



# Tax implications arising from accounting changes

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# Changes ahead – MFRS framework



Newly effective requirements		→ Forthcoming requirements			
<p><b>MFRS 101:</b> Classification of Liabilities as Current or Non-current</p>	<p><b>MFRS 101:</b> Non-current Liabilities with Covenants</p>	<p><b>MFRS 121:</b> Lack of exchangeability</p>	<p><b>MFRS 1, MFRS 7, MFRS 9, MFRS 10 &amp; MFRS 7:</b> Annual improvements to IFRS Accounting Standards</p>	<p><b>MFRS 18:</b> Presentation and Disclosure in Financial Statements</p>	<p><b>MFRS 10 &amp; MFRS 128:</b> Sale or Contribution of Assets between an Investor and its Associate/JV <i>(Postponed)</i></p>
<p><b>MFRS 16:</b> Lease Liability in a Sale and Leaseback</p>	<p><b>MFRS 107 &amp; MFRS 7:</b> Supplier Finance Arrangement</p>		<p><b>MFRS 9 &amp; MFRS 7:</b> Classification and Measurement of Financial Instruments</p>	<p><b>MFRS 19:</b> Subsidiaries without Public Accountability: Disclosures</p>	
1 January 2024		1 January 2025	1 January 2026	1 January 2027	Date yet to be confirmed



# Key changes in MFRS 18

MFRS 18 replaces MFRS 101 Presentation of Financial Statements



The IASB developed IFRS 18 in response to strong demand from stakeholders...for improvements to financial performance reporting.

## 01

### More structured income statement

- New subtotals including 'operating profit'
- Income and expenses classified into three categories – operating, investing, financing
- Main business activities drive the classification of income and expenses

## 02

### Disclosed and audited Management-defined Performance Measures

- MPMs\* are now disclosed in the financial statements and subject to audit
- MPMs capture some but not all 'non-GAAP' measures
- New disclosures may involve additional effort

## 03

### Greater disaggregation of information

- New disclosures for items labelled as 'other'
- Enhanced guidance on how to group information within the financial statements
- Remains a judgement area



# Presentation of income and expenses

## Classification of income and expenses and introduction of new subtotals

### Profit before tax

Income and expenses relating to entity's business activities



### Operating category

Income and expenses from an entity's **main business activities** (and any income and expenses that are not classified in other categories)

Operating profit

### Investing category

Income and expenses from **investments** made **individually** and **largely independently** of the entity's main business activities

Profit before financing and income taxes

### Financing category

Income and expenses relating to **obtaining finance** to fund the entity's main business activities and/or investing activities



# Income Statement

	Amount
Revenue	X,XXX
Cost of sales	(XXX)
<b>Gross profit</b>	<b>XXX</b>
Distribution expenses	(XX)
Administrative expenses	(XX)
Net loss on impairment of financial instruments	(XX)
Other operating income	XX
Other operating expense	(XX)
<b>Results from operating activities</b>	<b>XXX</b>
Share of profits of equity accounted associates	XX
Finance costs	XX
<b>Profit before taxes</b>	<b>XX</b>
Income tax expense	(X)
<b>Profit from continuing operations</b>	<b>XX</b>
Profit from discontinued operations	X
<b>Profit for the year</b>	<b>XX</b>

	Amount
Revenue	X,XXX
Cost of sales	(XXX)
<b>Gross profit</b>	<b>XXX</b>
<i>Various operating expenses that can be disclosed as a separate line</i>	(XX)
Other operating income	XX
Other operating expense	(XX)
<b>Operating profit</b>	<b>XXX</b>
Share of profits of equity accounted associates	XX
<i>Various investing income and/or expenses that can be disclosed as a separate line</i>	XX
<b>Profit before financing and income taxes</b>	<b>XXX</b>
<i>Various finance costs that can be disclosed as a separate line</i>	(XX)
<b>Profit before taxes</b>	<b>XX</b>
Income tax expense	(X)
<b>Profit from continuing operations</b>	<b>XX</b>
Profit from discontinued operations	X
<b>Profit for the year</b>	<b>XX</b>

