

**LEMBAGA PIAWAIAN PERAKAUNAN MALAYSIA
MALAYSIAN ACCOUNTING STANDARDS BOARD**

MASB Standard 1

Presentation of Financial Statements

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Presentation of Financial Statements

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LEMBAGA PIAWAIAN PERAKAUNAN MALAYSIA MALAYSIAN ACCOUNTING STANDARDS BOARD

Presentation of Financial Statements

The standards, which have been set in the bold type should be read in the context of the background material and implementation guidance in this Standard, and in the context of the Foreword to MASB Standards. MASB Standards are not intended to apply to immaterial items.

Objective

The objective of this Standard is to prescribe the basis for presentation of general purpose financial statements in order to ensure comparability with both the enterprise's own financial statements of previous periods and with the financial statements of other enterprises. To achieve this objective, this Standard sets out the overall considerations for the presentation of financial statements, guidelines for their structure and minimum requirements for the content of financial statements. The recognition, measurement and disclosure of specific transactions and events is dealt with in other MASB Standards.

Scope

- 1. This Standard should be applied to the presentation of all general purpose financial statements prepared and presented in accordance with MASB Standards.**

This Standard supersedes MASB Approved Accounting Standard IAS 1, Disclosure of Accounting Policies, MASB Approved Accounting Standard IAS 5, Information to be Disclosed in Financial Statements and MASB Approved Accounting Standard IAS 13, Presentation of Current Assets and Current Liabilities, issued initially by the Malaysian professional accounting bodies.

2. General purpose financial statements are those intended to meet the needs of users who are not in a position to demand report tailored to meet their specific information needs. General purpose financial statements include those that are presented separately or within another public document such as an annual report or a prospectus. This Standard does not apply to condensed interim financial information. This Standard applies equally to the financial statements of an individual enterprise and to consolidated financial statements for a group of enterprises.

3. This Standard applies to all types of enterprises. Additional requirements for some specialised or regulated industries, consistent with the requirements of this Standard, may be prescribed by the relevant regulatory bodies. For example, banks and similar financial institutions must also apply the requirements set out in BNM/GP8 - Guidelines on the Specimen Financial Statements for the Banking Industry.
4. This Standard uses terminology that is suitable for an enterprise with a profit objective. Public sector business enterprises may, therefore, apply the requirements of this Standard. Non-profit, government and other public sector enterprises seeking to apply this Standard may need to amend the descriptions used for certain line items in the financial statements and for the financial statements themselves. Such enterprises may also present additional components of the financial statements.
5. This Standard is not intended to apply to the recognition, measurement and disclosure of transactions and events conducted on the basis of Islamic principles. These matters will be the subject of later standards to be issued by the MASB.

Purpose of Financial Statements

6. Financial statements are a structured financial representation of the financial position of and the transactions undertaken by an enterprise. The objective of general purpose financial statements is to provide information about the financial position, performance and cash flows of an enterprise that is useful to a wide range of users in making economic decisions. Financial statements also show the results of management's stewardship of the resources entrusted to it. To meet this objective, financial statements provide information about an enterprise's:
 - (a) assets;
 - (b) liabilities;
 - (c) equity;
 - (d) income and expenses, including gains and losses; and
 - (e) cash flows.

This information, along with other information in the notes to financial statements, assists users in predicting the enterprise's future cash flows and, in particular, the timing and certainty of the generation of cash and cash equivalents. The structure of financial reporting requirements and the place of this Standard in that structure are illustrated in Appendix 2.

Responsibility for Financial Statements

7. The board of directors or the equivalent governing body of an enterprise is responsible for the preparation and presentation of its financial statements.

Components of Financial Statements

8. **A complete set of financial statements includes the following components:**
 - (a) **balance sheet;**
 - (b) **income statement;**
 - (c) **a statement showing either:**
 - (i) **all changes in equity; or**
 - (ii) **changes in equity other than those arising from capital transactions with owners and distribution to owners;**
 - (d) **cash flow statement; and**
 - (e) **accounting policies and explanatory notes.**
9. Enterprises are encouraged to present, outside the financial statements, a financial review by management which describes and explains the main features of the enterprise's financial performance and financial position, and the principal uncertainties it faces. Such a report may include a review of:
 - (a) the main factors and influences determining performance, including changes in the environment in which the enterprise operates, the enterprise's response to those changes and their effect, and the enterprise's policy for investment to maintain and enhance performance, including its dividend policy;
 - (b) the enterprise's sources of funding, the policy on gearing and its risk management policies; and

- (c) the strengths and resources of the enterprise whose value is not reflected in the balance sheet under MASB Standards.
10. Many enterprises present, outside the financial statements, additional statements such as environmental reports and value added statements, particularly in industries where environmental factors are significant and where employees are considered to be an important user group. Enterprises are encouraged to present such additional statements if management believes they will assist users in making economic decisions.

Overall Considerations

Fair Presentation and Compliance with MASB Standards

- 11. **Financial statements should present fairly the financial position, financial performance and cash flows of an enterprise. The appropriate application of MASB Standards, with additional disclosure when necessary, results in virtually all circumstances in financial statements that achieve a fair presentation.**
- 12. **An enterprise whose financial statements comply with MASB Standards should disclose that fact. Financial statements should not be described as complying with MASB Standards unless they comply with all the requirements of each applicable Standard and any other technical pronouncements issued by MASB.**
- 13. **Inappropriate accounting treatments are not rectified either by disclosure of the accounting policies used or by notes or explanatory material.**
- 14. **In the extremely rare circumstances when management concludes that compliance with a requirement in a Standard would be misleading, and therefore that departure from a requirement is necessary to achieve a fair presentation, an enterprise should disclose:**
 - (a) **that management has concluded that the financial statements fairly present the enterprise's financial position, financial performance and cash flows;**
 - (b) **that it has complied in all material respects with applicable MASB Standards except that it has departed from a Standard in order to achieve a fair presentation;**

