

Jabatan Akauntan Negara Malaysia

Presentation on Road to MPSAS
To Statutory Bodies (*Badan Berkanun*)

25 May 2016



1. Presentation Objectives

2. Introduction to Malaysian Public Sector Accounting Standards (MPSAS) and Conceptual Framework of Accrual Accounting

3. Overall Understanding for the Preparation and Implementation of MPSAS

4. Preparation of Statutory Bodies Towards Implementation of MPSAS

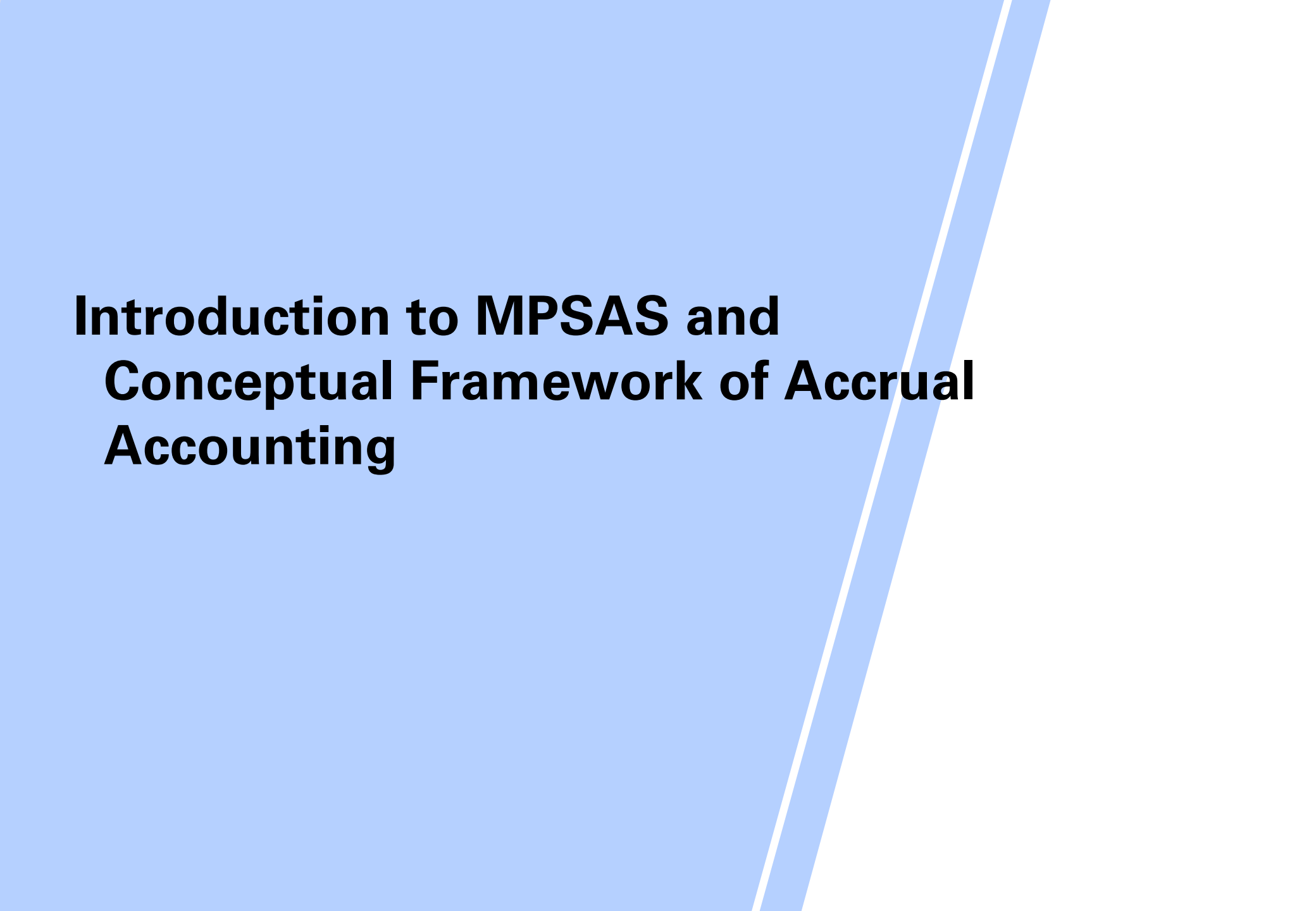
5. Q&A Session



1. Presentation Objectives

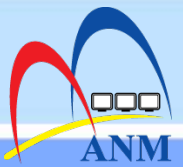


- To provide awareness on MPSAS and its application in Accrual Accounting.
- To provide an overall understanding on MPSAS in general for the preparation towards the implementation of MPSAS.
- To provide information with regards to source of reference as guidance for a more effective implementation of MPSAS.



Introduction to MPSAS and Conceptual Framework of Accrual Accounting

2. Introduction to MPSAS and Conceptual Framework of Accrual Accounting



Background of MPSAS Accounting Standard

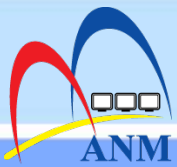
MPSAS is **the accounting standard** that has to be observed by the public sector accounting entities in Malaysia other than **Government Business Enterprises (GBE)**. (*Perusahaan Perniagaan Kerajaan*).

MPSAS is issued by the **Accountant General Department (AGD)** through the process of governance as set out in the Ministerial Functional Acts 1969 where one of the functions of the Accountant General is in determining policies, and to **control public accounting system** in accordance with the ***Akta Tatacara Kewangan 1957***.

MPSAS is formulated based on the **International Public Sector Accounting Standard (IPSAS)** which was issued by the International Federation of Accountants (IFAC).

MPSAS will take effect from **1 January 2017**, however earlier adoption is recommended.

2. Introduction to MPSAS and Conceptual Framework of Accrual Accounting



Scope of Implementation and Status of Adoption of MPSAS

2013

1. **MPSAS 1** - Presentation of Financial Statements
2. **MPSAS 2** - Cash Flow Statements
3. **MPSAS 3** - Accounting Policies, Changes in Accounting Estimates and Errors
4. **MPSAS 4** - The Effect of Changes in Foreign Exchange Rates
5. **MPSAS 9** - Revenue From Exchange Transactions
6. **MPSAS 12** - Inventories
7. **MPSAS 13** - Leases
8. **MPSAS 16** - Investment Property
9. **MPSAS 17** - Property, Plant and Equipment
10. **MPSAS 23** - Revenue From Non-Exchange Transactions (Taxes & Transfers)
11. **MPSAS 24** - Presentation of Budget Information in Financial Statements

2014

12. **MPSAS 14** - Events After The Reporting Date
13. **MPSAS 19** - Provisions, Contingent Liabilities and Contingent Assets
14. **MPSAS 21** - Impairment of Non-Cash-Generating Assets
15. **MPSAS 25** - Employee Benefits
16. **MPSAS 26** - Impairment of Cash-Generating Assets
17. **MPSAS 28** - Financial Instruments: Presentation
18. **MPSAS 31** - Intangible Assets

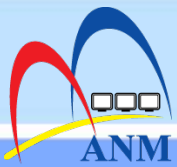
2015

19. **MPSAS 5** - Borrowing Costs
20. **MPSAS 6** - Consolidated and Separate Financial Statements
21. **MPSAS 7** - Investments in Associates
22. **MPSAS 8** - Interests in Joint Ventures
23. **MPSAS 11** - Construction Contracts
24. **MPSAS 20** - Related Party Disclosure
25. **MPSAS 22** - Disclosure of Financial Information
26. **MPSAS 27** - Agriculture
27. **MPSAS 29** - Financial Instruments : Recognition And Measurement

2016

28. **MPSAS 30** - Financial Instruments: Disclosure
29. **MPSAS 33** - First-Time Adoption of Accrual Basis MPSASs
30. **MPSAS 34** - Separate Financial Statements

2. Introduction to MPSAS and Conceptual Framework of Accrual Accounting

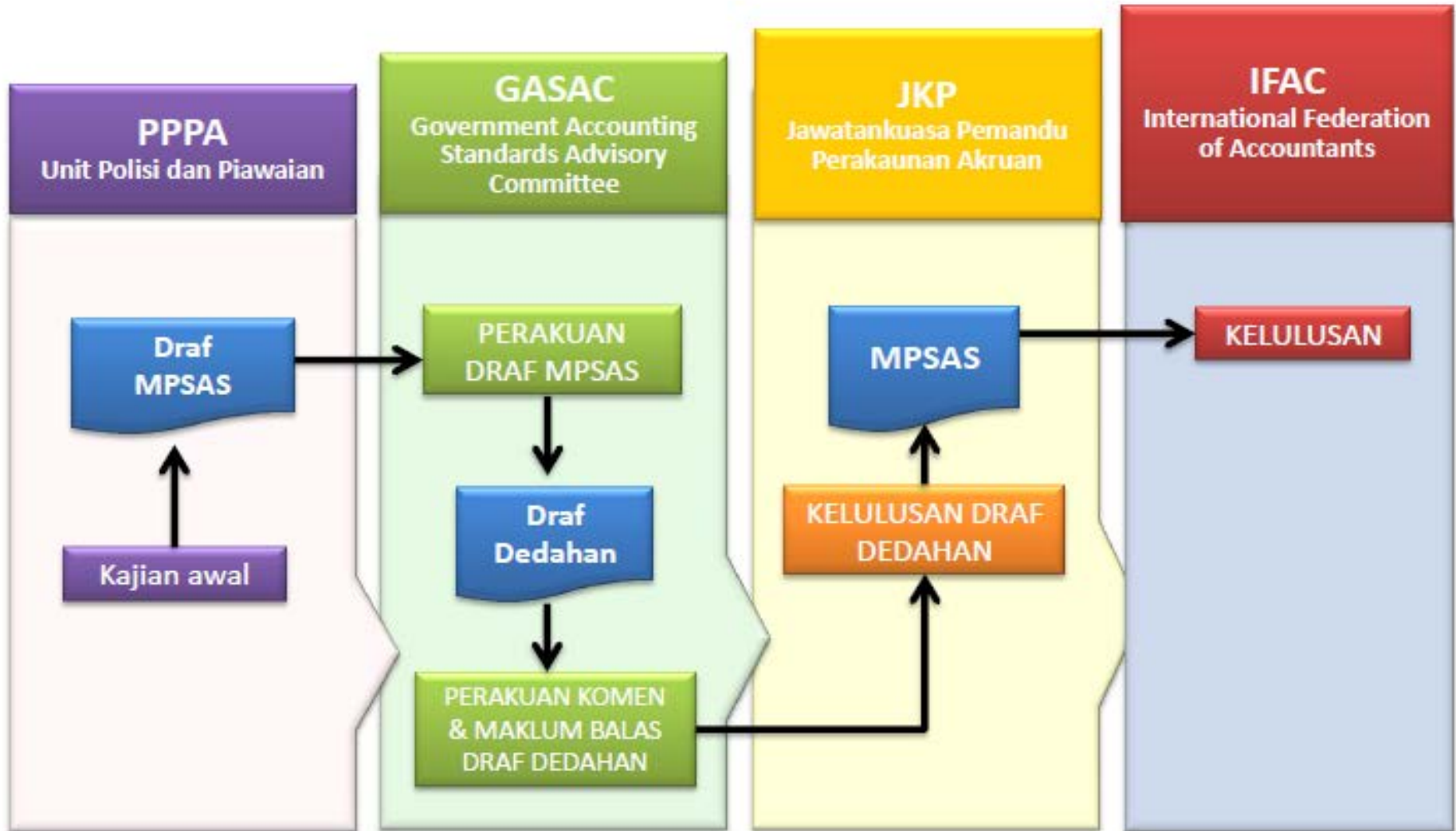
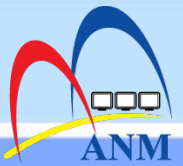


Governance Structure and Process of Drafting MPSAS

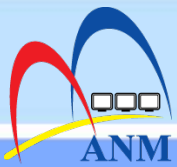


2. Introduction to MPSAS and Conceptual Framework of Accrual Accounting

Governance Structure and Process of Drafting MPSAS



2. Introduction to MPSAS and Conceptual Framework of Accrual Accounting



Basis of MPSAS and transition to Accrual Accounting

MPSAS as the basis for Accrual Accounting

- The AGD **develops and issues MPSASs** that are **drawn primarily from International Public Sector Accounting Standards (IPSASs)** published by International Federation of Accountants (IFAC) with the permission of IFAC. Thus MPSASs are converged with IPSASs. In undertaking that process, the AGD has to a very large extent, **maintained the accounting treatment and original text** of the IPSASs **unless there is a significant public sector issue and local legislation which warrant a departure**.

