

# Introduction to MPSAS

Sarawak State Government



# Agenda



## Day 1

Introduction

Accounting Principles

First Time Adoption of  
MPSAS

Presentation of Financial  
Statements

## Day 2

Property, Plant and  
Equipment

Intangible Assets

## Day 3

Inventories

Agriculture

Investment Properties

Other Receivables

Impairment of Asset

## Day 4

Public Private Partnership

Lease Accounting

## Day 5

Investments

Grants

Provisions, Contingencies  
and Commitments

## Day 6

Revenue

Construction Contract

Employee Benefits

Borrowing Cost

## Day 7

Financial Instrument

## Day 8

Policies, Estimates &  
Errors

Events After Reporting

Related Party Disclosures

General Government  
Sector

Trust Account and Trust  
Fund



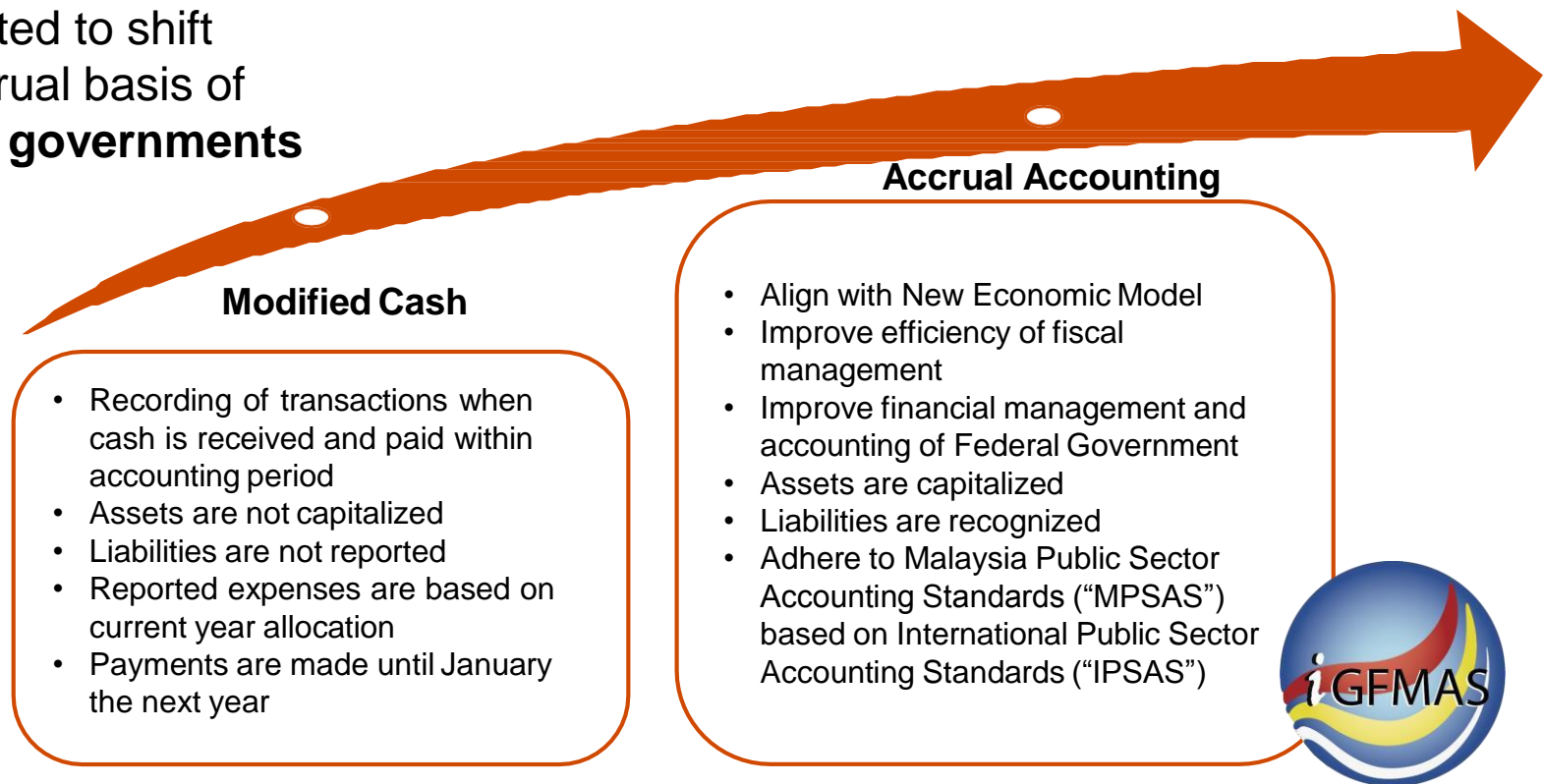
The current cash basis of accounting shall be converted to an accrual basis by 2021