- (c) **the Standard from which the enterprise has departed, the nature of the departure, including the treatment that the Standard would require, the reason why that treatment would be misleading in the circumstances and the treatment adopted; and**
 - (d) **the financial impact of the departure on the enterprise's net profit or loss, assets, liabilities, equity and cash flows for each period presented.**
- 15. In virtually all circumstances, a fair presentation is achieved by compliance in all material respects with applicable MASB Standards. A fair presentation requires:
 - (a) selecting and applying accounting policies in accordance with paragraph 20;
 - (b) presenting information, including accounting policies, in a manner which provides relevant, reliable, comparable and understandable information; and
 - (c) providing additional disclosures when the requirements in MASB Standards are insufficient to enable users to understand the impact of particular transactions or events on the enterprise's financial position and financial performance.
- 16. In extremely rare circumstances, should the application of a specific requirement of a MASB Standard result in misleading financial statements and as such a fair presentation cannot be achieved by applying the Standard, then and only then, will compliance be inappropriate.
- 17. When assessing whether a departure from a specific requirement is necessary, consideration is given to:
 - (a) the objective of the requirement and why that objective is not achieved or is not relevant in the particular circumstances; and
 - (b) the way in which the enterprise's circumstances differ from those of other enterprises which follow the requirement.
- 18. Because the circumstances requiring a departure are expected to be extremely rare and the need for a departure will be a matter for considerable debate and subjective judgement, it is important that users are aware that the enterprise has not complied in all material respects with MASB Standards. It is also important that they are given sufficient

information to enable them to make an informed judgement on whether the departure is necessary and to calculate the adjustments that would be required to comply with the Standard. The Board will issue interpretation statements and other technical guidelines to facilitate compliance with MASB Standards, and will consider the need for clarification through interpretations or amendments to Standards, as appropriate, to ensure that departures remain only in extremely rare circumstances.

19. **When, in accordance with specific provisions in that Standard, a MASB Standard is applied before its effective date, that fact should be disclosed.**

Accounting Policies

20. **Management should select and apply an enterprise's accounting policies so that financial statements comply with all MASB Standards and any other technical pronouncements issued by the MASB. Where there is no specific requirement, management should develop policies to ensure that the financial statements provide information that is:**
 - (a) **relevant to the decision-making needs of users; and**
 - (b) **reliable in that they :**
 - (i) **represent faithfully the results and financial position of the enterprise;**
 - (ii) **reflect the economic substance of events and transactions and not merely the legal form;**
 - (iii) **are neutral, that is free from bias;**
 - (iv) **are prudent; and**
 - (v) **are complete in all material respects.**
21. Accounting policies are the specific principles, bases, conventions, rules and practices adopted by the enterprise in preparing and presenting financial statements.
22. In the absence of a specific MASB Standard, management uses its judgement in developing an accounting policy that provides the most useful information to users of the enterprise's financial statements. In making this judgement, management considers:

- (a) the requirements and guidance in MASB Standards and any other technical pronouncements issued by MASB dealing with similar related issues;
- (b) the definitions, recognition and measurement criteria for assets, liabilities, income and expenses set out in the MASB's A Proposed Framework for the Preparation and Presentation of Financial Statements; and
- (c) other regulatory requirements and accepted industry practices to the extent, but only to the extent, that these are consistent with (a) and (b) of this paragraph.

Going Concern

23. **When preparing financial statements, management should make an assessment of an enterprise's ability to continue as a going concern. Financial statements should be prepared on a going concern basis unless management either intends to liquidate the enterprise or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions which may cast significant doubt upon the enterprise's ability to continue as a going concern, those uncertainties should be disclosed. When the financial statements are not prepared on a going concern basis, that fact should be disclosed, together with the basis on which the financial statements have been prepared and the reason why the enterprise is not considered to be a going concern.**
24. In assessing whether the going concern assumption is appropriate, management takes into account all available information for the foreseeable future, which should be at least, but not limited to, twelve months from the balance sheet date. The degree of consideration depends on the facts in each case. When an enterprise has a history of profitable operations and ready access to financial resources, a conclusion that the going concern basis of accounting is appropriate may be reached without detailed analysis. In other cases, management may need to consider a wide range of factors surrounding current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.

Accrual Basis of Accounting

25. **An enterprise should prepare its financial statements, except for cash flow information, under the accrual basis of accounting.**
26. Under the accrual basis of accounting, transactions and events are recognised when they occur (and not as cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the period to which they relate. Expenses are recognised in the income statement on the basis of a direct association between costs incurred and the earning of specific items of income (matching). In general, the application of the matching concept does not allow the recognition of items in the balance sheet which do not meet the definition of assets or liabilities. However, in certain exceptional circumstances, expenditures may be carried forward and allocated as expenses in future periods, if a direct association between the probable future economic benefits and expenditures incurred can be established. Examples of expenditures that may be deferred are product development expenditure and prospecting expenditure.

Consistency of Presentation

27. **The presentation and classification of items in the financial statements should be retained from one period to the next unless:**
 - (a) **a significant change in the nature of the operation of the enterprise or a review of its financial statement presentation demonstrates that the change will result in a more appropriate presentation of events or transactions; or**
 - (b) **a change in presentation is required by a MASB Standard and any other technical pronouncements issued by MASB or other directive or regulation.**
28. A significant acquisition or disposal, or a review of the financial statement presentation, might suggest that the financial statements should be presented differently. Only if the revised structure is likely to continue, or if the benefit of an alternative presentation is clear, should an enterprise change the presentation of its financial statements. When such changes in presentation are made, an enterprise reclassifies its comparative information in accordance with paragraph 38.

Materiality and Aggregation

29. **Each material item should be presented separately in the financial statements. Immaterial items should be aggregated with amounts of a similar nature or function and need not be presented separately.**
30. Financial statements result from processing large quantities of transactions which are structured by being aggregated into groups according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data which form line items either on the face of the financial statements or in the notes. If a line item is not individually material, it is aggregated with other items either on the face of the financial statements or in the notes. An item that is not sufficiently material to warrant separate presentation on the face of the financial statements may nevertheless be sufficiently material that it should be presented separately in the notes.
31. In this context, information is material if its non-disclosure could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the item judged in the particular circumstances of its omission. In deciding whether an item or an aggregate of items is material, the nature and the size of the item are evaluated together. Depending on the circumstances, either the nature or the size of the item could be the determining factor. For example, individual assets with the same nature and function are aggregated even if the individual amounts are large. However, large items which differ in nature or function are presented separately. Hence, where an aggregate of items recognised on the face of the financial statements includes amounts not related to the core activities of the enterprise and/or material in amount, those items should be disaggregated and disclosed separately in the notes to the financial statements.
32. Materiality provides that the specific disclosure requirements of MASB Standards need not be met if the resulting information is not material.

