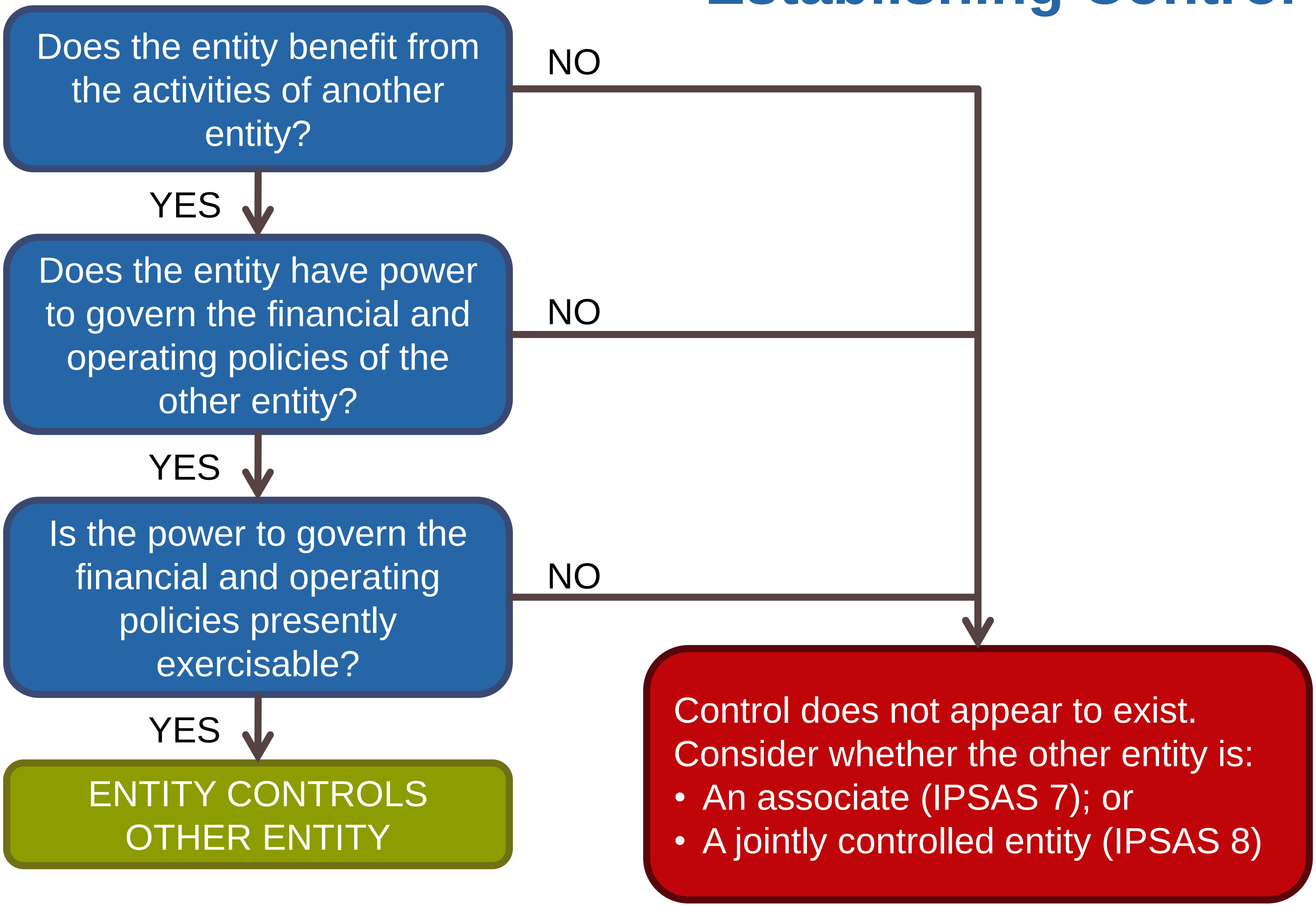
IPSAS is meant for...