MPSAS in the transition from Cash basis to Accrual Accounting

- The AGD attempts to facilitate compliance with accrual based MPSASs through the use of **transitional provisions** in certain standards. Where transitional provisions exist, they may **allow an entity additional time** to meet the full requirements of a specific accrual based MPSAS or **provide relief** from certain requirements **when initially applying** an MPSAS.
- Having decided to adopt accrual accounting in accordance with MPSASs, the transitional provisions would govern the **length of time** available to make the **transition**. On the expiry of the transitional provisions, the entity reports in full accordance with all accrual based MPSASs.

FUNDAMENTAL QUALITATIVE CHARACTERISTICS

Relevance

- **Relevant** financial information is capable of **making a difference** in the **decisions** made by users.
- Financial information is capable of making a difference in decisions if it has **predictive value**, **confirmatory value** or both.
- Financial information has predictive value if it can be used as an input to processes employed by users to **predict future outcomes**. Financial information **need not be a prediction or forecast** to have predictive value. Financial information with predictive value is employed by **users in making their own predictions**.
- Financial information has confirmatory value if it **provides feedback** about (confirms or changes) previous evaluations.

Materiality

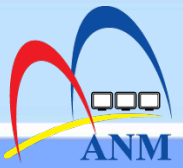
- Information is material if **omitting** it or **misstating** it could **influence decisions** that users make on the basis of financial information about a specific reporting entity.
- In other words, materiality is an **entity-specific** aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report.

Faithful Representation

- Financial information must **faithfully represent** the situation that it purports to represent.
- To be a perfectly faithful representation, a depiction would have **three characteristics**:
 - ✓ complete
 - ✓ neutral
 - ✓ free from error.

2. Introduction to MPSAS and Conceptual Framework of Accrual Accounting

Basic Information and MPSAS for Preparation of Accrual Financial Statements



ENHANCING QUALITATIVE CHARACTERISTICS

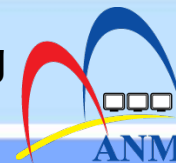
Comparability

Verifiability

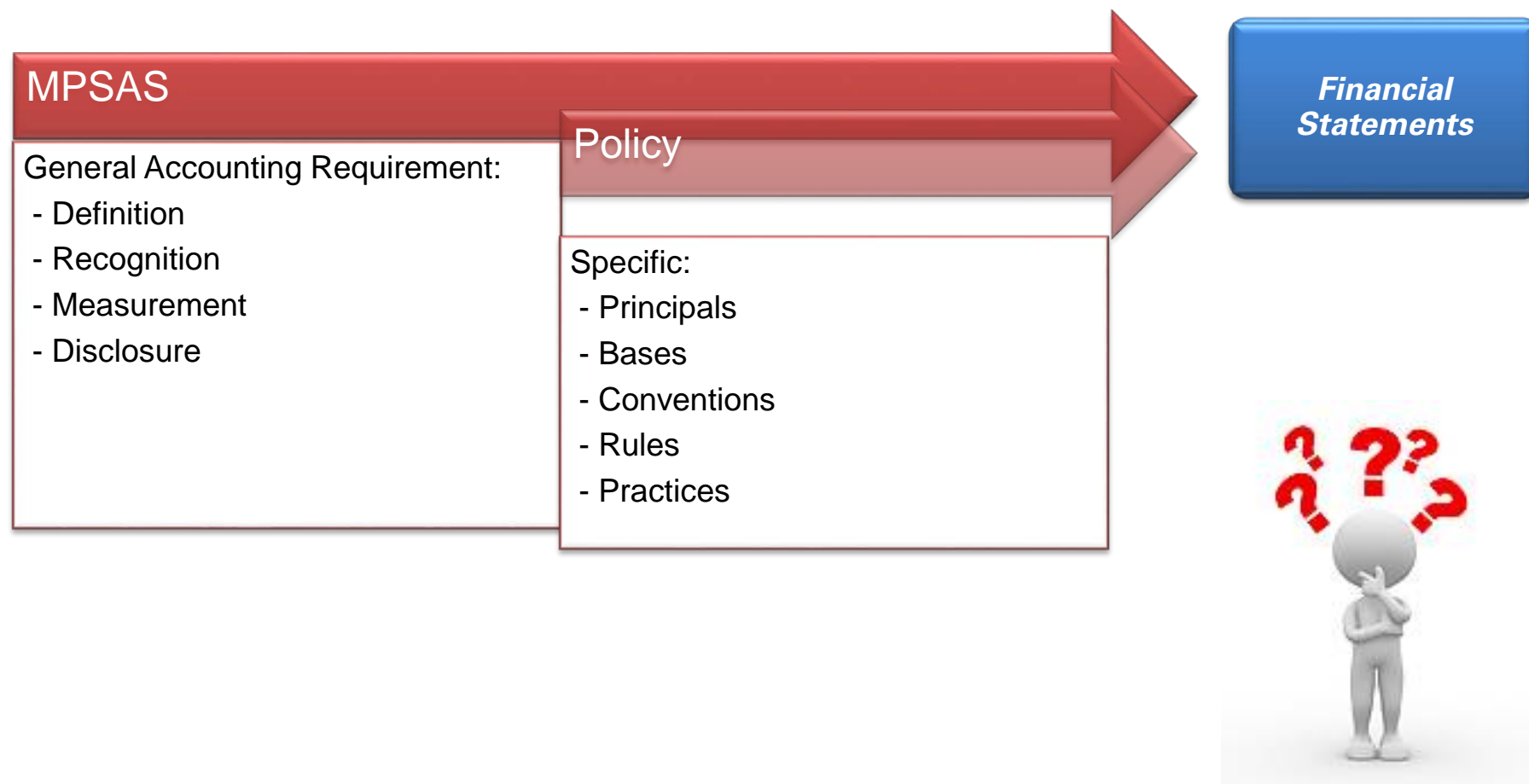
Timeliness

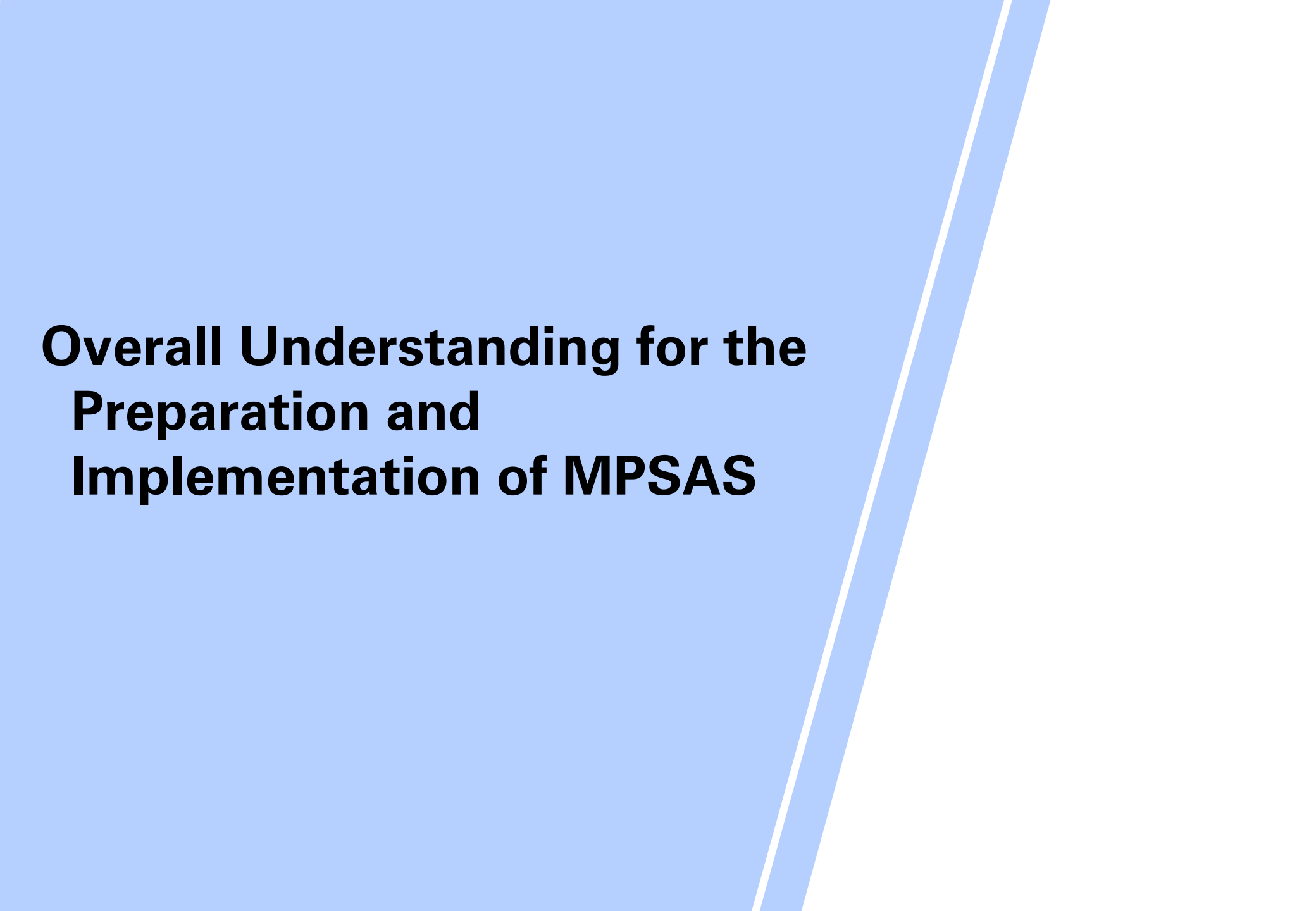
Understandability

2. Introduction to MPSAS and Conceptual Framework of Accrual Accounting



MPSAS vs Policy



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Overall Understanding for the Preparation and Implementation of MPSAS

3. Overall Understanding for the Preparation and Implementation of MPSAS

MPSAS 1 - Presentation of Financial Statements (Published on Mar 2013)

Objectives of this Standard



- Prescribe the manner in which general purpose **financial statements** should be **presented**
- Ensure **comparability** with entity's financial statements of previous periods and with financial statement of other entities
- Set out the overall **consideration** for the presentation of financial statements under the accrual basis of accounting

Scope



- This Standard shall be **applied to all general purpose** financial statement prepared and presented **under the accrual basis** of accounting in accordance with **MPSASs**.
- This Standard **applies to all public sector entities** other than GBE.

Financial Statements are structured representation of the financial position and financial performance of an entity.