Offsetting

33. **Assets and liabilities should not be offset except when offsetting is required or permitted by another MASB Standard.**
34. **Items of income and expenses should be offset when, and only when:**
 - (a) **MASB Standard requires or permits it; or**

- (b) **gains, losses and related expenses arising from the same or similar transactions and events are not material, such amounts should be aggregated in accordance with paragraph 29.**
35. It is important that both assets and liabilities, and income and expenses, when material, are reported separately. Offsetting in either the income statement or the balance sheet, except when offsetting reflects the substance of the transaction or event, detracts from the ability of users to understand the transactions undertaken and to assess the future cash flows of the enterprise. The reporting of assets net of valuation allowances, for example, obsolescence allowances on inventories and doubtful debts allowance on receivables is not offsetting.
 36. In the course of its ordinary activities an enterprise undertakes transactions which do not generate revenue but which are incidental to the main revenue generating activities. The results of such transactions are presented, when this presentation reflects the substance of the transaction or event, by netting any income with related expenses arising on the same transaction. For example:
 - (a) gains and losses on the disposal of non-current assets, including investments and operating assets, are reported by deducting from the proceeds on disposal the carrying amount of the asset and related selling expenses;
 - (b) expenditure that is reimbursed under a contractual arrangement with a third party (a sub-letting agreement, for example) is netted against the related reimbursement; and
 - (c) extraordinary items may be presented net of related taxation and minority interest with the gross amounts shown in notes.
 37. In addition, gains and losses arising from a group of similar transactions are reported on a net basis, for example, foreign exchange gains and losses or gains and losses arising on financial instruments held for trading purposes. Such gains and losses are, however, reported separately if their size, nature or incidence is such that separate disclosure is required by MASB 3, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies.

Comparative Information

38. **Unless a MASB Standard permits or requires otherwise, comparative information should be disclosed in respect of the previous period for all numerical information in the financial statements. Comparative information should be included in narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.**
39. In some cases narrative information provided in the financial statements for the previous period(s) continues to be relevant in the current period. For example, details of a legal dispute, the outcome of which was uncertain at the last balance sheet date and is yet to be resolved, are disclosed in the current period. Users benefit from information that the uncertainty existed at the balance sheet date and the steps that have been taken during the period to resolve the uncertainty.
40. **When the presentation or classification of items in the financial statements is amended, comparative amounts should be reclassified, unless it is impracticable to do so, to ensure comparability with the current period, and the nature, amount and reason for, any reclassification should be disclosed. When it is impracticable to reclassify comparative amounts, an enterprise should disclose the reason for not reclassifying and the nature of the changes that would have been made if amounts were reclassified.**
41. Circumstances may exist when it is impracticable to reclassify comparative information to achieve comparability with the current period. For example, data may not have been collected in the previous period(s) in a way which allows reclassification and it may not be practicable to recreate the information. In such circumstances, the nature of the adjustments to comparative amounts that would have been made are disclosed. MASB 3, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies, addresses the issue of required adjustments subsequent to a change in accounting policy that is applied retrospectively.

Structure and Content

Introduction

42. This Standard requires certain disclosures on the face of the financial statements, requires other line items to be disclosed either on the face of the financial statements or in the note, and sets out recommended

formats as an appendix to the Standard which an enterprise may follow as appropriate in its own circumstances. MASB 5, Cash Flow Statements, provides a structure for the presentation of the cash flow statement.

43. This Standard uses the term disclosure in a broad sense, encompassing items presented on the face of each financial statement as well as in the notes to the financial statements. Disclosures required by other MASB Standards are made in accordance with the requirements of those Standards. Unless this or another MASB Standard specifies to the contrary, such disclosures are made either on the face of the relevant financial statement or in the notes.

Identification of Financial Statements

44. **Financial statements should be clearly identified and distinguished from other information in the same published documents.**
45. MASB Standards apply only to the financial statements and not to other information presented in an annual report or other document. Therefore, it is important that users are able to distinguish information that is prepared using MASB Standards from other information which may be useful to users but is not the subject of MASB Standards.
46. **Each component of the financial statements should be clearly identified. In addition, the following information should be prominently displayed and repeated when it is necessary for a proper understanding of the information presented:**
 - (a) **the name of the operating enterprise or other means of identification;**
 - (b) **whether the financial statements cover the individual enterprise or a group of enterprises;**
 - (c) **the balance sheet date or the period covered by the financial statements, whichever is appropriate to the related component of the financial statements;**
 - (d) **the reporting currency; and**
 - (e) **the level of precision used in the presentation of figures in the financial statements.**
47. The requirements in paragraph 46 are normally met by presenting page headings and abbreviated columns on each page of the financial statements. Judgement is required in determining the best way of

presenting such information. For example, when the financial statements are read electronically, separate pages may not be used; the above items are then presented frequently enough to ensure a proper understanding of the information given.

48. Financial statements are often made understandable by presenting information in hundreds or thousands of Ringgit Malaysia (RM) . This is acceptable as long as the level of precision in reporting is disclosed and relevant information is not lost.

Reporting Period

49. **Financial statements should be presented at least annually. When, in exceptional circumstances, an enterprise's balance sheet date changes and the annual financial statements are presented for a period longer or shorter than a year, an enterprise should disclose, in addition to the period covered by the financial statements:**

- (a) **the reason for a period other than a one year being used; and**
- (b) **the fact that comparative amounts for the income statement, changes in equity, cash flows and related notes are not comparable.**

50. In exceptional circumstances an enterprise may be required to, or decide to, change its balance sheet date, for example, following the acquisition of the enterprise by another enterprise with a different balance sheet date. When this is the case, it is important that users are aware that the amounts shown for the current period and comparative amounts are not comparable and that the reason for the change in balance sheet date is disclosed.

51. Normally, financial statements are consistently prepared covering a one-year period. However, some enterprises prefer to report, for example, for a 52-week period for practical reasons. This Standard does not preclude this practice, as the resulting financial statements are unlikely to be materially different to those that would be presented for one year.

Timeliness

52. The usefulness of financial statements is impaired if they are not made available to users within a reasonable period after the balance sheet date. An enterprise should be in a position to issue its financial statements within six months of the balance sheet date. Ongoing factors, such as

complexity of an enterprise's operations, are not sufficient reasons for failing to report on a timely basis. Legislation and market regulation deal with more specific deadlines, for example, reporting deadlines set by Bank Negara Malaysia for licensed financial institutions.