IPSAS 6

The Concept of Control

- IPSAS 6 requires controlling entity to prepare and present consolidated financial statements
- All controlled entities are to be consolidated
- Establishing control over another entity:
  - power to govern the financial and operating policies of another entity
  - ability to benefit from the activities of another entity (not necessarily financial benefit)

Establishing Control



Power Conditions

Control is presumed when at least one of the following exists

- Ownership of a majority voting interest in another entity (direct or indirect)
- Power to appoint or remove a majority of the members of the board of directors or equivalent governing body
- Power to cast, or regulate the casting of, a majority of the votes at a general meeting
- Power to cast the majority of votes at meeting of the board of directors or equivalent governing body

Power Indicators

The following are likely to be indicative of the existence of control

- Ability to veto operating and capital budgets
- Ability to veto, overrule or modify governing body decisions
- Ability to approve hiring/reassignment/firing of key personnel
- Mandate of the other entity is established and limited by legislation
- Golden share that confers right to govern the financial and operating policies

Benefit Conditions

Control is presumed when at least one of the following exists

- Power to dissolve the other entity and obtain a significant level of the residual economic benefits or bear significant obligations
- Power to extract distribution of assets, and/or may be liable for certain obligations

Benefit Indicators

The following are likely to be indicative of the existence of control

- Holds direct or indirect title to the net asset / equity
- Holds right to a significant level of net asset / equity in the event of liquidation or distribution
- Able to direct the other entity to cooperate with it in achieving its objectives
- Exposed to the residual liabilities of the other entity

