



MALAYSIAN INSTITUTE
OF ACCOUNTANTS

6 May 2013

Ms. Stephanie Fox
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International Federation of Accountants
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Dear Stephanie

CONCEPTUAL EXPOSURE DRAFT 3 - CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING BY PUBLIC SECTOR ENTITIES: MEASUREMENT OF ASSETS AND LIABILITIES IN FINANCIAL STATEMENTS

The Accountant General Office of Malaysia ("AG Office") and the Malaysian Institute of Accountants ("MIA") are pleased to provide comments on the International Public Sector Accounting Standards Board ("IPSASB") Exposure Draft on Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements.

General Comments:

We support the IPSASB's effort in developing a conceptual framework for public sector entities. We are of the view that the conceptual framework should be aligned with the International Accounting Standards Board ("IASB") conceptual framework except for areas that are specific to public sector. The conceptual framework will then support the development of relevant International Public Sector Accounting Standards ("IPSASs") and Recommended Practice Guidelines ("RPGs"). Such approach will assist the users' understanding of general purpose financial reports (GPFs) who read financial reports across public and private sectors.

Generally, in many parts of the world and specifically in Malaysia, both preparers and auditors of the GPFs are converse with the International Financial Reporting Standards ("IFRS"). The move to accrual accounting by the Government of Malaysia in 2015 is likely to result in the migration of accountants from private to public sector as they are cognisant with IFRS. The alignment of IPSAS and IFRS would ease mobility of accountants between the two sectors.

The *Preface to International Public Sector Accounting Standards* issued by the IPSASB explains that Government Business Enterprises (GBEs) apply IFRSs issued by the IASB. Similar to the above, the alignment of IPSAS and IFRS would ease the consolidation of GBEs when preparing the consolidated financial statements of public sector entities.

Specific Comments:

We agree on the Specific Matters for Comments raised in the Exposure Draft other than Specific Matter for Comment 2 and 3(b) and 4 as detailed below.

Specific Matter for Comment 2

Do you agree with the current value measurement bases for assets that have been identified in Section 3? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?

Specific Matter for Comment 4

Do you agree with the proposed measurement bases for liabilities in Section 5? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?

Fair value

In IFRS, fair value is one of the measurement bases of assets and liabilities. We have provided general comment on the alignment of IPSAS and IFRS above. The Exposure Draft discusses the various measurement bases of assets and liabilities. When IPSASB eventually decides the measurement bases, the measurement requirements of assets or liabilities that are currently being measured at 'fair value' should be changed to reflect the suggested measurement bases. Some of the examples are as follows:

- (a) Paragraph 9 of IPSAS 12 *Inventories* states that where inventories are acquired through a non-exchange transaction, their cost shall be measured at their **fair value** as at the date of acquisition.
- (b) Paragraph 27 of IPSAS 17 *Property, Plant and Equipment* states that 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.
- (c) Paragraph 44 of IPSAS 17 states that after recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its **fair value** at the date of the revaluation, less any subsequent accumulated impairment losses.
- (d) Paragraph 42 of IPSAS 16 *Investment Property* states that after initial recognition, an entity that chooses the fair value model shall measure all of its investment property at

fair value, except in the cases described in paragraph 62.

- (e) Paragraph 16 of IPSAS 27 *Agriculture* states that a biological asset shall be measured on initial recognition and at each reporting date at its **fair value** less costs to sell, except for the case described in paragraph 34 where the fair value cannot be measured reliably.
- (f) Paragraph 45 of IPSAS 29 *Financial Instruments: Recognition and Measurement* states that 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.

Net realizable value

Paragraph 9 of IPSAS 12 requires all inventories to be measured at the lower of cost and **net realizable value**, except where paragraph 16 or paragraph 17 applies. Net realizable value is defined in paragraph 9 of IPSAS 12 as the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution. We believe net realizable value does not fall under any of the current measurement bases discussed in the Exposure Draft. Accordingly, we suggest the IPSASB to include net realizable value as a measurement base of assets.

Net selling price

Paragraph 3.35 of the Exposure Draft defines net selling price as the amount that the entity can obtain from sale of the asset at the reporting date, after deducting the costs of sale. It appears that such definition is similar to 'gross profit'. We are of the view that net selling price should be defined as 'the amount that the entity can obtain from sale of the asset at the reporting date, after deducting costs to sale'.

Specific Matter for Comment 3(b)

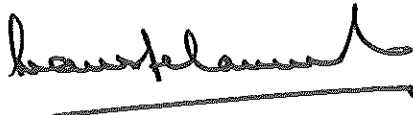
Do you agree with the approaches proposed in Section 4 for application of:

- (b) The deprival value model to select to confirm the use of a current measurement basis for operational assets. If not please give your reasons.

Recoverable amount is defined in paragraph 4.11 of the Exposure Draft as the greater of value in use and net selling price. However, paragraph 31 of IPSAS 26 *Impairment of Cash-Generating Assets* defines recoverable amount as the higher of an asset's fair value less costs to sell and its value in use. It appears that there is inconsistency of definition of recoverable amount between the Exposure Draft and IPSAS 26. We also noted that recoverable service

amount is used in IPSAS 21 *Impairment of Non-Cash-Generating Assets*. We suggest the IPSASB to consider such term when reviewing the definition of recoverable amount.

Yours sincerely,



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