Balance Sheet

The Current/Non-current Distinction

- 53. Each enterprise should determine, based on the nature of its operations, whether or not to present current and non-current assets and current and non-current liabilities as separate classifications on the face of the balance sheet. Paragraphs 57 to 65 of this Standard apply when this distinction is made. When an enterprise chooses not to make this classification, assets and liabilities should be presented broadly in order of their liquidity.**
- 54. Whichever method of presentation is adopted, an enterprise should disclose, for each asset and liability item that combines amounts expected to be recovered or settled both before and after twelve months from the balance sheet date, the amount expected to be recovered or settled after more than twelve months.**
55. When an enterprise supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities on the face of the balance sheet provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the enterprise's long-term operations. It also highlights assets that are expected to be realised within the current operating cycle and liabilities that are due for settlement within the same period.
56. Information about the maturity dates of assets and liabilities is useful in assessing the liquidity and solvency of an enterprise, as for example, disclosing the maturity dates of both financial assets and financial liabilities and disclosing the expected date of recovery and settlement of non-monetary assets and liabilities .

Current Assets

- 57. An asset should be classified as a current asset when it:**
 - (a) is expected to be realised in, or is held for sale or consumption in, the normal course of the enterprise's operating cycle; or**

- (b) **is held primarily for trading purposes or for the short term and expected to be realised within twelve months of the balance sheet date; or**
- (c) **is cash or a cash equivalent asset which is not restricted in its use.**

All other assets should be classified as non-current assets.

- 58. This Standard uses the term ‘non-current’ to include tangible, intangible, operating and financial assets of a long-term nature. It does not prohibit the use of alternative descriptions as long as the meaning is clear.
- 59. The operating cycle of an enterprise is the time between the acquisition of materials entering into a process and its realisation in cash or an instrument that is readily convertible into cash. Current assets include inventories and trade receivables that are sold, consumed and realised as part of the normal operating cycle even when they are not expected to be realised within twelve months of the balance sheet date. Marketable securities are classified as current assets if they are expected to be realised within twelve months of the balance sheet date; otherwise they are classified as non-current assets.

Current Liabilities

- 60. **A liability should be classified as a current liability when it:**

- (a) **is expected to be settled in the normal course of the enterprise’s operating cycle; or**
- (b) **is due to be settled within twelve months of the balance sheet date.**

All other liabilities should be classified as non-current liabilities.

- 61. Current liabilities can be categorised in a similar way to current assets. Some current liabilities, such as trade payables and accruals for employees and other operating costs, form part of the working capital used in the normal operating cycle of the business. Such operating items are classified as current liabilities even if they are due to be settled after more than twelve months from the balance sheet date.
- 62. Other current liabilities are not settled as part of the current operating cycle but are due for settlement within twelve months of the balance sheet date. Examples are the current portion of interest-bearing liabilities, bank overdrafts, dividends payable, income taxes and other non-trade

payables. Interest-bearing liabilities that provide the finance for working capital on a long-term basis, and are not due for settlement within twelve months, are non-current liabilities.

63. An enterprise should continue to classify its long-term interest-bearing liabilities as non-current, even when they are due to be settled within twelve months of the balance sheet date if:

- (a) the original term was for a period of more than twelve months;
- (b) the enterprise intends to refinance the obligation on a long-term basis; and
- (c) the intention is supported by an agreement to refinance, or to reschedule payments, which is completed before the financial statements are approved.

The amount of any liability that has been excluded from current liabilities in accordance with this paragraph, together with information in support of this presentation, should be disclosed in the notes to the balance sheet.

64. Some obligations that are due to be repaid within the next operating cycle may be expected to be refinanced or ‘rolled over’ at the discretion of the enterprise and, therefore, are not expected to use current working capital of the enterprise. Such obligations are considered to form part of the enterprise’s long- term financing and should be classified as non-current. However, in situations in which refinancing is not at the discretion of the enterprise (as would be the case if there were no agreement to refinance), the refinancing cannot be considered automatic and the obligation is classified as current unless the completion of refinancing agreement before approval of the financial statements provides evidence that the substance of the liability at the balance sheet date was long-term.
65. Some borrowing agreements incorporate undertakings by the borrower (covenants) which have the effect that the liability becomes payable on demand if certain conditions related to the borrower’s financial position are breached. In these circumstances, the liability is classified as non-current only when:
- (a) the lender has agreed, prior to the approval of the financial statements, not to demand payment as a consequence of the breach; and

- (b) it is not probable that further breaches will occur within twelve months of the balance sheet date.

Information to be Presented on the Face of the Balance Sheet

- 66. As a minimum, the face of the balance sheet should include line items which present the following amounts:**
 - (a) property, plant and equipment;
 - (b) intangible assets;
 - (c) financial assets [excluding amounts shown under (d), (f) and (g)];
 - (d) investments;
 - (e) inventories;
 - (f) trade and other receivables;
 - (g) cash and cash equivalents;
 - (h) trade and other payables;
 - (i) tax liabilities and tax assets;
 - (j) provisions;
 - (k) non-current interest-bearing liabilities;
 - (l) minority interest; and
 - (m) issued capital and reserves.
- 67. Additional line items, headings and sub-totals should be presented on the face of the balance sheet when a MASB Standard requires it, or when such presentation is necessary to present fairly the enterprise's financial position.**
- 68. This Standard does not prescribe the order or formats in which items are to be presented. Paragraph 66 simply provides a list of items that are so different in nature or function that they deserve separate presentation on the face of the balance sheet. Illustrative formats are set out in the Appendix to this Standard. Adjustments to the line items above include the following:**