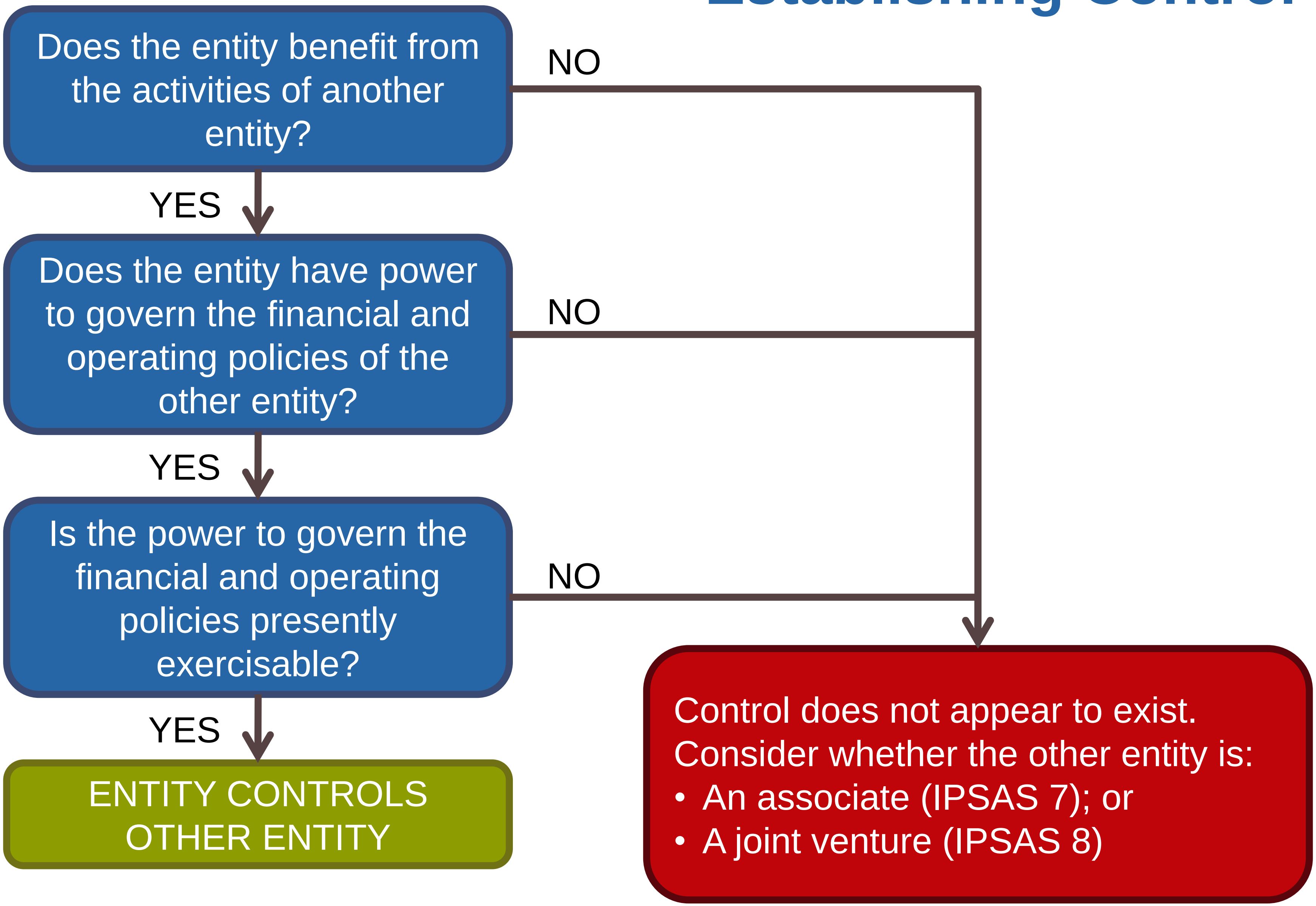
Entities potentially under control

...and many more!

Consolidation Procedures

- Same reporting date and accounting policies
- Combines the financial statements of controlling entity and all controlled entity line by line.
- Elimination:
  - carrying amount of controlling entity's investment in the controlled entities
  - controlling entity's portion of net asset / equity of each controlled entities
  - balances, transactions, revenues, and expenses between entities within the group

Establishing Control



Associate

- Is an entity over which the investor has significant influence
- Significant influence is the power to participate in the financial and operating policy decisions

Lower than "control"

Significant Influence – Indicators

- Representation on the board of directors or equivalent governing body
- Participation in policy-making processes
- Material transaction between investor and investee
- Interchange of managerial personnel
- Provision of essential technical information
- > 20% voting power

Significant Influence

...through Khazanah

PROTON

axiata
advancing asia

TENAGA NASIONAL BERHAD

POS MALAYSIA

astro

TM

...and many more!

Joint Venture

- A binding arrangement whereby two or more parties are committed to undertake an activity that is subject to joint control