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- Statement of Financial Position (**Refer Pg 14**)
- Statement of Financial Performance (**Refer Pg 15**)
- Statement of Changes in Net Assets / Equity (**Refer Pg 16**)
- Cash Flow Statement (**MPSAS 2**)
- Comparison of Budget and Actual Amount (**MPSAS 24**)
- Notes to Financial Statements

Each components in financial statements shall be identified clearly, and distinguished from other information in the same published document

- The following information shall be displayed prominently, and repeated (when necessary) for proper understanding of the information presented:

Name of reporting entity	Coverage of financial statements – individual or economic entity	Reporting date and period covered	Presentation currency	Level of rounding used
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FINANCIAL STATEMENT CONSIDERATIONS

Fair Presentation

Going Concern

Consistency of Presentation

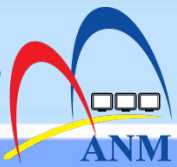
Materiality & Aggregation

Offsetting

Comparative Information

3. Overall Understanding for the Preparation and Implementation of MPSAS

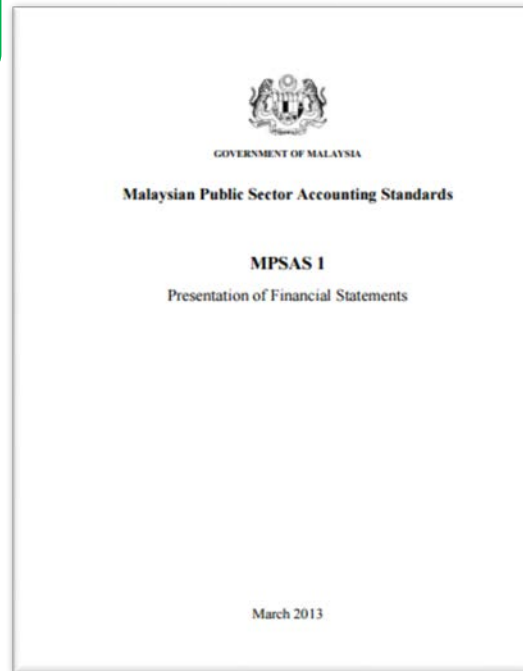
Selective Key Impacts of MPSAS



COMPONENTS OF FINANCIAL STATEMENTS

PERS

- Balance Sheet
- Income Statement
- Statement of Changes in Equity
- Cash Flows Statement
- Summary of significant accounting policies
- Other notes and explanatory information



MPSAS

- Statement of Financial Position
- Statement of Financial Performance
- Statement of Changes in Net Assets/Equity
- Cash Flow Statement
- Comparison of Budget and Actual Amount
- Notes to Financial Statements

3. Overall Understanding for the Preparation and Implementation of MPSAS



MPSAS 3 - Accounting Policies, Changes in Accounting Estimates and Errors (Published on Mar 2013)

Objectives of this Standard



- Prescribe the criteria for selecting and changing accounting policies, together with the (a) **accounting treatment and disclosure of changes in accounting policies**, (b) changes in **accounting estimates** and (c) the **corrections of errors**.
- To enhance the **relevance and reliability** of entity's financial statements, and the **comparability** of those financial statements over time and with financial statements of other entities.
- **Disclosure requirements** for accounting policies, except those changes in accounting policies, are set out in MPSAS 1

Scope



- **This Standard shall be applied in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates, and corrections of prior period errors.**
- This Standard **applies to all public sector entities** other than GBE.

Retrospective Application - Applying a new accounting policy to transactions, other events, and conditions as if that policy had always been applied.

Retrospective Restatement - Correcting the recognition, measurement, and disclosure of amounts of elements of financial statements as if a prior period error had never occurred

Accounting Policies

Specific **principles, bases, conventions, rules, and practices** applied, ie:
Expensing PPE to
Capitalisation & Depr

Prior Period Errors

Omissions from, and **misstatements** in, the entity's financial statements for one or more prior periods arising from a **failure to use, or misuse of, reliable information** that; a) Was **available** when financial statements for those periods were authorized for issue; b) Could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Prospective Application – A) Applying the new accounting policy to transactions, other events, and conditions occurring after the date as at which the policy is changed; B) Recognizing the effect of the change in the accounting estimate in the current and future periods affected by the change

Accounting Policies

Change in Accounting Estimates

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 correction of errors, ie: **Bad Debt, Warranty Obligations, Inventory Obsolescence**

3. Overall Understanding for the Preparation and Implementation of MPSAS



MPSAS 24 - Presentation of Budget Information in Financial Statements (Published on August 2013)

Objectives of this Standard



- Requires a comparison of budget amounts and the actual amounts arising from execution of the budget to be included in the financial statements of entities that make publicly available their approved budget(s), and for which they are, therefore, held publicly accountable.
- Requires the disclosure of an explanation of the reasons for material differences between the budget and actual amounts.

Scope



- An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard.
- This Standard applies to public sector entities, other than GBE, which are required or elect to make their approved budget(s) publicly available

THE STANDARDS DEFINES

Approved Budgets

Original and Final Budgets

Presentation of a Comparison of Budget and Actual Amounts

Level of Aggregation

Illustration of Statement of Comparison of Budget and Actual Amounts

	Budgeted Amounts		Actual Amounts on Comparable Basis RM'000	Difference: Final Budget & Actual [#] RM'000
	Original RM'000	Final RM'000		
RECEIPTS				
Taxation	x	x	x	x
Other grants and aid	x	x	x	x
Proceeds: Borrowings	x	x	x	x
Proceeds: Disposal of plant & equipment	x	x	x	x
Trading activities	x	x	x	x
Other receipts	x	x	x	x
Total Receipts	x	x	x	x
PAYMENTS				
Health	00	00	00	00
Education	00	00	00	00
Public order / safety	00	00	00	00
Social protection	00	00	00	00
Defence	00	00	00	00
Housing and community amenities	00	00	00	00
Recreational, cultural and religion	00	00	00	00
Economic affairs	00	00	00	00
Other	00	00	00	00
Total Payments	00	00	00	00
NET RECEIPTS / (PAYMENTS)	x	x	x	x

3. Overall Understanding for the Preparation and Implementation of MPSAS

MPSAS 4 - The Effect of Changes in Foreign Exchange Rates (Published on June 2013)

Objectives of this Standard



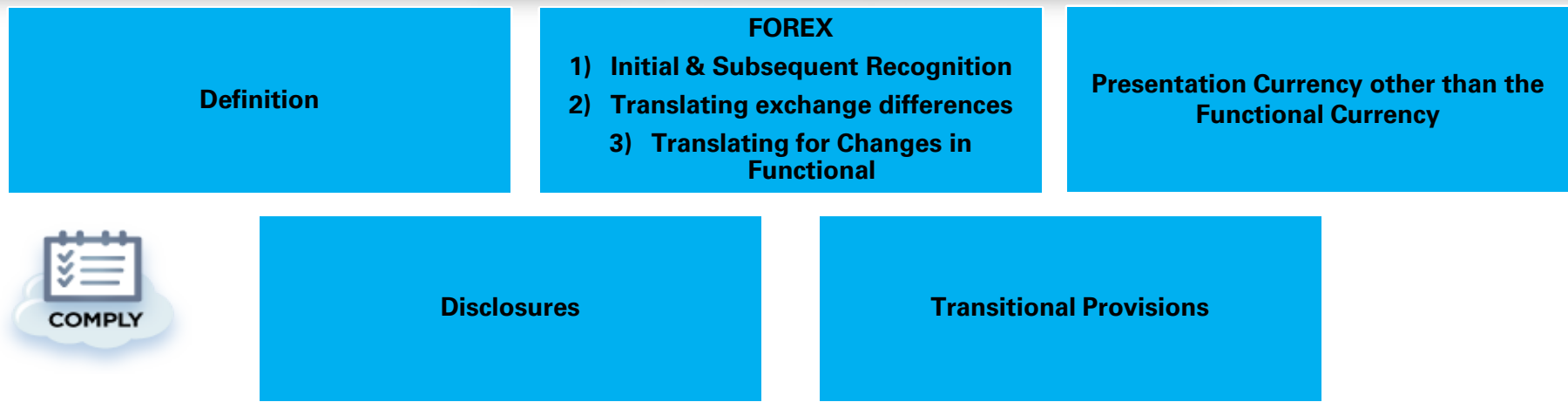
- Prescribe how to include **foreign currency transactions and foreign operations** in the financial statements
- Prescribe how to report presentation of **currency other than the Functional Currency** in the financial statements

Scope



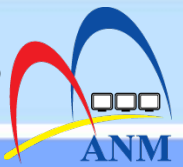
- An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard:
 - ✓ In **accounting for transaction and balances in foreign currencies**, except for those derivative transactions and balances that are within the scope of MPSAS 29.
 - ✓ In **translating the financial performance and financial position of foreign operations** that are included in the financial statements of the entity by consolidation, proportionate consolidation, or by the equity method.
 - ✓ In **translating an entity's financial performance and financial position** into a **presentation currency**.
- This Standard **applies to all public sector entities** other than Government Business Enterprises.

OVERVIEW OF THE COMPONENTS IN THE STANDARDS



3. Overall Understanding for the Preparation and Implementation of MPSAS

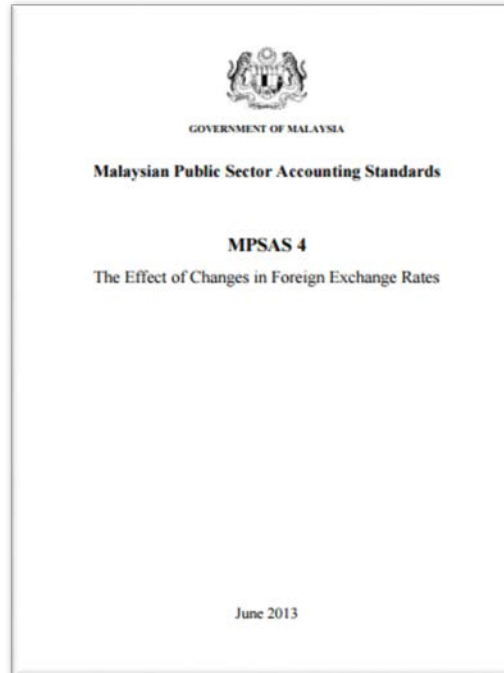
Selective Key Impacts of MPSAS



FOREIGN EXCHANGE

PERS

- Foreign Currency
- Reporting Currency



MPSAS

- Foreign Currency
- Functional Currency
- Presentation Currency

3. Overall Understanding for the Preparation and Implementation of MPSAS

MPSAS 12 - Inventories (Published on March 2013)

Objectives of this Standard



- Prescribe the **accounting treatment** for inventories. A primary issue in accounting for inventories is the amount of cost to be recognized as an asset and carried forward until the related revenues are recognized.
- Provides **guidance** on the determination of **cost and its subsequent recognition as an expense**, including any **write down to net realizable value**
- Provides **guidance** on the **cost formulas** that are used to assign costs to inventories

Scope



- Form of materials or supplies to be **consumed in the production process**;
- Form of materials or supplies to be **consumed or distributed in the rendering of services**;
- **Held for sale or distribution** in the ordinary course of operations;
- In the process of **production for sale or distribution**.

RECOGNITION

Proof of Ownership

And

Control over Asset

And

Risk and Rewards

MEASUREMENT

EXCHANGE TRANSACTION

PURCHASE COST

NON EXCHANGE TRANSACTION

FAIR VALUE AT DATE OF PURCHASE

DISTRIBUTION OF PUBLIC INTEREST

LOWER OF AMOUNT BETWEEN COST AND COST OF REPLACEMENT

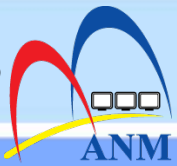
FEDERAL POLICY

Inventory that has value of RM1 million or more at each *pusat tanggungjawab (setiap PTJ)* for 3 years in a row will be capitalized.



3. Overall Understanding for the Preparation and Implementation of MPSAS

Selective Key Impacts of MPSAS - Assets

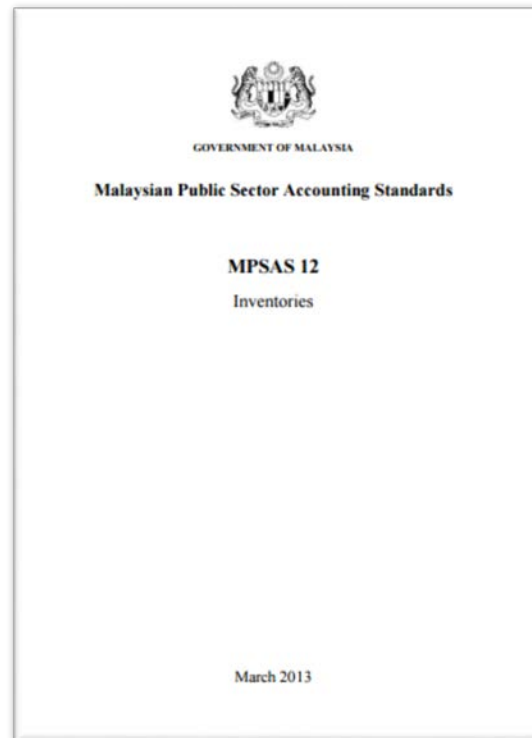


INVENTORIES

COST FORMULAS

PERS

- ✓ First In First Out (FIFO)
- ✓ WEIGHTED AVERAGE
- ✓ Last In First Out (LIFO)



MPSAS

- ✓ First In First Out (FIFO)
- ✓ WEIGHTED AVERAGE
- ✓ **Last In First Out (LIFO)**

LIFO method is not permitted in MPSAS

3. Overall Understanding for the Preparation and Implementation of MPSAS

MPSAS 16 - Investment Property (Published on August 2013)

Property (land or a building – or part of a building – or both) 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.

