MPSAS 17:
Property, Plant and Equipment

Accrual Accounting Manual Training

Jabatan Perbendaharaan Negeri Sarawak

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

Components & elements of financial statements

	COMPONENTS	MPSAS
1	Statement of Financial Position	MPSAS 1
2	Statement of Financial Performance	MPSAS 1
3	Statement of Changes in Net Assets/Equity	MPSAS 1
4	Cash Flow Statement	MPSAS 2
5	Statement of Budget Performance	MPSAS 24
6	**Notes to the Financial Statements**	Various MPSAS

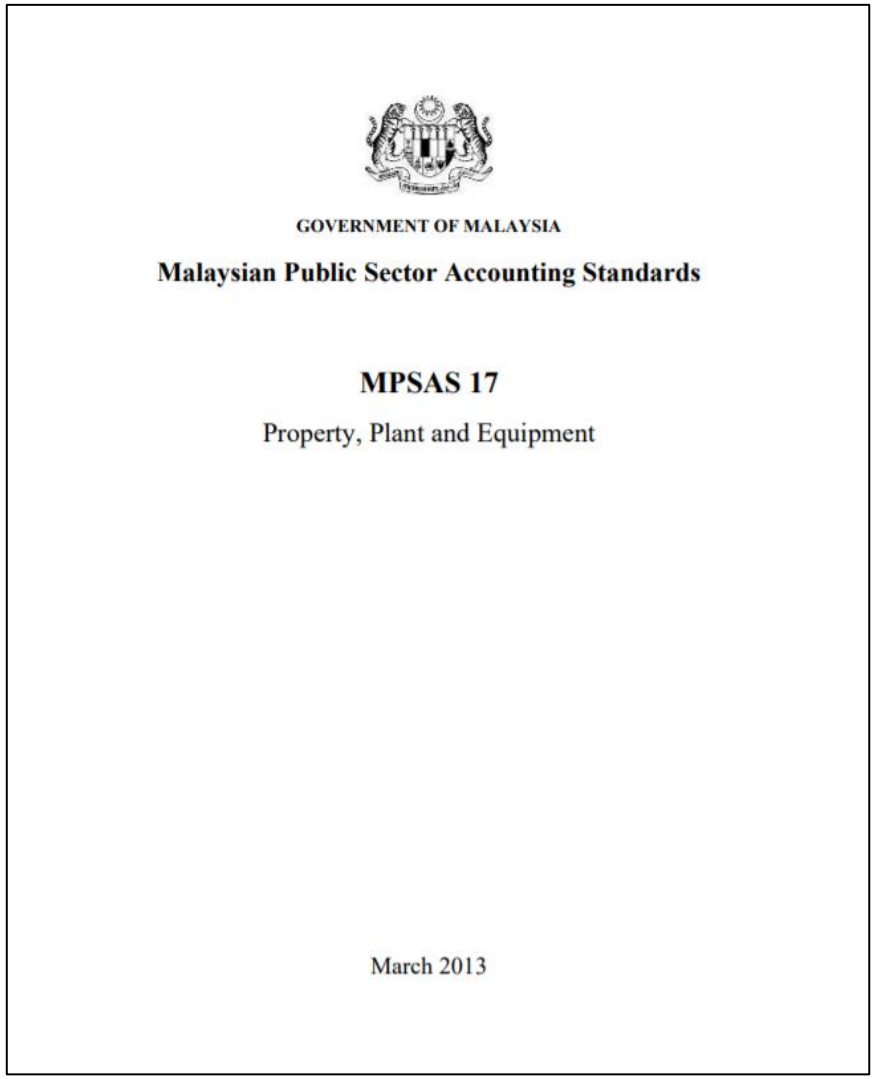
- Financial statement is to be prepared in accordance with the accounting principles

MPSAS 17
Property, Plant and Equipment

- Assets held for
  – use in the production or supply of goods or services
  – rental to others
  – administrative purposes and

- Expected to be used for more than one reporting period

Effective Date : 1 January 2017


GOVERNMENT OF MALAYSIA

Malaysian Public Sector Accounting Standards

MPSAS 17

Property, Plant and Equipment

March 2013

Where is PPE on the statement of financial position?

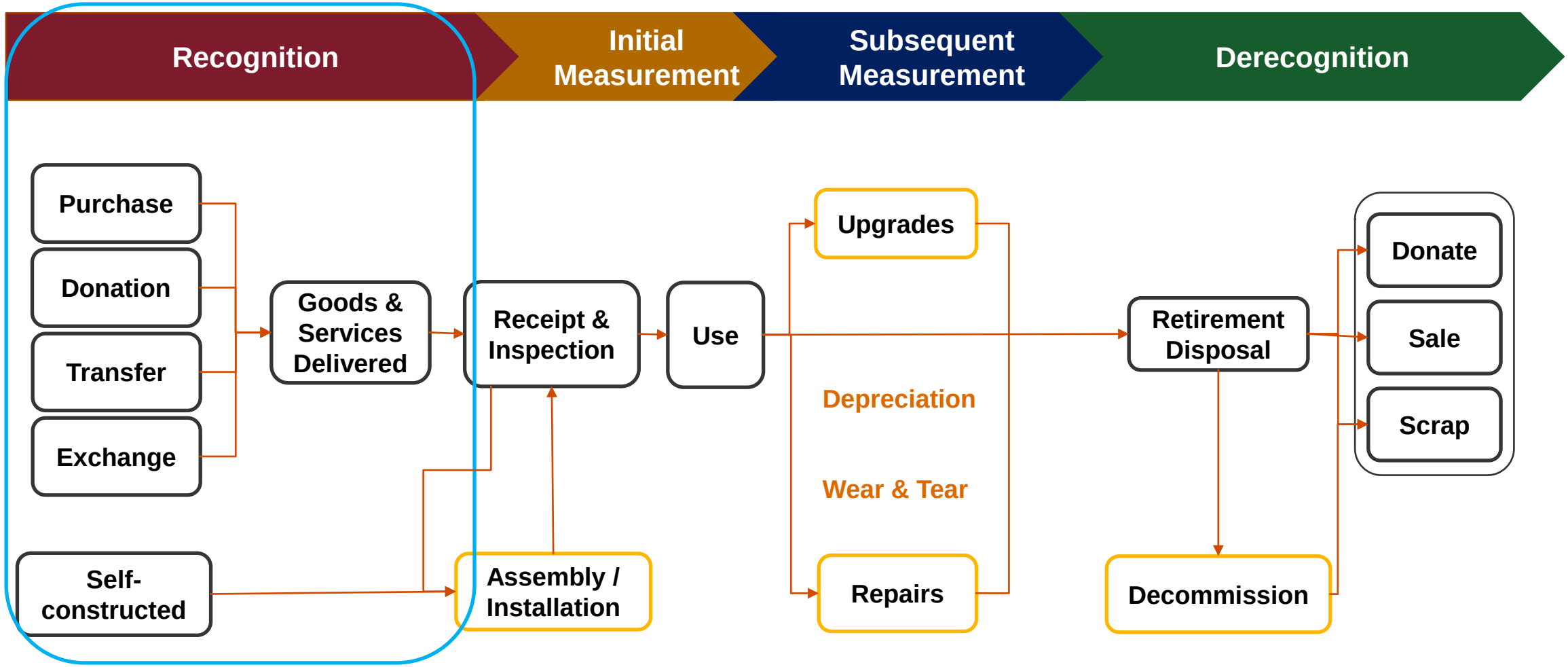
Statement of financial position As at 31 December, 20X2	Notes	20X2 RM'000	20X1 RM'000
Assets			
Current assets			
Cash and cash equivalents		xx	xx
Recoverable from taxes and transfers		xx	xx
Receivables		xx	xx
Inventories		xx	xx
Other receivables		xx	xx
Other current assets		xx	xx
Total current assets		xx	xx
Non-current assets			
Recoverable from taxes and transfers		xx	xx
Receivables		xx	xx
Investments in controlled entities		xx	xx
Property, plant and equipment		xx	xx
Intangible assets		xx	xx
Other receivables		xx	xx
Total non-current assets		xx	xx
Total assets		xx	xx

Classes of PPE

A grouping of assets of **similar nature or function** in State's operation:

a) Land;
b) Government buildings
c) Quarters
d) Roads
e) Bridges and Wharves
f) Sewerage infrastructure
g) Water treatment infrastructure
h) Agriculture and veterinary infrastructure
i) Ships
j) Aircraft
k) Motor vehicles
l) Machineries
m) Furniture and fixtures
n) Office equipment and many others…

PPE Life Cycle



Initial Recognition

Property, plant and equipment acquired through an exchange transaction shall be initially recognized as an asset at cost 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.

Criteria for capitalization :

- Assets should be controlled by the entity as a result of past events through purchase, construction or donation
- Future economic benefits or service potential should be expected to flow to the entity

Proposed PPE Capitalisation Threshold

Capitalise as **asset**	→	≥ RM2,000* each item (*subject to review*)
Expense to surplus and deficit	→	Below RM2,000* or low value assets

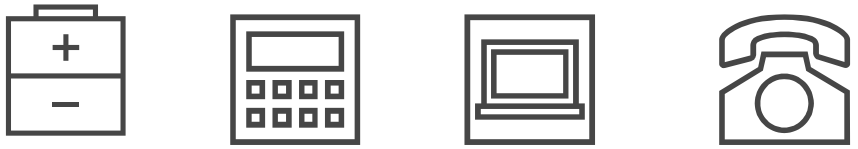
The capitalisation threshold for property, plant and equipment is **RM2,000** per item subject to regular review. Asset below RM2,000 (i.e. low value asset) shall be expensed off but recorded in the assets register for record and control purpose.