- (a) line items are added when another MASB Standard or technical pronouncement requires separate presentation on the face of the balance sheet, or when the size, nature or function of an item is such that separate presentation would assist in presenting fairly the enterprise's financial position; and
 - (b) the description used and the ordering of items may be amended according to the nature of the enterprise and its transactions to provide information that is necessary for an overall understanding of the enterprise's financial position. For example, a bank amends the above descriptions in order to apply the more specific requirements of BNM/GP8, Guidelines on the Specimen Financial Statements for the Banking Industry.
69. The line items listed in paragraph 66 are broad in nature and need not be limited to items falling within the scope of other Standards.
70. The judgement on whether additional items are separately presented is based on an assessment of:
- (a) the nature and liquidity of assets and their materiality, leading in most cases, to the separate presentation of goodwill and assets arising from development expenditure, monetary and non-monetary assets and current and non-current assets;
 - (b) their function within the enterprise, leading, for example, to the separate presentation of operating and financial assets, inventories, receivables and cash and cash equivalents assets; and
 - (c) the amounts, nature and timing of liabilities, leading, for example, to the separate presentation of interest-bearing and non-interest-bearing liabilities and provisions, classified as current or non-current as appropriate.
71. Assets and liabilities that differ in nature or function are sometimes subject to different measurement bases. For example, certain classes of property, plant and equipment may be carried at cost, or at revalued amounts in accordance with MASB Approved Accounting Standard IAS 16, Property, Plant and Equipment. The use of different measurement bases for different classes of assets suggests that their nature or function differs and, therefore, that they should be presented as separate line items.

Information to be Presented Either on the Face of the Balance Sheet or in the Notes

- 72. An enterprise should disclose, either on the face of the balance sheet or in the notes to the balance sheet, further sub-classification of the line items presented, classified in a manner appropriate to the enterprise's operations. Each item should be sub-classified, when appropriate, by its nature and, amounts payable to and receivable from the parent enterprise, fellow subsidiaries and associates and other related parties should be disclosed separately. In addition, with respect to any long-term liabilities, an enterprise should disclose by way of note a summary of the interest rates, repayment terms, covenants, subordinations, conversion features and amounts of unamortised premium or discount.**
73. The detail provided in sub-classifications, either on the face of the balance sheet or in the notes, depends on the requirements of MASB Standards and other technical pronouncements and the size, nature and function of the amounts involved. The factors set out in paragraph 70 are also used to decide the basis of sub-classification. The disclosures will vary for each item, for example:
- (a) tangible assets are classified by class as described in MASB Approved Accounting Standard IAS 16, Property, Plant and Equipment;
 - (b) receivables are analysed between amounts receivables from trade customers, other members of the group, receivables from related parties, prepayments and other amounts;
 - (c) inventories are sub-classified, in accordance with MASB 2 Inventories, into classifications such as merchandise, production supplies, materials, work in progress and finished goods;
 - (d) provisions are analysed showing separately provisions for employee benefit costs and other items classified in a manner appropriate to the enterprise's operations;
 - (e) equity capital and reserves are analysed showing separately the various classes of paid up capital, share premium and reserves; and
 - (f) long-term liabilities are disclosed separately showing the nature or recipient by group such as secured loans, unsecured loans, inter-company loans and loans from associated companies.

74. An enterprise should disclose the following, either on the face of the balance sheet or in the notes:

- (a) for each class of share capital:**
 - (i) the number of shares authorised;**
 - (ii) the number of shares issued and fully paid, and issued but not fully paid;**
 - (iii) par value per share, or that the shares have no par value;**
 - (iv) a reconciliation of the number of shares outstanding at the beginning and at the end of the year;**
 - (v) the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital;**
 - (vi) shares in the enterprise held by the enterprise itself or by subsidiaries or associates of the enterprise; and**
 - (vii) shares reserved for issuance under options and sales contracts, including the terms and amounts;**
- (b) a description of the nature and purpose of each reserve within owner's equity;**
- (c) when dividends have been proposed but not formally approved for payment, the amount included (or not included) in liabilities; and**
- (d) the amount of any cumulative preference dividends not recognised.**

An enterprise without share capital such as a partnership, should disclose information equivalent to that required above, showing movements during the period in each category of equity interest and the rights, preferences and restrictions attaching to each category of equity interest.

Income Statement

Information to be Presented on the Face of the Income Statement

- 75. As a minimum, the face of the income statement should include line items which present the following amounts:**
- (a) revenue;**
 - (b) the results of operating activities;**
 - (c) finance costs;**
 - (d) share of profits and losses of associates and joint ventures;**
 - (e) tax expense;**
 - (f) profit or loss from ordinary activities;**
 - (g) extraordinary items;**
 - (h) minority interest; and**
 - (i) net profit or loss for the period.**

Additional line items, headings and sub-totals should be presented on the face of the income statement when required by a MASB Standard or when such presentation is necessary to present fairly the enterprise's financial performance.

- 76. The effects of an enterprise's various activities, transactions and events differ in stability, risk and predictability, and the disclosure of the elements of performance assists in understanding of the performance achieved and in assessing future results. Additional line items are included on the face of the income statement and the descriptions used and the ordering of items are amended when this is necessary to explain the elements of performance. Factors to be taken into consideration include materiality and the nature and function of the various components of income and expenses. For example, a bank amends the descriptions in order to apply the more specific requirements of BNM/GP8, Guidelines on the Specimen Financial Statements for the Banking Industry. Income and expense items are offset only when the criteria in paragraph 34 are met.**

**Information to be Presented Either on the Face of the
Income Statement or in the Notes**

- 77. An enterprise should present, either on the face of the income statement or in the notes to the income statement, an analysis of expenses using a classification based on either the nature of expenses or their function within the enterprise.**
78. Enterprises are encouraged to present the analysis in paragraph 77 on the face of the income statement.
79. Expense items are further sub-classified in order to highlight a range of components of financial performance that may differ in terms of stability, potential for gain or loss and predictability. This information is provided in one of two ways.
80. The first analysis is referred to as the nature of expense method. Expenses are aggregated in the income statement according to their nature, for example, depreciation, purchase of materials, transport costs, wages and salaries, advertising costs, and are not reallocated amongst various functions within the enterprise. This method is simple to apply in many smaller enterprises because no allocation of operating expenses between functional classifications is necessary. An example of a classification using the nature of expense method is as follows:

	RM
Revenue	X
Other operating income	X
Changes in inventories of finished goods and work in progress	X
Raw materials and consumables used	X
Staff costs	X
Depreciation and amortisation expenses	X
Other operating expenses	X

Total operating expenses	(X)