RECOGNITION

Investment property shall be recognized as an asset when, and only when:

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

MEASUREMENT AT RECOGNITION

An item of property, plant, and equipment that qualifies for recognition as an asset shall be **measured at its cost**.

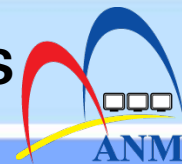
Where an asset is acquired through a **non-exchange transaction**, its cost shall **be measured at its fair value** as at the date of acquisition.



The initial cost of a property interest held under a lease and classified as an investment property shall be as prescribed for a finance lease by MPSAS 13, i.e., the asset shall be recognized at the lower of the FV of the property and the present value of the minimum lease payments. An equivalent amount shall be recognized as a liability.

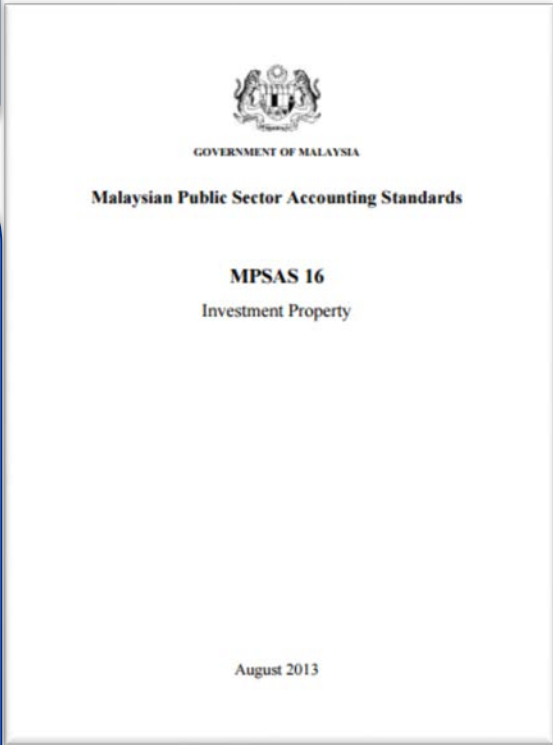
3. Overall Understanding for the Preparation and Implementation of MPSAS

Selective Key Impacts of MPSAS - Assets



INVESTMENT PROPERTY

PERS



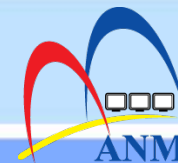
MPSAS

- Investment property (IP) is accounted for either as **long-term investment** or as Property, Plant and Equipment (PPE).
- Measurement**
- Cost or revaluation less depreciation** model (MASB 15, PPE); or
- Revaluation model** (revalue periodically on a systematic basis).

- Property that is a land or building (or part of a building) or both:
 - **Held for rental, or**
 - **Held for capital appreciation**
- Will not be:**
 - **Used in the production or supply of goods or services, or for administrative purposes**
 - **Sale in the ordinary course of operations.**
- Measurement**
- Exchange Transaction, measured at Cost.**
- Non-exchange transaction, measured at Fair Value.**

3. Overall Understanding for the Preparation and Implementation of MPSAS

MPSAS 17 - Property, Plant and Equipment (PPE) (Published on March 2013)



Property, Plant and Equipment are tangible assets that is:

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 for periods of **more than one reporting period**

RECOGNITION

The cost of an item of property, plant, and equipment shall be recognized as an asset if, and only if:

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

POLISI:

Had nilai aset dipermodalkan adalah RM2,000 untuk setiap item.

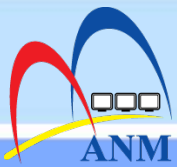
MEASUREMENT AT RECOGNITION

An item of property, plant, and equipment that qualifies for recognition as an asset shall be **measured at its cost**.

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

3. Overall Understanding for the Preparation and Implementation of MPSAS

MPSAS 17 - Property, Plant and Equipment (Published on March 2013)

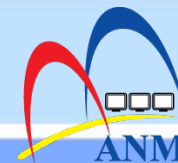


CLASSIFICATION AND USEFUL LIFE OF ASSET

Aset tidak Alih	Kategori Aset	Usiaguna Aset (Tahun)
Bangunan	<ul style="list-style-type: none">• Bangunan Kediaman• Bangunan Pejabat• Bangunan lain-lain• Bangunan Pelaburan	<ul style="list-style-type: none">• 25 – 50• 25 – 50• 25 – 50• 25 – 50
Kerja dan Infrastruktur	<ul style="list-style-type: none">• Kemudahan Pengangkutan Darat• Kemudahan Pengangkutan Udara• Kemudahan pengangkutan Air• Kemudahan Riadah dan Taman• Kemudahan Talian Pengairan• Kawalan Banjir• Kemudahan Pembentungan• Kemudahan Elektrik	<ul style="list-style-type: none">• 10 – 50• 10 – 15• 20 – 100• 5 – 10• 50 – 100• 20 – 100• 20 – 100• 20 – 30

3. Overall Understanding for the Preparation and Implementation of MPSAS

MPSAS 17 - Property, Plant and Equipment (Published on March 2013)

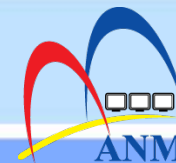


CLASSIFICATION AND USEFUL LIFE OF ASSET

Aset Alih	Kategori Aset	Usiaguna Aset (Tahun)
Peralatan	Loji dan Jentera	8 - 20
	Peralatan dan Alatan Pejabat	3 - 10
	Perabot	3 - 10
	Peralatan dan Alatan ICT	5 - 13
	Peralatan dan Alatan Komunikasi	3 - 20
	Peralatan dan Alatan Penyiaran dan Muzik	3 - 38
	Peralatan dan Alatan Makmal	3 - 40
	Peralatan dan Alatan Persekitaran	3 - 10
	Peralatan dan Alatan Sukan dan Rekreasi	5 - 10
	Peralatan dan Alatan Agrikultur/ Perhutanan/ Marin	5 - 25
	Peralatan dan Alatan Perubatan	5 - 20
	Peralatan dan Alatan Keselamatan	3 - 30
	Peralatan dan Alatan Kejuruteraan	3 - 20

3. Overall Understanding for the Preparation and Implementation of MPSAS


MPSAS 17 - Property, Plant and Equipment (Published on March 2013)



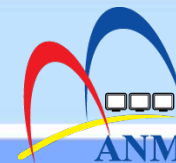
CLASSIFICATION AND USEFUL LIFE OF ASSET

Aset	Kategori Aset	Usiaguna Aset (Tahun)
Kendaraan	Kendaraan Robotik	5 - 10
	Kereta	5 - 10
	Bus	5 - 10
	Motosikal	5 - 10
	Lori /Trak	5 - 10
	Bot dan kapal	5 - 20
	Kapal Terbang dan Helikopter	12 - 30
	Kendaraan lain	5 - 15
Aset Biologi (Aset Hidup)	Anjing	3 - 15
	Kuda	5 -15

Federal Policy

 Certain life assets **used by the Government** in conducting its operations in which future economic benefits and potential services obtained, this life assets should be **recognized as PPE**. For example, **police dog and horse**.

3. Overall Understanding for the Preparation and Implementation of MPSAS



MPSAS 27 - Agriculture (Published on March 2015)

Objectives of this Standard

Prescribe the accounting treatment and disclosures for agricultural activity.

Scope

- An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard for the following when they relate to agricultural activity:
 - a) **Biological assets, and**
 - b) **Agricultural produce at the point of harvest**
- This Standard applies to all public sector entities other than GBE.

RECOGNITION

Biological Assets / Produce shall be recognized as an asset if :

- **There is control over assets**
- **It is probable that future economic benefits or service potential associated with the item will flow to the entity ; and**
- **Cost or fair value of the item can be measured reliably**

MEASUREMENT

BIOLOGICAL ASSET

- Measured at **Fair Value less Cost to Sell**
- Measured at **cost less Accumulated Depreciation** (Price/Market Value cannot be determined)

AGRICULTURAL PRODUCE

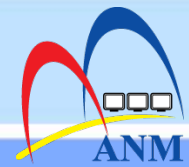
- Agricultural produce will initially be **measured at fair value less costs to sell at harvest time**. It shall be accounted for as inventories (MPSAS 12).

FEDERAL POLICY



If life assets are used for agricultural activities, namely the transformation of live animals or plants for sale or for agriculture, these assets should be accounted for as biological assets and agricultural produce.

3. Overall Understanding for the Preparation and Implementation of MPSAS



MPSAS 27 - Agriculture (Published on March 2015)

Objectives of this Standard

Prescribe the accounting treatment and disclosures for agricultural activity.

Scope

An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard for the following when they relate to agricultural activity:

a) **Biological assets, and**

b) **Agricultural produce**

This Standard

Biological assets	Agricultural produce	Products that are the result of processing after harvest
<ol style="list-style-type: none"> 1. Sheep 2. Trees in a plantation forest 3. Oil palm trees 4. Dairy cattle 5. Fruit trees 	<ol style="list-style-type: none"> 1. Wool 2. Felled trees 3. Fresh fruit bunch 4. Milk 5. Picked fruits 	<ol style="list-style-type: none"> 1. Carpet, cloth 2. Logs 3. Palm oil 4. Cheese 5. Processed fruits

Biological Assets / Produce shall

- **There is control over assets**
- **It is probable that future economic benefits** associated with the item will flow to the entity ; and
- **Cost or fair value of the item can be measured reliably**

AGRICULTURAL PRODUCE

Agricultural produce will initially be **measured at fair value less costs to sell at harvest time**. It shall be accounted for as inventories (MPSAS 12).

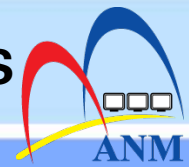
FEDERAL POLICY



If life assets are used for agricultural activities, namely the transformation of live animals or plants for sale or for agriculture, these assets should be accounted for as biological assets and agricultural produce.

3. Overall Understanding for the Preparation and Implementation of MPSAS

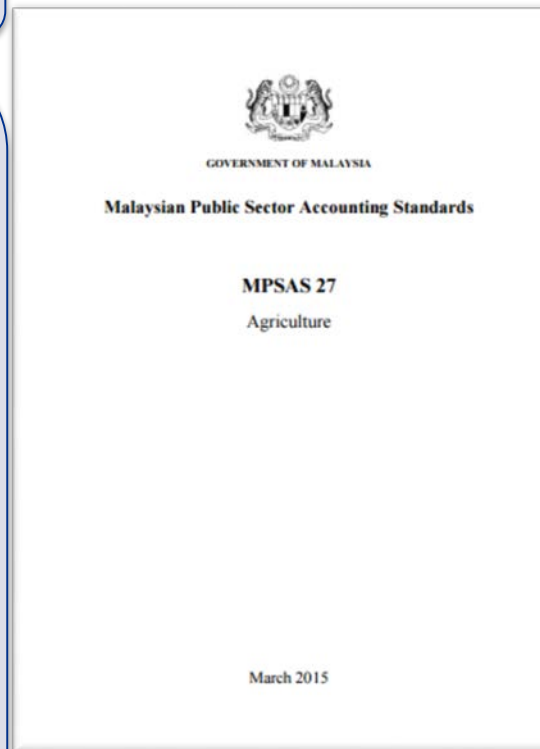
Selective Key Impacts of MPSAS - Assets



AGRICULTURE

PERS

- Only has **standard on Aquaculture** (MAS 5)
- For plantation operations, the **current practice is based on MAS 8 Accounting for Pre-Cropping Costs, an old GAAP** of the professional accountancy bodies issued in 1996. This GAAP **deals only with pre-cropping costs of long-term bearer biological assets**, such as oil palms and rubber trees.



