods or services received or enjoyed without issuing Purchase Order, payable or accrual shall be recognized when invoices are received.

Trade Payables / Accruals shall be measured at transacted amount (fair value of the consideration) initially and subsequently at amortized cost.

6.2 Taxes Payable

Taxes Payables/accruals shall be recognized when refunds are due to the taxpayer as a result of assessments being filed.

Taxes Payables/accruals shall be measured at transacted amount (fair value of the consideration) initially and subsequently at amortized cost.

6.3 Grants and Fixed Charges (Promissory notes issued to international organizations)

The above charges shall be recognized as a financial liability when obligation to pay exists.

6.4 Grants and Fixed Charges (Domestic Grants and others)

The above charges shall be recognized as a financial liability when obligation to pay exists.

6.5 Provision

Provision shall be recognized if, taking account of all available evidence, it is more likely than not that a present obligation exists at the reporting date.

Provision shall be measured based on the best estimate of the expenditure required to settle the present obligation at the reporting date.

6.6 Borrowing

Borrowing shall be recognized as financial liabilities at transacted costs and subsequently measured at amortized cost.
Transaction costs that are directly attributable to the financial liability are deducted from the proceeds of the loan. Such transaction cost is charged to expense and corresponding amount is added to the financial liability.

Repayment of borrowing shall be recognized as a reduction in the carrying amount of the borrowings at the transacted cost.

6.7 Pension Plan and Gratuity

Pension and gratuity shall be recognized in the period when the employee services are received and measured based on the future obligations of the plan based on actuarial valuation which includes the recognition of service cost, interest cost, actuarial gains or losses, expected return on any plan assets and reimbursement right recognized as an asset.

The amount recognized as liabilities shall be a net total of the present value of the defined benefit obligation at the reporting date, minus the fair value at the reporting date of plan assets out of which the obligations are to be settled directly.

Contribution from the Federal Government and reimbursements made by the State Governments and Statutory Bodies for seconded staff, Local Authorities into the defined benefit plan are to be recognized as plan assets.

7. Revenue

Revenue is defined as "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."

An inflow of resources from exchange and non-exchange transaction, other than services in-kind, that meets the definition of an asset shall be recognized as revenue when, and only when:

a. It is probable that the future economic benefits or service potential associated with the asset will flow to the entity; and

b. The fair value of the asset can be measured reliably.

7.1 Tax Revenue

a. Income Tax

Tax revenues are to be recognized by reference to the earning of assessable income by the taxpayers and hence, the requirement takes into account appropriate cut-off, which would also result in the recognition of tax receivable/refundable.

Income Tax Deductions received through Pay as You Earn shall be recognized as revenue at the point of received.

Other Direct Taxes including quit rent assessment

Tax revenues are to be recognized by reference to the occurrence of taxable event and hence, the requirement takes into account appropriate cut-off, which would also result in the recognition of tax receivable/refundable.

c. **Customs Duties – Export and Import, Excise Duties on Imported Goods, Levy**

Custom duties on import and export and excise duties on imported goods are to be recognized as revenue upon movement of dutiable goods across custom boundaries and custom controlled warehouses.

Levy for agriculture produce shall be recognized as revenue upon declaration.

Levy for goods vehicle leaving and entering Malaysia shall be recognized as revenue as and when the levy was imposed and received.

d. **Sales Tax on Locally Manufactured Goods and Imported Goods, Goods and Services Tax, Service Tax, Excise Duties**

Sales Tax on Locally Manufactured Goods and Imported Goods, Goods and Services Tax, and Service Tax shall be recognized as revenue upon sale of goods and services (i.e. at point of sale to end user)

Excise Duties on the general goods shall be recognized as revenue when the goods leave the factory. However for the vehicles produced locally, excise duty will only be recognized as revenue when the vehicles are sold and not when the vehicles leave the factory. However Excise Duty shall be accrued as receivable at the end of the fourth year after the vehicles left the factory although still not sold.

e. **Miscellaneous Indirect Taxes**

The following Indirect Taxes shall be recognized as revenue upon the occurrence of relevant taxable event:

i. Value-added tax is the undertaking of taxable activity during the taxation period by the taxpayer;
ii. Death duty is the duty imposed upon the death of a person owning taxable property; and
iii. Property tax is imposed upon the disposal of a property.