*2019 Budget Speech*



The **National Finance Council** had in the meeting on 30th July 2013 agreed to implement accrual accounting for Federal and State Governments, with the proposed bill to amend Financial Procedure Act 1957.

- The Federal Government has committed to shift from modified cash accounting to accrual basis of reporting by year 2021; with the **state governments adoption by year 2022\***



\*subject to official announcement by Jabatan Akauntan Negara (“JAN”)

Source: JAN Migration to Accrual Accounting

1

Accrual Accounting  
vs Modified Cash  
Accounting





# Transformation to Accrual Accounting is Key to National Advancement

1

**Financial institutes and credit rating agencies** prioritises sustainability of monetary policies and spending

2

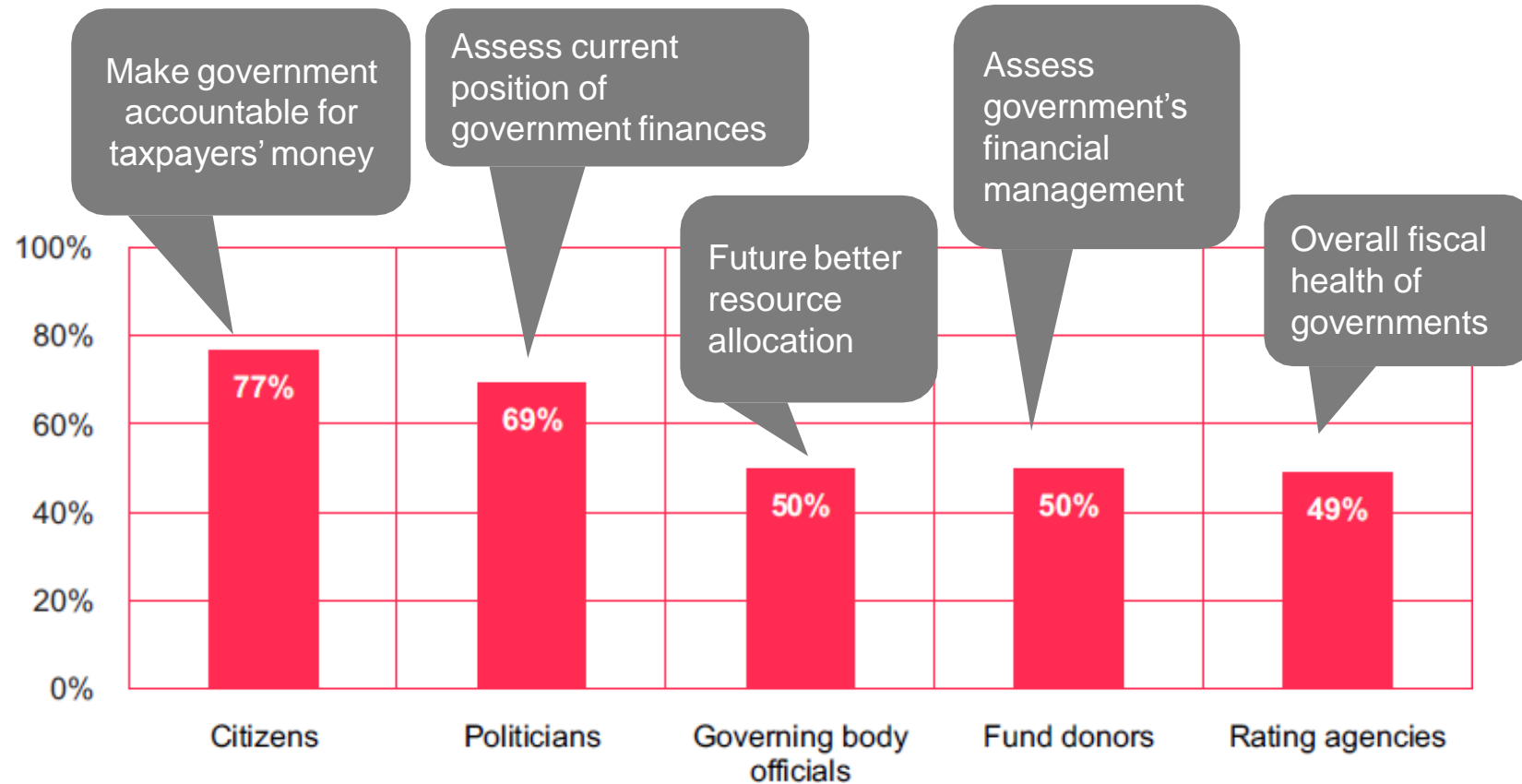
**Expenditure commitments as well as the use of its provisions by the Government** is clearly stated and will not burden the future generations