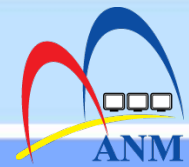
MPSAS

- Deals with both:
 - a) **Biological assets, and**
 - b) **Agricultural produce at the point of harvest**

Biological Assets / Produce shall be recognized as an asset if :

- **There is control over assets**
- **It is probable that future economic benefits or service potential associated with the item will flow to the entity ; and**
- **Cost or fair value of the item can be measured reliably**

3. Overall Understanding for the Preparation and Implementation of MPSAS



MPSAS 31 - Intangible Assets (Published on June 2014)

According to MPSAS 31, Intangible Assets are:

a) Non-financial assets that are identifiable without physical substance

b) Such assets must be identified , can be controlled as a result of a past event , and be able to provide future economic benefits

RECOGNITION

INTANGIBLES FROM EXCHANGE TRANSACTION

Intangible Asset will be recognized if and only if:

- It is probable that future economic benefits or service potential associated with the item will flow to the entity, and;
- Cost or fair value of the item can be measured reliably.

EXAMPLE

Software, License used in Software which are purchased at cost

MEASUREMENT AT RECOGNITION

Measured at **Cost**

INTANGIBLES FROM NON EXCHANGE TRANSACTION

Intangible Asset will be recognized if and only if:

- It is probable that future economic benefits or service potential associated with the item will flow to the entity, and;
- Cost or fair value of the item can be measured reliably.

EXAMPLE

Software, License used in Software which are obtained for free

MEASUREMENT AT RECOGNITION

Measured at **Fair Value**

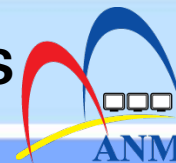
FEDERAL POLICY



License fee for software are capitalized as intangible assets, whereas annual maintenance fees will be expensed. Improvement (upgrade) of the system will be capitalized.

3. Overall Understanding for the Preparation and Implementation of MPSAS

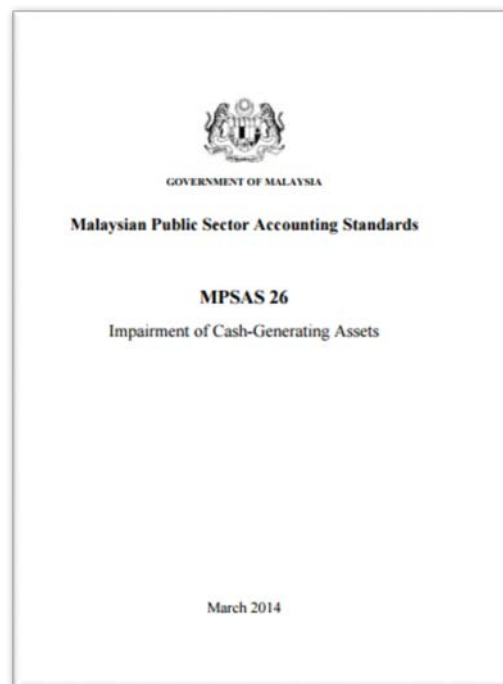
Selective Key Impacts of MPSAS - Assets



INTANGIBLE ASSETS

PERS

- **Deals only with research and development costs.** The requirements are the same as MFRS in that only development costs that meet the recognition criteria are capitalised [MASB 4.17].
- **No equivalent PERS on other intangible assets.**
- **Initial measurement** is at **cost**.
- Subsequent measurement is at **cost less accumulated amortisation and accumulated impairment losses**.



MPSAS

- Development expenditure of R&D activities that **meets the recognition criteria must be capitalised**. All research and other development expenditure are **recognised as an expense**.
- Internally generated intellectual property shall **not be recognised** as an asset.
- Recognition of intangible assets includes **prepayment, development expenditure capitalised and acquired intangible assets**.
- Has impairment for **cash generating and non-cash generating assets**.
- Measured at **cost for exchange transactions**, whereas measured at **fair value for non-exchange transactions**.

3. Overall Understanding for the Preparation and Implementation of MPSAS

MPSAS 5 - Borrowing Costs (Published on March 2015)

Objectives of this Standard



- Prescribe the accounting treatment for **borrowing costs**.
- The Standard requires the **immediate expensing** of borrowing costs.
- However, the Standard permits, as an **allowed alternative treatment**, the **capitalization of borrowing costs** that are directly attributable to the acquisition, construction, or production of a qualifying asset.

Scope



- This Standard shall be applied in **accounting for borrowing costs**
- This Standard **applies to all public sector entities** other than GBE

Borrowing Costs are interest and other expenses incurred by an entity in connection with the borrowing of funds

Qualifying Assets are asset that necessarily takes a substantial period of time to get ready for its intended use or sale

Benchmark Treatment

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

Allowed Alternative Treatment

Specific Borrowings

- directly attributable to the **acquisition, construction, or production of a qualifying asset**
- Borrowing costs that **would have been avoided**
- Specifically for the purpose of **obtaining a particular qualifying asset**
- Costs eligible for capitalisation is the **actual borrowing costs incurred on that borrowing** during the period, **less any investment**

General Borrowings

- **funds are borrowed generally and used for the purpose of obtaining a qualifying asset**
- **capitalization rate** shall be the **weighted average of the borrowing costs applicable to the borrowings** of the entity that are outstanding during the period,
- borrowing costs capitalized during a period **shall not exceed the amount of borrowing costs** incurred during that period.

Disclosures:

- The accounting policy adopted for borrowing costs
- The amount of **borrowing costs capitalized during the period**
- The **capitalization rate used** to determine the amount of borrowing costs eligible for capitalization (when necessary)




Transitional Provision

- For any **policy changes**, adjust in line with MPSAS 3
- Entities following the allowed alternative treatment **shall capitalize only those borrowing costs incurred after the effective date** of this Standard that meet the criteria for capitalization


3. Overall Understanding for the Preparation and Implementation of MPSAS

MPSAS 13 - Leases (Published on August 2013)

Objectives of this Standard

 Prescribes for **lessees and lessors**, the appropriate accounting **policies and disclosures** to apply in relation to **finance and operating** leases.

Scope

 **Lease is classified as finance lease if:**

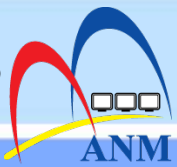
- a) The lease transfers substantially all risk and rewards of ownership to the lessee. Transfer of ownership will only occur at the end of the lease term.
- b) Lease other than finance lease is classified as operating lease.

RECOGNITION AND MEASUREMENT

FINANCE LEASE				
	Asset	Liability	Income	Expense
Lessor	Lease Receivable	None	Finance revenue (constant rate of return)	None
Lessee	Asset under lease	Lease Payable	None	Depreciation expense (depreciation policy) Finance charge (constant rate of interest)

OPERATING LEASE				
	Asset	Liability	Income	Expense
Lessor	Asset under lease	None	Lease revenue (straight-line basis)	Depreciation expense
Lessee	None	None	None	Lease expense (straight-line basis)

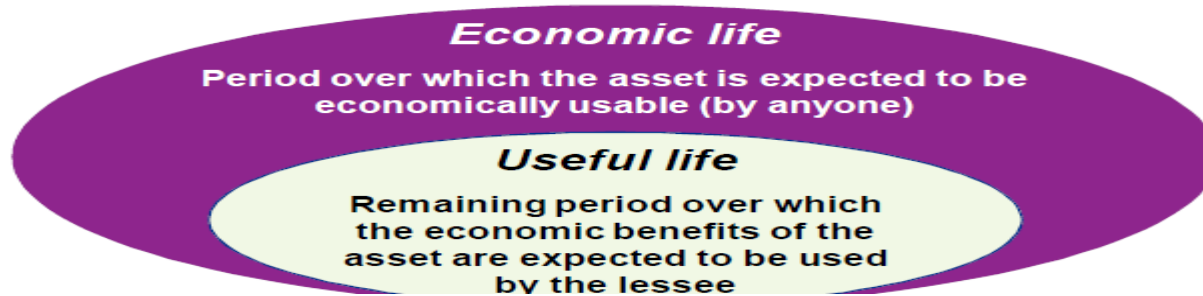
3. Overall Understanding for the Preparation and Implementation of MPSAS



Selective Key Impacts of MPSAS - Liabilities

LEASES

Lease for majority of economic life?



PERS

- ✓ Lease term is considered "major part" when it is 75% or more of the economic life of the leased asset.
- ✓ Present value of the minimum lease payments is considered "at least substantially all" if it is more or 90% of the leased asset's fair value.

MPSAS

- ✓ No quantitative threshold guidance.

3. Overall Understanding for the Preparation and Implementation of MPSAS

MPSAS 9 - Revenue From Exchange Transactions (Published on March 2013)

Objectives of this Standard



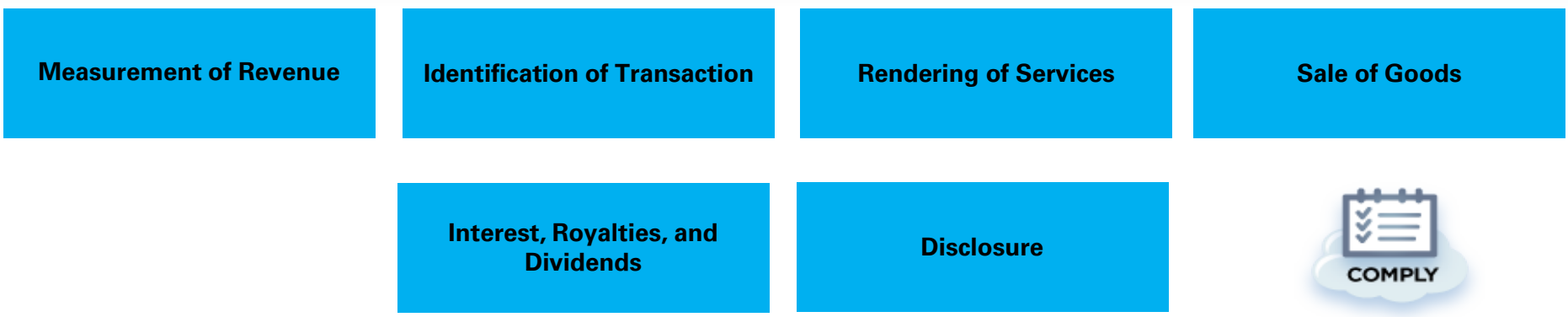
- Prescribe the **accounting treatment of revenue** arising from **exchange transaction** and events
- Define **criteria** to recognize revenue
- Identify the **circumstances** in which the criteria for **recognizing revenue are satisfied**, including practical guidance on the application of those criteria

Scope

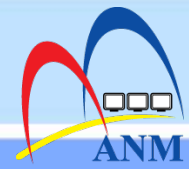


- This standard is directed at entities that prepare and present financial statements under the accrual basis of accounting, for **revenue** arising from the following **exchange transactions and events**: rendering of services, sale of goods, or distribution of interest, royalties or dividend yielding assets.
- This Standard **applies to all public sector entities** other than Government Business Enterprises

OVERVIEW OF THE COMPONENTS IN THE STANDARD



3. Overall Understanding for the Preparation and Implementation of MPSAS



MPSAS 23 - Revenue From Non-Exchange Transactions (Published on March 2013)