*the capitalisation threshold is subject to Treasury's policies

Low value asset

Illustrative Example (Scenario 16)

An entity purchased office equipment costing RM1,500.



How shall the entity record the journal entries for purchases below the capitalization threshold?

Low value asset

Illustrative Example (Scenario 16)

1) To record low value asset purchased

As the machine parts purchased costs lower than the capitalisation threshold of RM2,000*, the low value asset will be expensed off.

DR/CR	Account description	Amount (RM)
DR	Expense	1,500
CR	Cash	1,500

*the capitalisation threshold is subject to Treasury's policies

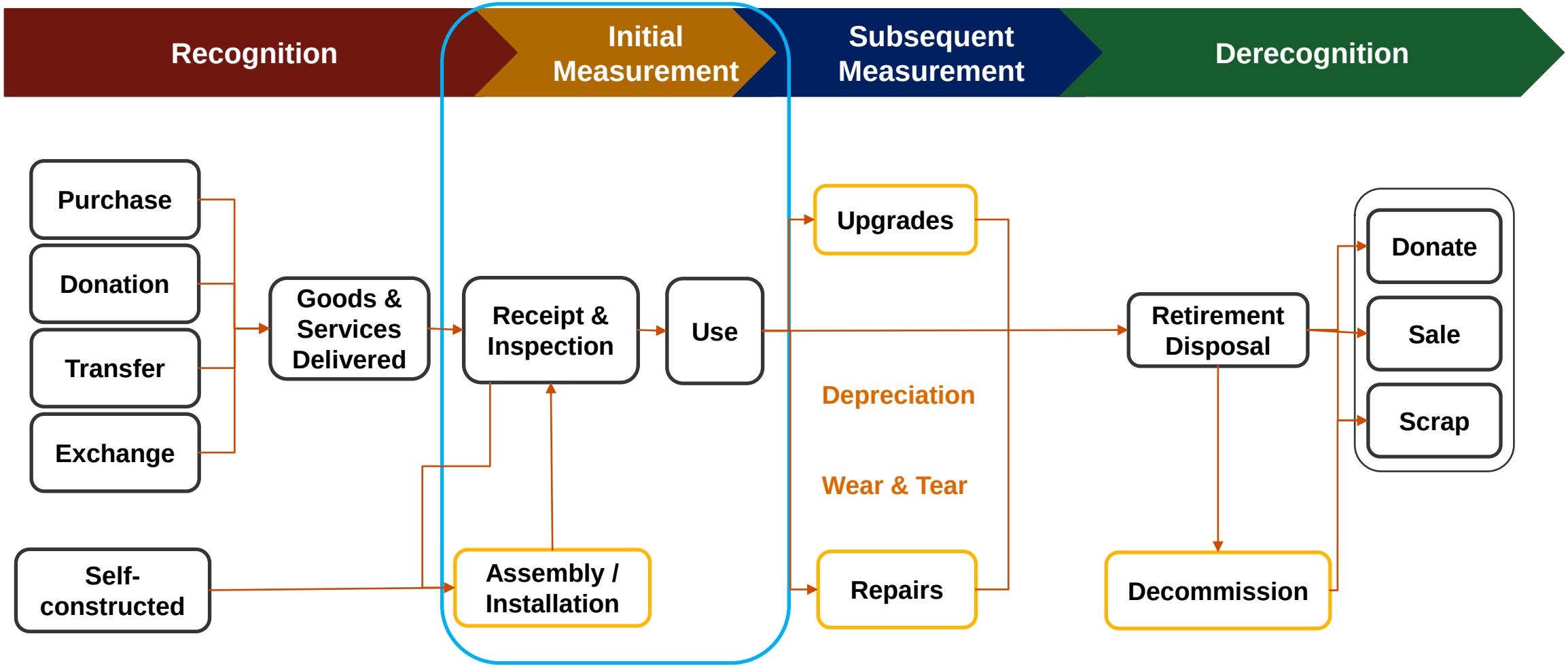
Should spare part and servicing equipment be recognised as PPE?

No

Unless can demonstrate, the spare parts and servicing equipment's:

a) Major spare parts and servicing equipment are expects to use for more than one period; or
b) Can be used only in connection with an item of PPE

PPE Life Cycle



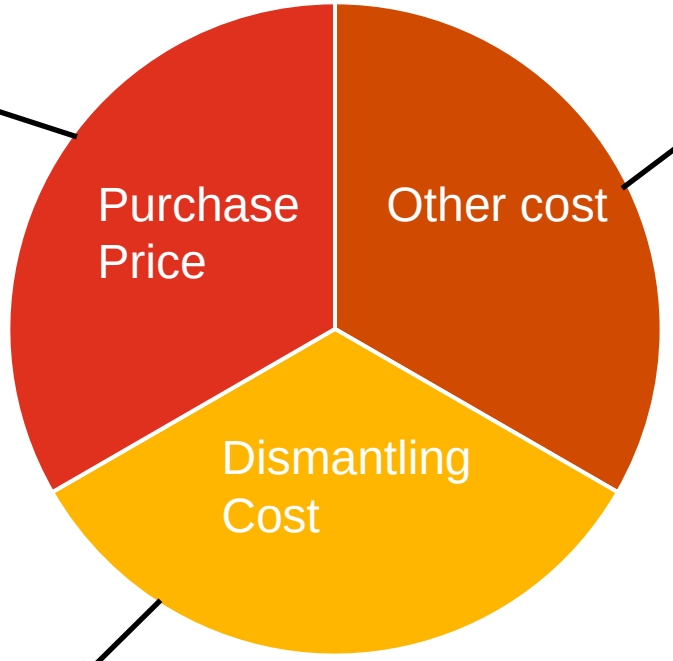
Elements of Cost

Examples of directly attributable costs are:

- Cost of employee benefits that arise directly from the construction or acquisition of the item
- The costs of site preparation
- Initial delivery and handling costs
- Installation and assembly costs
- Professional fees
- Cost of testing whether the asset is working properly

+ import duties and non- refundable purchase taxes

- Minus trade discounts or rebates



Any other costs that are incurred in bringing the asset to the present location and condition intended by management

Estimated cost of dismantling and removing the item and restoring the site on which it is located due to obligation incurred when the item is acquired or through use.

Initial Measurement

Illustrative Example (Scenario 1)

- The entity purchased and received a vehicle for RM23,500 on 31 January 20X7.
- Delivery costs are an additional RM500. Payment takes place on the 15 February 20X7.
- The vehicle has a useful life of 10 years with no estimated residual value.

How shall the entity record the journal entries on initial recognition under these 2 scenarios:

(i) Delivery with invoice

(ii) Delivery without invoice

How shall Entity A record the payment on 15 February?

Initial Measurement

Illustrative Example (Scenario 1)

Delivery with invoice

1) To record the purchase and receipt of the vehicle on 31 January 20X7

(a) Delivery with invoice

The entity should capitalise the asset as property, plant and equipment (vehicle) account, since it is above the RM2,000 capitalization threshold. Delivery costs should be capitalised as part of the cost of the asset. Since the entity has not paid for the vehicle, a liability must be recorded for the amount owing.

DR/CR	Account description	Amount (RM)
DR	Property, plant and equipment (vehicle)	24,000
CR	Account payable	24,000

Includes RM500 delivery cost

Initial Measurement

Illustrative Example (Scenario 1)

Delivery without invoice

1) To record the purchase and receipt of the vehicle on 31 January 20X7

b) Delivery without invoice

Similar to 1(a), an entity received the asset without the supporting invoice. In such an instance, the goods received but invoice not received (GRIR), a transit account, is credited.

DR/CR	Account description	Amount (RM)
DR	Property, plant and equipment (vehicle)	24,000
CR	Goods received invoiced not received (GRIR)	24,000

Not recorded in AP account

Once invoice is in receipt, a transfer journal of liability is done from the GRIR account to accounts payable.

Initial Measurement

Illustrative Example (Scenario 1)

2) To record the payment of vehicle on 15 February 20X7

When the entity makes a payment, the liability account is reversed and cash account is reduced accordingly.

DR/CR	Account description	Amount (RM)
DR	Account payable	24,000
CR	Cash	24,000

Cost of Construction of Asset

Illustrative Example (Scenario 4)

- An entity plans to construct an asset, which functions to provide benefits to the entity over a useful life of 10 years. The construction of the asset is scheduled to be completed in 4 months.
- The entity incurs the following costs in constructing the asset:
  a) Feasibility assessment studies which costs RM3,000
  b) Cost of evaluating sites for the asset amounting to RM3,000
  c) Materials and supplies amounting to RM6,000
  d) Labour cost of RM5,000

Would all the costs incurred be capitalized in the construction of the asset?

How shall the entity record the journal entries on assets under construction?

Cost of Construction of Asset

Illustrative Example (Scenario 4)

1) To record the asset under construction

Only costs that are directly attributable to the construction of the asset is capitalised as asset under construction. The materials and supplies cost and the labour cost incurred to construct the asset is capitalised as asset under construction.

DR/CR	Account description	Amount (RM)
DR	Asset under construction	11,000
CR	Account payable	11,000

However, the cost of conducting the feasibility assessment studies and also the cost of evaluating sites for the asset are generally not cost directly attributable to constructing the asset, thus it is expensed off at the period it is incurred.