3

Places Malaysia on **par with developed countries**; which is consistent with the Government's aspiration to attain the status of developed nation (e.g. France, New Zealand, Australia)



# Accrual accounting benefits all stakeholders, especially the citizens



*Based on Global survey on accounting and reporting by central governments*



# Modified Cash Basis Accounting versus Accrual Accounting Basis

	Modified Cash Basis	Accrual Basis
Revenue	Verification and recording is performed based on <b>receipting of cash</b>	Verification and recording is performed based on when <b>revenue is recognised</b> even when there is no receipting of cash
Expenditure	Verification and recording is performed based on <b>payment of cash</b> Payment may be <b>settled in January</b> the following year	Verification and recording is performed based on when <b>expenses are incurred</b> even when there is no payment of cash
Assets	<b>Fully recorded as an expenditure</b> during acquisition. There is no depreciation	Recognised and <b>recorded as assets</b> during acquisition. Depreciation / Amortised / Impaired affected throughout its usage
Liabilities	Recognition and recording is performed based on <b>payment of cash</b>	<b>Liabilities and obligations recognised</b> and recorded as it realised / crystallised



# Accrual Accounting vs Modified Cash Accounting



## Example 1

<i>Date</i>	<i>Transaction / Event</i>
<i>30 August 2019</i>	State issued purchase order to ABC Sdn Bhd for 50,000 small Malaysia flags
<i>9 September 2019</i>	ABC Sdn Bhd delivered 50,000 small Malaysia flags and invoiced the State RM150,000 (50,000 pcs x RM3)
<i>16 September 2019</i>	Flags distributed during Malaysia Day celebration at Padang Merdeka
<i>19 September 2019</i>	State pays ABC Sdn Bhd RM150,000

1. What is the accounting entry in modified cash?
2. What is accounting entry in accrual?

# Accrual Accounting vs Modified Cash Accounting



## Example 1 (answer)

<i>Date</i>	<i>Transaction / Event</i>
30 August 2019	State issued purchase order to ABC Sdn Bhd for 50,000 small Malaysia flags
9 September 2019	ABC Sdn Bhd delivered 50,000 small Malaysia flags and invoiced the State RM150,000 (50,000 pcs x RM3)
16 September 2019	Flags distributed during Malaysia Day celebration at Padang Merdeka
19 September 2019	State pays ABC Sdn Bhd RM150,000

<i>Month</i>	<i>Modified cash basis</i>	<i>Accrual basis</i>
9 September 2019	No records	Expenses of RM150,000 recognised alongside the corresponding recognition of payables
19 September 2019	Expenses of RM150,000 recognised alongside the corresponding recognition of cash outflow	Recognition of cash outflow of RM150,000 alongside reversal of payables



# Accrual Accounting vs Modified Cash Accounting

## Example 2

Prepayment is not practiced in State

Date	Transaction / Event
3 December 2019	State issued purchase order to XYZ Sdn Bhd for 100 units of cars
24 December 2019	State made payment of RM 20 million using current year budget or allocation.
30 January 2020	State received all 100 units of car and deployed all for use by respective ministries and departments.

