Insights
by Capital Markets & Accounting Advisory Services

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Topical issues to consider when preparing 31 December 2024 MFRS financial statements

Introduction

In this Insights, we give an overview of the accounting implications of the following topical issues that companies with 31 December 2024 year end might consider when preparing their MFRS financial statements:

1. Geopolitical risks
2. Non-financial asset key reminders for impairment assessments
3. Climate change and connectivity between sustainability reporting and financial reporting
4. Global minimum tax
5. Offsetting (or netting) in the financial statements
6. Items that are often overlooked
7. Stand back considerations
8. IFRIC® Agenda Decision – Disclosures of Revenues and Expenses for Reportable Segments (IFRS 8)

Appendix I at the end of this publication includes MFRS standards that are newly applicable for 31 December 2024 year end.

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.

PwC In depth INT2024-04 provides accounting guidance to help entities identify how geopolitical conflicts can impact their financial statements.

2. Non-financial asset key reminders for impairment assessments

Impairment is an ongoing area of concern for many companies in the current economic environment. Regulators remain focused on this area. Entities with significant amounts of goodwill and intangible assets with infinite lives, or those that are affected to a greater extent by

- climate change,
- inflation,
- geopolitical risks,

should consider the common pitfalls observed in the impairment of non-financial assets. For a discussion of the key considerations for impairment of non-financial assets, read our *Insights*.

3. Climate change and connectivity between sustainability reporting and financial reporting

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 remain an important topic for many investors and so companies should ensure that all 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 these are relevant for the purposes of estimating and recognising MFRS compliant transactions / balances. If there is commentary in the sustainability report that hasn't been reflected in financial reporting (for example, because the company is relying on market participants assumptions which differ) the company should consider the need for additional commentary on why such items have been reflected on a different basis in financial reporting.

PwC In brief INT2020-14 and *PwC In depth INT2021-11* provide guidance on reflecting climate matters in the financial statements. *PwC In depth INT2023-02* provides guidance on voluntary carbon market.

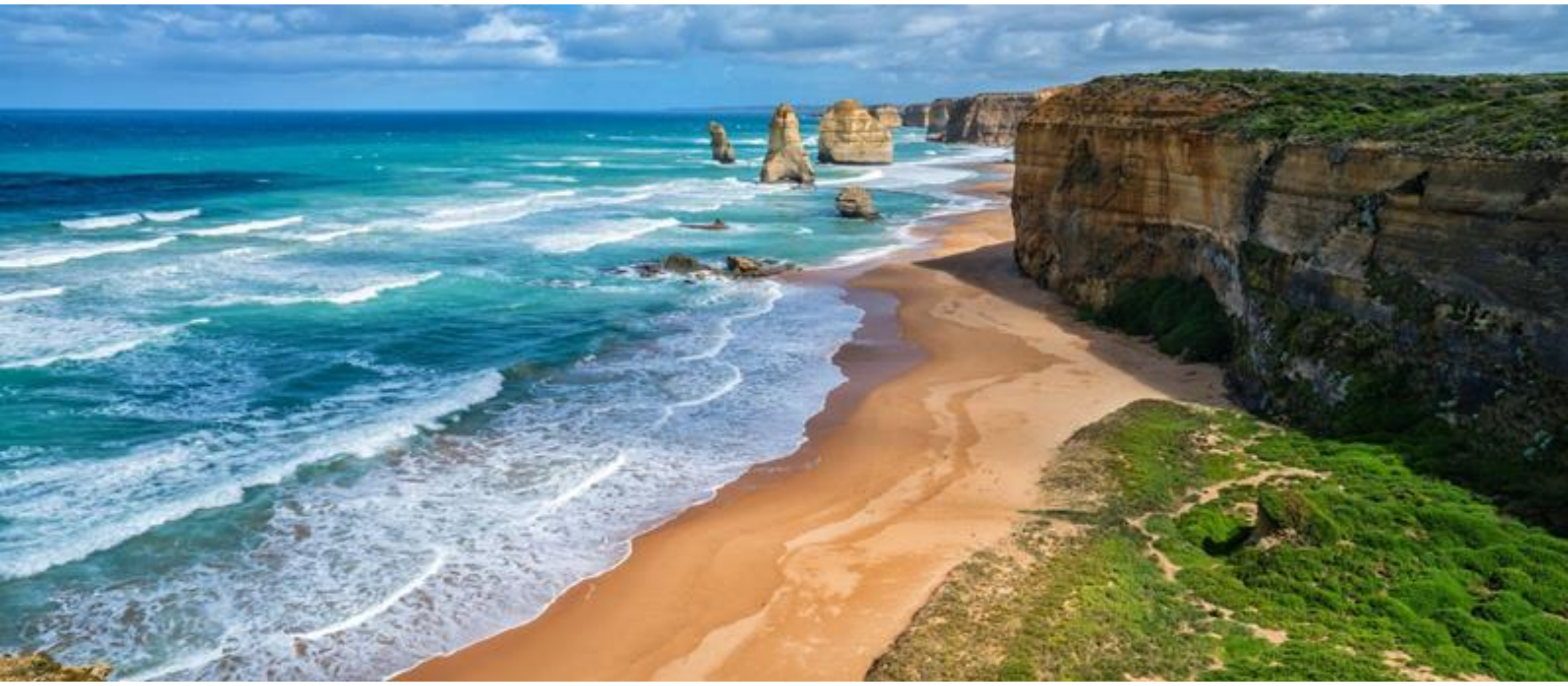
4. Global minimum tax

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 effective immediately.