7.2 Non-Tax Revenue

a. Licenses, Registration Fees and Permit

Revenue shall be recognized when licenses and permits are issued (usually no gap between issuance of permit and license and timing of payment).

b. Service and Services Fees

Revenue shall be recognized by reference to the stage of completion of the transaction at the reporting date when ALL of the following conditions are satisfied:

i. The amount of revenue can be measured reliably
ii. It is probable that the economic benefits or service potential associated with the transaction will flow to the entity
iii. The stage of completion of the transaction at the reporting date can be measured reliably
iv. The cost incurred for the transaction and the costs to complete the transaction can be measured reliably

Revenue shall be measured at the fair value of the consideration received or receivable.

c. Sales of Goods

Revenue shall be recognized when all the following conditions have been satisfied:

i. The entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
ii. The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
iii. The amount of revenue can be measured reliably;
iv. It is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and
v. The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue shall be measured at the fair value of the consideration received or receivable.

The amount of the cost of goods sold must be expensed to the surplus/deficit simultaneously with the recognition of revenue.

d. Rentals

Rental earned shall be recognized as revenue on straight line basis over the lease term.

e. **Interest**

Revenue shall be recognized on a time proportion basis that takes into account the effective yield of the asset.

Revenue shall be measured at the fair value of the consideration received or receivable.

f. **Dividend**

Revenue shall be recognized when the shareholder's or the entity's right to receive payment is established.

Revenue shall be measured at the fair value of the consideration received or receivable.

g. **Fines and Penalties**

Revenue shall be recognized when the fine/penalty is being imposed.

Revenue shall be measured at the fair value of the consideration received or receivable, taking into consideration the expected timing of settlement, where there is a separation between the event and collection.

h. **Contributions and Compensation from Foreign Countries and Local Contributors**

Revenue shall be recognized when it is probable that the future economic benefits or service potential will flow to the entity and the fair value can be measured reliably, e.g. when the amount is pledged, memorandum of understanding.

i. **Services In-kind**

An entity may, but is not required to, recognize services in-kind as revenue and as an asset.

j. **Exploration of Oil and Gas**

Revenue from Exploration of Oil and Gas shall be recognized as they are earned/accrued in accordance with the substance of the relevant agreement unless, having regard to the substance of the agreement, it is more appropriate to recognize revenue on some other systematic and rational basis.

7.3 **Miscellaneous Receipts**

a. **Refunds of Expenditure**

Refund of expenditure for previous year shall be recognized as revenue at transacted cost.

Refunds of expenditure for current year shall be recognized as a reversal to the relevant expense or asset account at transacted cost.

b. Receipts from Government Agencies

If revenue and cost recorded are inter-departmental transactions, it should be eliminated.

7.4 Revenue from Federal Territories

Tax Revenue-Land Assessment

Tax revenue shall be recognized upon passing the annual levy date and hence, the requirement may result in the recognition of tax receivable and measured at transacted cost.

8. Expenses

Expenses are defined as "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."

8.1 Emoluments (Salaries and Wages, Allowance / Fixed Benefits, Statutory Contribution for Employees, Overtime, Other Financial Benefits, Special Allowances)

Salaries and Wages, Allowance / Fixed Benefits, Statutory Contribution for Employees shall be recognized in the period when the employee services are received and measured at transacted cost.

For expenses not paid during the period where employee services are received, shall be accrued as appropriate.

8.2 Supplies and Services (Travelling and Cost of Living Expenses, Transportation of Goods, Communications and Utilities, Food and Beverage, Supplies and Others, Maintenance, Professional and Other Services and Hospitality, Payments for Temporary Staff)

The above supplies and services shall be recognized as expenses in the period when the goods/services are consumed. Such expenses, if not paid during the period where goods/services are consumed, shall be accrued as appropriate.

8.3 Supplies and Services (Rental Expense)

Rental shall be recognized as expenses on straight line basis over the lease term, such expenses, if not paid during the period where goods/services are consumed, shall be accrued as appropriate.

8.4 Supplies and Services (Raw Materials and Spares)

Raw Materials and Spares shall be expensed off or capitalized as inventory depending on the purpose of the usage of such supplies.