1. What is the accounting entry in modified cash?
2. What is accounting entry in accrual?

# Accrual Accounting vs Modified Cash Accounting



## Example 2 (Answer)

<i>Date</i>	<i>Transaction / Event</i>
3 December 2019	State issued purchase order to XYZ Sdn Bhd for 100 units of cars
24 December 2019	State made payment of RM 20 million using current year budget or allocation.
30 January 2020	State received all 100 units of car and deployed all for use by respective ministries and departments.

<i>Month</i>	<i>Modified cash basis</i>	<i>Accrual basis</i>
3 December 2019	Not accounted for	Not accounted for
24 December 2019	Expenses of RM20 million recognised alongside the corresponding recognition of cash outflow	Recognition in prepayment alongside recognition of cash outflow
30 January 2020	Not accounted for	Recognition of asset worth of RM 20 million alongside the de-recognition of prepayment and commence depreciation (over the useful life)

# 2

Malaysia Public  
Sector Accounting  
Standards (MPSAS)

# Malaysia Public Sector Accounting Standards (MPSAS)

Accrual basis of accounting and sets out the requirements dealing with transactions and other events in the general purpose financial reports



- JAN developed and had published **32 MPSASs** that are drawn primarily from International Public Sector Accounting Standards (“IPSASs”) published by International Federation of Accountants (“IFAC”)
- Thus **MPSASs are converged with IPSASs**
- If no specific guidance is provided by MPSASs, State needs to exercise judgement to develop and apply an accounting policy that is relevant and reliable.
- IPSASs can be referred to where it is applicable and relevant.

Agreement signed with IFAC on 12 February 2013 to adapt IPSAS to MPSAS



*MPSAS can be accessed from:*

<https://www2.anm.gov.my/akruan/Pages/MPSAS.aspx>



# List of MPSAS

MPSAS	Title
<b>MPSAS 1</b>	Presentation of Financial Statement
<b>MPSAS 2</b>	Cash Flow Statements
<b>MPSAS 3</b>	Accounting Policies, Changes in Accounting Estimates and Errors
<b>MPSAS 4</b>	The Effect of Changes in Foreign Exchange Rate
<b>MPSAS 5</b>	Borrowing Costs
<b>MPSAS 9</b>	Revenue From Exchange Transactions
<b>MPSAS 11</b>	Construction Contracts
<b>MPSAS 12</b>	Inventories
<b>MPSAS 13</b>	Leases
<b>MPSAS 14</b>	Events After the Reporting Date
<b>MPSAS 16</b>	Investment Property
<b>MPSAS 17</b>	Property, Plant and Equipment
<b>MPSAS 19</b>	Provisions, Contingent Liabilities and Contingent Assets
<b>MPSAS 20</b>	Related Party Disclosures
<b>MPSAS 21</b>	Impairment of Non-Cash-Generating Assets
<b>MPSAS 22</b>	Disclosure of Financial Information

MPSAS	Title
<b>MPSAS 23</b>	Revenue From Non- Exchange Transactions (Taxes & Transfers)
<b>MPSAS 24</b>	Presentation of Budget Information in Financial Statement
<b>MPSAS 25</b>	Employee Benefits
<b>MPSAS 26</b>	Impairment of Cash-Generating Assets
<b>MPSAS 27</b>	Agriculture
<b>MPSAS 28</b>	Financial Instruments: Presentation
<b>MPSAS 29</b>	Financial Instruments: Recognition and Measurement
<b>MPSAS 30</b>	Financial Instruments: Disclosures
<b>MPSAS 31</b>	Intangible Assets
<b>MPSAS 32</b>	Service Concession Arrangements: Grantor
<b>MPSAS 33</b>	First-Time Adoption of Accrual Basis MPSASs
<b>MPSAS 34</b>	Separate Financial Statements
<b>MPSAS 35</b>	Consolidated Financial Statements
<b>MPSAS 36</b>	Investments in Associates and Joint Ventures
<b>MPSAS 37</b>	Joint Arrangements
<b>MPSAS 38</b>	Disclosure of Interest in Other Entities

# IPSAS not adopted in Malaysia as of October 2019



No	IPSAS	Effective Date
1	IPSAS 10 – Financial Reporting in Hyperinflationary Economies	1 July 2002
2	IPSAS 18 – Segment Reporting	1 Jan 2013
3	IPSAS 39 – Employee Benefits (Supersede IPSAS 25)	1 Jan 2018
4	IPSAS 40 – Public Sector Combinations	1 Jan 2019
5	IPSAS 41 – Financial Instruments	1 Jan 2022
6	IPSAS 42 – Social Benefits	1 Jan 2022