Objectives of this Standard



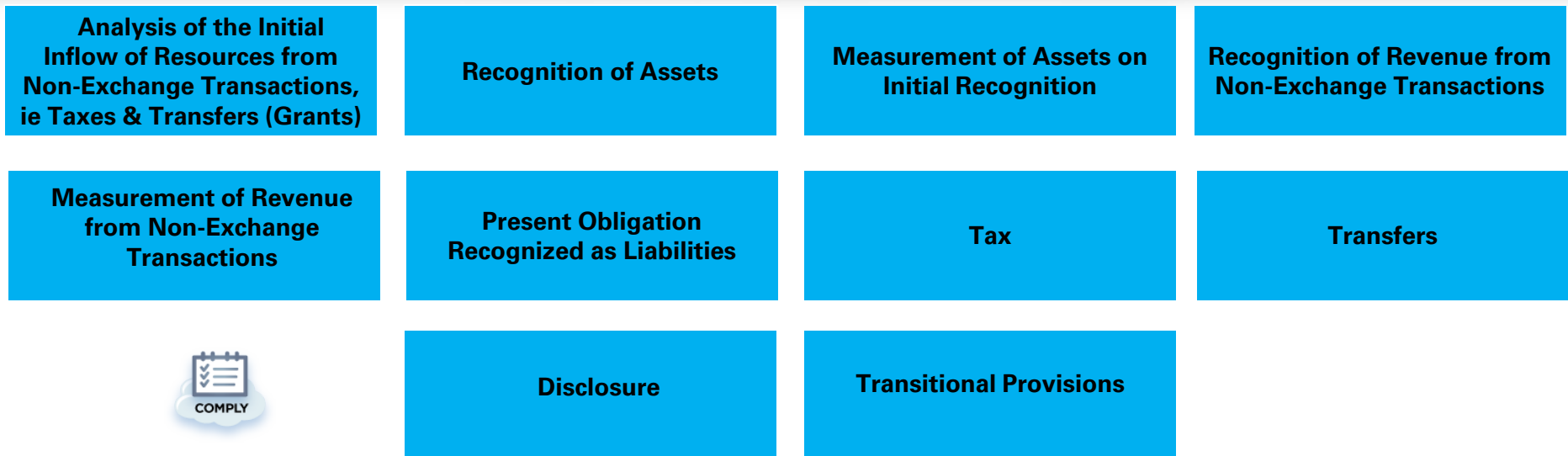
The objective of this Standard is to prescribe requirements for the financial reporting of revenue arising from non-exchange transactions, other than non-exchange transactions that give rise to an entity combination. This Standard deals with issues that need to be considered in recognizing and measuring revenue from non-exchange transactions, including the identification of contributions from owners.

Scope

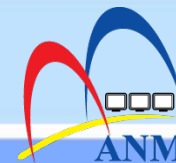


- An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for revenue from non-exchange transactions.
- This Standard **applies to all public sector entities** other than GBE.

OVERVIEW OF THE COMPONENTS IN THE STANDARDS



3. Overall Understanding for the Preparation and Implementation of MPSAS



MPSAS 25 - Employee Benefits (Published on June 2014)

Objectives of this Standard



Prescribes the accounting and disclosure for employee benefits. The Standard requires an entity to recognize:

- (a) A **liability** when an employee has provided service in exchange for employee benefits to be paid in the future; and
- (b) An **expense** when the entity consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

Scope



- This Standard shall be applied by an **employer** in accounting for all employee benefits, except share-based transactions (see the relevant international or national accounting standard dealing with share-based transactions).
- This Standard applies to all public sector entities other than GBE.

OVERVIEW OF THE COMPONENTS IN THE STANDARDS

Definition

Short-term Employee Benefits
(due to be paid < 12 mths)

Post-employment Benefits -
Defined Contribution Plans

Post-employment Benefits-
Defined Benefit Plans

Other Long-term
Employee Benefits
(due to be paid > 12 mths)

Termination Benefits

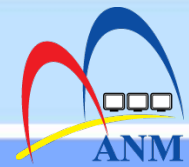
First Time Adoption of this
Standard

FEDERAL POLICY



Liabiliti manfaat pekerja yang terdiri daripada pencen, ganjaran dan ganti cuti rehat yang berkaitan akan dinyatakan di dalam nota kepada akaun dalam tempoh peralihan (2016-2018). Oleh itu pembayaran liabiliti ini akan diiktiraf sebagai belanja

3. Overall Understanding for the Preparation and Implementation of MPSAS



MPSAS 28 - Financial Instruments: Presentation (Published on June 2014)

Objectives of this Standard



- Establish principles for presenting financial instruments as liabilities or net assets/equity.
- Establish principles for offsetting financial assets and liabilities.

THE STANDARD DEFINES

Liabilities and Net Assets/Equity

Contingent Settlement Provisions

Settlement Options

Compound Financial Instruments



Treasury Shares

Interest, Dividends, or Similar Distributions, Losses, and Gains

OVERVIEW OF THE COMPONENTS IN THE STANDARDS

Definition

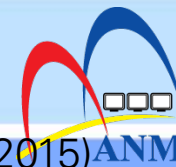
Financial Instruments: The Standard

Transition

Effective Date



3. Overall Understanding for the Preparation and Implementation of MPSAS



MPSAS 29 - Financial Instruments: Recognition And Measurement (Published on October 2015)

Objectives of this Standard



- Establish principles for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

Measurement basis and examples of financial assets/liabilities

Initial Measurement of Financial Assets and Financial Liabilities

When a financial asset or financial liability is recognized initially, an entity shall measure it at its **fair value** plus, in the case of a financial asset or financial liability not at fair value through surplus or deficit, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent Measurement of Financial Assets

After initial recognition, an entity shall measure financial assets, including derivatives that are assets, at their **fair values**, without any deduction for transaction costs it may incur on sale or other disposal, **except** for the following financial assets:

- Loans and receivables**
- Held-to-maturity investments**
- Investments in equity instruments**

Subsequent Measurement of Financial Liabilities

After initial recognition, an entity shall measure all financial liabilities at **amortized cost** using the effective interest method, except for:

- Financial liabilities at fair value through surplus or deficit.**
- Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.**
- Financial guarantee contracts;**
- Commitments to provide a loan at a below-market interest rate.**

OVERVIEW OF THE COMPONENTS IN THE STANDARDS

Definition

Measurement of Financial Asset and Financial Liabilities

Embedded Derivatives

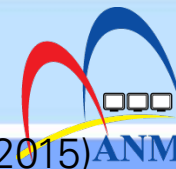
Hedging

Recognition and Derecognition

Transitional Provision



3. Overall Understanding for the Preparation and Implementation of MPSAS



MPSAS 29 - Financial Instruments: Recognition And Measurement (Published on October 2015)

Objectives of this Standard

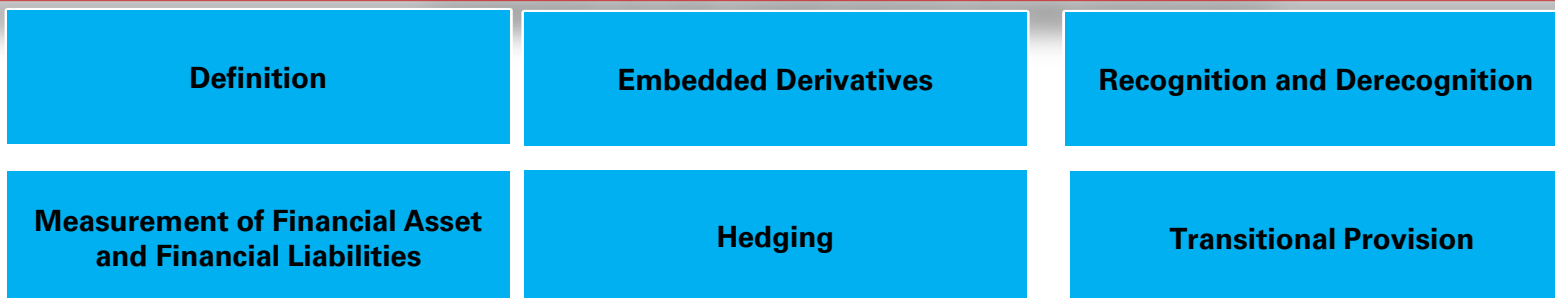


- Establish principles for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

Measurement basis and examples of financial assets/liabilities

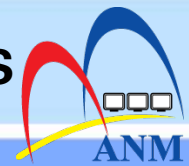
Financial asset/liability	Category	On subsequent measurement
Cash at hand and in bank	Financial asset at fair value through surplus or deficit	Fair value
Debtors / receivables	Loans and receivables	Amortised cost
Investment in quoted shares	Financial asset at fair value through surplus or deficit	Fair value
Investment in bonds	Held-to-maturity investment	Amortised cost
Investment in unquoted shares	Financial asset	Cost [Assuming that the fair value cannot be determined]
Creditors & payables	Financial liability	Amortised cost
Bonds issued	Financial liability	Amortised cost

OVERVIEW OF THE COMPONENTS IN THE STANDARDS



3. Overall Understanding for the Preparation and Implementation of MPSAS

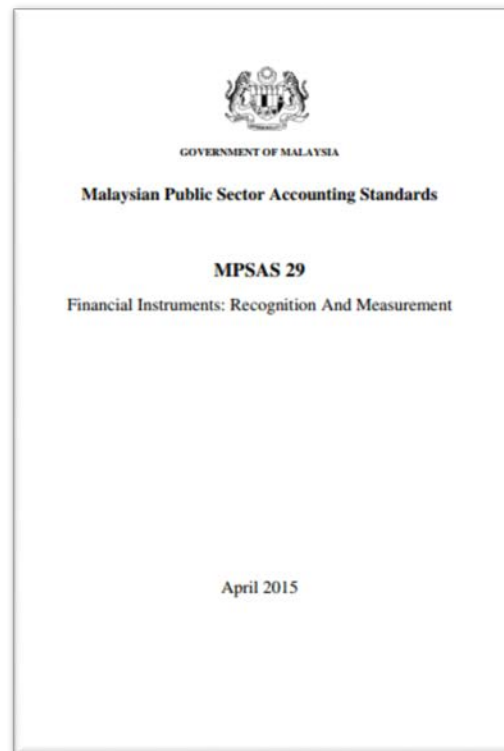
Selective Key Impacts of MPSAS - Liabilities



FINANCIAL INSTRUMENTS

PERS

- Classifies investments as current based on the criteria of “readily realisable” and “intention” to hold for not more than one year [IAS 25.1]. By default, all other investments are classified as long-term investments.
- Initial measurement is at cost and it includes transaction costs
- There is no guidance on other financial assets and there is no equivalent standard on financial liabilities.



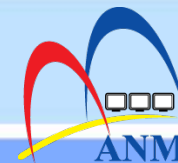
MPSAS

Four categories of financial assets:

- (a) financial assets at fair value through profit or loss,**
- (b) held-to-maturity investments,**
- (c) loans and receivables, and**
- (d) available-for-sale assets.**

Classification depends on the type of instruments, the intention (such as held for trading or held to maturity) and by designation.

3. Overall Understanding for the Preparation and Implementation of MPSAS



MPSAS 33 - First-Time Adoption of Accrual Basis MPSASs (Published on March 2016)

Objectives of this Standard



Enables entities to **prepare and present its annual financial statements** on the adoption of, and during the transition of, accrual basis MPSASs, as **well permitting first time adopter to apply transitional exemptions** and provisions that may impact fair presentation. Where these transitional exemptions and provisions are applied, a first-time adopter is required to **disclose information** about the **transitional exemptions and provisions adopted**, and **progress towards presentation and compliance** with accrual basis MPSASs.