8.5 Grants and Fixed Charges (Scholarships, Sponsorship and Educational Aids)

a. **Where the assistance constitutes a loan**

The above charges shall be initially recognized as Loan Receivables at fair value plus transaction cost and subsequently recognized at amortized cost

b. **Where the assistance is not a loan**

The above charges shall be recognized as expenses at transacted cost when the obligation to pay is established.

8.6 Grants and Fixed Charges (Subscription paid to international organizations)

The above charges shall be expense off at transacted cost.

8.7 Grants and Fixed Charges (Insurance Claim and Compensation)

The above shall be recognized as provision when:

a. an entity has a present obligation (legal or constructive) as a result of a past event;
b. it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
c. a reliable estimate can be made of the amount of the obligation.

Insurance claim and compensation shall be measured based on the best estimate of the expenditure required to settle the present obligation at the reporting date.

8.8 Interest, Dividends and Debt Charges (Interest on Borrowings)

a. **Benchmark Treatment**

Borrowing costs shall be recognized as an expense in the period in which they incurred.

b. **Allowed Alternative Treatment**

Borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset shall be capitalized as part of the cost of that asset. Capitalization of borrowing costs shall cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

Borrowing costs shall be calculated based on effective interest method.

8.9 Transaction Cost on Drawdown of Borrowings

Transaction costs that are directly attributable to the financial liability are deducted from the proceeds of the loan. Such transaction cost is charged to expense and corresponding amount is added to the financial liability.

8.10 Other Service Cost on Borrowings

Borrowing costs shall be recognized as an expense in the period in which they incurred, Such expenses, if not paid during the period where the obligation arose, should be accrued as appropriate.

8.11 Other Expenditure (Refund of Tax)

The above shall be recognized as a reversal to an appropriate revenue account and shall be measured at transacted cost.

8.12 Other Expenditure (Write-offs of Loans Receivable)

Where the loans receivable are not concessionary loans, write-offs of loan receivable shall be recognized as expenses when the loans and receivables are impaired.

Where the loans receivable are concessionary loans, the difference between the fair value of the loan and the transaction price (loan proceeds) is treated as an expense at initial recognition. Write-offs of Loans Receivable shall be recognized as expenses when the loans and receivables are impaired.

8.13 Other Expenditure (Write-offs of Taxes {e.g. land assessment for Government-occupied land})

The above shall be recognized as expenses when it is more likely than not that the amount will be uncollectable and the amount can be measured reliably.

9. Consolidated Fund

9.1 Consolidated Revenue Account

Consolidated Revenue Account shall be closed. Balance in the Consolidated Revenue Account as at the date of implementation of accrual accounting shall be transferred to the Accumulated Surplus/Deficit in the Statement of Financial Position under Net Assets/Equity.

9.2 Consolidated Loan Account

Consolidated Loan Account shall be closed and the balance as at the date of implementation of accrual accounting shall be transferred to the Accumulated Surplus/Deficit in the Statement of Financial Position under Net Assets/Equity.

Borrowings shall be recognized as financial liabilities at transacted costs and subsequently measured at amortized cost. The amounts are presented in the Statement of Financial Position as liabilities, and the carrying amounts represent the total loan obligations as at period end.

9.3 Consolidated Trust Account

Accounting for government trust accounts, public trust accounts and deposits are as follows:

a. Government Trust Account

All payment and receipt transactions shall be accounted for by applying accrual basis of accounting.

The balances of government trust accounts shall be aggregated and reported as trust reserves and as a single line item in the Statement of Financial Position under Net Assets/Equity.

Asset purchase including investment shall be debited as asset for the trust account and not debited to the trust account.

Liability incurred shall be credited as liability for the trust account and not credited to trust account.

Expense incurred shall be debited as expense for the trust account.

Revenue collected shall be credited as revenue for the trust account and not to revenue account.

Depreciation for trust fund's asset shall be debited as an expense for the trust account.

Assets and liabilities including cash belonging to trust account shall be clearly identified by trust account (Fund).

Statement of Financial Performance and Financial Position shall be prepared for each of the trust accounts.

