Change In Disclosure Of

“Significant Accounting Policies” In Financial Statements

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Audit / Tax / Advisory

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Change In Disclosure Of "Significant Accounting Policies" In Financial Statements

Presently, there is a section in financial statements disclosing the principles, rules and procedures that an entity follows in preparing and presenting its financial statements (commonly titled as "Significant Accounting Policies"). These policies help ensure consistency and comparability in financial reporting between different entities and assist users in analysing comparative financial performance and financial position of these entities. It is crucial for financial statement users to carefully review the accounting policies disclosed in the financial statements to understand how the entity has applied accounting principles and to make informed decisions.

In 2024, a major change has taken place whereby "Significant Accounting Policies" will be replaced with 'Material Accounting Policy Information' in financial statements. This is in line with the new amendments to MFRS 101 "Disclosure of Accounting Policies" which are effective for annual reporting periods beginning on or after 1 January 2023.

Overview of the New Amendments to MFRS 101

There is a new definition of ‘material’ in the context of applying MFRS. Under the new definition, information is material if, when considered together with other information included in an entity’s financial statements, is reasonably expected to influence decisions that the existing and potential financial statement users make in the context of the financial statements as a whole.

Accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. Hence, entity-specific information about accounting policies would likely be made in the financial statements.

The change was due to an attempt by the MASB to enhance communication in financial reporting and increase financial statements’ usability. Using a consistent definition of materiality would make information in financial statements more relevant and less cluttered. To support the change, MASB has also amended the MFRS Practice Statement 2 “Making Materiality Judgements” to guide on how to apply the materiality concept to the disclosure of accounting policy information.

Material Accounting Policy Information – An Illustrative Example

Currently, financial statements include a list of accounting policies adopted by an entity that may, in practice, be deemed not material to the entity. To explain how the amendments to MFRS 101 could be applied to a specific accounting policy, we use the accounting policies of property, plant and equipment as the example:-

Wording Per Current Practice	Wording Per New Requirements	Commentary
Property, Plant and Equipment		
All items of property, plant and equipment are initially measured at cost. Cost includes expenditure that are directly attributable to the acquisition of the asset and other costs directly attributable to bringing the asset to working condition for its intended use. Subsequent to initial recognition, all property, plant and equipment, other than freehold land and buildings, are stated at cost less accumulated depreciation and any impairment losses.	All property, plant and equipment, other than freehold land and buildings, are stated at cost less accumulated depreciation and subsequent impairment losses.	MFRS 116 “Property, Plant and Equipment” allows an entity to measure each class of its property, plant and equipment using either the cost or revaluation model. Therefore, the measurement basis provides entity-specific information and is material accounting policy information.
Freehold land is stated at valuation less impairment losses recognised after the date of the revaluation. Freehold buildings are stated at revalued amount less accumulated depreciation and impairment losses recognised after the date of the revaluation. Freehold land and buildings are revalued periodically, at least once in every 5 years. Surpluses arising from the revaluation are recognised in other comprehensive income and accumulated in equity under the revaluation reserve to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss. Deficits arising from the revaluation, to the extent that they are not supported by any previous revaluation surpluses, are recognised in profit or loss.	Freehold land and buildings are stated at valuation less accumulated depreciation for buildings.	The other information on current practice summarises the accounting requirements of MFRS 116. Hence, this information is less useful than entity-specific information (MFRS 101.117C).

Material Accounting Policy Information – An Illustrative Example (cont’)

Wording Per Current Practice	Wording Per New Requirements	Commentary
Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when the cost is incurred and it is probable that the future economic benefits associated with the asset will flow to the Group and the Company, and the cost of the asset can be measured reliably. The carrying amount of parts that are replaced is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.		The current practice summarises the accounting requirements of MFRS 116 rather than entity-specific information and does not necessarily represent material accounting policy information.
Freehold land is not depreciated. Depreciation on other property, plant and equipment is charged to profit or loss (unless it is included in the carrying amount of another asset) on a straight-line method to write off the depreciable amount of the assets over their estimated useful lives. Depreciation of an asset does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. The principal annual rates used for this purpose are:- • Freehold buildings (2%) • Office equipment, furniture and fittings (10%) • Production equipment (10% - 20%) • Office renovation (10% - 20%) • Motor vehicles (20%)	Freehold land is not depreciated. Depreciation on other property, plant and equipment is calculated using the straight-line method to allocate their depreciable amounts over the estimated useful lives as follows:- • Freehold buildings (50 years) • Office equipment, furniture and fittings (10 years) • Production equipment (5 - 10 years) • Office renovation (5 - 10 years) • Motor vehicles (5 years)	MFRS 116 permits an entity to use a variety of depreciation methods. Therefore, the depreciation method used provides entity-specific information and is material accounting policy information.