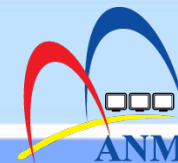
RECOGNITION AND MEASUREMENT



- ✓ **A first-time adopter shall prepare and present an opening statement of financial position at the date of adoption of MPSASs. This is the starting point for its accounting in accordance with accrual basis MPSASs.**
- ✓ **On the date of adoption of accrual basis MPSASs, a first time adopter shall apply the requirements of the MPSASs retrospectively except if required, or otherwise permitted, in this MPSAS.**
- ✓ **A first time adopter's estimates in accordance with MPSASs as at the date of adoption of MPSASs, shall be consistent with estimates made in accordance with the previous basis of accounting, unless there is objective evidence that those estimates were inconsistent with the requirement in MPSASs.**



3. Overall Understanding for the Preparation and Implementation of MPSAS

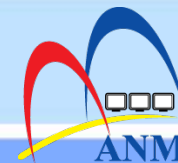


MPSAS 33 - First-Time Adoption of Accrual Basis MPSASs (Published on March 2016)

Transitional Provisions

Exemption Affecting Fair Presentation and Compliance	Transitional Exemptions Adopted by Public Sector
1. Recognition and / or measurement of the following assets and / or liabilities: <ul style="list-style-type: none"> a) Investment Properties b) Property, Plant and Equipment c) Defined Benefit Plan and Other Long Term Benefits d) Biological Assets and Agriculture Produce e) Intangible Assets f) Service Concession Assets and Related Liabilities g) Financial Instruments 	These assets and / or liabilities can be recognised for reporting periods within 3 years following the date of adoption.
2. Recognition and / or measurement of non – exchange revenue	Changes in accounting policy can be recognised on a class by class basis within 3 years following the date of adoption.
3. Other borrowing costs	Other borrowing costs are expensed off. The allowed alternative treatment of capitalising interest is not adopted.
4. Leases	Finance lease relating to relevant assets can be recognised subject to the earlier of asset being recognised or expiry of 3 years following the data of adoption.
5. Contingents	Liability relating to relevant assets can be recognised subject to the earlier of asset being recognised or expiry of 3 years following the date of adoption.
6. Related Part Disclosures	Disclosures of related party relationship, transactions and information about key management personnel can be disclosed within 3 years following the date of adoption.

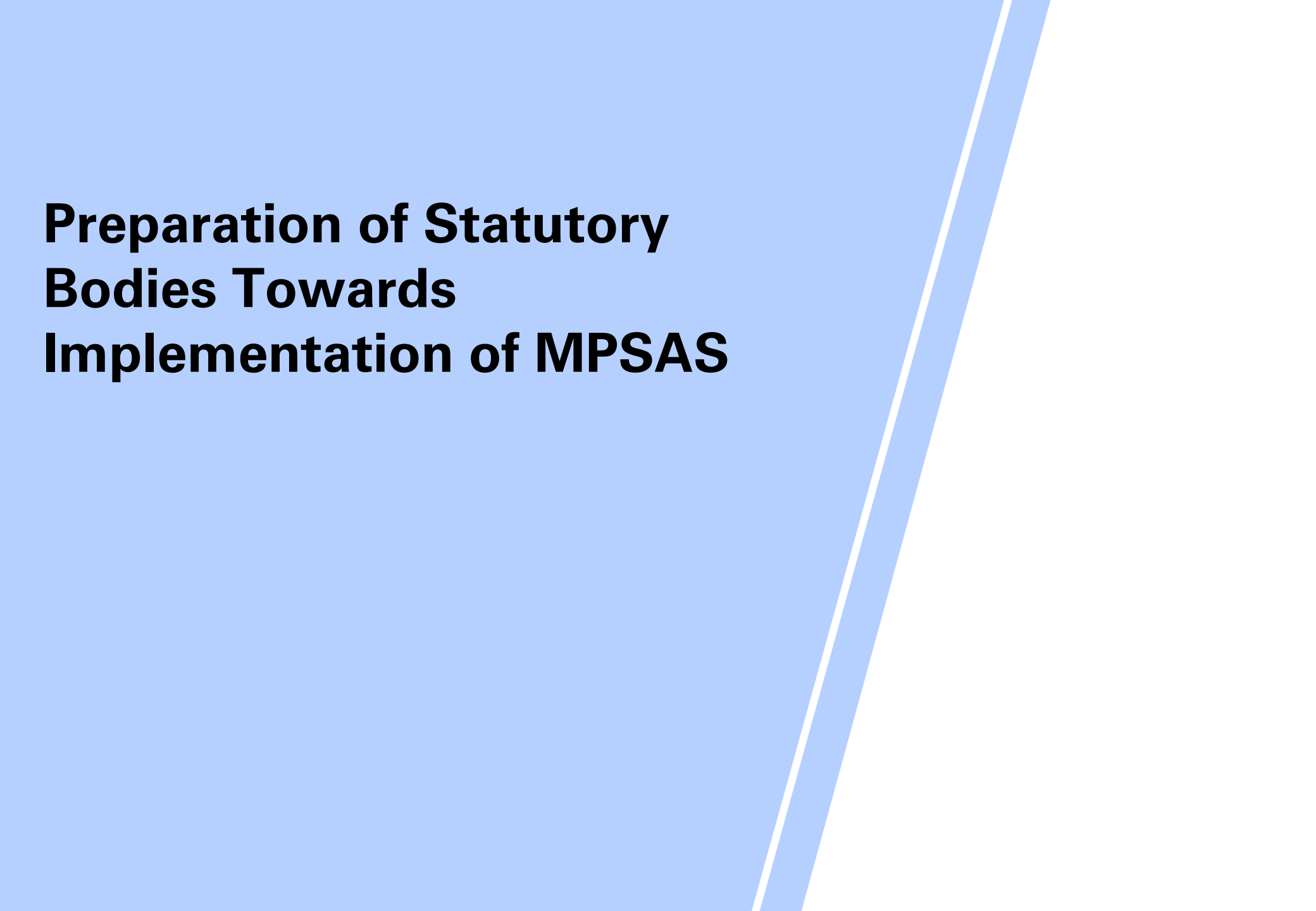
3. Overall Understanding for the Preparation and Implementation of MPSAS



MPSAS 33 - First-Time Adoption of Accrual Basis MPSASs (Published on March 2016)

Transitional Provisions

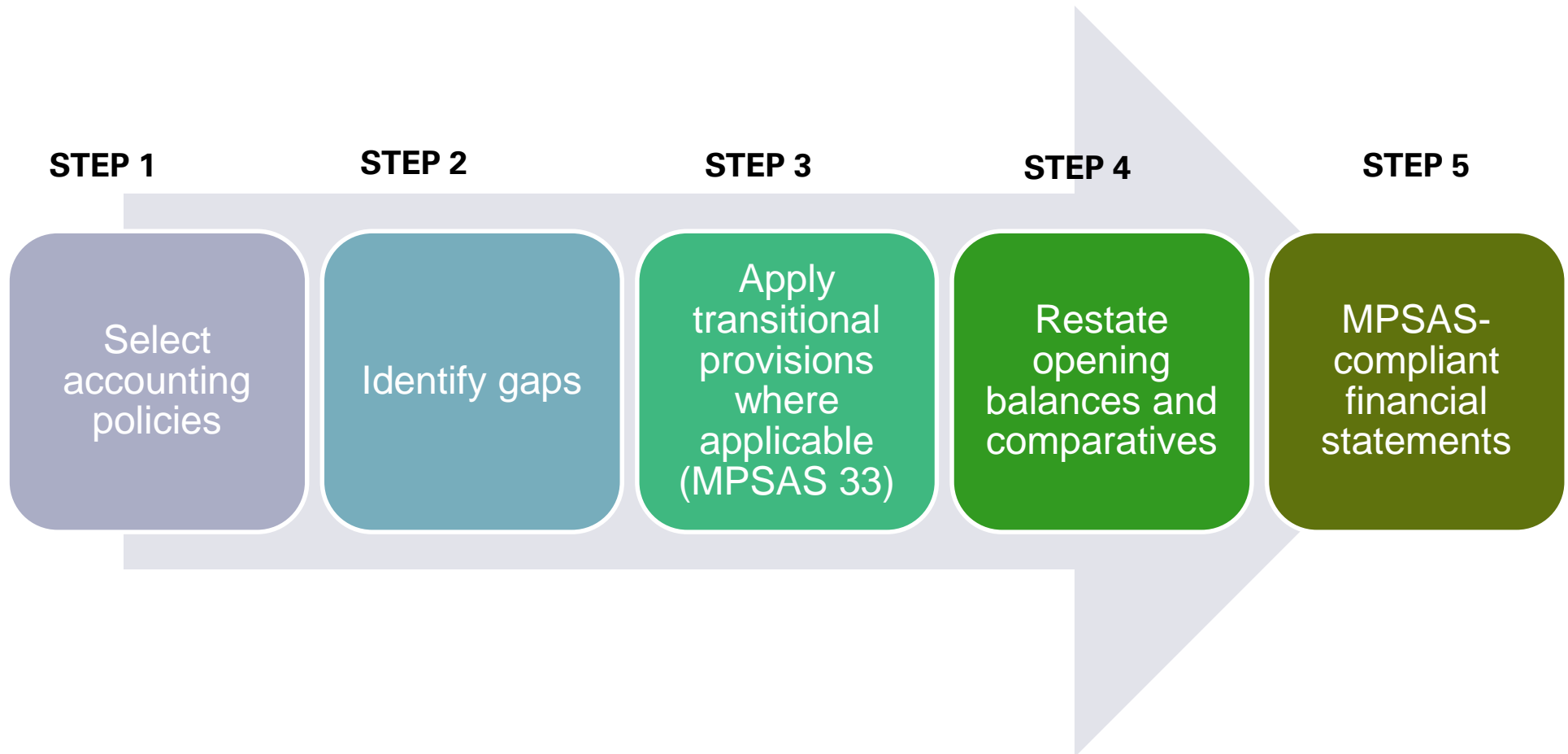
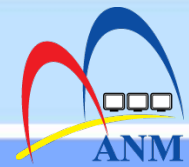
Exemption Not Affecting Fair Presentation and Compliance	Transitional Exemptions Adopted by Public Sector
1. Date at which cost can be determined	Fair value as deemed cost is determined at any date during the 3 years transitional period
2. Measurements of assets a) Inventory b) Investment Properties c) Property, Plant and Equipment d) Intangible Assets e) Financial Instruments f) Service Concession Assets	Fair value as deemed cost applied at date of adoption where historical cost is not available.
3. Measurement of assets acquired through a non- exchange transaction.	Fair value as deemed cost applied at date of adoption, where historical cost information is not available.
4. Investments	Fair value as deemed cost applied at date of adoption where historical cost is not available.
5. Comparative information	No comparative information will be prepared.
6. Foreign exchange	Not applicable
7. Borrowing costs	Not adopting retrospective application of charging borrowing costs.
8. Hyper inflationary	Not applicable
9. Segment reporting	Segment information is not reported within 3 years following the date of adoption.
10. Hedge accounting	Not applicable



