

Making materiality judgements when preparing financial statements

Materiality plays an important role in preparing and presenting Financial Statements (FS), so inappropriate applications will lead to present non-material information.

Revisions to standards and guidelines have been introduced to assist management in determining the appropriate materiality for presenting more useful financial information to reporting users.

RSM Vietnam – IFRS News (09/2020)



Introduction

On september 14 2017, the international accounting standards board (IASB) issued practice statement 2:

- Guides the materiality assessment process
- Non-mandatory document
- Companies are permitted to apply to financial statements prepared any time after 14th september 2017

Besides, on december 2018, IASB announced a proposal to modify the narrowing scope of IAS 01 - presentation of financial statements

- Further clarifies the definition of "**materiality**"
- Effective from 01/01/2020 (Businesses can apply earlier)

Amendment of material definition in revision of standard IAS 01

New definition

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.

Old definition

Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements.

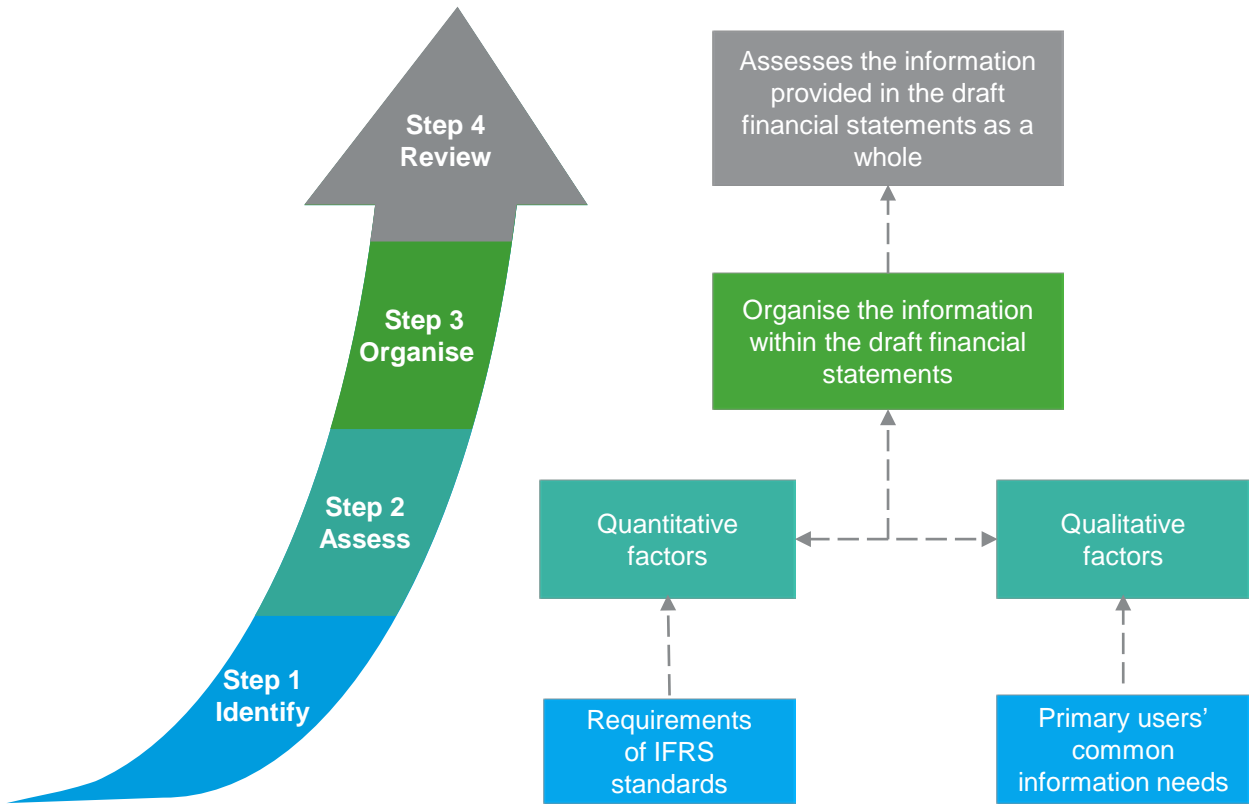
Difference

Information is **material**:

	Old definition	New definition
If	Omitting, misstating	Omitting, misstating, or obscuring
Assessing	Individually or collectively	Reasonably
Affect	Users	Primary users



The materiality process – Practice statement 2 making materiality



Conclusion

- Practice statement 2 provides entities specific instructions on the making materiality judgement when choosing information disclosure and presentation on the financial statement
- The amendment of IAS 01 and practice statement 2 clarify definition of materiality and make IFRSs more consistent and help businesses provide explanation of accounting policies that are useful for users of financial statements in terms of materiality

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