- Joint control is the agreed sharing of control over an activity

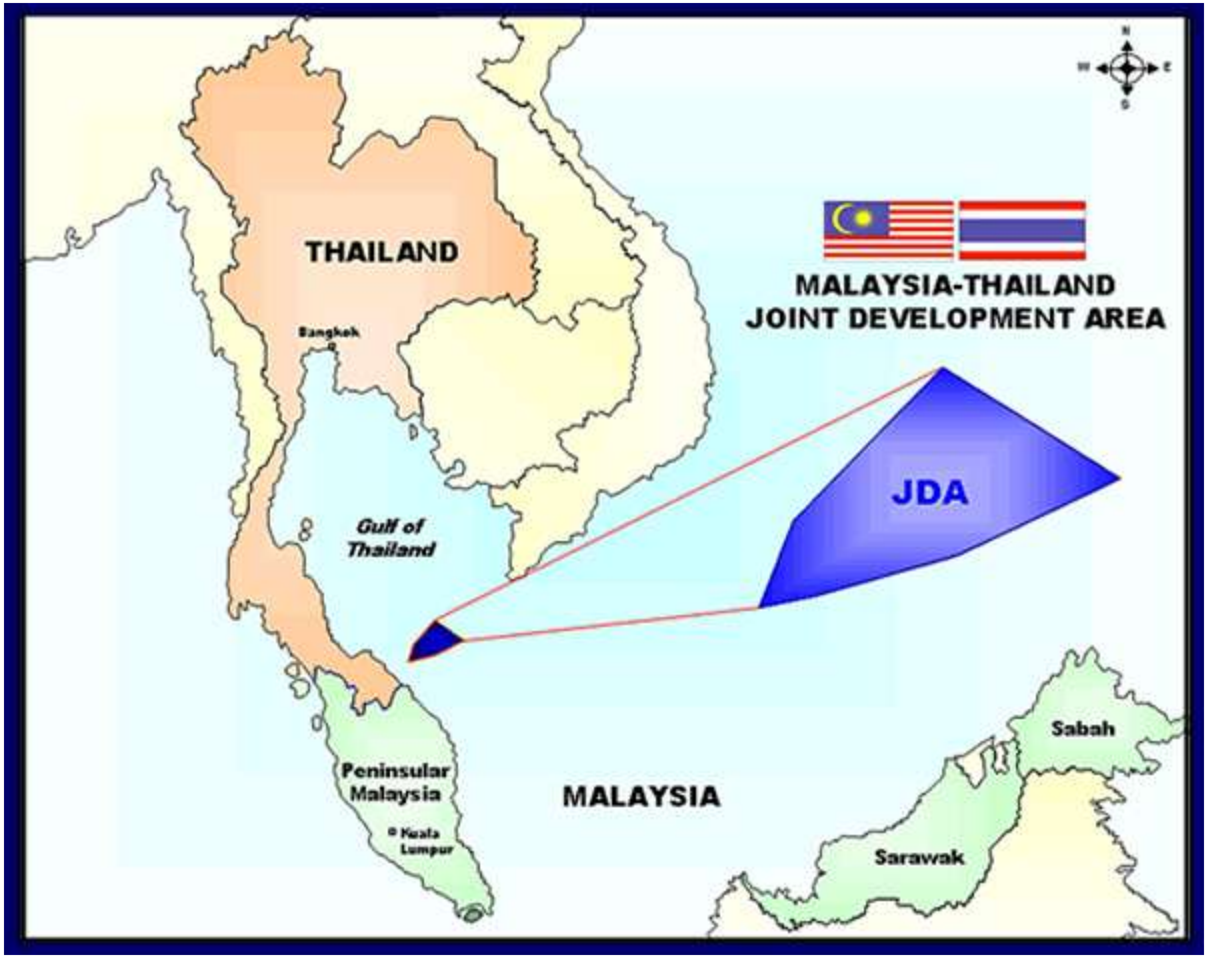
Lower than "control", but higher than "significant influence"

Joint Control

- Binding arrangement confers similar rights and obligations
- 3 broad types:
  - jointly controlled operations
  - jointly controlled assets
  - jointly controlled entities

Potentially a Joint Venture

MTJA



The Accounting

Associate (IPSAS 7)	Joint Venture (IPSAS 8)
• Equity method of accounting • Investment initially recognised at cost, and adjusted for post-acquisition share of net assets / equity	• Choice of: o Equity method of accounting; or o Proportionate consolidation • Proportionate consolidation is similar to consolidation per IPSAS 6, but amounts added line by line is limited to the venturer's share

Part C

Revenue

MALAYSIAN INSTITUTE OF ACCOUNTANTS

Revenue

2 broad categories in the public sector

Revenue from **Exchange Transactions**	Revenue from **Non-Exchange Transactions**
Transactions in which one entity receives assets or services, or liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services or use of assets to another entity in exchange.	An entity either: • receives value from another entity without directly giving approximately equal value in exchange, or • gives value to another entity without directly receiving approximately equal value in exchange
IPSAS 9	**IPSAS 23**