Entity purchases a computer but work is still required to get it ready for use

Illustrative Example (Scenario 5)

- Entity buys computer hardware for RM200,000.
- The equipment is not functional until it has been installed properly and is ready for use.
- Until that time the equipment will not be depreciated.
- The following costs are associated with getting the equipment ready for use:

  a) Freight charges of RM500

  b) Computer consultants to set up the hardware amounting to RM35,000

  c) Additional circuits required to modify the hardware to adapt to entity's needs amounting to RM5,000

How shall the entity record the journal entries while the equipment is getting ready for use?

How shall the entity then record the journal entries once the computer is ready?

Entity purchases a computer but work is still required to get it ready for use

Illustrative Example (Scenario 5)

1) To record the purchase of the computer hardware

The asset is over the threshold RM2,000 amount and must be capitalised. Since the asset is not ready for use, the asset should not be depreciated.

DR/CR	Account description	Amount (RM)
DR	Property, plant and equipment – asset under construction	200,000
CR	Account payable	200,000

Entity purchases a computer but work is still required to get it ready for use

Illustrative Example (Scenario 5)

2) To record and capitalise cost of computer consultants amounting to RM35,000 directly attributable to the computer equipment as part of the asset

DR/CR	Account description	Amount (RM)
DR	Property, plant and equipment – asset under construction	35,000
CR	Cash	35,000

Entity purchases a computer but work is still required to get it ready for use

Illustrative Example (Scenario 5)

3) To record additional expenses of RM5,500 (freight and additional circuits charges) related to the computer hardware installation

Similar journal entry as 2) above. Total computer cost capitalised will amount to RM240,500

DR/CR	Account description	Amount (RM)
DR	Property, plant and equipment – asset under construction (freight charges)	500
DR	Property, plant and equipment – asset under construction (additional circuits)	5,000
CR	Cash	5,500

Entity purchases a computer but work is still required to get it ready for use

Illustrative Example (Scenario 5)

4) The computer is ready for use

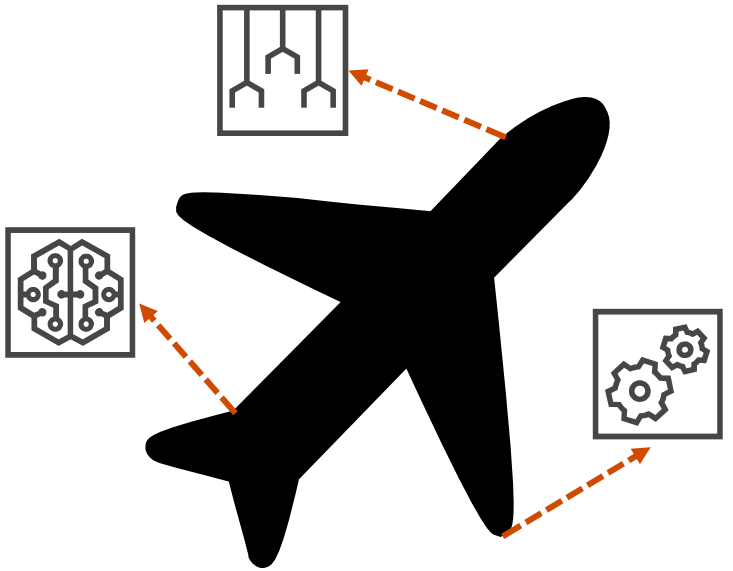
DR/CR	Account description	Amount (RM)
DR	Property, plant and equipment – computer hardware	240,500
CR	Property, plant and equipment – asset under construction	240,500

Depreciation of the asset commences once the asset is ready for use.

A reclassification transfer journal entry is required to move asset from AUC to computer hardware. Useful life of computer hardware is expected to be 5 years and depreciation will now commence based on the cost value of RM240,500. Similar journal entry under Scenario 1 applies.

Componentisation of Assets

- Componentization is the separation of an asset into its significant component.
- Each part of an item of property, plant, and equipment with:
    a) a cost that is significant in relation to the total cost of the item; and
    b) a different useful life will need to be componentised separately
- For example:
    a) An aircraft and its engines
    b) Building and air conditioning system/lifts



Purchase of a property, plant and equipment that can be componentised

Illustrative Example (Scenario 3)

- The entity purchased an aircraft which amounts to RM350,000 on 31 January 20X7.
- Upon assessment, the engine of the aircraft should be componentised and is valued at RM100,000.
- The aircraft is said to have an estimated useful life of 20 years while the engine has a useful life of 40 years.

How shall the entity record the aircraft?

How shall the entity take into account the aircraft's engine?

Purchase of a property, plant and equipment that can be componentised

Illustrative Example (Scenario 3)

1) To record the purchase and receipt of the aircraft on 31 January 20X7

The entity should capitalise this asset as a property, plant and equipment account, since it is above the RM2,000* capitalization threshold. Furthermore, both the aircraft and engine will need to be treated as two separate assets as the costs are significant and both have different useful life.

DR/CR	Account description	Amount (RM)
DR	Property, plant and equipment (aircraft)	250,000
DR	Property, plant and equipment (engine)	100,000
CR	Account payable	350,000

*the capitalisation threshold is subject to Treasury's policies

Should subsequent cost be recognised as PPE?

In conjunction of the latest V-KOOL Malaysia Day Sale, state department decided to install V-KOOL window tinting treatment on the existing fleet of vehicles in the Northern Region (Bintulu, Miri and Limbang).

No

Subsequent cost should be capitalised when:

- It is probable that future economic benefits or services potential associated with the item will flow to the entity, and
- The cost of the item can be measured reliably
- Example: Increase in productive capacity, an additional ability to generate future economic benefits or service potential or an extension in useful life.

Subsequent Cost

Illustrative Example (Scenario 2)

- The entity purchased a building on 31 January 20X7 for RM300,000 with a useful life of 50 years.
- Subsequently after 10 years, the centralised air condition system was removed and reinstalled with a new system. The cost of the original air condition system was RM50,000 and was accounted for as a separate component of asset.
- The new air condition system was valued at RM70,000. At this point, the net book value of the original air condition was RM40,000.

How shall the entity record the new air conditioning system?

Subsequent Cost

Illustrative Example (Scenario 2)

1) To record the removal of the old centralised air condition system

The net book value of the old air conditioner system amounts to RM40,000 at the point when it is removed.

DR/CR	Account description	Amount (RM)
DR	Accumulated depreciation	10,000
DR	Write off expense	40,000
CR	Property, plant and equipment (air conditioner)	50,000

= Cost of the air conditioner system – the carrying amount
= RM 50,000 – RM 40,000

Subsequent Cost

Illustrative Example (Scenario 2)

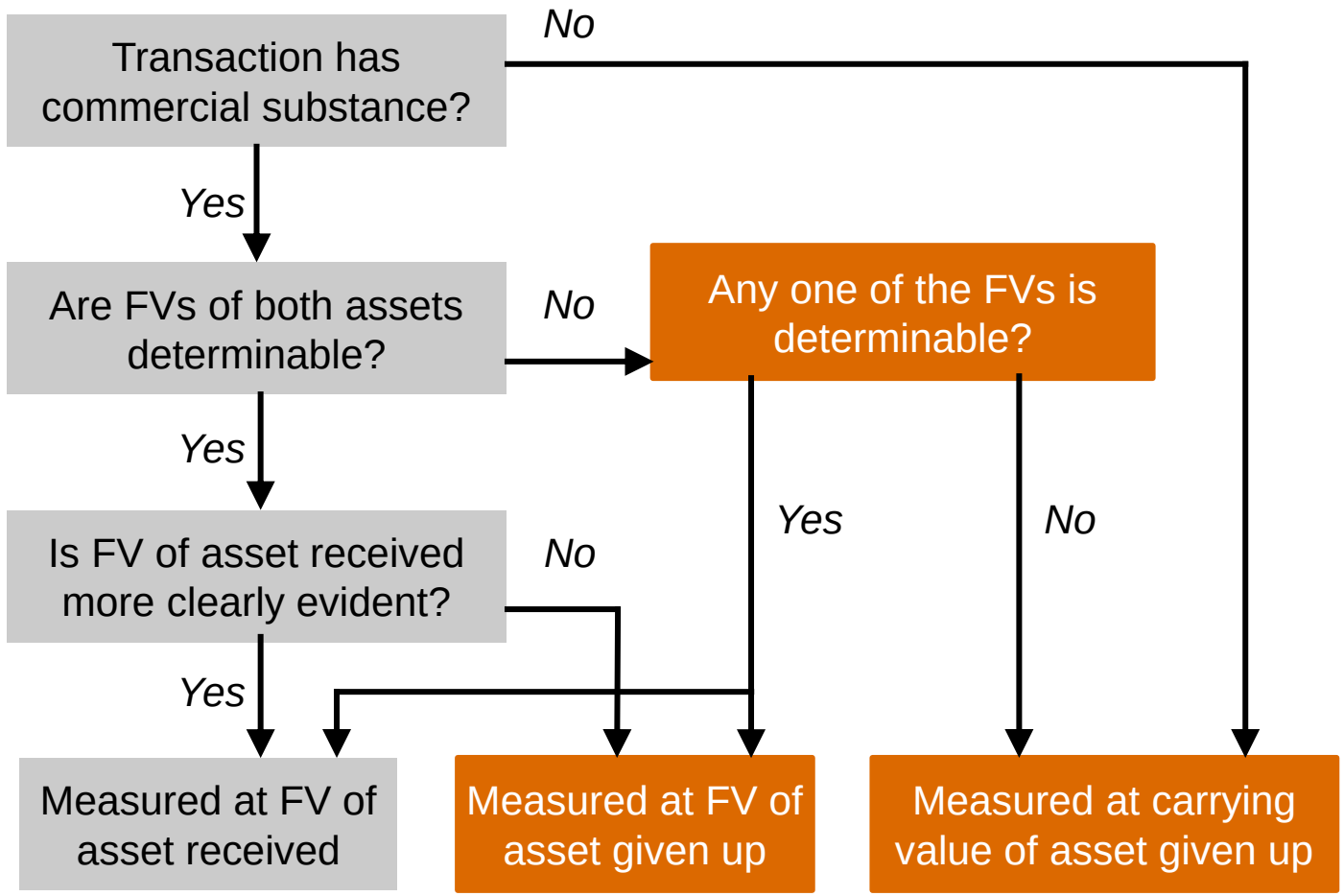
2) To record the installation of the new centralised air condition system

The new air condition system installed amounts to RM70,000. At the point of installation, property, plant and equipment account is debited and the cash account is reduced accordingly.