All revenues, expenses, assets and liabilities of the government trust accounts shall be consolidated with revenues, expenses, assets and liabilities of the General Fund for the preparation of Federal Government Financial Statements.

i. Development Fund

The balance in the Development Fund shall be aggregated with other government trust accounts and reported as trust reserves and as a single line item in the Statement of Financial Position under Net Assets/Equity. Accounting for Development Fund's transactions shall be accounted for in line with paragraph 9.3.(a). A Statement of Financial Performance and Financial Position shall be prepared for the Development Fund.

ii. **Housing Loan Fund**

The balance of Housing Loan Fund shall be aggregated with other government trust accounts and reported as trust reserves and as a single line item in the Statement of Financial Position under Net Assets/Equity. Accounting for Housing Loan Fund's transactions shall be accounted for in line with paragraph 9.3.(a). A Statement of Financial Performance and Financial Position shall be prepared for the Housing Loan Fund.

iii. **Inter-Administration Account, Payroll Deduction Account**

These are receivables and payables at subsidiary ledger level which shall be zerorised at reporting date. If not zerorised, the balance at reporting date shall be accounted for as receivables and payables at transacted amount and reported in the Statement of Financial Position.

iv. **Gains and Loss on Currency Conversion Account**

These are gains and losses arising from currency conversion that are credited or charged to the "Gains and Loss on Currency Conversion Account" respectively. The balance in this account shall be zerorised to expense account or credited to revenue respectively at the end of the financial year.

v. **Trade Account - Unallocated Store**

These are goods/services provided between departments within the same reporting entity and hence, expenses shall be recognized based on the actual amount transacted with external parties. Inter-department profits shall be eliminated.

vi. **Loan Fund / Conveyance Loan Fund (except BSN)**

The balance of Loan Fund/Conveyance Loan Fund shall be aggregated with other government trust accounts and reported as trust reserves and as a single line item in the Statement of Net Assets/Equity. Accounting for Loan Fund's/Conveyance Loan Fund's transactions shall be accounted for in line with paragraph 9.3.(a). A Statement of Financial Performance and Financial Position shall be prepared for the Loan Fund/Conveyance Loan Fund.

vii. **Conveyance loan (BSN)**

Amount borrowed from BSN and amount disbursed to civil servants as shall not be recognized in the Statement of Financial Position. However the difference between interest income collected from borrowers and interest expenses incurred shall be treated as short-term employee benefits and charged as expense.

viii. **Contingencies Fund**

If it is more likely than not that a present obligation exists, it shall be recognized as a provision and measured based on the best estimate of the expenditure required to settle the present obligation at the reporting date.

If existence of a present obligation is unlikely,

- No recognition of liability is required
- The amounts set aside in this account should be aggregated with other government trust accounts and reported as trust reserves and as a single line item in the Statement of Financial Position under Net Assets/Equity. Accounting for Contingency Fund's transactions shall be accounted for in line paragraph 9.3.(a). A Statement of Financial Performance and Financial Position shall be prepared for the Contingency Fund.
- If there is a contingent liability, disclose the contingent liability

b. **Public Trust Account**

All payment and receipt transactions shall be accounted for by applying accrual basis of accounting.

The balances of public trust accounts shall be aggregated and reported as liabilities and as a single line item in the Statement of Financial Position.

Financial asset purchased including investment shall be debited as asset for the trust account and not debited to the trust account. Non-Financial asset purchased shall be expensed off and debited to the trust account

Financial Liability incurred shall be credited as liability for the trust account and not credited to trust account.

Expense incurred shall be debited as expense for the trust account.

Revenue collected shall be credited as revenue for the trust account and not to revenue account.

Financial Assets and financial liabilities including cash belonging to trust account shall be clearly identified by trust account (Fund).

Statement of Financial Performance and Financial Position shall be prepared for each of the trust accounts.

All revenues, expenses, non-financial assets and non-financial liabilities of the public trust accounts shall not be consolidated with the revenues, expenses, non-financial assets and non-financial liabilities of the General Fund. Only financial assets and financial liabilities of the public trust accounts shall be consolidated with the assets and liabilities of the General Fund for the preparation of Federal Government Financial Statements.

i. **Private Finance Initiative (PFI)**

Where PFI is a lessor and the Government leases the infrastructure under a finance lease

The above shall be recognized as leased asset and finance lease liability

<u>Leased asset</u>

Initial Recognition
The infrastructure shall be capitalized as property, plant and equipment at amounts equal to the fair value of the infrastructure or, if lower, the present value of the minimum lease payments determined at inception of the lease.

Subsequent recognition
Infrastructure is to be depreciated on a systematic basis over its useful lives.