IPSAS 23

Revenue from Non-Exchange Transactions

- Receive resources and provide no or nominal consideration directly in return
  - *Taxes and penalties*
  - *Goods in-kind*

- Provide some consideration directly in return for resources that does not approximate the fair value of consideration
  - *Subsidised treatment @ public hospitals*

Revenue from Non-Exchange Transactions

- Sometimes not immediately clear whether a transaction is “exchange” or “non-exchange”
- Examination of the substance of transaction will determine if it is “exchange” or “non-exchange”

IPSAS 23

Revenue from Non-Exchange Transactions

- Comprises gross inflows of economic benefits or service potential received and receivable
- Costs incurred in relation to revenue from non-exchange transaction are separately recognised

Non-Exchange Transactions

Recognition of Asset

- Revenue is associated with inflow of resources
- Other than “services in-kind”, a non-exchange transaction would probably give rise to such inflow of resources and hence, an asset
- Asset shall be recognised when:
  - It is probable that the future economic benefits or service potential associated with the asset will flow to the entity; and
  - The fair value of the asset can be measured reliably

Non-Exchange Transactions

Example:
Fines and Penalties

Dr. Accounts receivables (fines)
Cr. Revenue (non-exchange)

What asset?

- Receivables shall be recognised upon meeting the criteria
- If well enforced, shall be recognised at the point when the notice is served

Non-Exchange Transactions

Recognition criteria

- Inflow of resources recognised as an asset shall be recognised as revenue
- Measured at its fair value
- Take a traffic summon as an example:
  - Fair value = RM300
  - Provided it is well enforced (all settled within 14 days)

... to the extent that a **liability** is also recognised in respect of the same inflow

Non-Exchange Transactions

Example:
Goods in-kind with conditions attached

Dr. PPE (goods in-kind)
Cr. Revenue (non-exchange)
Cr. Provisions

Why Liability?

- Assets transferred may have conditions
- Govt may receive a transfer of, say, a vessel with the condition that the Govt shall ensure safety of waterways
- The condition would give rise to a present obligation → provisions (IPSAS 19)

Non-Exchange Transactions

Present obligation

- Present obligation shall be recognised as a liability when (IPSAS 19), and only when:
  - It is probable that an outflow of resources embodying future economic benefits or service potential will be required to settle the obligations; and
  - A reliable estimate can be made of the amount of the obligation
- Measured based on best estimate of the amount required to settle the present obligation

Taxes

...recognise when taxable event occurs

Type	Taxable Event
Company tax Income tax	Earning of assessable income during the year of assessment (*by reference to PAYE/PCB*)
GST	Purchase or sale of taxable goods
Customs duty	Movement of dutiable goods across customs boundary

- Resources for taxes received prior to the occurrence of the taxable event are recognised as a liability (advance receipts)
- Transfer to revenue when taxable event occurs

