



Get ready for MFRS 18

The new financial statements presentation and disclosure standard

Entities should begin preparing for MFRS 18 ‘Presentation and Disclosure in Financial Statements’ sooner rather than later. Changes from MFRS 101 ‘Presentation of Financial Statements’ could have a significant impact on the financial statements.

In June 2024, the Malaysian Accounting Standards Board (MASB) issued the new accounting standard, MFRS 18 ‘Presentation and Disclosure in Financial Statements’. This will replace the existing MFRS 101 ‘Presentation of Financial Statements’ standard that has been in use for many years.

On the surface this new Standard may appear straightforward, setting out a new presentation requirement for the statement of profit or loss, and providing new definitions and disclosures related to non-MFRS performance measures. However, the details of these new requirements can lead to potential challenges that reporting entities will need to deal with to properly apply the new Standard.

While entities are dealing with a wide range of new reporting requirements, from international tax reform to sustainability reporting, changes to the presentation and disclosures of financial statements may not currently be at the top of their priorities. However, given the potentially pervasive changes brought about by MFRS 18, getting ready for MFRS 18 implementation should be prioritised.

This publication series sets out a high-level overview of MFRS 18’s new requirements, along with practical insights into the application challenges. For some entities in particular, this will highlight the need to begin their transition journey early, and ensure that they are fully prepared for mandatory application from 1 January 2027, with retrospective restatement of comparatives.

Summary of key changes

Primary financial statements

Provide **useful structured summaries** of the entity’s assets, liabilities, equity, income, expenses and cash flows

Statement of profit or loss

Changes introduced by MFRS 18

- Two new defined subtotals – **operating profit** and **profit before financing and income taxes**
- Categories for classifying income and expenses – **operating, investing, financing, income taxes** and **discontinued operations**

Notes to the financial statements

Provide **material information** to supplement the primary financial statements

Disclosures introduced or amended by MFRS 18.

For example:

- **Management-defined performance measures**
- Specified expenses by nature



Enhanced guidance for grouping (aggregation and disaggregation) of information
Applicable in all primary financial statements and the notes

General requirements for the financial statements and information disclosed in the notes have been carried over from MFRS 101. There are some limited changes to specific requirements for the statement of cash flows and statement of financial position, however the statement of comprehensive income and statement of changes in equity remain unchanged.

Update to the statement of profit or loss

MFRS 18 has given the statement of profit or loss a major facelift. It requires two new subtotals above the required 'Profit or Loss' total, and divides income and expenses into five distinct categories:

Categories and subtotals in the statement of profit or loss

1	Operating Income and expenses that are not classified in the other categories
A	Operating profit or loss
2	Investing Income and expenses from: <ul style="list-style-type: none">• investments in associates, joint ventures and in consolidated subsidiaries• cash and cash equivalents• other assets that generate a return individually and largely independently of the entity's other resources
B	Profit or loss before financing and income taxes
3	Financing <ul style="list-style-type: none">• Income and expenses from liabilities that arise from transactions that involve only the raising of finance• Interest income and expenses and income and expenses arising from changes in interest rates from liabilities that arise from transactions that do not involve only the raising of finance
4	Income taxes
5	Discontinued operations
	Profit or loss

Categories of income and expenses

- 1 Operating
- 2 Investing
- 3 Financing
- 4 Income taxes
- 5 Discontinued operations

Although the operating, investing and financing categories may seem familiar from MFRS 107 'Statement of Cash Flows', it is important to understand that these are not currently aligned to the categories in the statement of cash flows. The MASB have chosen not to align the MFRS 107 definitions with MFRS 18 at this point, however this may be something that is considered as part of the MASB's ongoing research project into the statement of cash flows.

Although these may seem like straightforward changes, for many entities it will not be as simple as remapping a few of their general ledger accounts. Given that MFRS 18's classification of income and expenses is largely driven by the nature of the underlying assets and liabilities, rather than the nature of the income or expense itself, significant changes to existing systems and processes, or entirely new ones may be required.

Practical insight

Where entities have contracts or agreements with terms or covenants linked to existing profit or loss metrics, or remuneration policies based on achieving specified profit or loss measures, they will need to assess whether contracts need to be amended to reflect the new presentation set out in MFRS 18.

The message to preparers is therefore to start planning early, and to assess the potential impacts that they will face.

New subtotals required

MFRS 18 introduces two new subtotals which must be reported above the usual 'profit or loss' total.

A Operating profit or loss

This subtotal comprises all income and expenses classified in the operating category (see below for further details). It is important to note that the operating category includes, but is not limited to, income and expenses from an entity's main business activities, including items which management may consider volatile or non-recurring.

Practical insight

As the operating profit or loss subtotal includes more than the 'core' business income and expenses, this may increase appetite for reporting non-MFRS performance measures. These will need to be assessed in line with new guidance in MFRS 18 on management-defined performance measures (MPMs) which we will cover later in this publication.

B Profit or loss before financing and income tax

This subtotal is made up of operating profit or loss, together with all income and expenses classified in the investing category. Given the new definitions of the financing and investing categories, this subtotal may differ from the commonly used earnings before interest and tax (EBIT) measure. Again, this may increase the number of entities reporting non-MFRS measures.

MFRS 18 does allow entities to present additional subtotals, however it includes specific requirements for the presentation of additional line items and subtotals.

These are only permitted when they are necessary to provide a useful structured summary of the entity's income and expenses.

Effective date and transition

MFRS 18 is effective for annual reporting periods beginning on or after 1 January 2027, with earlier application permitted. Entities that early adopt MFRS 18 are required to disclose that fact in the notes.

While MFRS 18 must be applied retrospectively applying MFRS 108, entities are not required to disclose the quantitative information set out in MFRS 108, ie entities do not have to disclose the amount of the adjustment to each financial statement line item or the adjustment to basic and diluted earnings per share in the current period.

For the comparative period, an entity must disclose a reconciliation between the restated amounts presented and the amounts previously presented for the comparative period applying MFRS 101. This is also required for the comparative periods presented in interim financial statements prepared under MFRS 134. Entities are permitted, but not required, to present similar reconciliations for the current period, as well as older comparative periods.

When first applying MFRS 18, an entity also has the option to change an election of how an investment in associate or joint venture is measured. If they are eligible to apply the exemption in MFRS 128 'Investments in Associates and Joint Ventures' (which applies for investments held by, or indirectly through, an entity that is a venture capital organisation, mutual fund, unit trust or similar entity), an entity may change its election for measuring investments from the equity method to fair value through profit or loss in accordance with MFRS 9.

In our next series, we will be looking at **Classification of income and expenses** in MFRS 18.

How we can help

We hope you find the information in this article helpful in giving you some insight into aspects of MFRS 18. If you would like to discuss any of the points raised, please speak to your usual Grant Thornton contact.



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