<u>Finance lease liability</u>

Initial Recognition
The associated lease obligations to be recognized as finance lease payables at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments determined at inception of the lease.

Subsequent recognition
Finance lease liabilities shall be reduced based on the allocation to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

ii. **Build-Lease-Transfer /Build-Lease-Manage-Transfer**

The above shall be recognized as leased asset and finance lease liability.

<u>Leased asset</u>

Initial Recognition
The infrastructure shall be capitalized as property, plant and equipment at amounts equal to the fair value of the infrastructure or, if lower, the present value of the minimum lease payments determined at inception of the lease.

Subsequent recognition
Infrastructure is to be depreciated on a systematic basis over its useful lives.

Finance lease liability

Initial Recognition
The associated lease obligations to be recognized as finance lease payables at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments determined at inception of the lease.

Subsequent recognition
Finance lease liabilities shall be reduced based on the allocation to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Management services
If the arrangement includes the provision of management services, recognized as expense in the period when the services are consumed.

iii. **Built-Operate-Transfer / Rehabilitate-Operate-Transfer**

The above shall be recognized as service concession asset and liability.

Service Concession Asset

Initial Recognition
Service concession asset shall be initially capitalized as property, plant and equipment and measured at its fair value.

Subsequent Recognition
Service concession asset shall be accounted for as a separate class of asset and is to be depreciated on a systematic basis over its useful lives.

Liability

Initial Recognition
Where a service concession asset is recognized, a liability shall also be recognized. The liability recognized shall be initially measured at the same amount as the service concession asset (at its fair value), adjusted by the amount of other consideration (e.g. cash from the grantor to the operator, or from the operator to the grantor.)

Subsequent Recognition

Financial Liability Model
Financial liability shall be recognized and payments to the operator shall be accounted for according to their substance of the service concession arrangement as a reduction in the liability, a finance charge and charges for services provided by the operator. The

finance charge and charges for services provided by the operator shall be accounted as expenses.

Grant of Right to the Operator Model
Unearned revenue shall be recognized. Revenue and reduction of the liability shall be recognized according to the economic substance of the service concession arrangement.

Compensation to operators (e.g. non-adjustment of toll rate)
Recognized as a provision based on the best estimate of the expenditure required to settle the present obligation at the reporting date and measured based on the best estimate of the expenditure required to settle the present obligation at the reporting date.

iv. **Government Stores Insurance Fund {*Kumpulan Wang Insurans Barang-barang Kerajaan*}**

As long as the Trust Deed for Government Stores Insurance Fund is in force, no change in accounting policy is required because accounting standards cannot supersede law and regulation that are in force. The amount set aside through 0.5% of the value of imported goods is to be charged as operating expenditure and Government Stores Insurance Fund reported as under the category of Public Trust Fund.

c. **Deposits**

All payment and receipt transactions shall be accounted for by applying accrual basis of accounting.

The balances of deposits shall be aggregated and reported as liabilities and as a single line item in the Statement of Financial Position.

i. **Deposits (General {including unclaimed monies})**
The above shall be recognized as Financial Liability at fair value.

ii. **Deposits (Adjustment {Payment to Commerce Dot Com, Cancellation of cheques/EFT}).**
The above shall be recognized as liabilities until the amounts are settled.

iii. **Deposits (Adjustment {Unidentified receipts}).**
The above shall be recognized as a liability until the amount is adjusted upon approval of trust deeds or the nature of receipts are identified which then will be credited to respective revenue/expense/trust account.

10. Others

10.1 Leases

a. **Finance Lease - Government as lessee**

The above shall be recognized as Leased Asset and Finance Lease Payable as follow:

<u>Leased asset</u>

Initial Recognition
Assets acquired under finance leases shall be capitalized at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments determined at inception of the lease.

Subsequent Measurement
Leased assets are to be depreciated using policies consistent with that for depreciable assets that are owned.
<u>Finance lease payable</u>

Initial Recognition
The associated lease obligations to be recognized as finance lease payables at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments determined at inception of the lease.

Subsequent Measurement
Finance lease liabilities shall be reduced based on the allocation to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

b. **Operating Leased - Government as lessor Lease Revenue**

The above shall be recognized as revenue on straight line basis over the lease term.