DR/CR	Account description	Amount (RM)
DR	Property, plant and equipment (air conditioner)	70,000
CR	Cash	70,000

Non-monetary exchange of PPE

- Exchanges of non-monetary assets, liabilities or services for other non-monetary assets, liabilities or services with little or no monetary consideration involved.
- Measurement at fair value, unless:
  i. The exchange transaction lacks commercial substance; or
  ii. The fair value of neither the asset received nor the asset given up is reliably measurable.

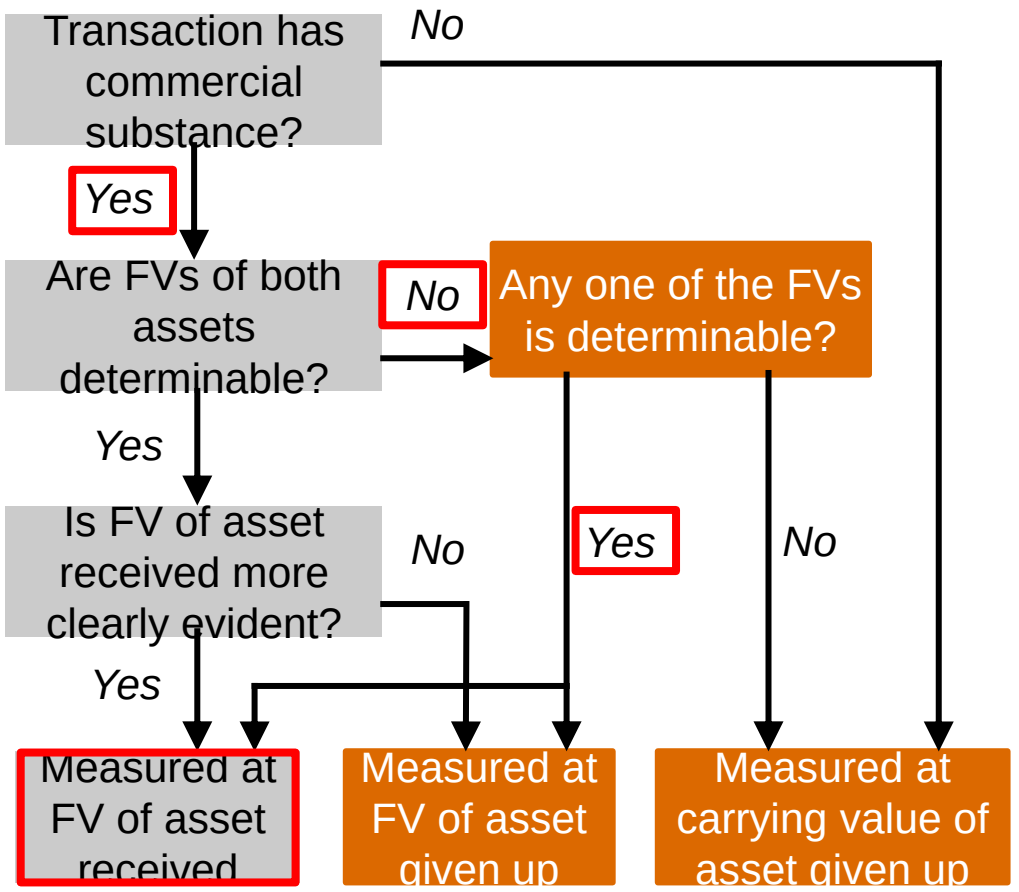


Acquisition of property, plant and equipment via trade-in

Illustrative Example (Scenario 8)

- The entity trades in an old piece of research equipment for a new piece of research equipment.
- The old equipment has an accumulated depreciation of RM7,000 and an original cost of RM8,000.
- Trade in price is RM600. The new equipment has a value of RM10,000.

How shall the entity record the new asset received and asset given up?



Acquisition of property, plant and equipment via trade-in

Illustrative Example (Scenario 8)

1) To record the new acquisition via trade-in

The cost of the old equipment and related accumulated depreciation should be removed or derecognised from the books. The loss on the disposal of the trade-in is RM400.

DR/CR	Account description	Amount (RM)
DR	Property, plant and equipment (new)	10,000
DR	Accumulated depreciation – equipment (old)	7,000
DR	Loss from disposal of property, plant and equipment (P&L)	400
CR	Property, plant and equipment (old)	8,000
CR	Account payable (net of trade in amount)	9,400

Non-monetary transfer of property, plant and equipment

Illustrative Example (Scenario 13)

- The education service entity transfers software and hardware equipment to the health services entity (i.e. inter entity transfer).
- This transfer of asset is done at no consideration.
- The asset is transferred at its gross value of RM115,000 with the accumulated depreciation value of RM20,000.

How shall the entity record the journal entries at the respective parties during the transfer?

(i) The education service entity

(ii) The health services entity

Non-monetary transfer of property, plant and equipment

Illustrative Example (Scenario 13)

1) To record the disposal at the transferring entity i.e. at the education service entity

The transferring entity is seen to record Transfer Out – Non-Financial Asset on disposal.

DR/CR	Account description	Amount (RM)
DR	Transfer out – non-financial asset (P&L)	95,000
DR	Accumulated depreciation (IT equipment)	20,000
CR	Property, plant and equipment (IT equipment)	115,000

Non-monetary transfer of property, plant and equipment

Illustrative Example (Scenario 13)

2) To record the acquisition at the receiving entity i.e. at the health service entity

The receiving entity is seen to record Transfer In – Non-Financial Asset on acquisition.

DR/CR	Account description	Amount (RM)
DR	Property, plant and equipment (IT equipment)	115,000
CR	Accumulated depreciation (IT equipment)	20,000
CR	Transfer in – non-financial asset (P&L)	95,000

At the State statement of financial performance, gain on acquisition and loss on disposal will eliminate.

Non-monetary transfer of property, plant and equipment

Illustrative Example (Scenario 13)

3) To record transfer of similar asset using the same scenario from education service entity to a local university, an entity outside the State

As the transfer of asset is not within the entity, the transfer is done at net book value of RM95,000, with no consideration given.

DR/CR	Account description	Amount (RM)
DR	Loss on disposal	95,000
DR	Accumulated depreciation (IT equipment)	20,000
CR	Property, plant and equipment (IT equipment)	115,000

Non-monetary transfer of property, plant and equipment

Illustrative Example (Scenario 13)

3) To record transfer of similar asset using the same scenario from education service entity to a local university, an entity outside the State

As the transfer of asset is not within the entity, the transfer is done at net book value of RM95,000, with no consideration given.

DR/CR	Account description	Amount (RM)
DR	Loss on disposal	95,000
DR	Accumulated depreciation (IT equipment)	20,000
CR	Property, plant and equipment (IT equipment)	115,000

Non-monetary exchange of property, plant and equipment

Illustrative Example (Scenario 14)

- An entity arranges to exchange with an outside party research equipment (Equipment A) with book value of RM135,000 (cost RM150,000 less accumulated depreciation RM15,000) for the another research equipment (Equipment B).
- Both equipment's fair values cannot be reliably measured and the expected cash flows generated by Equipment B will not differ from Equipment A's future cash flows.

How will Equipment B be recorded in the journal entries?

Non-monetary exchange of property, plant and equipment

Illustrative Example (Scenario 14)

1) To record the exchange of similar assets with no monetary consideration

Equipment B will be recorded at net book value of Equipment A RM135,000 (RM150,000 - RM15,000) i.e. the book value of the asset given up. This is because this exchange transaction lacks commercial substance (no impact on future cash flows) and both equipment's fair values cannot be reliably measured.

DR/CR	Account description	Amount (RM)
DR	Property, plant and equipment (Equipment B)	135,000
DR	Accumulated depreciation (Equipment A)	15,000
CR	Property, plant and equipment (Equipment A)	150,000

Non-monetary exchange of property, plant and equipment (with commercial substance)

Illustrative Example (Scenario 15)

- An entity arranged to exchange with an outside party research equipment (Equipment A) with book value of RM135,000 (cost: RM150,000 less accumulated depreciation: RM15,000) for the another research equipment (Equipment B).
- Equipment A's fair value was RM170,000 and the expected cash flows generated by Equipment B would differ from Equipment A's expected cash flows.

How will Equipment B be recorded in the journal entries now that the fair value is identified?

