



# Insights

by Capital Markets & Accounting Advisory Services

June 2024

## Topical issues to consider when preparing 30 June 2024 MFRS financial statements

### Introduction

In this Insights, we give an overview of the accounting implications of the following topical issues that companies with 30 June 2024 year end might consider when preparing their MFRS financial statements:

1. Geopolitical risks
2. Disclosures relating to inflation and interest rates
3. Non-financial asset key reminders for impairment assessments
4. Identifying insurance contracts issued
5. Global minimum tax
6. Offsetting (or netting) in the financial statements
7. Climate change and connectivity between sustainability reporting and financial reporting
8. Accounting items that are often overlooked

[Appendix I](#) at the end of this publication includes MFRS standards that are newly applicable for 30 June 2024 year ends.



## 1. Geopolitical risks

Geopolitical conflict has continued to create a significant shifts in the global risk landscape and is having a pervasive economic impact. Investors will want to understand if and how this is affecting a company's operations, risk exposure and outlook. Companies must carefully consider the impact on their financial statements and disclosures. Items to look out for include:

- Impacts of restrictions and sanctions on trade, investing, and financing (including restricted access to cash accounts and foreign currency reserves).
- Impairment, onerous contracts and contingencies.
- Breaches of supply contracts or financial covenants.
- Foreign exchange exposure and translation of foreign currency transactions.
- Level of influence or power over existing associates and subsidiaries located in areas of conflict.
- Post balance sheet events and related disclosure for material non-adjusting events.

[PwC In depth](#) provides accounting guidance in the context of the conflict between Russia and Ukraine, and includes considerations relevant to other geopolitical conflicts. For example, many of the accounting for the Middle East conflicts will be the same as those identified in this publication, specifically Section 3 onwards.



## 2. Disclosures relating to inflation and interest rates

Companies are required by MFRS 101 "Presentation of Financial Statements" to disclose judgement that have a significant effect on the financial statements as well as sources of significant estimation uncertainty. This includes information about reasonably possible changes to assumptions that could result in material adjustments to the carrying amount of assets and liabilities within the next financial year.

Inflation and interest rates can be a significant source of estimation uncertainty and can have a material impact on the carrying amount of assets and liabilities. Whilst for a number of jurisdictions recent spikes in inflation and interest rates may now be stabilising or decreasing, companies may still be exposed to additional risks in this regard and may continue to need to update judgements and estimates, as well as related disclosures. Companies may also need to update sensitivity analysis to reflect a widening reasonable possible range for interest rate changes, and still need to consider the impact inflation and rates have had on their 30 June 2024 financial statements.

For further guidance on accounting during periods of high inflation and interest rates, read our publication [Insights : Navigating MFRS in periods of rising inflation](#).



### 3. Non-financial asset key reminders for impairment assessments

Impairment is an ongoing area of concern for many companies in the current economic environment, in particular for companies holding significant amounts of goodwill and intangibles, or those that are affected to a greater extent by, climate change, high inflation or the current economic impact of global conflicts. For a discussion of the key considerations for impairment of non-financial assets, read our [Insights](#).

#### *Increased uncertainty due to rising inflation and interest rates and geopolitical uncertainty*

In times of greater uncertainty, it is likely to be easier to incorporate the impact of the economic environment uncertainties in impairment testing by using multiple cash flow scenarios and applying relative probability weightings to derive a weighted average set of cash flows, rather than using a single central forecast and attempting to risk adjust the discount rate to reflect the higher degree of uncertainty in the environment.

A value in use ("VIU") calculation should incorporate specific price changes as well as the effect of general inflation. Where inflation assumptions could have a material impact on the financial statements, additional disclosures may be required to explain how inflation has been incorporated into the VIU.

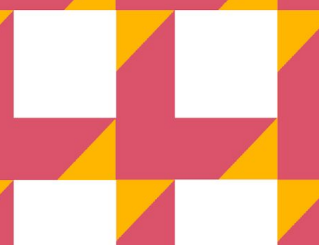
Where uncertainty in the economic environment has increased, the established methods for calculating the weighted average cost of capital should continue to be used. However, a reassessment of each input into the calculation and assessment of the overall result is needed.