**Preparation of Statutory
Bodies Towards
Implementation of MPSAS**

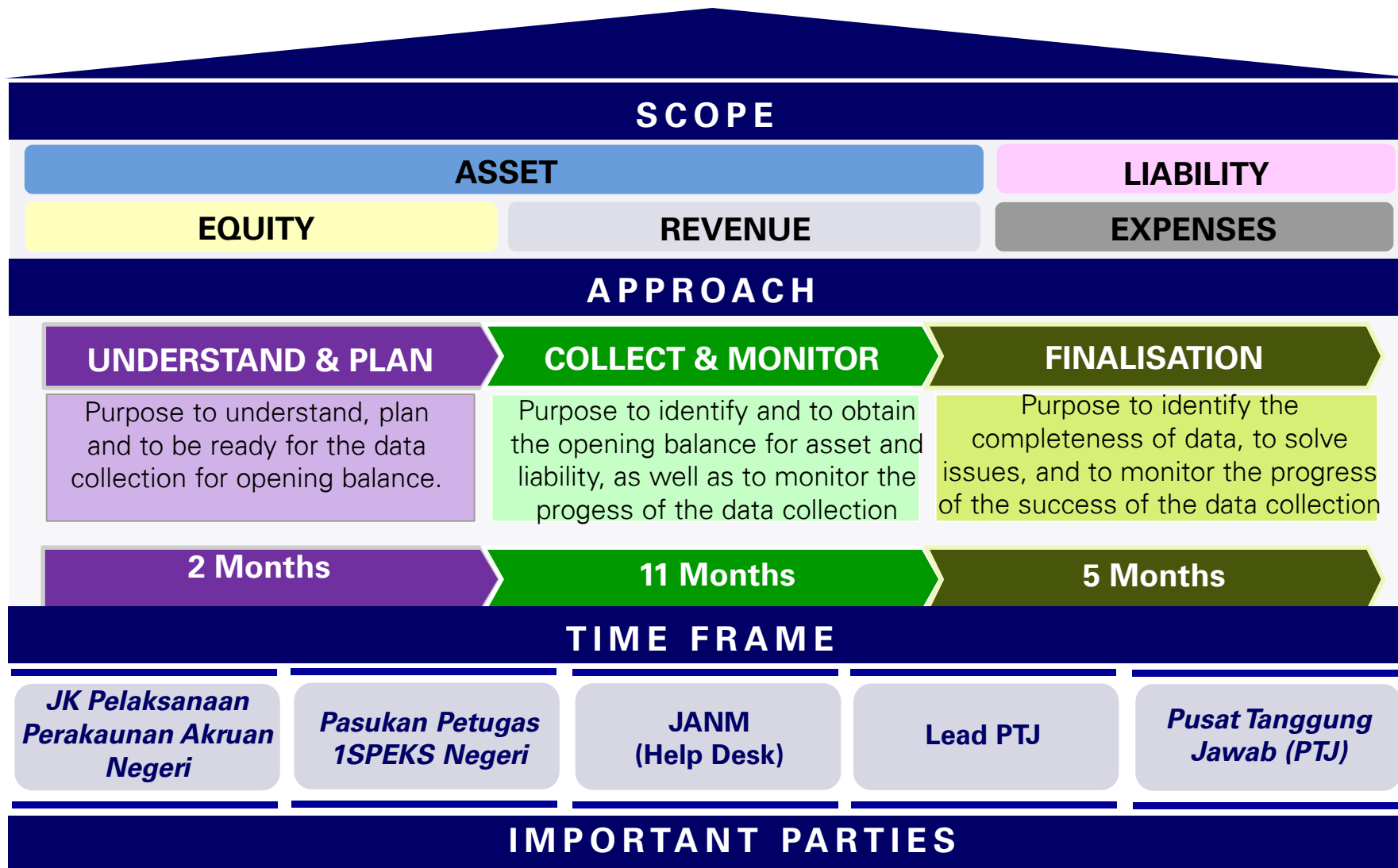
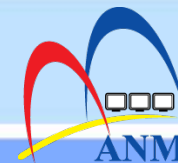
4. Preparation of Statutory Bodies Towards Implementation of MPSAS

MPSAS Conversion Steps



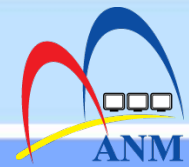
4. Preparation of Statutory Bodies Towards Implementation of MPSAS

Opening Balance Strategy



4. Preparation of Statutory Bodies Towards Implementation of MPSAS

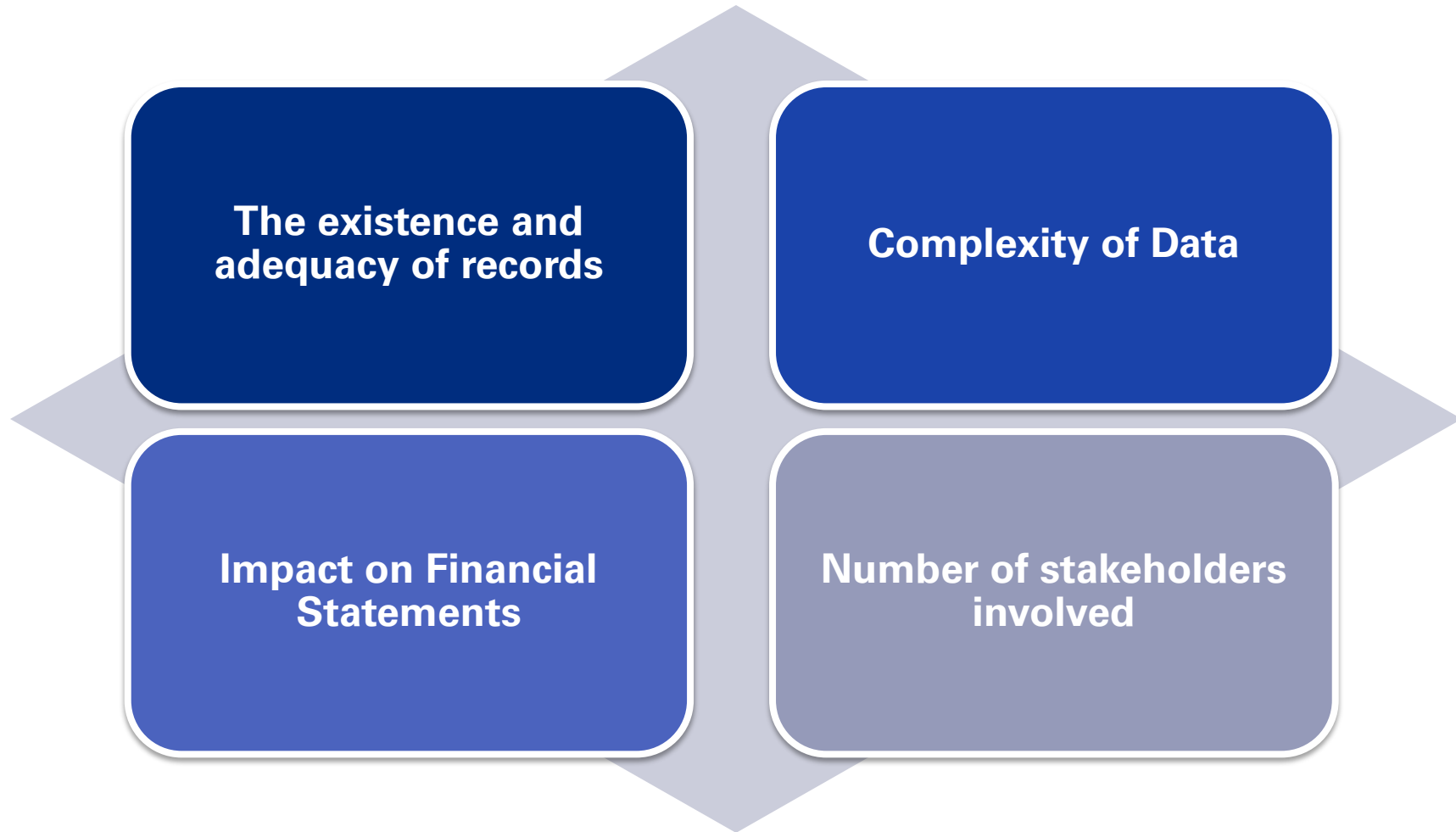
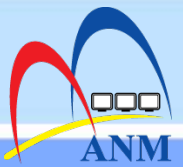
Opening Balance Strategy



Asset	Liability	Revenue	Expenses	Equity
<ul style="list-style-type: none">• Building & Work Infrastructure• Plant & Machinery• Investment Property• Asset Under Construction• Account Receivable• Inventory• Loan To• Investment• Agriculture• Intangible Asset	<ul style="list-style-type: none">• Account Payable• Loan From• Public Trust Account• Pension• Provision	<ul style="list-style-type: none">• Revenue from Exchange Transactions: : Tax• Revenue from Non-Exchange Transactions: Non-Tax• Exchange Revenue	<ul style="list-style-type: none">• Wages, Salaries and Employee Benefits• Supplies• Rental• Repair and Maintenance• Grant and other transfers• Finance costs	<ul style="list-style-type: none">• Retained surplus/deficit• Government Trust Account

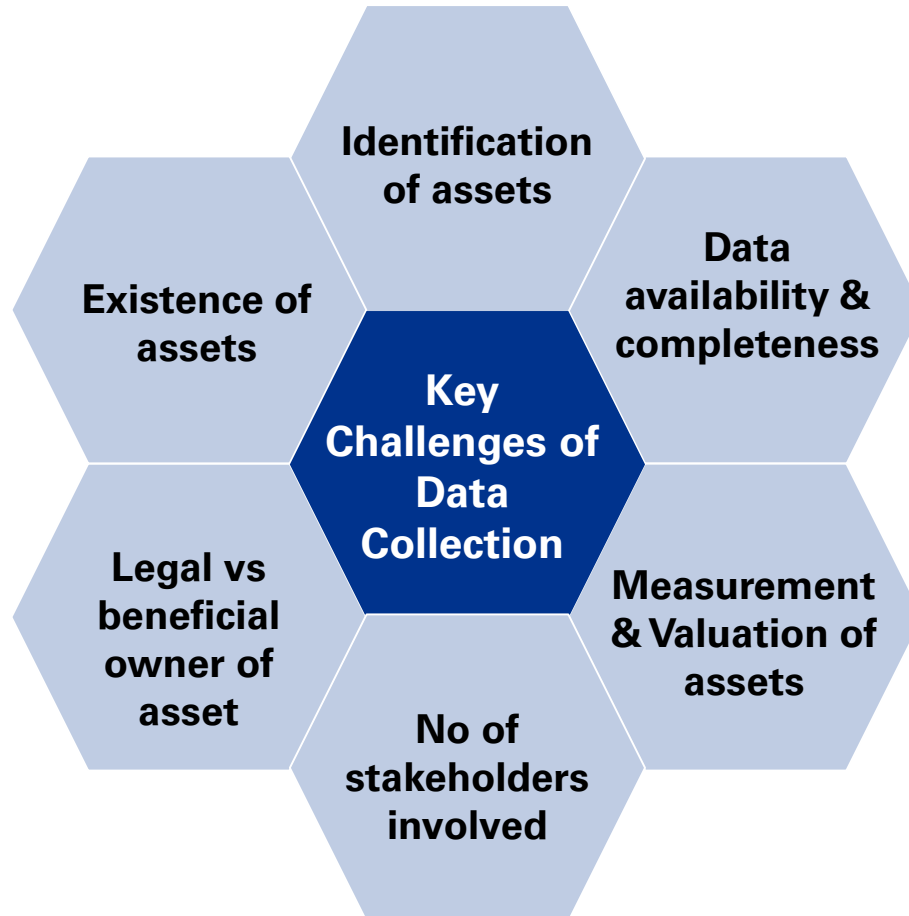
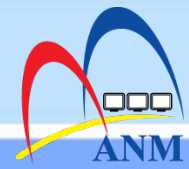
4. Preparation of Statutory Bodies Towards Implementation of MPSAS

Opening Balance Strategy



4. Preparation of Statutory Bodies Towards Implementation of MPSAS

Opening Balance Strategy – Challenges Faced

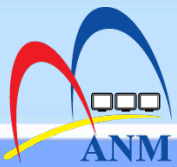


Implication

- ✓ Understatement of assets
- ✓ Same assets taken by a few parties
- ✓ Failure in obtaining the correct opening balance in time for the transitional period. (January 2017)

Proper planning and timely feedback is crucial to ensure the challenges can be dealt with accordingly.

4. Preparation of Statutory Bodies Towards Implementation of MPSAS



Information on use of MPSAS

What is the advantage of using MPSAS compared to Malaysian Private Entity Reporting Standard (MPERS)?

- MPSAS focuses more on **Government related procedures**, and is **non-profit oriented**, whereas MPERS is more towards private entities.

If the use of Private Entity Reporting Standard (PERS) is stopped, and MPSAS is yet to come into effect, what standard should be used by statutory bodies?

- For the time being, statutory bodies can **use the existing policies** which are in place.
- Statutory bodies can also **apply for the transitional exemption** under MPSAS before the full commencement of MPSAS.

Should statutory bodies follow policies set, or the standard (MPSAS etc)?

- If there is a conflict between the use of standard and policy, it is to note that **policy takes precedence**, hence policy should come first with the guidance of the standard.

What is the best solution if holding and subsidiary company practices different accounting standards?

- The best practice would be for the subsidiaries to **follow the accounting standards** used by the holding company, as only then **consolidation** can take place effectively.

What is the effect of MPSAS on conventional and Islamic practice in statutory bodies?

- MPSAS can be **used for both conventional and Islamic practice**, as there is **no restriction** on the use.

Q&A Session



Other source of reference for MPSAS

- <http://www2.anm.gov.my/akruan/Pages/Polisi-dan-Piawaian.aspx>
- Federal Accrual Accounting Manual Version 2.0 dated May 2015
- Accrual Accounting Manual (States) Version 4.1 dated November 2015

Thank you



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