



Insights

by Capital Markets & Accounting Advisory Services

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MFRS 18 is here: redefining financial performance reporting



What's the issue?

In response to investors' concerns about the comparability and transparency of entities' performance reporting, the Malaysian Accounting Standard Board ("MASB") issued a new standard, MFRS 18 'Presentation and Disclosure in Financial Statements' in June 2024 that replaces MFRS 101 'Presentation of Financial Statements'.

The new requirements introduced in MFRS 18 will help to achieve comparability of the financial performance of similar entities, especially related to how 'operating profit or loss' is defined. The new disclosures requirement on management-defined performance measures will also enhance transparency.



What are the key changes?

1) New structure of statement of profit or loss

MFRS 18 introduces a defined structure for the statement of profit or loss, which comprises the new categories and subtotals:

a) New categories

MFRS 18 provides general guidance for entities to classify the income and expenses among the three main categories i.e. operating, investing and financing categories as follows:

Operating category	Investing category	Financing category
Operating category typically includes the entity's results from its main business activities.	Investing category typically includes the results of investments in associates and joint ventures and other assets that generate a return largely independently of other resources.	Financing category includes all income and expenses from financing liabilities (such as bank borrowings and lease liabilities).



What are the key changes? (continued)

1) New structure of statement of profit or loss (continued)

a) New categories (continued)

MFRS 18 includes additional requirements for entities that provide financing to customers (for example, banks) or that invest in assets with specific characteristics (for example, insurance entities) as a main business activity. Some income and expenses that might ordinarily have been classified in the investing or financing category, when applying the general principles, will be presented in the operating category for these entities. The result of this is that operating profit will include the results of an entity's main business activities.

b) New subtotals



MFRS 18 requires entities to present specified totals and subtotals: 'Operating profit or loss' and 'Profit or loss before financing and income taxes'.

Below are illustrative statements of profit or loss with 3 new categories and 2 required subtotals:

General corporate – by function

Revenue	Operating
Cost of goods sold	
Selling expenses	
General and administrative expenses	
Research and development expenses	
Operating profit	Required subtotal
Income and expenses from associates and joint ventures accounted for using the equity method	Investing
Interest income from cash and cash equivalents	
Profit before financing and income tax	Required subtotal
Income and expenses from liabilities that arise from transactions that involve only the raising of finance	Financing
Specified income and expenses on other liabilities	
Profit before tax	
Income tax	
Profit for the year	

General corporate – by nature

Revenue	Operating
Other income	
Changes in inventories of finished goods and work in progress	
Raw materials used	
Employee benefits	
Depreciation	
Amortisation	
Professional fees and other expenses	
Operating profit	 Required subtotal
Income and expenses from associates and joint ventures	Investing
Income and expenses from investments	
Income and expenses from cash and cash equivalents	
Profit before financing and income tax	 Required subtotal
Income and expenses from liabilities that arise from transactions that involve only the raising of finance	Financing
Unwinding of discount on provisions	
Profit before tax	
Income tax	
Profit for the year	



What are the key changes? (continued)

1) New structure of statement of profit or loss (continued)

Below are illustrative statements of profit or loss with 3 new categories and 2 required subtotals:

Investment and retail banks

Interest income calculated using effective interest rate method	Operating
Interest expense	
Net interest income	
Fee and commission income	
Fee and commission expense	
Net fee and commission expense	
Net trading income	
Net investment income, including cash and cash equivalents	
Credit impairment losses	
Employee benefit expenses	
Depreciation and amortisation expenses	
Operating profit	Required subtotal
Share of profit of associates and joint ventures accounted for using equity method	Non-main investing and financing activities (*)
Interest expense on lease liabilities	
Profit before tax	
Income tax	
Profit for the year	

Insurers

Insurance revenue	Operating
Insurance service expenses	
Net expenses from reinsurance contracts held	
Insurance service results	
Interest income calculated using effective interest rate method	
Dividend and fair value changes on financial assets	
Credit impairment losses	
Net investment income	
Finance expenses from insurance contract issued	
Finance income from reinsurance contract held	
Net insurance finance expenses	
Net financial results	
Other expenses	
Operating profit	Required subtotal
Share of profit of associates and joint ventures accounted for using equity method	Investing
Profit before financing and income tax	Required subtotal
Interest expense on borrowings and lease liabilities	Financing
Profit before tax	
Income tax	
Profit for the year	

(*) For companies providing financing to customers (e.g. banks) that adopt the accounting policy to classify interest expenses on borrowing that do not relate to providing financing to customers in operating activities, the subtotal of profit or loss before financing and income taxes is not required.