Non-monetary exchange of property, plant and equipment (with commercial substance)

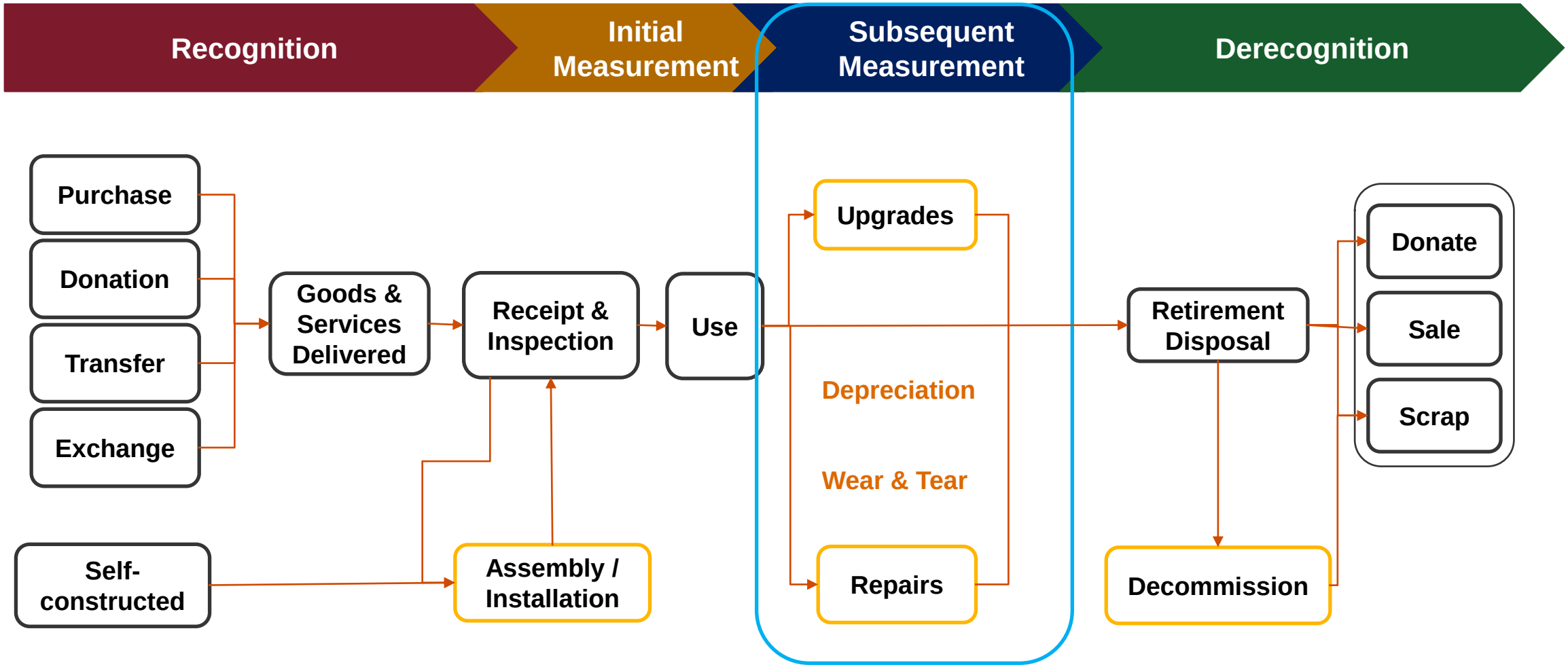
Illustrative Example (Scenario 15)

1) To record the exchange of Equipment A for Equipment B

Equipment B would be recorded at the fair value of the asset given up RM170,000. Equipment B's fair value will be used if Equipment A's fair value is not available or less reliable.

DR/CR	Account description	Amount (RM)
DR	Property, plant and equipment (Equipment B)	170,000
DR	Accumulated depreciation (Equipment A)	15,000
CR	Property, plant and equipment (Equipment A)	150,000
CR	Gain on exchange	35,000

PPE Life Cycle



Subsequent Measurement

Cost Model

Original cost @ date of acquisition

Less

Accumulated ***depreciation*** and accumulated ***impairment losses*** (to reflect the reduction of PPE's future economic benefit or service potential due to wear, aging or other factors)

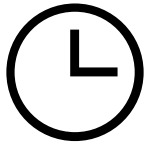
=

Item's carrying amount

Depreciation

- Charged on a straight-line basis at rates calculated to allocate the cost of PPE
- Measured at cost less any estimated residual value, over its remaining useful life.

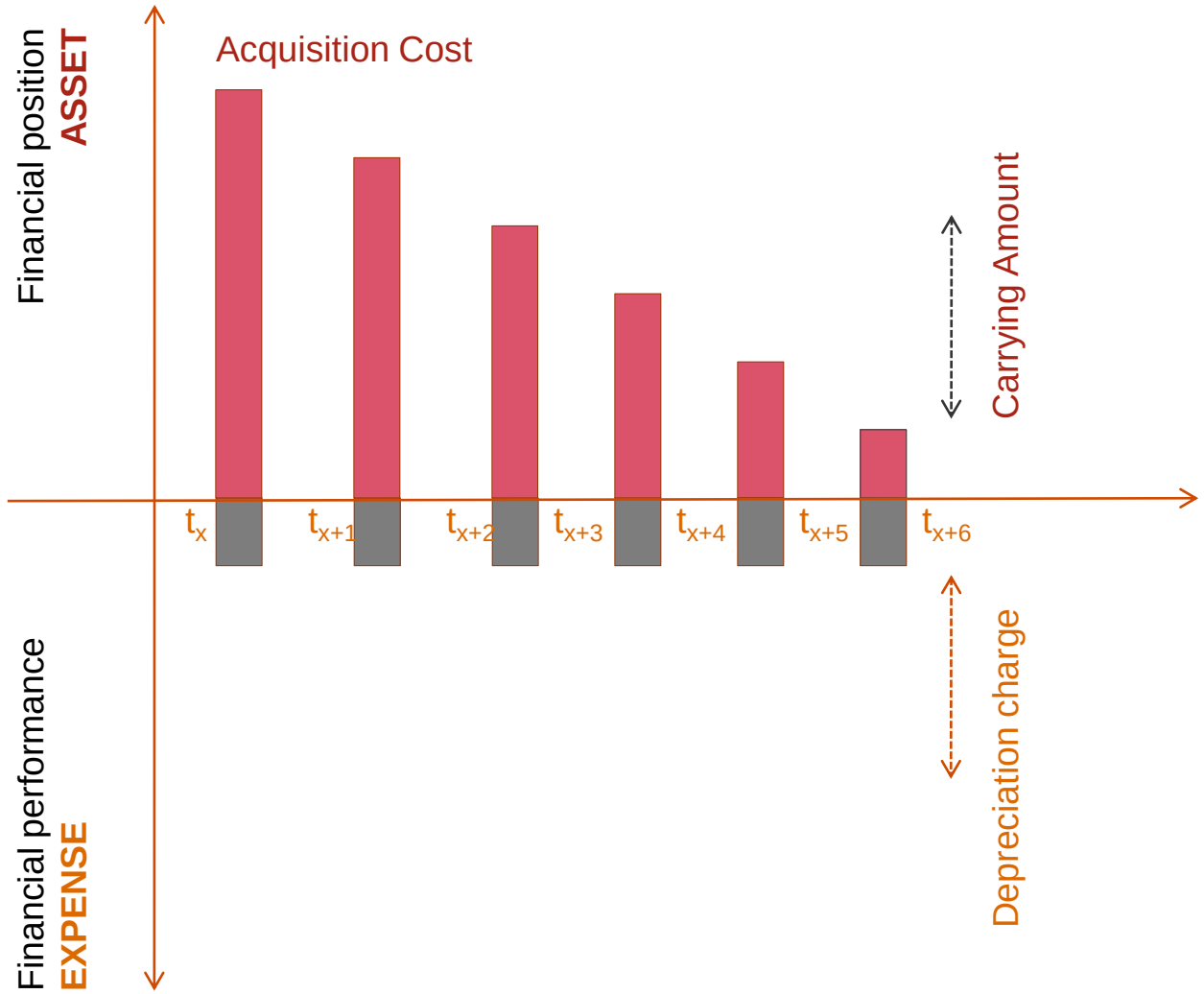
Cost of PPE Less  (Residual Value)



Remaining Useful Life

- No depreciation for freehold land whilst leasehold land depreciated over the lease period
- The depreciation charge for the period is recognised in surplus or deficit.

Depreciation (cont'd)



- Factors in determining useful life:
  - Expected usage of the asset;
  - Expected physical wear and tear;
  - Technical, commercial or operational obsolescence;
  - Legal or similar limits in the use of the asset (such as expiry date of leases)

Subsequent Measurement

Illustrative Example (Scenario 1)

- The entity purchased and received a vehicle for RM23,500 on 31 January 20X7.
- Delivery costs are an additional RM500. Payment takes place on the 15 February 20X7.
- The vehicle has a useful life of 10 years with no estimated residual value.

How shall Entity A record depreciation of the vehicle for the first month-end?

Subsequent Measurement

Illustrative Example (Scenario 1)

1) To record the depreciation expense for January 20X7

Using the straight-line depreciation, the monthly charge to depreciation expense and accumulated depreciation would be:

DR/CR	Account description	Amount (RM)
DR	Depreciation expense	200
CR	Accumulated depreciation	200

Full month of depreciation is charged regardless of the purchase timing of an asset in a given month (i.e. a mid month purchase).