*Deleted*

# Scope of MPSAS

[What are public sector entities?](#)

The MPSASs are designed to apply to the general purpose financial reports of all **public sector entities** other than Government Business Enterprises (“GBEs”)

## Public Sector Entities

Government ministries, departments, programs, boards, commissions, agencies



Public sector social security funds, trust and statutory authorities



## GBE

- Power to contract in its own name
- Assigned financial and operational authority to carry on a business
- Sells goods and services to other entities at a profit or full cost recovery
- Not reliant on continuing government funding to be a going concern (other than purchases of output at arm's length)
- Controlled by a public sector entity



# 3

## Accrual Accounting Manual

# The manual outlines policy, practice and guidance on the application of accrual accounting for the State based on MPSASs framework

## Purpose and objectives of the accrual accounting manual

**1**

Provide guidance and general information

**2**

Assist finance staff in recording routine and complex transactions

**3**

Provide guidance on recognition, measurement and disclosure requirements for financial statements preparation

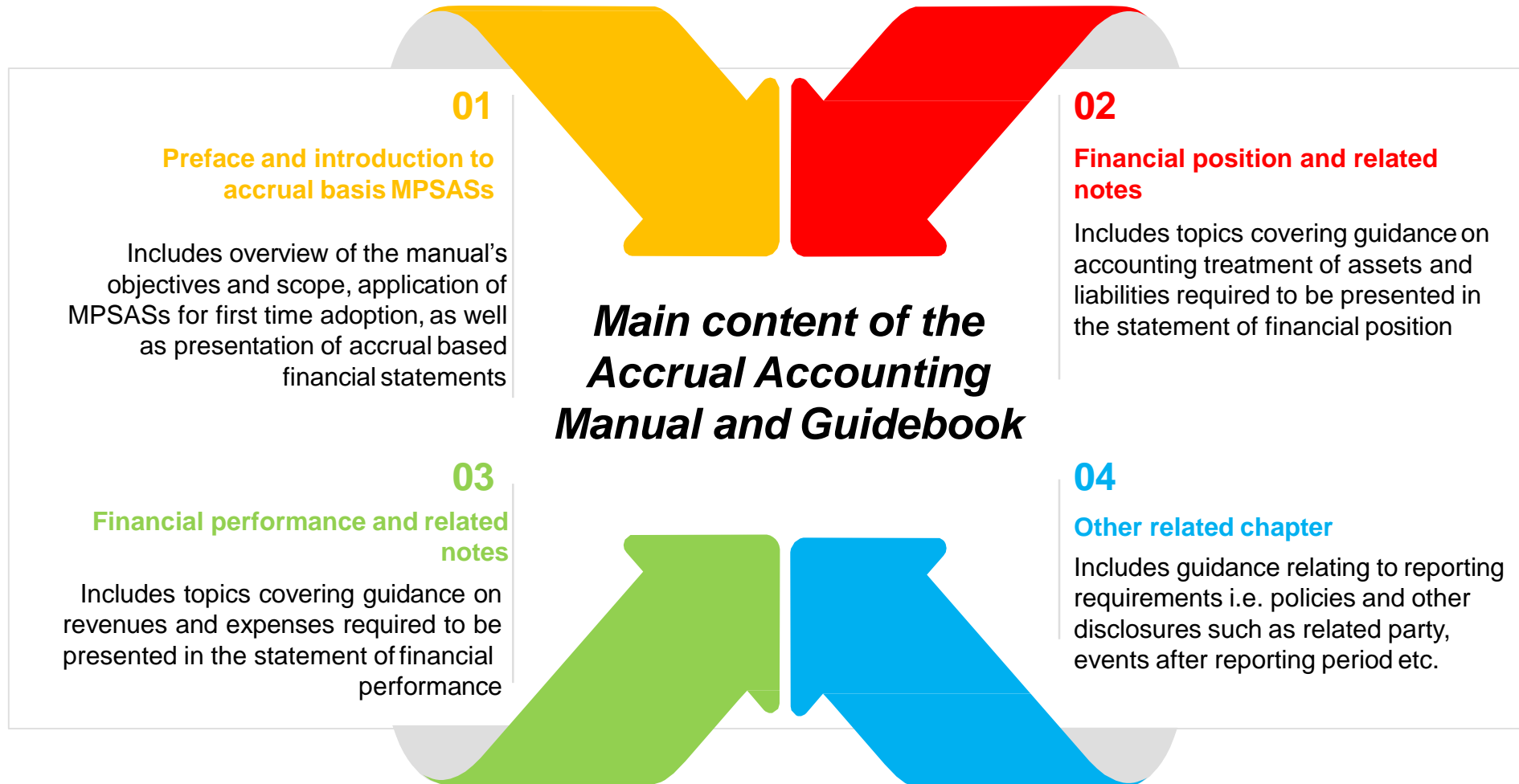
### This manual is applicable for:

- All State Ministries
- All State Departments
- All Responsibility Centres

### Other references:

- i. Financial Procedure Act 1957
- ii. Malaysian Public Sector Accounting Standards
- iii. Chart of Accounts (“CoAs”)
- iv. Treasury Instructions, Circulars and Guidelines
- v. JAN Circulars
- vi. Other relevant laws and regulations

# Structure and Contents of Manual





# Structure and Contents of Manual (cont'd)



The following are the topics covered in the Accrual Accounting Manual and Guidebook:

## Preface and introduction to accrual basis MPSASs

- Introduction
- Accounting principles : *MPSAS 1*
- First time adoption of MPSASs : *MPSAS 33*
- Presentation of financial statements : *MPSAS 1, 2 and 24*

## Financial position and related notes

### Asset related topics:

- Property, plant and equipment : *MPSAS 17*
- Public private partnership (“PPP”) : *MPSAS 32*
- Inventories : *MPSAS 12*
- Agriculture : *MPSAS 27*
- Investments : *MPSAS 34, 35, 36, 37, 38*
- Investment properties : *MPSAS 16*
- Lease accounting : *MPSAS 13*
- Intangible assets: *MPSAS 31*
- Other receivables : *MPSAS 29, 30*

### Financial instruments related topic:

- Financial Instruments : *MPSAS 4, 19, 28, 29, 30*

### Impairment related topic:

- Impairment of assets : *MPSAS 21, 26*

### Liability related topics:

- Grants : *MPSAS 19*
- Provisions : *MPSAS 19*
- Contingencies : *MPSAS 19*
- Commitments : *MPSAS 13, 14, 16, 17, 29*

# Structure and Contents of Manual (cont'd)



The following are the topics covered in the Accrual Accounting Manual and Guidebook:

## Financial performance and related notes

### Revenue related topic:

- Revenue : *MPSAS 9 and 23*

### Construction contract related topic:

- Construction contracts : *MPSAS 11*

### Employee benefits related topic:

- Employee benefits : *MPSAS 25*

### Borrowing cost related topic:

- Borrowing cost : *MPSAS 5*

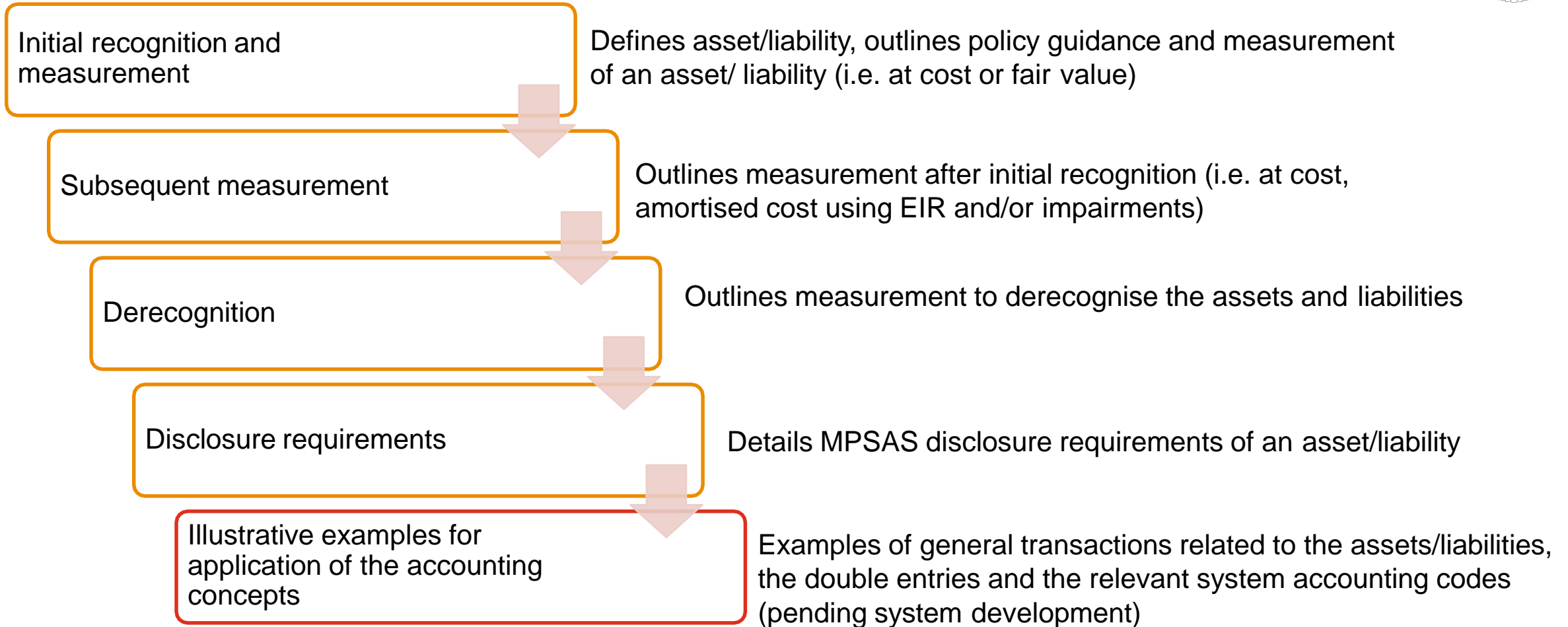
## Other related chapters

### Reporting related topics:

- Accounting policies, accounting estimates and errors : *MPSAS 3*
- Events after reporting date : *MPSAS 14*
- Related party disclosures : *MPSAS 20*
- General government sector (GGS) financial statements : *MPSAS 22*
- Trust account : *MPSAS 1*



# Structure and Contents of Manual (cont'd)



i) Specific accounting policy guidelines are added to each respective chapter (if applicable)

# Appendices

# Key characteristic of public sector entities



	<b>Public Sector Entities</b>	<b>Private Sector Entities</b>
<b>Objective</b>	Profit in service and social benefits for citizens and members	Maximising profit for shareholders
<b>Source of Fund</b>	Money (taxes, fees and transfers)	Profit in service and benefits for customers
<b>Stakeholders</b>	Investors in bonds, banks, donors, citizens, employees, customers, suppliers	Investors in shares and bonds, banks, employees, customers, suppliers

# Samples of Accounting Policies /Guides



## Initial recognition and measurement

- 3.3.2 Inventories are assets:
- (a) In the form of materials or supplies;
  - (b) In the form of materials or services;
  - (c) Held for sale or distribution;
  - (d) In the process of production.
- 3.3.3 Inventories for the State may include:
- (a) Ammunition;
  - (b) Consumable stores;
  - (c) Maintenance materials;
  - (d) Spare parts for plant and equipment;  
Plant and Equipment;
  - (e) Supplies held for sale (for example, for sale to the public);
  - (f) Agriculture produce (if material).

Inventories which have a value of RM1 million or more per responsibility centre as at the end of preceding three (3) financial years shall be capitalised.

## 3.5 Investments

### Introduction

3.5.1 This chapter deals with the accounting treatment for controlled entities, associates and joint ventures.

Topics covered include:

- Types of investments
- Initial recognition and measurement
- Subsequent measurement
- Disclosure requirements

### Types of investments

3.5.2 Investments in controlled entities, associates and joint ventures are equity investments in companies and statutory bodies.

The State will take advantage of the three (3) year transitional relief for the recognition and/or measurement of interest in controlled entities, associates and joint ventures in the financial statements by applying equity method.

Refer Chapter 2.2 First time adoption of MPSASs for further details.

Samples of  
policy guidelines