Part D

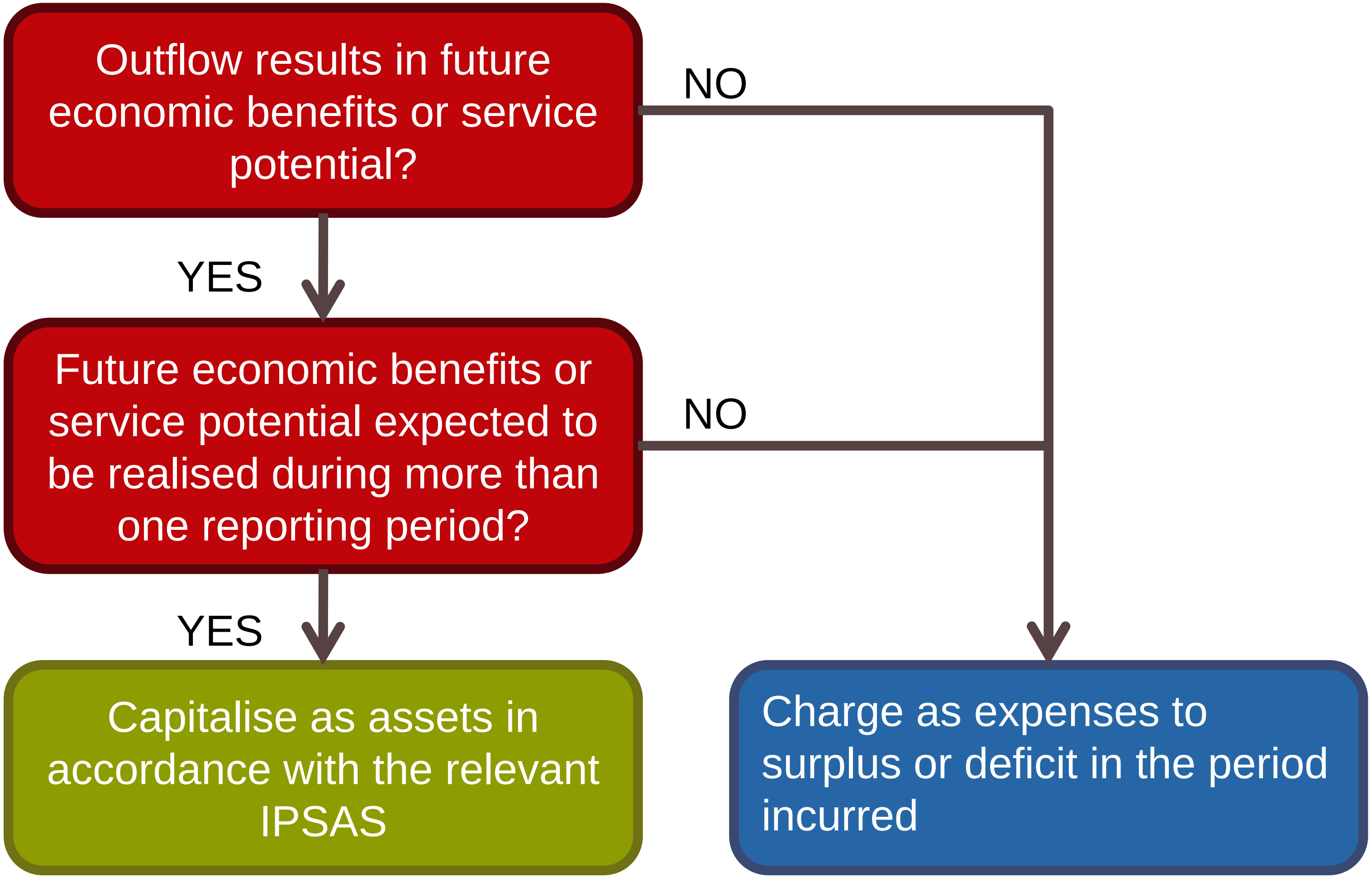
Capital Expenditure

MALAYSIAN INSTITUTE OF ACCOUNTANTS

Expenditure

Operating Expenditure

Development Expenditure



Assets held for use

- Property, Plant and Equipment (IPSAS 17)
- Impairment of Assets
  - IPSAS 21 (non-cash-generating assets
  - IPSAS 26 (cash-generating assets)

- General concept of recognition and measurement:
  - At cost;
  - less depreciation / amortisation;
  - less impairment

IPSAS 17

Property, Plant and Equipment

- Tangible items that:
  - Are held for use in the production or supply of goods and services, for rental to others, or for admin purposes; and
  - Are expected to be used during more than one reporting period

IPSAS 17

Initial Recognition of Property, Plant and Equipment

- Initially recognised at cost (or fair value if acquired through non-exchange transaction) 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
- Day-to-day servicing shall not be capitalised
- Cost of part replacement may be capitalised provided those part being replaced are derecognised