Profit from operating activities	X
	=====

81. The change in finished goods and work in progress during the period represents an adjustment to production expenses to reflect the fact that either production has increased inventory levels or that sales in excess of production have reduced inventory levels. An increase in finished goods and work in progress during the period is presented immediately following revenue in the above analysis. However, the presentation used should not imply that such amounts represent income.
82. The second method is referred to as the function of expense or ‘cost of sales method’ and classifies expenses according to their function as part of cost of sales, distribution or administrative activities. This presentation often provides more relevant information to users than the classification of expenses by nature but the allocation of costs to functions can be arbitrary and involves considerable judgement. An example of a classification using the function of expense method is as follows:

	RM
Revenue	X
Cost of Sales	(X)
	<hr/>
Gross profit	X
Other operating income	X
Distribution costs	(X)
Administrative expenses	(X)
Other operating expenses	(X)
	<hr/>
Profit from operating activities	X
	=====

83. **Enterprises classifying expenses by function should disclose additional information on the nature of expenses, including depreciation and amortisation expenses, and staff costs.**
84. The choice of analysis between the cost of sales method and the nature of expenditure method depends on both historical and industry factors and the nature of the organisation. Both methods, provide an indication of those costs which might be expected to vary, directly or indirectly, with the level of sales or production of the enterprise. Because each

method of presentation has merit for different types of enterprise, this Standard requires a choice between classifications based on that which most fairly presents the elements of the enterprise's performance. However, because information on the nature of expenses is useful in predicting cash flows, additional disclosure is required when the cost of sales classification is used.

- 85. An enterprise should disclose, either on the face of the income statement or in the notes, the amount of dividends per share, declared or proposed for the period covered by the financial statements.**

Changes in Equity

- 86. An enterprise should present, as a separate component of its financial statements, a statement showing:**
- (a) the net profit or loss for the period;**
 - (b) each item of income and expense, gain or loss which, as required by other Standards, is recognised directly in equity, and the total of these items; and**
 - (c) the cumulative effect of changes in accounting policy and the correction of fundamental errors dealt with under MASB 3, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies.**

In addition, an enterprise should present, either within this statement or in the notes:

- (d) capital transactions with owners and distributions to owners;**
 - (e) the balance of accumulated profit or loss at the beginning of the period and at the balance sheet date, and the movements for the period; and**
 - (f) a reconciliation between the carrying amount of each class of equity capital, share premium and each reserve at the beginning and the end of the period, separately disclosing each movement.**
- 87. Changes in an enterprise's equity between two balance sheet dates reflect the increase or decrease in its net assets or wealth during the period, under the particular measurement principles adopted and disclosed in the financial statements. Except for changes resulting from transactions**

with shareholders, such as capital contributions and dividends, the overall change in equity represents the total gains and losses generated by the enterprise's activities during the period.

88. MASB 3, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies, requires all items of income and expense recognised in a period to be included in the determination of net profit or loss for the period must be included in the income statement for the period unless a MASB Standard requires or permits otherwise. Other Standards require gains and losses, such as revaluation surpluses and deficits and certain foreign exchange differences, to be recognised directly as changes in equity along with capital transactions with and distributions to the enterprise's owners. Since it is important to take into consideration all gains and losses in assessing the changes in an enterprise's financial position between two balance sheet dates, this Standard requires a separate component of the financial statements which highlights an enterprise's total gains and losses, including those that are recognised directly in equity.
89. The requirements in paragraph 86 may be met in a number of ways. The approach adopted follows a columnar format which reconciles between the opening and closing balances of each element within shareholders' equity, including items (a) to (f). An alternative is to present a separate component of financial statements which presents only items (a) to (c). Under this approach, the items described in (d) to (f) are shown in the notes to the financial statements. Both approaches are illustrated in the Appendix to this Standard. Whichever approach is adopted, paragraph 86 requires a sub-total of the items in (b) to enable users to derive the total gains and losses arising from the enterprise's activities during the period.

Cash Flow Statement

90. MASB 5, Cash Flow Statements, sets out requirements for the presentation of the cash flow statement and related disclosures. It states that cash flow information is useful in providing users of financial statements with a basis to assess the ability of the enterprise to generate cash and cash equivalents and the needs of the enterprise to utilise those cash flows.

Notes to the Financial Statements

Structure

91. **The notes to the financial statements of an enterprise should:**
 - (a) **present the information about the basis of preparation of the financial statements and the specific accounting policies selected and applied for significant transactions and events;**
 - (b) **disclose the information required by MASB Standards that is not presented elsewhere in the financial statements; and**
 - (c) **provide additional information which is not presented on the face of the financial statements but that is necessary for a fair presentation.**
92. **Notes to the financial statements should be presented in a systematic manner. Each item on the face of the balance sheet, income statement and cash flow statement should be cross-referenced to any related information in the notes.**
93. Notes to the financial statements include narrative descriptions or more detailed analysis of amounts shown on the face of the balance sheet, income statement, cash flow statement and statement of changes in equity, as well as additional information such as contingent liabilities, adequacy of tax credit under section 108 of the Income Tax Act, 1967 and commitments. They include information required and encouraged to be disclosed by MASB Standards, and other disclosures necessary to achieve a fair presentation.
94. Notes are normally presented in the following order which assists users in understanding the financial statements and comparing them with those of other enterprises:
 - (a) statement of compliance with MASB Standards (see paragraph 12);
 - (b) statement of the measurement basis (bases) and accounting policies applied;
 - (c) supporting information for items presented on the face of each financial statement in the order in which each line item and each financial statement is presented; and

- (d) other disclosures, including :
 - (i) contingencies, commitments, adequacy of tax credit under section 108 of the Income Tax Act, 1967 and other financial disclosures; and
 - (ii) non-financial disclosures.
- 95. In some circumstances, it may be necessary or desirable to vary the ordering of specific items within the notes. For example, information on interest rates and fair value adjustments may be combined with information on maturity of financial instruments although the former are income statement disclosures and the latter relate to the balance sheet. Nevertheless, a systematic structure for the notes is retained as far as practicable.
- 96. Information about the basis of preparation of the financial statements and specific accounting policies may be presented as a separate component of the financial statements.

