

Amendments to Australian Accounting Standards – Definition of Material

[AASB 2, AASB 101, AASB 108, AASB 110, AASB 134, AASB 137, the *Framework* and AASB Practice Statement 2]



Australian Government

**Australian Accounting
Standards Board**

Obtaining a copy of this Accounting Standard

This Standard is available on the AASB website: www.aasb.gov.au.

Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007
AUSTRALIA

Phone: (03) 9617 7600
E-mail: standard@aaasb.gov.au
Website: www.aasb.gov.au

Other enquiries

Phone: (03) 9617 7600
E-mail: standard@aaasb.gov.au

COPYRIGHT

© Commonwealth of Australia 2018

This AASB Standard contains IFRS Foundation copyright material. Reproduction within Australia in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgment of the source. Requests and enquiries concerning reproduction and rights for commercial purposes within Australia should be addressed to The National Director, Australian Accounting Standards Board, PO Box 204, Collins Street West, Victoria 8007.

All existing rights in this material are reserved outside Australia. Reproduction outside Australia in unaltered form (retaining this notice) is permitted for personal and non-commercial use only. Further information and requests for authorisation to reproduce for commercial purposes outside Australia should be addressed to the IFRS Foundation at www.ifrs.org.

ISSN 1036-4803

Contents

PREFACE

ACCOUNTING STANDARD

AASB 2018-7 *AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – DEFINITION OF MATERIAL*

	<i>from page</i>
OBJECTIVE	5
APPLICATION	5
AMENDMENTS TO AASB 101	5
AMENDMENTS TO AASB 108	7
AMENDMENTS TO OTHER AASB STANDARDS AND PUBLICATIONS	7
Amendments to AASB 2	7
Amendments to AASB 110	8
Amendments to AASB 134	8
Amendments to AASB 137	9
Amendments to the <i>Framework for the Preparation and Presentation of Financial Statements</i>	9
Amendments to AASB Practice Statement 2	10
COMMENCEMENT OF THE LEGISLATIVE INSTRUMENT	12

AVAILABLE ON THE AASB WEBSITE

IASB Bases for Conclusions – Amendments

Australian Accounting Standard AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material* is set out on pages 5 – 12. All the paragraphs have equal authority.

Preface

Standards amended by AASB 2018-7

This Standard makes amendments to the following Standards:

- (a) AASB 2 *Share-based Payment* (July 2015);
- (b) AASB 101 *Presentation of Financial Statements* (July 2015);
- (c) AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* (August 2015);
- (d) AASB 110 *Events after the Reporting Period* (August 2015);
- (e) AASB 134 *Interim Financial Reporting* (August 2015); and
- (f) AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* (August 2015).

The Standard also makes amendments to:

- (g) the *Framework for the Preparation and Presentation of Financial Statements* (July 2004); and
- (h) AASB Practice Statement 2 *Making Materiality Judgements* (December 2017).

These amendments arise from the issuance of International Financial Reporting Standard *Definition of Material* (Amendments to IAS 1 and IAS 8) by the International Accounting Standards Board (IASB) in October 2018.

Main features of this Standard

Main requirements

The Standard principally amends AASB 101 and AASB 108. The amendments refine the definition of material in AASB 101. The amendments clarify the definition of material and its application by improving the wording and aligning the definition across AASB Standards and other publications. The amendment also includes some supporting requirements in AASB 101 in the definition to give it more prominence and clarifies the explanation accompanying the definition of material.

Application date

This Standard applies to annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted.

Accounting Standard AASB 2018-7

The Australian Accounting Standards Board makes Accounting Standard AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material* under section 334 of the *Corporations Act 2001*.

Dated 18 December 2018

Kris Peach
Chair – AASB

Accounting Standard AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material*

Objective

This Standard makes amendments to:

- (a) AASB 2 *Share-based Payment* (July 2015);
- (b) AASB 101 *Presentation of Financial Statements* (July 2015);
- (c) AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* (August 2015);
- (d) AASB 110 *Events after the Reporting Period* (August 2015);
- (e) AASB 134 *Interim Financial Reporting* (August 2015);
- (f) AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* (August 2015);
- (g) the *Framework for the Preparation and Presentation of Financial Statements* (July 2004); and
- (h) AASB Practice Statement 2 *Making Materiality Judgements* (December 2017);

as a consequence of the issuance of International Financial Reporting Standard *Definition of Material* (Amendments to IAS 1 and IAS 8) by the International Accounting Standards Board in October 2018.

Application

The amendments set out in this Standard apply to entities and financial statements in accordance with the application of the other Standards set out in AASB 1057 *Application of Australian Accounting Standards* (as amended).

This Standard applies prospectively to annual reporting periods beginning on or after 1 January 2020.

This Standard may be applied to annual reporting periods beginning before 1 January 2020. When an entity applies this Standard to such an annual period, it shall disclose that fact.

This Standard uses underlining, striking out and other typographical material to identify some of the amendments to a Standard, in order to make the amendments more understandable. However, the amendments made by this Standard do not include that underlining, striking out or other typographical material. Ellipses (...) are used to help provide the context within which amendments are made and also to indicate text that is not amended.