What are the key changes? (continued)

2) New disclosures related to statement of profit or loss and notes to the financial statements

a) Management-defined performance measures (MPMs)

A MPM is a subtotal of income and expenses that:



an entity uses in public communications outside financial statements.



an entity uses to communicate to users of financial statements management's view of an aspect of an entity's financial performance.



is not listed in paragraph 118 of MFRS 18 (see listing below) or specifically required to be presented or disclosed by MFRS Accounting Standards

Paragraph 118 of MFRS 18 specifies that MPMs exclude the following:

- Gross profit or loss and similar subtotals (e.g. net interest income, insurance service results etc)
- Operating profit or loss before depreciation, amortisation and MFRS 136 impairments
- Operating profit or loss and income and expenses from all investments accounted for using equity method
- Operating profit or loss and all income and expenses classified in investing category
- Profit or loss before income taxes
- Profit or loss from continuing operations
- Any other performance measures specifically required to be presented or disclosed by MFRS

MPMs are required to be disclosed in a single note to the financial statements and be reconciled to the most similar specified subtotal in MFRS Accounting Standards.



What are the key changes? (continued)

2) New disclosures related to statement of profit or loss and notes to the financial statements (continued)

b) New disclosures of expenses by nature

Entities are required to present expenses in the operating category by nature, function or a mix of both. MFRS 18 includes guidance for entities to assess and determine which approach is most appropriate based on the facts and circumstances.

Where items are presented by function, an entity is required to disclose information by nature for the following expenses in a single note:

- Depreciation of property, plant, equipment, investment properties and rights-of-use assets;
- Amortisation of intangible assets;
- Employee benefits;
- Impairment losses of non-financial assets; and
- Write-down of inventories

Statement of profit or loss		Illustrative disclosures for depreciation and employee benefits (*)	
Revenue	3,000	Depreciation	(500)
Cost of goods sold	(600)	Cost of goods sold	(250)
Gross profit	2,400	Selling expenses	(150)
Other income	500	Research and development expenses	(50)
Selling expenses	(400)	General and administrative expenses	(50)
Research and development expense	(300)	Employee benefits	(400)
General and administrative expenses	(200)	Cost of goods sold	(200)
Impairment losses on trade receivables	(100)	Selling expenses	(100)
Operating profit	1,900	Research and development expenses	(50)
		General and administrative expenses	(50)

(*) Similar disclosures apply to amortisation of intangible assets, impairment losses of non-financial assets and write down of inventories



What are the key changes? (continued)

3) Aggregation and disaggregation

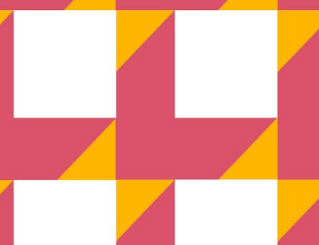
MFRS 18 provides enhanced guidance on the principles of aggregation and disaggregation which focus on grouping items based on their shared characteristics. These principles are applied across the financial statements, and they are used in defining which line items are presented in the primary financial statements and what information is disclosed in the notes.

4) Other changes

MFRS 18 also introduced some other limited changes to presentation and disclosure in the financial statements. For example, MFRS 107, 'Statement of cash flows', is amended to:

- specify 'operating profit or loss' as the starting point for reconciling cash flows from operating activities; and
- specify interest and dividends paid and received should be disclosed in the operating, investing and financing categories as follows:

Cash flows	Classification in statement of cash flows	
	Entities without specified main business activities	Entities with specified main business activities
Interest received	Investing activities	A single category (i.e. operating, investing and financing activities) for each item
Interest paid	Financing activities	
Dividend received	Investing activities	
Dividend paid	Financing activities	Financing activities



What is the impact of the new MFRS and for whom?

All entities reporting under MFRS Accounting Standards will be impacted. The same requirements, including the identification and disclosure of MPMs, apply for both public and private entities.

The classification of income and expenses among the three main categories for the statement of profit or loss is required to be performed at the reporting entity level. Hence, there might be differences in classification between an entity's individual financial statements and the consolidated financial statements.

Although MFRS 18 does not impact recognition and measurements, its implementation might require significant changes to systems, charts of accounts, mappings, disclosures/reconciliations in the financial statements. The level of operational change required by this new standard should not be underestimated, and entities should start considering the operational challenges and planning its implementation as soon as possible.



Effective date and transition

MFRS 18 is effective for annual reporting periods beginning on or after 1 January 2027 and early adoption is permitted. The application should be applied retrospectively, including for interim financial statements.

In the first year of adoption, MFRS 18 requires a reconciliation between how the statement of profit or loss was presented for the comparative period under MFRS 101 and how it is presented in the current year under MFRS 18. Interim financial statements in the first year of adoption include similar reconciliation requirements.

Do you need further information on this topic?	Contact: Capital Market & Accounting Advisory Services (CMAAS) team Email: my_cmaas@pwc.com
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