Presentation of Accounting Policies

- 97. **The accounting policies section of the notes to the financial statements should describe the following:**
 - (a) **the measurement basis (or bases) used in preparing the financial statements; and**
 - (b) **each specific accounting policy that is necessary for a proper understanding of the financial statements.**
- 98. In addition to the specific accounting policies used in the financial statements, it is important for users to be aware of the measurement basis (bases) used (historical cost, current cost, realisable value, fair value or present value) because they form the basis on which the whole of the financial statements are prepared. When more than one measurement basis is used in the financial statements, for example, when certain non-current assets are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied.
- 99. In deciding whether a specific accounting policy should be disclosed, management considers whether disclosure would assist users in understanding the way in which transactions and events are reflected in the reported performance and financial position. The accounting policies that an enterprise might consider presenting include, but are not restricted to, the following:

- (a) revenue recognition;
- (b) consolidation principles, including subsidiaries and associates;
- (c) recognition and depreciation/amortisation of tangible and intangible assets;
- (d) capitalisation of borrowing costs and other expenditure;
- (e) construction contracts;
- (f) investment properties;
- (g) financial instruments and investments;
- (h) leases;
- (i) research and development costs;
- (j) inventories;
- (k) taxes, including deferred taxes;
- (l) provisions;
- (m) employee benefit costs;
- (n) foreign currency translation and hedging; and
- (o) definition of cash and cash equivalents.

Other MASB Standards specifically require disclosure of accounting policies in many of these areas.

100. Each enterprise considers the nature of its operations and the policies that the user would expect to be disclosed for that type of enterprise. For example, all private sector enterprises would be expected to disclose an accounting policy for income taxes, including deferred taxes and tax assets. When an enterprise has significant foreign operations or transactions in foreign currencies, disclosure of accounting policies for the recognition of foreign exchange gains and losses would be expected. In consolidated financial statements, the policy used for determining goodwill and minority interest is disclosed.
101. An accounting policy may be significant even if amounts shown for current and prior periods are not material. It is also appropriate to disclose an accounting policy for each policy not covered by existing MASB Standards but selected and applied in accordance with paragraph 20.

Other Disclosures

- 102. An enterprise should disclose the following if not disclosed elsewhere in information published with the financial statements:**
- (a) the domicile and legal form of the enterprise, its country of incorporation and the address of the registered office (or principal place of business, if different from the registered office);**
 - (b) a description of the nature of the enterprise's operations and its principal activities;**
 - (c) the name of the parent enterprise and the ultimate parent enterprise of the group; and**
 - (d) either the number of employees at the end of the period or the average for the period.**
- 103. In circumstances where an enterprise is economically dependent upon another enterprise for significant volume of business or financial support, the dependent enterprise is encouraged to disclose:**
- (a) the name of the enterprise on which there is economic dependency; and**
 - (b) the nature of that economic dependency.**

Effective Date

- 104. This Standard becomes operative for financial statements covering periods beginning on or after 1 July, 1999.**

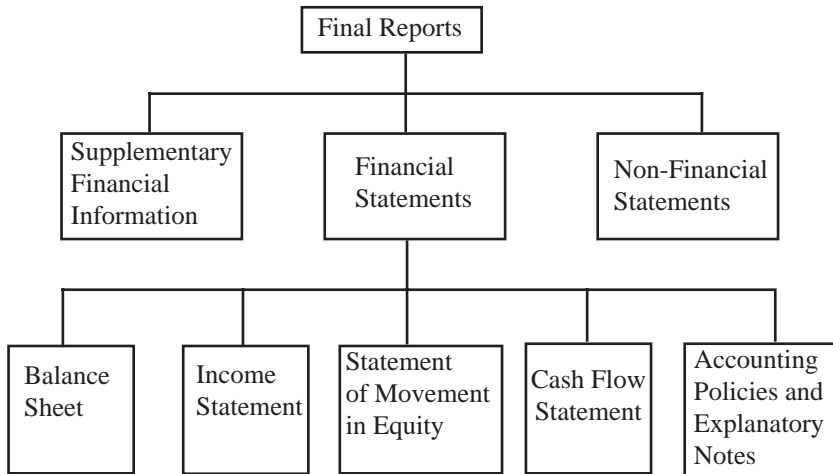
Appendix 1

Compliance with International Accounting Standards

The requirements of this MASB Standard are consistent, in all material respects, with International Accounting Standard IAS 1 (revised), Presentation of Financial Statements.

Appendix 2

Structure of Financial Reporting Requirements



Appendix 3

Illustrations of Financial Statement Structures

This appendix is illustrative only and does not form part of the standards. The purpose of this appendix is to illustrate the application of the standards to assist in clarifying their meaning.

The Standard sets out the components of financial statements and minimum requirements for disclosure on the face of the balance sheet and the income statement as well as for the presentation of changes in equity. It also establishes further items that may be presented either on the face of the relevant financial statement or in the notes. The purpose of the Appendix is to provide examples of the ways in which the requirements for the presentation of the income statement, balance sheet and changes in equity might be presented in the primary financial statements. The order of presentation and the descriptions used for line items should be changed where necessary in order to achieve a fair presentation in each enterprise's particular circumstances.

Two income statements are provided for illustrative purposes, illustrating the two alternative classifications of income and expenses, by nature and by function. The two alternative approaches to presenting changes in equity are also illustrated.

XYZ GROUP (Incorporated Malaysia)
BALANCE SHEETS AS AT 31 DECEMBER. 20-02

	The Group		The Company	
	20-02	20-01	20-02	20-01
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
ASSETS				
Property, plant and equipment	14,436	10,165	9,050	6,070
Investment property	2,610	2,700	2,610	2,700
Investment in subsidiary companies	-	-	2,310	2,310
Other investments	1,720	1,700	1,720	1,700
Expenditure carried forward	500	550	500	550
Goodwill	<u>1,000</u>	<u>1,200</u>	<u>-</u>	<u>-</u>
	20,266	16,315	16,190	13,330
CURRENT ASSETS				
Inventories	4,100	3,600	2,500	2,160
Amount owing by related companies	-	-	500	500
Debtors, deposits and prepayments	6,000	5,700	2,700	2,400
Deposits, cash and bank balances	<u>250</u>	<u>1,220</u>	<u>550</u>	<u>820</u>
	10,350	10,520	6,250	5,880
CURRENT LIABILITIES				
Creditors	6,100	5,000	3,650	3,000
Amount owing to related companies	-	-	750	750
Short term borrowings	500	450	300	250
Provision for taxation	750	540	260	130
Proposed dividend	522	486	522	486
Other	<u>68</u>	<u>124</u>	<u>38</u>	<u>74</u>
	7,940	6,600	5,520	4,690
Net Current Assets	<u>2,410</u>	<u>3,920</u>	<u>730</u>	<u>1,190</u>
	<u><u>22,676</u></u>	<u><u>20,235</u></u>	<u><u>16,920</u></u>	<u><u>14,520</u></u>