Initial direct costs incurred by lessors in negotiating and arranging an operating lease shall be added to the carrying amount of the leased asset, and recognized as an expense over the lease term on the same basis as the lease revenue.

c. **Operating Leased - Government as lessee**

Rental Expense
The above shall be recognized as expenses on straight line basis over the lease term, such expenses, if not paid during the period where goods/services are consumed, shall be accrued as appropriate.

10.2 Impairment of non-financial assets

a. **Cash-generating assets**

Impairment of assets shall be assessed if there is evidence of impairment. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. The impairment loss shall be recognized as expense.

Depreciation/amortization charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less residual value, on a systematic basis over the remaining useful life.

b. **Non-cash-generating assets**

Impairment of assets shall be assessed if there is evidence of impairment. If, and only if, the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable service amount. The impairment loss shall be recognized as expense.

Depreciation/amortization charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less residual value, on a systematic basis over the remaining useful life.

10.3 Impairment of financial assets

a. **Financial assets carried at amortized cost (held to maturity / loans and receivables)**

Impairment of financial assets shall be assessed if there is evidence of impairment. Amount of loss is measured as the difference between the carrying value and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss shall be charged as expense.

b. **Financial assets carried at cost (unquoted equity instrument not carried at fair value and derivative asset that is linked to and must be settled by delivery by such unquoted instrument)**

Impairment of financial assets shall assessed if there is evidence of impairment. Amount of loss is measured as the difference between the carrying value and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Amount of loss shall be charged as expense.

Such impairment losses shall not be reversed.

10.4 Foreign currency translation

Initial Recognition

For transactions, monetary items, 'non-monetary items measured at historical cost' and 'non-monetary items measured at fair value'

a. Apply the spot exchange rate at the date of transaction.
b. For practical reasons, AGD rate that approximates the actual rate, might be used for all transactions occurring during that period.

For foreign operations,

a. Assets and liabilities shall be translated at the closing rate
b. Revenue and expenses translated at AGD rates at date of transactions
c. Remittance to 3/12 Imprest Holder recorded at spot rate
d. Resulting exchange differences shall be recognized in foreign exchange gain and loss account.

Monetary items shall be subsequently translated using the closing rate.

Non-monetary items measured at historical cost shall be subsequently translated using the rate at the date of transaction.

Non-monetary items measured at fair value shall be subsequently translated using the rate at the date when the fair value was determined.

10.5 Related party disclosures

Related party relationships where control exists shall be disclosed, irrespective of whether there have been transactions between the related parties.

10.6 Events after reporting date

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 events can be identified:

(a) Those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
(b) Those are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

For adjusting events after the reporting date, the amounts recognized in the financial statements shall be adjusted to reflect adjusting events after the reporting date.

For non-adjusting events after the reporting date, such amounts shall not be adjusted. However, the nature and estimates of financial effects of material non-adjusting events (i.e. those which could influence the economic decisions of the users) shall be disclosed.

10.7 **Comparison with budget**

The entity shall present a comparison of the budget amounts and actual amounts for operating expenditure, development expenditure and revenue, either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with MPSASs.

Comparison of budget and actual amounts shall be presented on a comparable basis to the budget. Where the financial statements and the budget are not prepared on a comparable basis, the budgeted total revenues, total expenses, and net cash flows from operating activities, investing activities and financing activities shall be reconciled to the actual amounts presented in the financial statements.

10.8 **Segment reporting**

The entity shall disclose segment information in the note to the financial statement.

10.9 **Contingent liabilities (e.g litigations)**

No recognition of liability is required, but contingent liability is to be disclosed in the financial statements.

10.10 **Accounting policies, changes in accounting estimate, errors**

a. **Selection of accounting policies**

When MPSAS contradict with local legislations, local legislations shall prevail.

b. **Changes in accounting policies**

Accounting policy shall be changed only if the change is required by MPSAS or if it results in the financial statements providing reliable and more relevant information about the effects of transactions, other events, and conditions of the entity's financial position, financial performance, or cash flows. Changes shall be applied retrospectively unless otherwise required under the transitional provision upon first time adoption of specific MPSASs.

Changes in accounting policies shall be disclosed in the notes to the financial statements.

c. **Changes in accounting estimates**

Changes shall be recognized prospectively by including it in the surplus and deficit in the period of change (if the change affects the period only), or the period of change and future periods (if the change affects both).

d. **Errors**

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

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