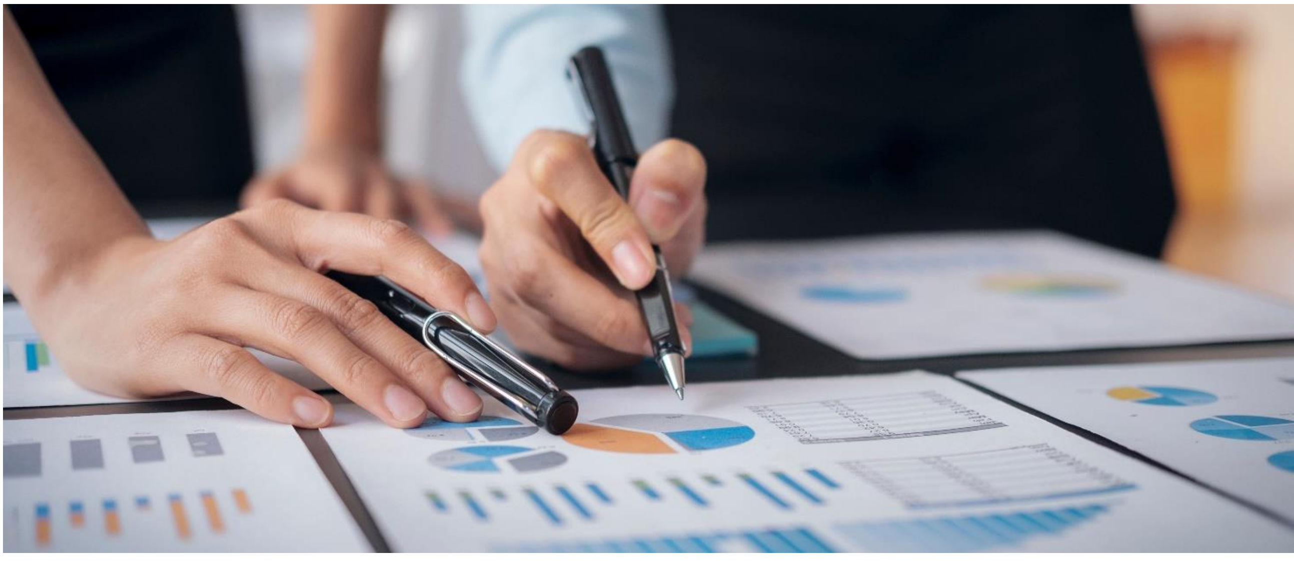
Material Accounting Policy Information – An Illustrative Example (cont’)

Wording Per Current Practice	Wording Per New Requirements	Commentary
The depreciation method, useful lives and residual values are reviewed, and adjusted if appropriate, at the end of each reporting period to ensure that the amounts, method and periods of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of the property, plant and equipment. Any changes are accounted for as a change in estimate.		The current practice summarises the accounting requirements of MFRS 116 rather than entity-specific information and does not necessarily represent material accounting policy information.
When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.		The current practice summarises the accounting requirements of MFRS 116 rather than entity-specific information and does not necessarily represent material accounting policy information.
An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising from derecognition of the asset, being the difference between the net disposal proceeds and the carrying amount, is recognised in profit or loss.	Depends	If there are disposals during the reporting periods and the gains and/or losses involved are significant, disclosure of the policy represents material accounting policy information.

Material Accounting Policy Information – An Illustrative Example (cont')

Wording Per Current Practice	Wording Per New Requirements	Commentary
The revaluation reserve included in equity is transferred directly to retained profits on retirement or disposal of the asset.	Revaluation surpluses are credited to revaluation reserve in equity and are transferred directly to retained profits on retirement or disposal of the revalued asset.	MFRS 116 provides an accounting choice to or not to amortise the revaluation surpluses. Therefore, the option adopted provides entity-specific information and is material accounting policy information.

You will notice that the new accounting policies on property, plant and equipment above are short, straightforward, relevant and entity-specific, and allow users to understand the key measurement basis on which the financial information is prepared. However, these specimen disclosures cannot be applied across all entities because accounting policies can vary among the entities due to their specific circumstances, industry and regulatory requirements.



Can We Maintain the Current Disclosure of Significant Accounting Policies?