IPSAS 17

Subsequent Measurement of Property, Plant and Equipment

- Subsequently measured using the:
  - Cost Model (at cost, less accumulated depreciation and impairment losses); or
  - Revaluation Model (at fair value at date of revaluation, less accumulated depreciation and impairment losses)
- The above choice is for the entire class

IPSAS 17

Depreciation of Property, Plant and Equipment

- Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life – to reflect the consumption of future economic benefits embodied in the asset
- Depreciable amount = difference between cost and residual value
- Each significant part of an item of PPE shall be depreciated separately
- Residual value and useful life of an asset shall be review at each annual reporting date

IPSAS 21 and IPSAS 26

Impairment of Assets

- Recognition of loss in the future economic benefits or service potential of an asset
- Over and above the systematic charge (through depreciation / amortisation)
- Impairment loss to be recognise as expenses

IPSAS 21 and IPSAS 26

Impairment of Assets

- Assets employed in the public sector may be cash-generating or non-cash-generating
- IPSAS 21 “Impairment of Non-Cash-Generating Assets”
  - Asset is impaired if the carrying amount is higher than the **recoverable service amount**
- IPSAS 26 “Impairment of Cash-Generating Assets”
  - Asset is impaired if the carrying amount is higher than the **recoverable amount**

IPSAS 21 and IPSAS 26

Identifying an Asset that may be Impaired

- For intangible asset with indefinite useful life:
  - Impairment test must be performed annually
- Others:
  - Assess at each reporting date whether there is any indication that asset may be impaired
- Examples of indications:
  - Physical damage / poor performance
  - Significant changes with an adverse effect on the manner/extent an asset is used or expected to be used
  - Decline in market value / demand for services provided by the asset

IPSAS 21 and IPSAS 26

Measuring Impairment

IPSAS 21	IPSAS 26
• **Recoverable service amount** is the higher of: ○ Fair value less cost to sell; and ○ Value in use ▪ Present value of the asset's remaining service potential	• **Recoverable amount** is the higher of: ○ Fair value less cost to sell; and ○ Value in use ▪ Future cash flows (including time value of money) expects to derive from the asset

Heritage Assets

- Described as such because of cultural, environmental or historical significance
- Rarely held for the ability to generate cash inflows
- IPSAS 17 and IPSAS 31 do not require heritage assets to be recognised

Part E

Employee Benefits

MALAYSIAN INSTITUTE OF ACCOUNTANTS

IPSAS 25

Employee Benefits

- Deals with all types of employee benefits relevant to public sector
- Pension scheme obligations

Employee Benefits (other than pension scheme)

- Short term employee benefits (salaries, wages etc.) and defined contribution plans (e.g. EPF) to be expensed when employees render services
- Unutilised leave carried forward to be expensed when entitlement increases
- Bonus payments to be expensed when there is a present legal or constructive obligations to make such payment

IPSAS 25

Pension scheme – defined benefit plans

- Obligation to provide the agreed benefits to current and former employees
- Actuarial risk and investment risk fall on the entity, not those who are entitled to the benefit