Subsequent Cost

Illustrative Example (Scenario 2)

- The entity purchased a building on 31 January 20X7 for RM300,000 with a useful life of 50 years.
- Subsequently after 10 years, the centralised air condition system was removed and reinstalled with a new system. The cost of the original air condition system was RM50,000 and was accounted for as a separate component of asset.
- The new air condition system was valued at RM70,000. At this point, the net book value of the original air condition was RM40,000.

What is the annual depreciation charge for the new air conditioner system?

Subsequent Cost

Illustrative Example (Scenario 2)

1) To record the depreciation expense of new centralised air conditioner system

The new centralised air conditioner system will be depreciated over the remaining useful life of the building (i.e.40 years). The yearly depreciation expense amounts of RM1,750 (RM70,000/40).

DR/CR	Account description	Amount (RM)
DR	Depreciation expense	1,750
CR	Accumulated depreciation	1,750

Impairment

Asset recoverable service amount/ recoverable amount **<** **Carrying Amount**

- PPE is reported at its recoverable service amount or recoverable amount and an **impairment loss is recognised**
- An entity would impair the cost of PPE when it can demonstrate that the reduction in future economic benefits or service potential is expected to be permanent
- Condition indicate reduction in future economic benefits or service potential:
  a. A change in the extent to which the asset is used;
  b. A change in the manner in which the asset is used;
  c. Significant technological developments;
  d. Physical damage;
  e. Removal of the asset from service;
  f. A decline in or cessation of, the need for the services provided by the asset

Chapter 14: MPSAS 21

Session 3

Impairment of property, plant and equipment

Illustrative Example (Scenario 10)

- On 1 Jan 2019, entity purchase a computer equipment has a cost of RM400,000. The useful life of the computer equipment is 10 years and the accumulated depreciation at year end is RM40,000.
- On 31 December 2019, the entity determines that the computer equipment will not provide the full benefits expected (e.g. the computer equipment cannot handle the volume of processing required and new additional equipment will have to be purchased to supplement it). The recoverable amount of the computer equipment on 31 December 2020 is RM220,000.

Is there any impairment indicator and if so, how much is the impairment loss and journal entries to be recorded?

Impairment of property, plant and equipment

Illustrative Example (Scenario 10)

1) To record the write-down of property, plant and equipment

The decline in asset's value is recorded as an impairment loss expense. The credit is to accumulated impairment loss to reflect the decrease in the net book value of the asset.

DR/CR	Account description	Amount (RM)
DR	Impairment loss expense	100,000
CR	Accumulated impairment loss	100,000

What if there is a change in measurement policy?

Cost model → Revaluation model

Carrying amount = Fair value* @ date of revaluation^ less accumulated depreciation and accumulated impairment losses

- If an item of PPE is revalued, the entire class of PPE to which that asset belongs shall be revalued. Revaluations shall be made with sufficient **regularity.**
  - ➢ When the fair value of a revalued asset differs materially from its carrying amount,
- If significant and volatile changes in fair value, requires annual revaluation
- If insignificant changes in fair value, requires revalue every three (3) or five (5) years.

Revaluation of property, plant and equipment

Illustrative Example (Scenario 11)

- An entity purchased a building at a cost of RM500,000 on 1 January 20X1.
- Building asset is depreciated on a straight line basis over 25 years with an annual depreciation charge of RM20,000.
- By year 20X5, the building had appreciated in gross value by RM200,000. The accumulated depreciation was at RM100,000.
- Where an item of property, plant and equipment is revalued, any accumulated depreciation at the date of revaluation is restated proportionately with the change in the gross carrying amount of asset so that the carrying amount of the asset after revaluation equals its revalued amount.
- Hence, the increase in asset value is recorded as a revaluation surplus and accumulated depreciation is increased in line with the higher gross revalued amount.
- Subsequent to the revaluation in Year 20X5, the asset value appreciated further in gross value by RM500,000 in Year 20X6 due to increased popularity in the area where building resides.

Revaluation of property, plant and equipment

Illustrative Example (Scenario 11)

- Details of property, plant and equipment after revaluation on a depreciated replacement cost basis are as follows:

	20X6	20X5
Property, plant and equipment at cost	700,000	500,000
Increase on revaluation	500,000	200,000
Property, plant and equipment at revalued gross replacement cost	1,200,000	700,000
Accumulated depreciation	140,000	100,000
Accumulated depreciation on revaluation	100,000	40,000
Accumulated depreciation after revaluation	240,000	140,000
Total increase on revaluation:		
Increase in cost	500,000	200,000
Increase in accumulated depreciation	(100,000)	(40,000)
Total increase on revaluation	400,000	160,000

Revaluation of property, plant and equipment

Illustrative Example (Scenario 11)

1) To record the revaluation of a building in 20X5

Total increase on revaluation in 20X5 amounted to RM160,000.

DR/CR	Account description	Amount (RM)
DR	Property, plant and equipment (Building)	200,000
CR	Accumulated depreciation	40,000
CR	Revaluation surplus	160,000

In 20X5, the accumulated depreciation on the revalued asset is increased in the same proportionate increase as the gross carrying amount. The gross carrying amount increased by 40% (RM200,000 increase) from RM500,000 to RM700,000.

Accordingly accumulated depreciation increased by the same proportionate of 40% (RM40,000 increase) from RM100,000 to RM140,000.

Revaluation of property, plant and equipment

Illustrative Example (Scenario 11)

2) To record further increment of revaluation in 20X6

DR/CR	Account description	Amount (RM)
DR	Property, plant and equipment (Building)	500,000
CR	Accumulated depreciation	100,000
CR	Revaluation surplus	400,000

In 20X6, the accumulated depreciation on the revalued asset is increased in the same proportionate increase as the gross carrying amount. The gross carrying amount increased by 71% (RM500,000 increase) from RM700,000 to RM1,200,000.

Accordingly accumulated depreciation increased by the same proportionate of 71% (RM100,000 increase) from RM140,000 to RM240,000.

Revaluation of property, plant and equipment

Illustrative Example (Scenario 11)

3) To record the disposal of building at year end 20X6

The building was subsequently disposed at a selling price of RM1,000,000 at the end of year 20X6. Revaluation surplus is reversed with a net gain on disposal of RM600,000.

DR/CR	Account description	Amount (RM)
DR	Cash	1,000,000
DR	Accumulated depreciation	240,000
DR	Revaluation surplus	560,000
CR	Property, plant and equipment (Building)	1,200,000
CR	Gain on disposal	600,000

Upward and downward revaluations

Illustrative Example (Scenario 12)

- An entity purchased a freehold land at a cost of RM100,000.

1. Upward revaluation and subsequent downward revaluation
   - In Year 1, the carrying amount of the freehold land was revalued upward to RM110,000.
   - Subsequently in Year 3, the same freehold land was revalued downward to RM90,000.
2. Downward revaluation and subsequent upward revaluation
   - In Year 1, the carrying amount of the freehold land was revalued downward to RM95,000.
   - Subsequently in Year 5, the same freehold land was revalued upward to RM105,000.

How shall the entity record the journal entries for both revalution scenarios:

(i) Upward revaluation and subsequent downward revaluation?

(ii) Downward revaluation and subsequent upward revaluation?

Upward and downward revaluations

Illustrative Example (Scenario 12)

1) To record upward revaluation and subsequent downward revaluation

a) Upward revaluation of freehold land to RM110,000 with an increase in carrying value by RM10,000

DR/CR	Account description	Amount (RM)
DR	Property, plant and equipment (Freehold land)	10,000
CR	Revaluation surplus	10,000

Upward and downward revaluations

Illustrative Example (Scenario 12)

1) To record upward revaluation and subsequent downward revaluation

b) Downward revaluation of freehold land to RM90,000 with a decrease in carrying value by RM20,000

DR/CR	Account description	Amount (RM)
DR	Revaluation surplus	10,000
DR	Impairment loss expense	10,000
CR	Property, plant and equipment (Freehold land)	20,000

The decrease in carrying value is reversed from a revaluation surplus to the extent of any credit balance existing in respect of that class of asset. The remaining decrease in carrying value is recognised in that current year surplus or deficit.

Upward and downward revaluations

Illustrative Example (Scenario 12)

2) To record downward revaluation and subsequent upward revaluation

a) Downward revaluation of freehold land to RM95,000 with a decrease in carrying value by RM5,000

DR/CR	Account description	Amount (RM)
DR	Impairment loss expense	5,000
CR	Property, plant and equipment (Freehold land)	5,000

As there is no revaluation surplus available for that class of assets, the downward revaluation cannot be reversed against any revaluation surplus and is recognised in that current year surplus or deficit.