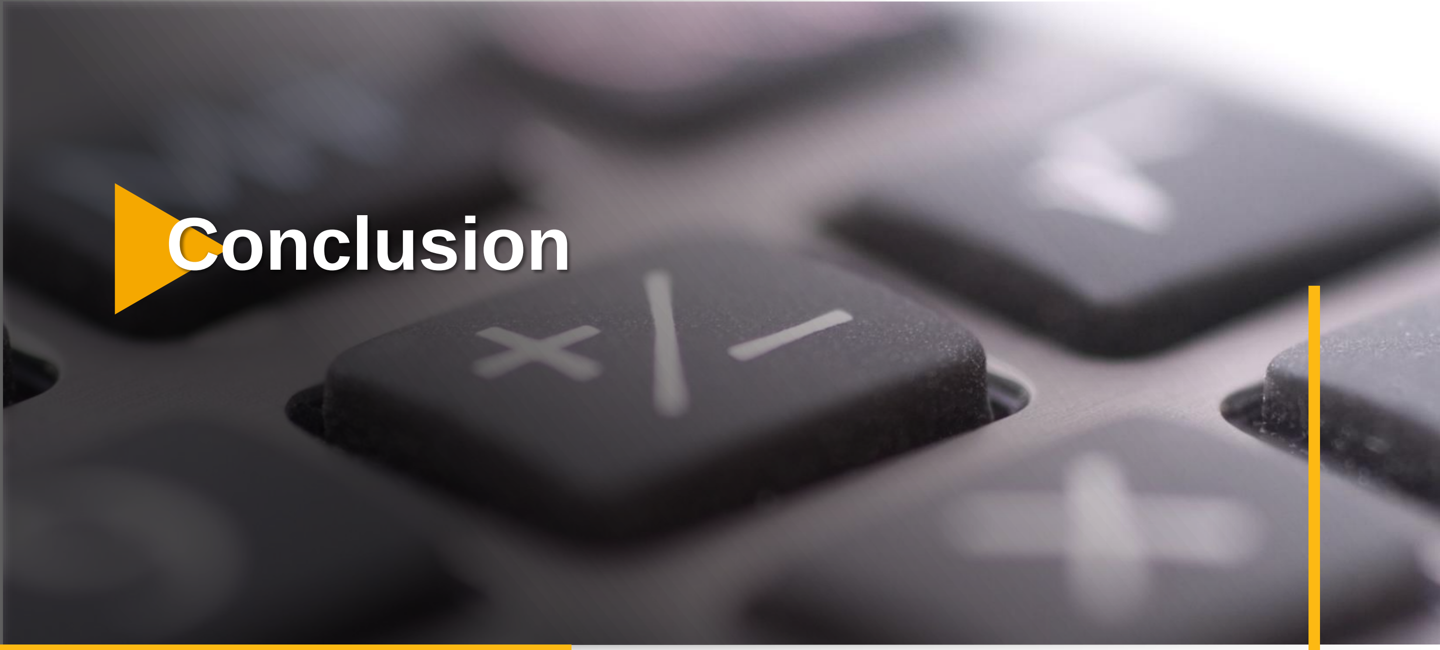
Under the new amendments to MFRS 101, the accounting policy disclosures must always be tailored to ensure they reflect and portray an entity's specific circumstances and its own materiality considerations.

However, some may choose not to revisit their current disclosures of significant accounting policies by removing immaterial accounting policies and argue that the immaterial accounting policies are made/maintained on a voluntary basis for completeness purposes. With this, the amendments to MFRS 101 will have no impact on their current practices.

The pros and cons of shortened accounting policy disclosures are:-

Pros	• **Readability** – Shorter policies can avoid redundancy and make financial statements easier to read and understand. This can help users navigate important financial information more easily. • **Conciseness** – Disclosures focusing on material accounting policies help users quickly identify and comprehend critical accounting practices. This is because immaterial accounting policies are a distraction and do not add relevance to understanding the information in the financial statements. • **User-friendly** – Financial statements may be more user-friendly for non-accounting users who may not have an in-depth understanding of accounting principles. • **ESG-friendly** – Shorter policies help entities reduce the length of financial statements, Indirectly it saves paper when the entities print the minimum hardcopy of financial statements when needed.
Cons	• **Lack of detail** – A person with no accounting background may struggle to understand the nuances of certain financial information, especially in complex industries. • **Risk of misinterpretation** – Users may not fully comprehend an entity's financial statements, potentially leading to incorrect interpretations of financial performance and position.

Generally, when immaterial information is included in the financial statements, the amount of information may potentially reduce the transparency and usefulness of the financial statements because the material and relevant information become less prominent. As a result, immaterial accounting policy information need not be made in financial statements. But, if it is disclosed, it should not obscure material accounting policy information.



Conclusion

The question of how much effort is required by an entity in adopting the amendments to MFRS 101 and if there is an impact arising on the adoption depends on the entity's specific circumstances and its own materiality considerations. The factors to consider include the size and nature of the transactions, the level of significant judgements and assumptions in applying MFRS, the complexity of accounting required for a transaction, accounting policy choices available in MFRS for a transaction, etc.

Determining whether accounting policies are material or not requires the use of judgement. There is no one-size-fits-all approach to disclosing material accounting policy information. Therefore, entities will have to revisit their accounting policy information disclosures when they first adopt the new amendments.

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