IPSAS 25

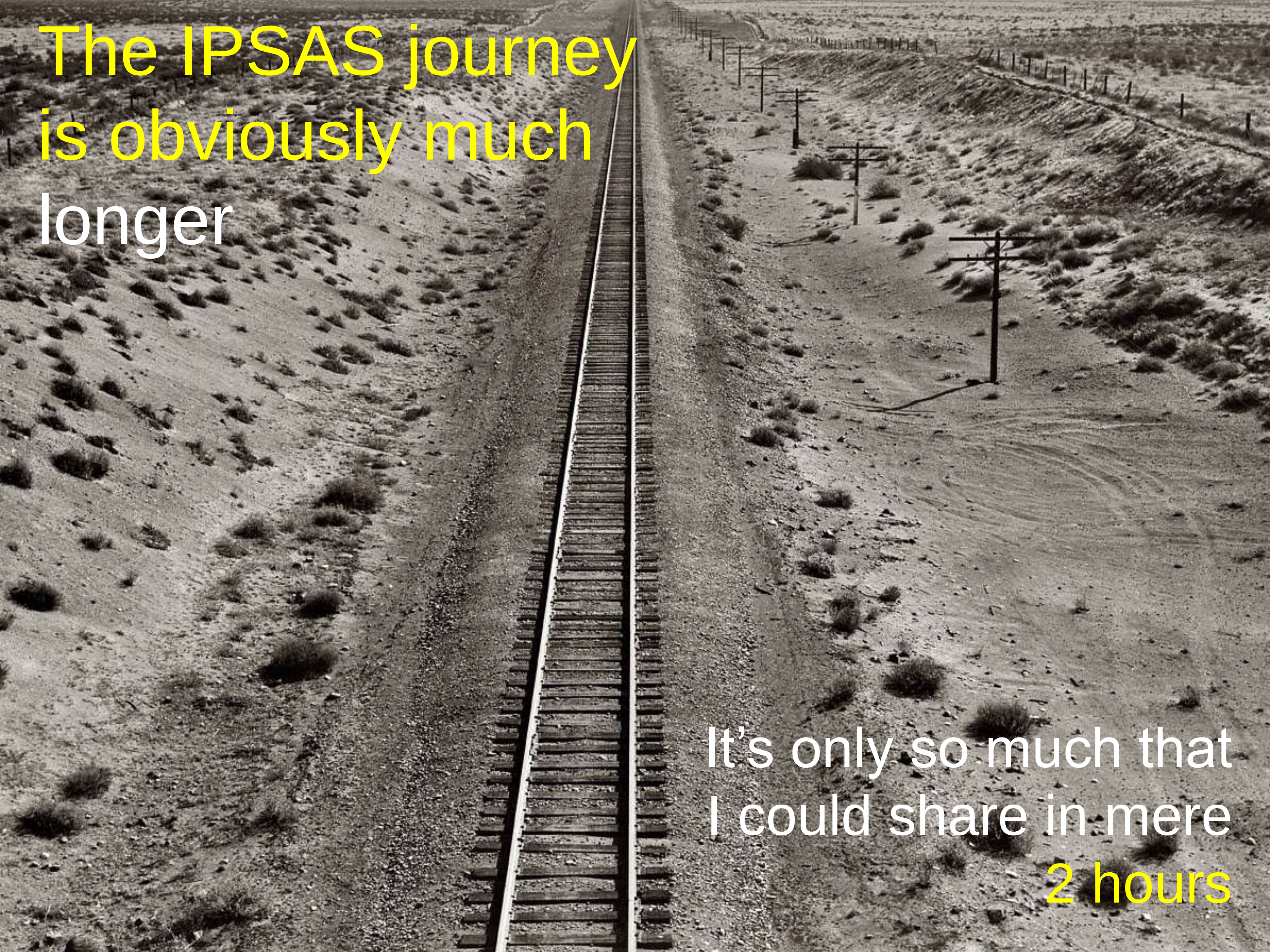
Pension scheme – defined benefit plans

- Actuarial assumptions are required to measure the obligation and the expense
- Steps:
  - Using actuarial techniques to estimate the benefits earned in return for employee service in current and prior period
  - Discounting the benefit using the Projected Unit Credit Method to determine present value
  - Determine fair value of plan assets
  - Determine actuarial gains and losses
- Where an entity has more than one plan, to apply the procedures for each plan separately

IPSAS 25

Pension scheme – defined benefit plans

- Amount recognised as a defined benefit liability shall be the net total of:
  - Present value of defined benefit obligation
  - + actuarial gains / - actuarial losses not yet recognised
  - - past service cost not yet recognised
  - - fair value of plan assets
- Changes to the defined benefit liability shall be charged (or credited) to the surplus or deficit
- Requires involvement of actuarist


The IPSAS journey
is obviously much
longer
It's only so much that
I could share in mere
2 hours