Given the increased uncertainty and volatility in many markets, the range of reasonably possible changes has widened. Key assumptions and wider ranging assumptions covering multiple Cash Generating Units ("CGU") should be clearly disclosed. Where material, assumptions specific to each CGU should be identified. Furthermore, in an impairment case, companies would need to clearly disclose the cause of the impairment and whether this is based on external data or changes in the company's own estimates.

Where the headroom is sensitive to changes in key assumptions, a company would need to disclose the specific changes in assumptions that would erode headroom to nil (for example +/- x% in sales growth or discount rates).

#### *Considerations related to impairment reversal*

An additional issue to consider is whether an impairment would need to be reversed. Determining whether there is an identifiable impairment reversal indicator might require the use of judgement. If there is any such indication, the company has to recalculate the recoverable amount of the asset.



## 4. Identifying insurance contracts issued

MFRS 17 “Insurance Contracts” is now effective and it’s not just insurance companies that need to pay attention to MFRS 17. A contract does not need to be labelled as insurance or even issued by an insurance company to be in the scope of MFRS 17. Any contract that transfers a non-financial risk from one party to another could potentially meet the definition of an insurance contract for the party taking on the risk if that risk transferred is judged to be significant.

The definition of insurance contracts hasn’t changed, but, unlike the predecessor standard MFRS 4 “Insurance Contracts” (which is superseded by MFRS 17), MFRS 17 attaches significant recognition and measurement consequences to that definition. That means that from now on, all companies need to maintain a good understanding of how to identify an insurance contract issued, and to know what types of arrangements are explicitly scoped out of MFRS 17. For further discussion, read our [\*Insights: MFRS 17 affects more than just insurance companies\*](#).





## 5. Global minimum tax

In June 2023, the Malaysian Accounting Standards Board issued amendments to MFRS 112 “Income Taxes” that provide a temporary relief from accounting for deferred taxes arising from the implementation of the Global minimum tax (“GloBE”) rules, including any qualifying domestic minimum top up taxes. The temporary exception is with effective immediately.

This means that for the June 2024 reporting period, there is no impact on the recognition and measurement of deferred tax on qualifying top-up taxes where GloBE legislation has been substantively enacted. However, the MFRS 112 amendments require affected companies to disclose::

- The fact that they have applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes;
- Their current tax expense (if any) related to the Pillar Two income taxes; and
- During the period between the legislation being enacted or substantively enacted and the legislation becoming effective, companies will be required to disclose known or reasonably estimable information that would help users of financial statements to understand a company’s exposure to Pillar Two income taxes arising from that legislation. If this information is not known or reasonably estimable, companies are instead required to disclose a statement to that effect and information about their progress in assessing the exposure.

Read our [Snapshot](#) for details of the amendments and [PwC's In depth](#) for some illustrative disclosure examples.



## 6. Offsetting (or netting) in the financial statements

Offsetting (sometimes referred to as 'netting') is the net presentation of separate assets and liabilities or income and expenses in the financial statements. Similar considerations apply to the reporting of gross or net cash flows in the cash flow statement.

Offsetting and netting are generally prohibited, except where expressly required or permitted by accounting standards. This is because it detracts from users' ability to both gain a full and proper understanding of the transactions, other events and conditions that have occurred and to assess a company's future cash flows.

Where offsetting is permitted, there are usually specific criteria that must be met in order to offset. Furthermore, in most cases where the criteria for offsetting are met, offsetting must be applied - it is not a choice.