Amendments to AASB 101 *Presentation of Financial Statements*

Paragraph 7 is amended and paragraph 139T is added. New text is underlined and deleted text is struck through.
--

Definitions

7

...

Material:

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. Materiality depends

~~on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.~~

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence 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.

Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.

Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:

- (a) information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;
- (b) information regarding a material item, transaction or other event is scattered throughout the financial statements;
- (c) dissimilar items, transactions or other events are inappropriately aggregated;
- (d) similar items, transactions or other events are inappropriately disaggregated; and
- (e) the understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.

~~Assessing whether information an omission or misstatement could reasonably be expected to influence economic decisions of made by the primary users of a specific reporting entity's general purpose financial statements, and so be material, requires an entity to consider consideration of the characteristics of those users while also considering the entity's own circumstances.~~

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. Financial statements are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena.

~~The *Framework for the Preparation and Presentation of Financial Statements* states in paragraph 25² that 'users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence.' Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions.~~

² ~~In December 2013 the AASB amended the *Framework for the Preparation and Presentation of Financial Statements*. The *Framework* is identified in AASB 1048 *Interpretation of Standards*. Paragraph 25 was superseded by Chapter 3 of the *Framework*.~~

...

Effective date

...

139T AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material*, issued in December 2018, amended paragraph 7 of AASB 101 and paragraph 5 of AASB 108, and deleted paragraph 6 of AASB 108. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 January 2020. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

Amendments to AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors

Paragraph 5 is amended, paragraph 6 is deleted and paragraph 54H is added. New text is underlined and deleted text is struck through.

Definitions

5 ...
~~Material 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. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.~~ is defined in paragraph 7 of AASB 101 and is used in this Standard with the same meaning.

6 ~~Assessing whether an omission or misstatement could influence economic decisions of users, and so be material, requires consideration of the characteristics of those users. The *Framework for the Preparation and Presentation of Financial Statements* states in paragraph 25⁺ that ‘users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence.’ Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions. [Deleted]~~

⁺ ~~In December 2013 the AASB amended the *Framework for the Preparation and Presentation of Financial Statements*. The *Framework* is identified in AASB 1048 *Interpretation of Standards*. Paragraph 25 was superseded by Chapter 3 of the *Framework*.~~

Effective date

54H AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material*, issued in December 2018, amended paragraph 7 of AASB 101 and paragraph 5 of AASB 108, and deleted paragraph 6 of AASB 108. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 January 2020. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

Amendments to other AASB Standards and publications

Amendments to AASB 2 Share-based Payment

In the Implementation Guidance accompanying AASB 2, paragraph IG17 (IG Example 11) is amended. New text is underlined and deleted text is struck through.

...
Application of requirements
...

However, in some cases, the expense relating to an ESPP might not be material. AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* states that the accounting policies in Australian Accounting Standards need not be applied when the effect of applying them is immaterial (AASB 108, paragraph 8). ~~AASB 108~~ AASB 101 *Presentation of Financial Statements* also states that information an omission or misstatement of an item is material if omitting, misstating or obscuring it could, individually or collectively, reasonably be expected to influence the economic decisions that the primary users of general purpose financial statements make on the basis of those the financial statements, which provide financial information about a specific reporting entity. Materiality depends on the size and nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor (AASB 108, paragraph 5(AASB 101, paragraph 7). Therefore, in this example, the entity should consider whether the expense of CU256,000 is material.

...

Amendments to AASB 110 *Events after the Reporting Period*

Paragraph 21 is amended and paragraph 23C is added. New text is underlined and deleted text is struck through.

Non-adjusting events after the reporting period

21 If non-adjusting events after the reporting period are material, non-disclosure could reasonably be expected to influence the economic decisions that the primary users of general purpose financial statements make on the basis of the those financial statements, which provide financial information about a specific reporting entity. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the reporting period:

- (a) the nature of the event; and
- (b) an estimate of its financial effect, or a statement that such an estimate cannot be made.

...

Effective date

23C AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material*, issued in December 2018, amended paragraph 21. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 January 2020. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact. An entity shall apply those amendments when it applies the amendments to the definition of material in paragraph 7 of AASB 101 and paragraphs 5 and 6 of AASB 108.

Amendments to AASB 134 *Interim Financial Reporting*

Paragraph 24 is amended and paragraph 58 is added. New text is underlined and deleted text is struck through.

Materiality

24 ~~AASB 101 and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* define~~ defines an item as material if its omission or misstatement could influence the economic decisions of users of the financial statements. ~~AASB 101~~ information and requires separate disclosure of material items, including (for example) discontinued operations, and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* requires disclosure of changes in accounting estimates, errors, and changes in accounting policies. The two Standards do not contain quantified guidance as to materiality.

...

Effective date

...

- 58 AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material, issued in December 2018, amended paragraph 24. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 January 2020. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact. An entity shall apply those amendments when it applies the amendments to the definition of material in paragraph 7 of AASB 101 and paragraphs 5 and 6 of AASB 108.