Upward and downward revaluations

Illustrative Example (Scenario 12)

2) To record downward revaluation and subsequent upward revaluation

b) Upward revaluation of freehold land to RM105,000 with an increase in carrying value by RM10,000

DR/CR	Account description	Amount (RM)
DR	Property, plant and equipment (Freehold land)	10,000
CR	Revaluation surplus	5,000
CR	Impairment loss expense	5,000

Upward and downward revaluations

Illustrative Example (Scenario 12)

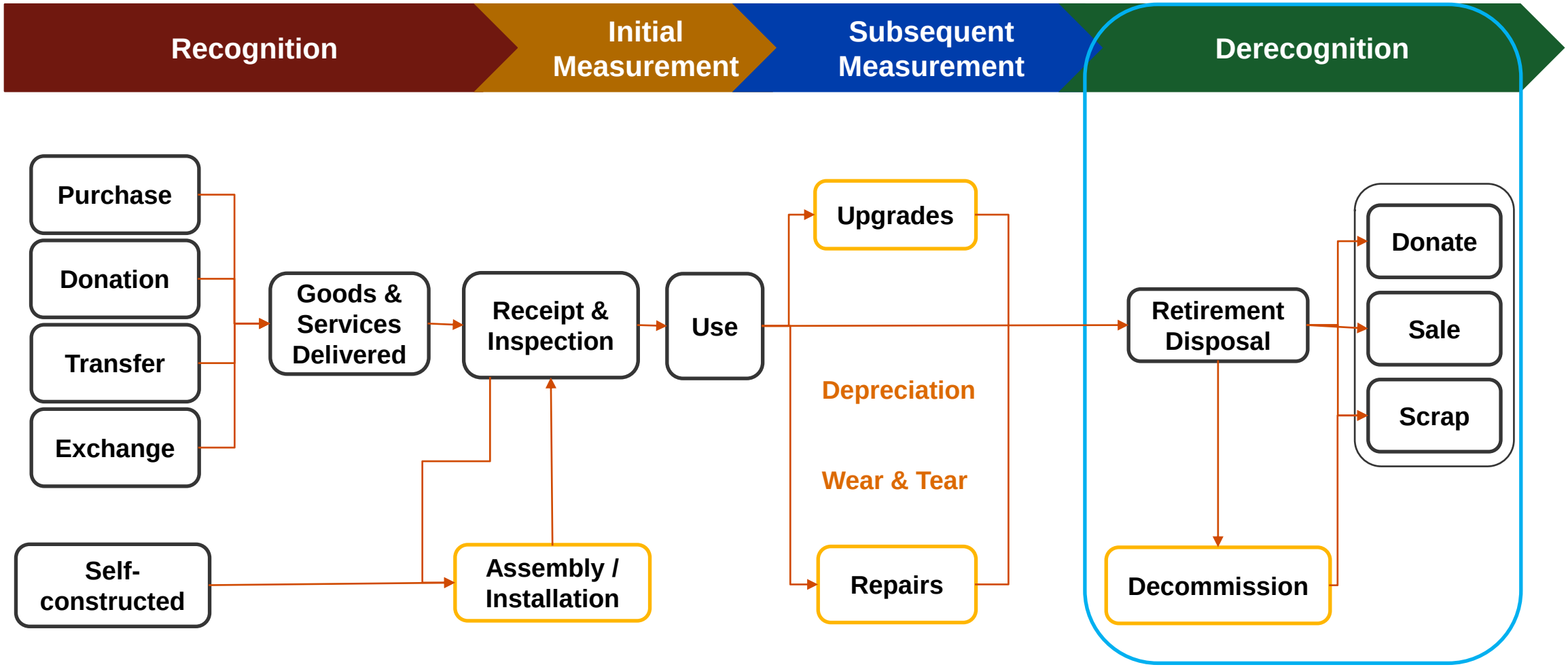
2) To record downward revaluation and subsequent upward revaluation

b) Upward revaluation of freehold land to RM105,000 with an increase in carrying value by RM10,000.

As the carrying amount of that class of asset increased as a result of a subsequent upward revaluation, the increase shall be recognised directly in surplus or deficit to the extent that it reverses the impairment loss previously recognized in surplus or deficit.

Any remaining increase from that upward revaluation is credited directly to a revaluation surplus.

PPE Life Cycle



Disposal and exchange

An item of property, plant and equipment should be removed from the financial statements (derecognised) upon:

- Disposal, or
- No future economic benefits or service potential

Gains or losses arising from the derecognition of an item of PPE should be determined as the difference between the actual net disposal proceeds, if any, and the carrying amount of the asset.

The gain or loss should be included in the statement of financial performance when the asset is derecognised as an item of revenue or expense, as appropriate.

Disposal via sale of property, plant and equipment

Illustrative Example (Scenario 7)

- On 1 May 20X7, an entity purchased informatics hardware for RM32,000 with an estimated service life of 5 years and an estimated residual value after 5 years of RM2,000.
- The entity uses straight-line depreciation and decides to sell the asset on 1 November 2011.

How shall the entity record the journal entries on the equipment and the related accumulated depreciation?

Disposal via sale of property, plant and equipment

Illustrative Example (Scenario 7)

1) To record the disposal of the asset and related gain

The consideration agreed for the disposal is assumed at RM8,000. The entity should record the proceeds received of RM8,000. The equipment and related accumulated depreciation should be removed/derecognised from the books. The resulting gain will be credited to the “Gain on Disposal” account.

The accumulated depreciation is RM27,000

DR/CR	Account description	Amount (RM)
DR	Cash	8,000
DR	Accumulated depreciation – informatics hardware	27,000
CR	Informatics hardware	32,000
CR	Gain from disposal of property, plant and equipment	3,000

Write-off of property, plant and equipment

Illustrative Example (Scenario 9)

- Informatics hardware originally costing RM120,000 with a useful life of 5 years has a RM60,000 accumulated depreciation balances on 1 April 20X7.
- It is amortised at RM2,000 per month.
- In July, a fire caused substantial damage to the equipment.
- The entity decides the equipment has no future benefits and should be written off immediately.

How much should the entity write off the informatics hardware?

What should the entity record in the journal entries?

Write-off of property, plant and equipment

Illustrative Example (Scenario 9)

1) To record the write-off of property, plant and equipment (bringing the value of the informatics hardware to zero)

The cost of the equipment and related accumulated depreciation (after adding an additional RM6,000 in depreciation expense in 20X7) should be written off from the books. The net result of these items will result in a write off of RM54,000.

DR/CR	Account description	Amount (RM)
DR	Accumulated depreciation – informatics hardware	66,000
DR	Write off expense	54,000
CR	Informatics hardware	120,000

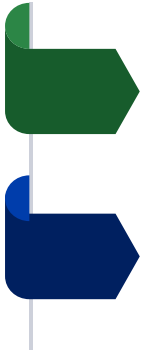
Other specific area of PPE

- Asset Under Construction
- Heritage Asset
- Biological Asset
- Government building on third party land
- Government Land

Asset Under Construction (“AUC”)

Asset is currently “constructing”, which is not yet being used for its final intended purpose

- Not depreciated during construction
- Once complete, reclassified to appropriate PPE category and commence depreciation
- If AUC is earmarked for transfer at inception, the treatment will depend on the **substance of the contractual agreement** as well as any **legislation** that could supplement or override those contractual terms



If ministry legally own the asset during construction, AUC is capitalised. When AUC are completed and transferred to third party, AUC shall be expensed off to current year surplus or deficit

If development projects is carried out by ministry as legally required but there is control over the asset and has no legal ownership, then the AUC shall be expensed off as a grant to a third party

Asset under construction with progressive payments

Illustrative Example (Scenario 6)

- Contractor A Sdn Bhd secured a project to build a school with the cost of work of RM10 million.
- The work commenced on 1 May 20X1.
- On 1 June 20X1, the State made an advance payment to Contractor A amounting to RM1 million. The project was expected to be completed on 1 August 20X2.
- For each government project, the contractor has to provide deposit (akin to Performance Guarantee Sum) amounting to five percent (5%) of the contract sum to secure the performance of the contractor's obligation under the contract.
- The contractor may opt to use Performance Bond issued by an approved licensed bank or in the form of a performance guarantee sum whereby deduction shall be made from every interim payment.
- Contractor A has opted for a performance guarantee sum.

Asset under construction with progressive payments

Illustrative Example (Scenario 6)

The progress billing and payment schedule for project is as per below:

Date	Payment Schedule	Progress Billing	Advance payment	Performance Guarantee Sum (5%)	Cash outflow
01 June 20X1	Deposit	-	(1,000,000)	-	(1,000,000)
01 August 20X1	1st progress payment	(3,000,000)	250,000	300,000	(2,450,000)
01 October 20X1	2nd progress payment	(2,000,000)	250,000	200,000	(1,550,000)
01 December 20X1	3rd progress payment	(1,000,000)	250,000	-	(750,000)
01 February 20X2	4th progress payment	(1,000,000)	250,000	-	(750,000)
01 April 20X2	5th progress payment	(1,000,000)	-	-	(1,000,000)
01 June 20X2	6th progress payment	(1,000,000)	-	-	(1,000,000)
01 August 20X2	7th progress payment	(1,000,000)	-	-	(1,000,000)
Total		(10,000,000)	-	500,000	(9,500,000)

Asset under construction with progressive payments

Illustrative Example (Scenario 6)

1) To record the advance cash payment to Contractor A

DR/CR	Account description	Amount (RM)
DR	Advance payment*	1,000,000
CR	Cash	1,000,000

*Where advance payment is held for less than 12 months, this account is classed as current asset. Otherwise, it is classed as non-current asset.

Asset under construction with progressive payments

Illustrative Example (Scenario 6)

2) To record the first progressive payment on 1 August 20X1

On 1 August 20X1, the State accrued for the first progress payment based on completion progress certificate and progress bill of RM3 million to Contractor A.

DR/CR	Account description	Amount (RM)
DR	Asset under construction	3,000,000
CR	Account payable	3,000,000

Asset under construction with progressive payments

Illustrative Example (Scenario 6)

2) To record the first progressive payment on 1 August 20X1

At settlement point, a 10% performance guarantee sum was retained by the State as required by Treasury's circular. The advance payment account was also utilised towards this payment.

DR/CR	Account description	Amount (RM)
DR	Account payable	3,000,000
CR	Advance payment	250,000
CR	Performance guarantee sum	300,000
CR	Cash	2,450,000

Asset under construction with progressive payments

Illustrative Example (Scenario 6)

3) To record the second progress payment on 1 October 20X1

On 1 October 20X1, the State accrued for the second progress payment of RM2 million to Contractor A.