### *Offsetting of financial assets and financial liabilities*

MFRS 132 "Presentation of Financial Instruments" states that a financial asset and a financial liability should be offset when, and only when:

- (a) the entity currently has a legally enforceable right to set off the recognised amounts; and
- (b) the entity intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The legally enforceable right of set-off should not be contingent upon future events, and must exist in all circumstances, including in the event of default, or in the event of insolvency or bankruptcy, of the entity and all of the counterparties; as well as in the normal course of business. If the right of set-off is only legally enforceable in the normal course of business, the offsetting criteria are not met. The conditions supporting the right might vary from one legal jurisdiction to another and, therefore, the laws applicable to the relationships between the parties would need to be considered carefully. When the offsetting criteria are not met, the financial asset and financial liability should be presented separately on the balance sheet.



## 7. Climate change and connectivity between sustainability reporting and financial reporting

Climate-related risks can have an impact on a company's operations and financial performance. MFRS does not explicitly address climate risk, but the principles that underlie various judgements and estimates made in the preparation of the financial statements will often incorporate climate risk factors. Examples of specific areas companies should consider as climate-related issues become more significant include any financial impacts of net zero commitments, "green" loans, exchange traded climate credit schemes and participation in the voluntary carbon market (see [PwC In depth on voluntary carbon market](#)).

In many cases, a company's exposure to climate-related risks might not have changed significantly since its last annual reporting period. However, climate-related risks are becoming more important topic for many investors and so companies should ensure that they have undertaken rigorous assessment to ensure that all of the material information affecting the financial statements in this respect is provided.

Companies should also ensure consistency between financial and non-financial reporting on key climate-related assumptions, if such consistency is necessary for compliance with MFRS requirements. For example, where an entity publicly discusses a best estimate about the impact an international climate agreement has on the entity in a sustainability report, and the MFRS requires a best estimate approach to be used in measurement, the company would need to consider consistency between the estimates used for financial reporting and those disclosed in the sustainability reporting.

For further information, see [PwC In brief - IASB educational material: the effects of climate-related matters on financial statements prepared applying IFRS accounting standards](#) and [PwC In depth - Impact of ESG matters on IFRS financial statements](#).

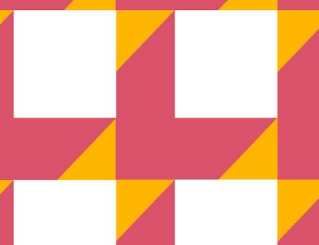


## 8. Accounting items that are often overlooked

When reviewing financial statements it can be challenging to identify missing transactions that should have been posted but were not. We have compiled a list of key reminders on what not to miss to assist preparers in ensuring these accounting items are properly reflected in the financial statements.

- Liabilities for financial guarantees, especially in parent entities.
- Provisions for onerous contracts.
- Provisions for restoration.
- Structured entities - unconsolidated special purpose entities might exist that should be consolidated.
- Implied leases.
- Share-based payment charges in subsidiary financial statements.

For further discussion, read our [Insights](#).



## Appendix I

The following are amendments to MFRS newly applicable for companies with 30 June 2024 year ends:

### (1) MFRS 17 “Insurance Contracts”

This standard replaced MFRS 4, which permitted a wide variety of practices in accounting for insurance contracts. MFRS 17 fundamentally changes the accounting by all companies that issue insurance contracts.

### (2) Narrow scope amendments to MFRS 101 “Presentation of Financial Statements”, Practice Statement 2 “Making Materiality Judgements” and MFRS 108 “Accounting Policies, Changes in Accounting Estimates and Errors”

The amendments aim to improve accounting policy disclosures and help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies. Read our [Snapshot](#) and [Insights](#) to find out more about the amendments and illustration on how the amendments could be applied.

### (3) Amendment to MFRS 112 “Income Tax” - Deferred tax related to assets and liabilities arising from a single transaction

These amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. Read our [Snapshot](#) to find out more.

### (4) Amendments to MFRS 112 “Income Taxes” - International Tax Reform - Pillar Two Model Rules

These amendments give companies temporary relief from accounting for deferred taxes arising from the international tax reform. The amendments also targeted disclosure requirements for affected companies. Read our [Snapshot](#) to find out more.

Do you need further information on this topic?

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