Amendments to AASB 137 Provisions, Contingent Liabilities and Contingent Assets

Paragraph 75 is amended and paragraph 104 is added. New text is underlined and deleted text is struck through.

Restructuring

...

- 75 A management or board decision to restructure taken before the end of the reporting period does not give rise to a constructive obligation at the end of the reporting period unless the entity has, before the end of the reporting period:
- (a) started to implement the restructuring plan; or
 - (b) announced the main features of the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will carry out the restructuring.

If an entity starts to implement a restructuring plan, or announces its main features to those affected, only after the reporting period, disclosure is required under AASB 110 *Events after the Reporting Period*, if the restructuring is material and non-disclosure could reasonably be expected to influence the economic decisions that the primary users of general purpose financial statements make on the basis of the those financial statements, which provide financial information about a specific reporting entity.

...

Effective date

...

- 104 AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material, issued in December 2018, amended paragraph 75. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 January 2020. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact. An entity shall apply those amendments when it applies the amendments to the definition of material in paragraph 7 of AASB 101 and paragraphs 5 and 6 of AASB 108.

Amendments to the Framework for the Preparation and Presentation of Financial Statements

Paragraph QC11 is amended. New text is underlined and deleted text is struck through.

Materiality

- QC11 Information is material if omitting, ~~it or~~ misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports (see paragraph OB5) make on the basis

of those reports, which provide financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report. Consequently, the Board cannot specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation.

Amendments to AASB Practice Statement 2 *Making Materiality Judgements*

Paragraphs 5, 41 and 60 are amended. In Appendix B to the Practice Statement, paragraph QC11 of the *Framework*, paragraph 7 of AASB 101 and paragraph 5 of AASB 108 are also amended. New text is underlined and deleted text is struck through.

Definition of material

- 5 The *Framework for the Preparation and Presentation of Financial Statements* as identified in AASB 1048 *Interpretation of Standards* (the *Framework*) provides the following definition of material information (AASB 101 *Presentation of Financial Statements* and ~~AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provide provides a similar definitions definition~~¹):

Information is material if omitting, it or misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports make on the basis of those reports, which provide financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report.²

¹ See paragraph 7 of AASB 101 *Presentation of Financial Statements* and paragraph 5 of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

² Paragraph QC11 of the *Framework for the Preparation and Presentation of Financial Statements* (the *Framework*). However, the Exposure Draft ED 282 *Definition of Material* proposes to refine the definition of material to '[i]nformation is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of a specific reporting entity's general purpose financial statements make on the basis of those financial statements'. The Definition of Material ED also identifies consequential amendments to other Australian Accounting Standards, including amendments to the definitions of material in the *Framework*, AASB 101 and AASB 108.

...

A four-step materiality process

...

Step 2—assess

...

- 41 An entity might conclude that an item of information is material for various reasons. Those reasons include the item's nature or magnitude—size, or a combination of both, judged in relation to the particular circumstances of the entity.²⁵ 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 (see paragraphs 53–55).

²⁵ See paragraph 7 of AASB 101 and paragraph 5 of AASB 108.

...

Step 4—review

- 60 An entity needs to assess whether information is material both individually and in combination with other information²⁹ in the context of its financial statements as a whole. Even if information is judged not to be

material on its own, it might be material when considered in combination with other information in the complete set of financial statements.

²⁹ See paragraph 7 of AASB 101 and paragraph 5 of AASB 108.

...

Appendix B References to the *Framework for the Preparation and Presentation of Financial Statements* and Australian Accounting Standards

Extracts from the *Framework for the Preparation and Presentation of Financial Statements*⁴⁷

...

Paragraph QC11

Referred to in paragraph 5 of the Practice Statement

Information is material if omitting, it or misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports make on the basis of those reports, which provide financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report. Consequently, the Board cannot specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation.

...

Extracts from AASB 101 *Presentation of Financial Statements*

Paragraph 7 (~~and paragraph 5 of AASB 108~~)

Referred to in paragraphs 5, 41 and 60 of the Practice Statement

Material:

~~Information is Omissions or misstatements of items are material if~~ omitting, misstating or obscuring it they could reasonably be expected to, individually or collectively, influence the economic decisions that the primary users of general purpose financial statements make on the basis of those the financial statements, which provide financial information about a specific reporting entity. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.

Paragraph 7

Referred to in paragraph 6 of the Practice Statement

Assessing whether information an omission or misstatement could reasonably be expected to influence economic decisions of made by the primary users of a specific reporting entity's general purpose financial statements, and so be material, requires an entity to consider consideration of the characteristics of those users while also considering the entity's own circumstances. [...] At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena. Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions.

...

Extracts from AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors

Paragraph 5 (and paragraph 7 of AASB 101)

Referred to in paragraphs 5, 41 and 60 of the Practice Statement

~~Material 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. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.~~

...

Commencement of the legislative instrument

For legal purposes, this legislative instrument commences on 31 December 2019.