



MFRS News

January 2019

MFRS News is your monthly update on all things relating to Malaysian Financial Reporting Standards. We'll bring you up to speed on topical issues, provide comment and points of view and give you a summary of any significant developments.

This issue will discuss the amendment issued on the 'Definition of Material'. The MASB has issued 'Definition of Material' making amendments to MFRS 101 'Presentation of Financial Statements' and MFRS 108 'Accounting Policies, Changes in Accounting Estimates and Errors'.



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MASB amends its definition of 'material'

The MASB has issued 'Definition of Material' making amendments to MFRS 101 'Presentation of Financial Statements' and MFRS 108 'Accounting Policies, Changes in Accounting Estimates and Errors'.

The amendments are a response to findings that some companies experienced difficulties using the previous definition when judging whether information was material for inclusion in the financial statements. Indeed up to now, the wording of the definition of material in the Conceptual Framework for Financial Reporting differed from the wording used in MFRS 101 and MFRS 108. The existence of more than one definition of material was potentially confusing, leading to questions over whether the definitions had different meanings or should be applied differently.



The old definition Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements.

The new definition Information is material if omitting, misstating or **obscuring** it could **reasonably be** expected to influence the decisions that the **primary users** of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Grant Thornton International Ltd insight – ‘obscuring’

Including ‘obscuring’ in the definition of material addresses concerns that the former definition could be perceived by stakeholders as focusing only on information that cannot be omitted (material information) and not also on why it may be unhelpful to include immaterial information.

This does not mean that entities are prohibited from disclosing immaterial information however.

The amendments give a number of examples of circumstances that may result in material information being obscured.

Grant Thornton Malaysia insight – ‘reasonably be’

This wording reflects wording broadly previously used in MFRS 101 and helps to address concerns raised by some parties that the threshold ‘could influence’ in the existing definition of material is too low and might be applied too broadly.

Grant Thornton Malaysia insight – ‘primary users’

The amendments note that many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial statements for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial statements are directed.

The amendments are designed to rectify this problem and make it easier for companies to define materiality judgements. They do this by:

- including in the definition guidance that until now has featured elsewhere in MFRS
- improving the explanations that accompany the definition
- ensuring that the definition of material is consistent across all MFRS.

Transition

The changes are effective from 1 January 2020, but companies can decide to apply them earlier.

Grant Thornton Malaysia comment

The amendments are intended to make the definition easier to understand and are not intended to alter the concept of materiality in MFRS. As such, we do not expect the amendments to change significantly how materiality judgements are made in practice or to significantly affect entities’ financial statements. We do however expect that they will improve the understanding of this important area.



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