This means that for the 31 December 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 Pilar 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. *PwC In depth INT2023-10* provides guidance on the glogal implementation of Pillar Two, particularly the impact of deferred taxes and disclosures.



5. 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.

6. 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*.

7. Standback considerations

Prior to approving the financial statements, companies should perform a critical review of the annual report and accounts as a whole. This will ensure that the whole report is clear, balanced and understandable. As part of the critical review, immaterial information should be identified and deleted. Companies should also consider, as per paragraphs 31 and 112 (c) of MFRS 101 “Presentation of Financial Statements”, if additional information, beyond the specific requirements of each MFRS, should be given such that the reader can understand specific material transactions or events.

Companies need to ensure that accounting policies describe all significant events. Also, all significant judgements in applying the policies should be described and explained. As outlined above in relation to uncertainties, key assumptions and sensitivities need to be provided. There needs to be a regular reassessment of the disclosures around judgements and estimates to ensure they remain relevant and up to date. A roll forward of the prior year, especially in fast changing times, might be a good starting point, but should not automatically be assumed to still be relevant.

Companies should also ensure that there is sufficient linkage and consistency between the narrative and the financial statements in the overall report. Any perceived inconsistencies might need to be explained and are typically subject to regulatory challenge. This would for example be particularly relevant for climate related impacts (as noted in Section 3 above on Climate change and connectivity between sustainability reporting and financial reporting).

8. IFRIC Agenda Decision – Disclosures of Revenes and Expenses for Reportable Segments [IFRS 8 / MFRS 8 (*)]

In its July 2024 meeting, the International Accounting Standards Board ("IASB") approved an Interpretations Committee agenda decision in relation to segment reporting. The decision deals with specified items of revenue and expenses that need to be disclosed for each reportable segment. Companies might find that this agenda decision has implications for the level of information presented in their segment reporting.

Agenda decisions do not have an effective date – instead companies are given sufficient time to identify and implement any accounting changes resulting from them. Companies will need to apply judgement to determine what might be sufficient time, based on their facts and circumstances. We expect that if an entity is not ready to include the updated disclosures in its 31 December 2024 reporting (including comparatives), it should be prepared to make disclosures similar to those provided about forthcoming MFRS in accordance with paragraphs 30 and 31 of MFRS 108 "Accounting Policies, Changes in Accounting Estimates and Errors".

Read our *Snapshot* for further details.

(*) MFRS is equivalent to IFRS as issued and amended by the International Accounting Standards Board.

Appendix I

The following are amendments to MFRS newly applicable for companies with 31 December 2024 year ends:

(1) Amendments to MFRS 101 "Presentation of Financial Statements"

There are two amendments to MFRS 101. The first amendments on 'classification of liabilities as current or non-current' clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the entity's expectations or events after the reporting date (e.g. the receipt of a waiver or a breach of covenant). In addition, the amendments clarify that when a liability could be settled by the transfer of an entity's own equity instruments (e.g. a conversion option in a convertible bond), conversion option meeting the definition of an equity instrument in MFRS 132 *Financial Instruments: Presentation* does not impact the current or non-current classification of the convertible instrument.

The second amendments on 'non-current liabilities with covenants' specify that covenants of loan arrangements which an entity must comply with only after the reporting date would not affect classification of a liability as current or non-current at the reporting date. However, those covenants that an entity is required to comply with on or before the reporting date would affect classification of a liability as current or non-current, even if the covenant is only assessed after the reporting date. Read our *Snapshot* to find out more about the amendments and how it may affect companies with liabilities that are subject to covenants.

(2) Amendment to MFRS 16 "Leases" on sale and leaseback

These amendments include requirements for sale and leaseback transactions in MFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all the leasepayments are variable lease payments that do not depend on an index or rate are most likely to be impacted. Read our *Snapshot* to find out more about the amendments.

(3) Amendment to MFRS 107 "Statement of Cash Flows" and MFRS 7 "Financial Instruments: Disclosures" on supplier finance arrangement ("SFA")

These amendments require disclosures to enhance the transparency of SFA and their effects on a company's liabilities, cash flows and exposure to liquidity risk. The disclosure requirements is to respond to investors' concerns that some companies' SFA are not sufficiently visible, hindering investor's analysis. Read our *Snapshot* to find out more on the amendments.

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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