**New!**

**New!**

# Example income and expenses

	Amount
Revenue	X,XXX
Cost of sales	(XXX)
<b>Gross profit</b>	<b>XXX</b>
<i>Various operating expenses that can be disclosed as a separate line</i>	(XX)
Other operating income	XX
Other operating expense	(XX)
<b>New! Operating profit</b>	<b>XXX</b>
Share of profits of equity accounted associates	XX
<i>Various investing income and/or expenses that can be disclosed as a separate line</i>	XX
<b>New! Profit before financing and income taxes</b>	<b>XXX</b>
<i>Various finance costs that can be disclosed as a separate line</i>	(XX)
<b>Profit before taxes</b>	<b>XX</b>
Income tax expense	(X)
<b>Profit from continuing operations</b>	<b>XX</b>
Profit from discontinued operations	X
<b>Profit for the year</b>	<b>XX</b>

## Examples of the various operating expenses:

- Distribution expenses
- Administrative expenses
- Research and development expenses
- Goodwill impairment loss
- Employee benefits

## Examples of the various income and/or expenses:

- Rental income
- Interest and dividend income
- Depreciation, impairment loss, and reversal of impairment loss of non-operating assets
- Fair value gain or loss of investment property
- Gain or loss from disposal of non-operating assets

## Examples of the various financing costs:

- Interest expenses on borrowings and lease liabilities
- Interest expenses on pension liabilities and provisions

# Concept of specific main business activities

Companies with **specified main business activities** classify additional items of income and expense in the **operating** category that would otherwise be classified in **investing** or **financing**.



## Investment in assets

- ✓ Generate a return individually and largely independently of an entity's other resources.
- ✓ For example:
  - REIT, leasing/rental business
  - insurers
  - investment entities



## Providing financing to customers

E.g. banks, lending institutions, finance lease lessors



Definition of specified main business activities is defined in MFRS 18. Where definition is met, classification may be different with some policy choices available.

	Amount
Revenue	X,XXX
Cost of sales	(XXX)
<b>Gross profit</b>	<b>XXX</b>
<i>Various operating expenses that can be disclosed as a separate line</i>	(XX)
Other operating income	XX
Other operating expense	(XX)
<b>Operating profit</b>	<b>XXX</b>
Share of profits of equity accounted associates	XX
<i>Various investing income and/or expenses that can be disclosed as a separate line</i>	XX
<b>Profit before financing and income taxes</b>	<b>XXX</b>
<i>Various finance costs that can be disclosed as a separate line</i>	(XX)
<b>Profit before taxes</b>	<b>XX</b>
Income tax expense	(X)
<b>Profit from continuing operations</b>	<b>XX</b>
Profit from discontinued operations	X
<b>Profit for the year</b>	<b>XX</b>



# KPMG Articles and Publication



## How companies communicate financial performance is changing

IFRS 18 aims to deliver more consistent, comparable and transparent information

New standards or amendments	Web article
Lease Liability in a Sale and Leaseback – Amendments to IFRS 16 Leases	<a href="#">Web article</a>
Classification of liabilities as Current or Non-Current and Non-current Liabilities with Covenants – Amendments to IAS 1 Presentation of Financial Statements	<a href="#">Web article</a>
Supplier Finance Arrangements – Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures	<a href="#">Web article</a>
Lack of exchangeability – Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates	<a href="#">Web article</a>
Annual improvements to IFRS Accounting Standards – Amendments to IFRS 1, IFRS 7, IFRS 9, IFRS 10 and IAS 7	<a href="#">Web article</a>
Classification and Measurement – Amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures	<a href="#">Web article</a>
IFRS 18 Presentation and Disclosures in Financial Statements	<a href="#">Web article</a>
IFRS 19 Subsidiaries without Public Accountability: Disclosures	<a href="#">Web article</a>





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