

The IFRS Practice Statement 2 was issued in September 2017 by the IASB to provide companies with guidance on making materiality judgements when preparing financial statements. The practice statement is non-mandatory guidance and is aimed at promoting greater application of judgement. Companies are permitted to apply the guidance in the Practice Statement to financial statements prepared any time after 14 September 2017.

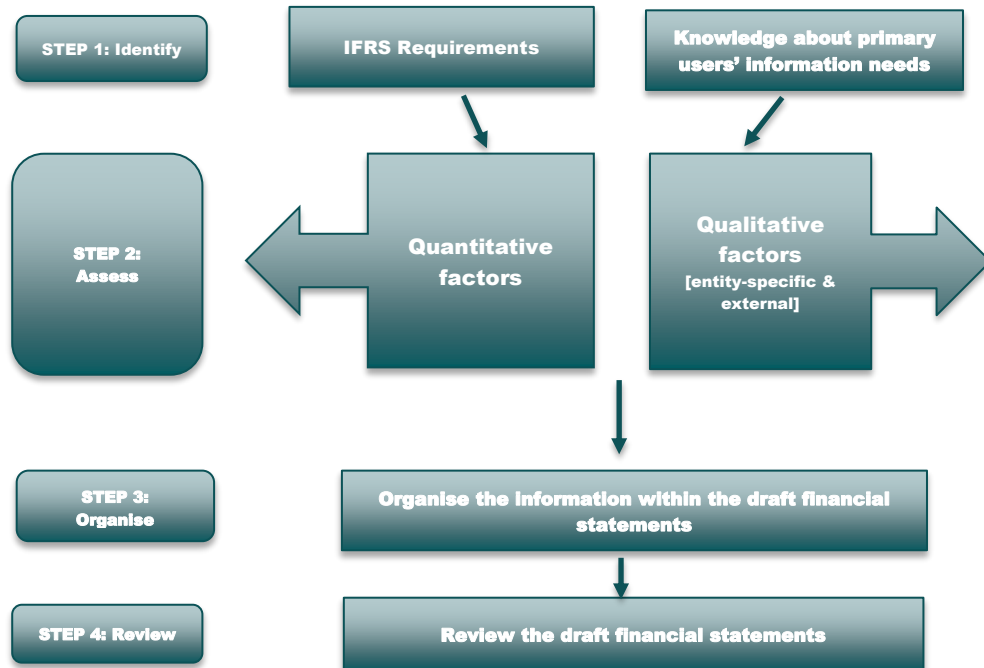
What is meant by “materiality”?

Information is **material** if omitting it or misstating it could influence decisions that users make on the basis of financial information.

The need for materiality judgements is pervasive in the preparation of financial statements. It is required to make materiality judgements when making decisions about presentation, disclosure, recognition and measurements. The requirements contained in IFRS standards only need to be applied if their effect is material.

The Materiality Process

The materiality process is a four-step process and incorporates the materiality requirements that a company must apply to state compliance with IFRS Standards.



STEP 1 – Identify information that has the potential to be material

Identify information about transactions, other events and conditions that primary users might need to understand to make decisions about providing resources to the entity. In identifying this information, an entity considers, as a starting point, the requirements of the IFRS Standards applicable to its transactions, other events and conditions.

STEP 2 – Assess whether the information identified in Step 1 is material

In making this assessment, the entity needs to consider whether its primary users could reasonably be expected to be influenced by the information when making decisions about providing resources to the entity on the basis of the financial statements. The entity performs this assessment in the context of the financial statements as a whole. An entity might conclude that an item of information is material for various reasons. Those reasons include the item's nature or size, or a combination of both, judged in relation to the particular circumstances of the entity. Therefore, making materiality judgements involves both quantitative and qualitative considerations. It would not be appropriate for the entity to rely on purely numerical guidelines or to apply a uniform quantitative threshold for materiality.

Quantitative factors ⇒ assessing whether information is quantitatively material is done by considering the size of the impact of the transaction, other event or condition against measures of the entity's financial position, financial performance and cash flows. Consideration should also be given to any unrecognised items that could overall perception of the entity's financial position, financial performance and cash flows (eg contingent liabilities or contingent assets). The entity needs to assess whether the impact is of such a size that information about the transaction, other event or condition could reasonably be expected to influence its primary users' decisions about providing resources to the entity.

Qualitative factors ⇒ qualitative factors are characteristics of an entity's transactions, other events or conditions, or of their context, that, if present, make information more likely to influence the decisions of the primary users of the entity's financial statements. The mere presence of a qualitative factor will not necessarily make the information material, but is likely to increase primary users' interest in that information.

STEP 3 – Organise the information within the draft financial statements in a way that communicates the information clearly and concisely to primary users

An entity exercises judgement when deciding how to communicate information clearly and concisely. An entity considers the different roles of primary financial statements and notes in deciding whether to present an item of information separately in the primary financial statements, to aggregate it with other information or to disclose the information in the notes.

STEP 4 – Review the draft financial statements to determine whether all the material information has been identified and materiality considered from a wide perspective and in aggregate, on the basis of the complete set of financial statements.

When reviewing its draft financial statements, an entity draws on its knowledge and experience of its transactions, other events and conditions to identify whether all material information has been provided in the financial statements, and with appropriate prominence.