DR/CR	Account description	Amount (RM)
DR	Asset under construction	2,000,000
CR	Account payable	2,000,000

Asset under construction with progressive payments

Illustrative Example (Scenario 6)

3) To record the second progress payment on 1 October 20X1

At settlement point, 10% performance guarantee sum was retained by the State. At this stage, all advance payment is now utilised for the first and second progress payments.

DR/CR	Account description	Amount (RM)
DR	Account payable	2,000,000
CR	Advance payment	250,000
CR	Performance guarantee sum	200,000
CR	Cash	1,550,000

Treasury's circular requires 10% of performance guarantee sum to be retained from each progress billing settlement until 5% of overall contract performance guarantee sum is reached. 5% contract performance guarantee is reached by the 2nd progress billing hence no further performance guarantee sum is retained from subsequent progress billing.

Asset under construction with progressive payments

Illustrative Example (Scenario 6)

4) To record the completion of construction and to recognise the asset under construction as asset

On 1 August 20X2, the State issued the Certificate of Project Completion. At that point of time, the total of work cost paid to Contractor A is RM9.5 million and Performance Guarantee Sum reached its equivalent amount totalling 5% of the contract sum of RM500,000

Asset under construction with progressive payments

Illustrative Example (Scenario 6)

4) To record the completion of construction and to recognise the asset under construction as asset

This triggers a transfer journal to move asset from AUC to building.

DR/CR	Account description	Amount (RM)
DR	Property, plant and equipment – building (school)	10,000,000
CR	Asset under construction	10,000,000

Subsequent payment towards building will need to be expensed unless it meets the capitalization criteria.

Asset under construction with progressive payments

Illustrative Example (Scenario 6)

5) To record release of performance guarantee on 1 September 20X2

(a) Assume no defect identified during retention period, thus full release of performance guarantee sum

Upon successful completion and sign off from the State, the performance guarantee is approved for release to Contractor A.

DR/CR	Account description	Amount (RM)
DR	Performance guarantee sum	500,000
CR	Cash	500,000

Asset under construction with progressive payments

Illustrative Example (Scenario 6)

5) To record release of performance guarantee on 1 September 20X2

(b) Assume defect identified during retention period, thus partial release of performance guarantee sum

During the warranty period, the State found that the contractor needed to repair a classroom and toilet due to defect of materials and workmanship. The contractor was reluctant to carry out the repair. The entity incurred RM200,000 to carry out the repair works.

Asset under construction with progressive payments

Illustrative Example (Scenario 6)

5) To record release of performance guarantee on 1 September 20X2

(b) Assume defect identified during retention period, thus partial release of performance guarantee sum

i. The repair work was carried out by Contractor B and the accompanying subsequent cost of repair is reduced from performance guarantee sum as it lowers the financial obligation to Contractor A.

DR/CR	Account description	Amount (RM)
DR	Performance guarantee sum	200,000
CR	Cash (Contractor B)	200,000

Asset under construction with progressive payments

Illustrative Example (Scenario 6)

5) To record release of performance guarantee on 1 September 20X2

(b) Assume defect identified during retention period, thus partial release of performance guarantee sum

ii. The remaining balance of RM300,000 was paid to Contractor A as a partial payment on release of performance guarantee sum

DR/CR	Account description	Amount (RM)
DR	Performance guarantee sum	300,000
CR	Cash (Contractor B)	300,000

Asset under construction with progressive payments

Illustrative Example (Scenario 6)

6) To record penalty imposed

Where the project was unreasonably delayed and behind schedule, action was taken to Contractor A by imposing penalty of RM100,000 and by deducting penalty from the final payment. The final 7th progress billing of the project is RM1,000,000.

Asset under construction with progressive payments

Illustrative Example (Scenario 6)

6) To record penalty imposed

(a) Penalty imposed treated as a compensation to a loss of revenue by the State

DR/CR	Account description	Amount (RM)
DR	Asset under construction	1,000,000
CR	Non-tax revenue – penalty*	100,000
CR	Account payable	900,000

*The accounting treatment for penalty charged is based on substance of compensation expected from the developer. Where the penalty charge is expected to compensate loss of revenue, then this charges is taken to surplus or deficit, else the charge is reflected via an overall reduction to asset under construction.

Asset under construction with progressive payments

Illustrative Example (Scenario 6)

6) To record penalty imposed

(b) Penalty imposed treated as a reduction/discount given by Contractor A

DR/CR	Account description	Amount (RM)
DR	Asset under construction	900,000
CR	Account payable	900,000

Asset under construction with progressive payments

Illustrative Example (Scenario 6)

7) To record the payment for an extension of building

On 15 August 20X2, the State instructed the contractor to carry out the variation order to extend the building for a store room. The payment for variation order was made to the contractor amounting to RM200,000.

As the additional cost incurred will generate future economic benefit, this cost is capitalised and added to current building cost.

DR/CR	Account description	Amount (RM)
DR	Property, plant and equipment – building (school)	200,000
CR	Cash	200,000

Asset under construction with progressive payments

Illustrative Example (Scenario 6)

8) To record impairment upon halt of construction

Refer to Scenario A.4 under chapter 14 – Impairment of Assets.

Heritage Asset

- Heritage assets are assets with cultural, environmental, or historical significance. Examples of heritage assets include historical buildings and monuments, archaeological sites, conservation areas and nature reserves, and works of art.

Heritage Asset

Characteristics often displayed by heritage assets :

a) Their value in cultural, environmental, educational, and historical terms is unlikely to be fully reflected in a financial value based purely on a market price;

b) Legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale;

c) They are often irreplaceable and their value may increase over time, even if their physical condition deteriorates; and

d) It may be difficult to estimate their useful lives, which in some cases could be several hundred years.

Heritage asset shall be recorded if it is gazetted under Antiquity Ordinance 1958, Sarawak Cultural Heritage Ordinance 1993 or Malaysia National Heritage Act 2005.

- If cost is available, it shall be measured at cost. If it is impractical to determine the cost, it shall be measured at nominal cost of RM 1
- If historical asset is used for operation, recognition and measurement as other PPE

Should State building sitting on 3rd party land be recognised as a PPE?

No

Legally, the owner of any structure sitting on a piece of land is the registered proprietor of the land in accordance to Building Ordinance 1994. State building on 3rd party land cannot be record as PPE

Unless can demonstrate ownership or control with:

a) Formal agreement or lease arrangement with the land owner that gives the government the right to control or use the building for a specific period of time.

b) Control given by a legal stature that gives the government the right to control or use the building.

Government Land

1. **Alienated land to SFS Inc.** (body corporate incorporated under State Financial Secretary (Incorporation) Ordinance 1948)

2. **State land** that is use in performing government's services and use to derived economic benefits or service potential

Asset obtained through non-exchange transaction

- In a non-exchange transaction, an entity either received value from another entity without directly giving approximately equal value in exchange or gives value to another entity without directly receiving approximately equal value in exchange.

- When asset is acquired through non-exchange transaction, its cost shall be measured at it fair value as at the date of acquisition.

Biological asset

- Some biological assets are used by government in carried out their operation in which future benefits or service potential are obtained, these life asset shall be accounted for as property, plant and equipment.

- For example, dogs belong to state government authority which are used for security purposes shall be accounted for as property, plant and equipment.

Disclosure requirements

For each class of property, plant, and equipment (including heritage assets):

- The measurement bases used for determining the gross carrying amount;
- The depreciation methods used;
- The useful lives or the depreciation rates used;
- The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and
- A reconciliation of the carrying amount at the beginning and end of the period showing:
  - i. Additions;
  - ii. Disposals;
  - iii. Acquisitions through entity combinations;
  - iv. Increases or decreases resulting from revaluations under and from impairment losses (if any) recognised or reversed directly in net assets/equity
  - v. Impairment losses recognised in surplus or deficit;
  - vi. Impairment losses reversed in surplus or deficit;
  - vii. Depreciation;
  - viii. The net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity; and
  - ix. Other changes.

Disclosure requirements

Disclosure for each class of property, plant, and equipment recognised in the financial statements:

a) The existence and amounts of restrictions on title, and property, plant, and equipment pledged as securities for liabilities;

b) The amount of expenditures recognised in the carrying amount of an item of property, plant, and equipment in the course of its construction;

c) The amount of contractual commitments for the acquisition of property, plant, and equipment; and

d) If it is not disclosed separately on the face of the statement of financial performance, the amount of compensation from third parties for items of property, plant, and equipment that were impaired, lost or given up that is included in surplus or deficit.

Disclosure requirements

- In accordance with MPSAS 3 Accounting Policies, Changes in Accounting Estimates and Errors, an entity discloses the nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in subsequent periods. For PPE (not including heritage assets), such disclosure may arise from changes in estimates with respect to:
  i. Residual values;
  ii. The estimated costs of dismantling, removing, or restoring items of PPE;
  iii. Useful lives; and
  iv. Depreciation methods.

Disclosure requirements

If a class of PPE is stated at revalued amounts, the following shall be disclosed:

a) The effective date of the revaluation;

b) Whether an independent valuer was involved;

c) The methods and significant assumptions applied in estimating the assets' fair values;

d) The extent to which the assets' fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms, or were estimated using other valuation techniques;

e) The revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders or other equity holders;

f) The sum of all revaluation surpluses for individual items of property, plant, and equipment within that class; and

g) The sum of all revaluation deficits for individual items of property, plant, and equipment within that class.