

# Applying materiality when preparing financial statements

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**“The recent amendments on accounting policy disclosures could prove helpful for preparers in deciding which accounting policies to disclose in their financial statements. The focus on company-specific information should further discourage boilerplate disclosure.”**

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## Companies encouraged to apply materiality and to provide company-specific disclosures

### Highlights

- Preparers are encouraged to use materiality as a filter
- Refined definition and existing guidance aim to help preparers apply judgement
- Amendments on account policy disclosures
- Further guidance on disclosures

### Materiality as a filter

Making information in financial statements more relevant and less cluttered has been one of the key focus areas for the International Accounting Standards Board (the Board).

Companies make materiality judgements not only when making decisions about recognition and measurement, but also when deciding what information to disclose and how to present it. However, management are often uncertain about how to apply the concept of materiality to disclosure, and find it easier to defer to using the disclosure requirements within IFRS® Standards as a checklist.

To help preparers of financial statements, the Board had previously refined its definition of ‘material’<sup>1</sup> and issued non-mandatory practical guidance on applying the concept of materiality<sup>2</sup>. As the final piece of the materiality improvements, the Board has now issued amendments on the application of materiality to disclosure of accounting policies.

### Refined definition of material

In October 2018, the Board refined its definition of material to make it easier to understand and apply. This definition is now aligned across IFRS Standards and the Conceptual Framework.

*“Information is material if omitting, misstating or **obscuring it could reasonably be expected to** influence decisions that the **primary users** of*

1 **Definition of Material – Amendments to IAS 1 and IAS 8**, issued in October 2018 and effective from 1 January 2020

2 **IFRS Practice Statement 2 Making Materiality Judgements**, non-mandatory guidance applicable since September 2017

*general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” [emphasis added]*

The refined definition of material complements the non-mandatory IFRS Practice Statement 2 guidance the Board issued in 2017, which outlines a **four-step process** that preparers can use to help them make materiality judgements and provides guidance and examples on how to make materiality judgements in preparing their financial statements.

### **Amendments on accounting policy disclosures**

The Board has recently issued amendments to IAS 1 *Presentation of Financial Statements* and an update to IFRS Practice Statement 2 *Making Materiality Judgements* to help companies provide useful accounting policy disclosures.

The key amendments to IAS 1 include:

- requiring companies to disclose their *material* accounting policies rather than their significant accounting policies;
- clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and
- clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company’s financial statements.

The Board also amended IFRS Practice Statement 2 to include guidance and two additional examples on the application of materiality to accounting policy disclosures.

The amendments are consistent with the refined definition of material:

*“Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.”*

The amendments are effective from 1 January 2023 but may be applied earlier.

### **Further guidance on disclosures**

The Disclosure Initiative is part of the Board’s wider work under the theme **Better Communication in Financial Reporting** (refer to our **Visual Guide** (PDF 132 KB)).

For more information on these developments, speak to your KPMG contact

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