Financed by:

Share capital	7,250	6,750	7,250	6,750
Reserves	<u>6,286</u>	<u>4,815</u>	<u>3,770</u>	<u>2,890</u>
Shareholders' Equity	13,536	11,565	11,020	9,640
Minority Interest	2,720	2,300	-	-
Long-Term and Deferred Liabilities				
Long-term loans	3,800	3,200	3,700	2,500
Deferred taxation	920	470	530	280
Lease, hire-purchase and other liabilities	<u>1,700</u>	<u>2,700</u>	<u>1,670</u>	<u>2,100</u>
Total Long-Term and Deferred Liabilities	<u>6,420</u>	<u>6,370</u>	<u>5,900</u>	<u>4,880</u>
	<u>22,676</u>	<u>20,235</u>	<u>16,920</u>	<u>14,520</u>
	<u><u>22,676</u></u>	<u><u>20,235</u></u>	<u><u>16,920</u></u>	<u><u>14,520</u></u>

Alternative One (illustrating the classification of expenses by function)**XYZ GROUP - INCOME STATEMENT FOR THE YEAR ENDED
31 DECEMBER 20-02**

	20-02 <u>RM'000</u>	20-01 <u>RM'000</u>
Revenue	46,500	43,850
Cost of sales	<u>(37,200)</u>	<u>(35,780)</u>
Gross profit	9,300	8,070
Other operating income	-	(100)
Distribution costs	(3,360)	(2,940)
Administration expenses	(2,460)	(2,360)
Other operating expenses	<u>(420)</u>	<u>(410)</u>
Profit from operations	3,060	2,260
Finance cost	(480)	(384)
Income from associates	<u>100</u>	<u>80</u>
Profit before tax	2,680	1,956
Income tax expense	<u>(1,200)</u>	<u>(900)</u>
Profit after tax	1,480	1,056
Minority interest	<u>(290)</u>	<u>(200)</u>
Net profit from ordinary activities	1,190	856
Extraordinary items	<u>(60)</u>	<u>-</u>
Net profit for the period	<u>1,130</u>	<u>856</u>
Basic earnings per share (sens)	<u>15.6</u>	<u>12.7</u>
Diluted earnings per share (sens)	<u>14.0</u>	<u>11.4</u>
Dividends per share		
(10 sens gross less income tax)	<u>7.2</u>	<u>7.2</u>

Alternative Two (illustrating the classification of expenses by nature)**XYZ GROUP - INCOME STATEMENT FOR THE YEAR ENDED
31 DECEMBER 20-02**

	20-02 <u>RM'000</u>	20-01 <u>RM'000</u>
Revenue	46,500	43,850
Other operating income	-	100
Changes in inventories of finished goods and work in progress	500	(300)
Work performed by the enterprise and capitalised	(10,380)	(9,640)
Raw material and consumables used	(11,460)	(10,950)
Staff costs	(13,600)	(12,850)
Depreciation and amortisation expense	(2,100)	(2,050)
Operating expenses	(6,400)	(5,900)
Profit from operations	3,060	2,260
Finance cost	(480)	(384)
Income from associates	100	80
Profit before tax	2,680	1,956
Income tax expense	(1,200)	(900)
Profit after tax	1,480	1,056
Minority interest	(290)	(200)
Net profit or loss from ordinary activities	1,190	856
Extraordinary items	(60)	-
Net profit for the period	1,130	856
Basic earnings per share (sens)	15.6	12.7
Diluted earnings per share (sens)	14.0	11.4
Dividends per share (10 sens gross less income tax)	7.2	7.2

**XYZ GROUP - STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 20-02**

	Share capital <u>RM 000</u>	Share premium <u>RM 000</u>	Revaluation Reserve <u>RM 000</u>	Translation reserve <u>RM 000</u>	Accumulated profit <u>RM 000</u>	Total <u>RM 000</u>
Balance at 31 December 20-00	6,350	1,170	1,162	(200)	1,934	10,416
Changes in accounting policy	—	—	—	—	(6)	(6)
Restated balance	6,350	1,170	1,162	(200)	1,928	10,410
Surplus on revaluation of properties			330			330
Deficit on revaluation of investments			(15)			(15)
Currency translation differences	—	—	—	(50)	—	(50)
Net gains and losses not recognised in the income statements			315	(50)		265
Net profit for the period					856	856
Proposed dividends (10% less income tax)					(486)	(486)
Issue of share capital	400	120	—	—	—	520
Balance at 31 December 20-0	6,750	1,290	1,477	(250)	2,298	11,565
Deficit on revaluation of properties			(90)			(90)
Surplus on revaluation of investments			20			20
Currency translation differences	—	—	—	(40)	—	(40)
Net gains and losses not recognised in the income statement			(70)	(40)		(110)
Net profit for the period					1,130	1,130
Proposed dividends (10% less income tax)					(522)	(522)
Issue of share capital	500	973	—	—	—	1,473
Balance at 31 December 20-02	<u>7,250</u>	<u>2,263</u>	<u>1,407</u>	<u>(290)</u>	<u>2,906</u>	<u>13,536</u>

An alternative method of presenting changes in equity is illustrated on the following page.

**XYZ GROUP - STATEMENT OF RECOGNISED GAINS AND
LOSSES FOR THE YEAR ENDED 31 DECEMBER 20-02**

	20-02 <u>RM'000</u>	20-01 <u>RM'000</u>
Surplus/(deficit) on revaluation of properties	(90)	330
Surplus/(deficit) on revaluation of investments	<u>20</u>	<u>(15)</u>
	(70)	315
Exchange differences on translation of the financial statements of foreign entities	<u>(40)</u>	<u>(50)</u>
Net gains (losses) not recognised in the income statement	(110)	265
Net profit for the period	<u>1,130</u>	<u>856</u>
Total recognised gains and losses	<u>1,020</u>	<u>1,121</u>
Effect of changes in accounting policy		<u>(6)</u>

The above example illustrated an approach which presents those changes in equity that represent gains and losses in a separate component of the financial statements. Under this approach, a reconciliation of opening and closing balances of share capital, reserves and accumulated profit, as illustrated on the previous page, is given in the notes to the financial statements.