Compiled AASB Standard **AASB 1031**

Materiality

This compiled Standard applies to annual reporting periods beginning on or after 1 January 2011. Early application is permitted. It incorporates relevant amendments made up to and including 15 December 2009.

Prepared on 23 February 2010 by the staff of the Australian Accounting Standards Board.

Australian Government

Australian Accounting Standards Board

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Australian Accounting Standard AASB 1031 *Materiality* (as amended) is set out in paragraphs 1 – 19 and the Appendix. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in this Standard are in *italics* the first time they appear in the Standard. AASB 1031 is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation and Application of Standards,* which identifies the Australian Accounting Interpretations. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

COMPILATION DETAILS

Accounting Standard AASB 1031 *Materiality* as amended

This compiled Standard applies to annual reporting periods beginning on or after 1 January 2011. It takes into account amendments up to and including 15 December 2009 and was prepared on 23 February 2010 by the staff of the Australian Accounting Standards Board (AASB).

This compilation is not a separate Accounting Standard made by the AASB. Instead, it is a representation of AASB 1031 (July 2004) as amended by other Accounting Standards, which are listed in the Table below.

Table of Standards

Standard	**Date made**	**Application date** ***(annual reporting periods … on or after …)***	**Application, saving or transitional provisions**
AASB 1031	15 Jul 2004	*(beginning)* 1 Jan 2005	see (a) below
AASB 2007-8	24 Sep 2007	*(beginning)* 1 Jan 2009	see (b) below
AASB 2007-10	13 Dec 2007	*(beginning)* 1 Jan 2009	see (b) below
AASB 2009-12	15 Dec 2009	*(beginning)* 1 Jan 2011	see (c) below

(a) Entities may elect to apply this Standard to annual reporting periods beginning before 1 January 2005.

(b) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009 provided that AASB 101 *Presentation of Financial Statements* (September 2007) is also applied to such periods.

(c) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2011.

Table of Amendments

Paragraph affected	**How affected**	**By … [paragraph]**
1	amended	AASB 2007-10 [97]
2	amended amended	AASB 2007-8 [8] AASB 2007-10 [98]
7-9	amended	AASB 2007-10 [97]
12	amended amended	AASB 2007-8 [6] AASB 2009-12 [20]
13-14	amended	AASB 2007-8 [6]

Paragraph affected	**How affected**	**By … [paragraph]**
15	amended	AASB 2007-10 [97]
16	amended	AASB 2007-8 [6]
17	amended	AASB 2007-10 [97]
18	amended amended	AASB 2007-8 [6] AASB 2007-10 [97]
Appendix	amended	AASB 2007-10 [97]

ACCOUNTING STANDARD AASB 1031

The Australian Accounting Standards Board made Accounting Standard AASB 1031 *Materiality* under section 334 of the *Corporations Act 2001* on 15 July 2004.

This compiled version of AASB 1031 applies to annual reporting periods beginning on or after 1 January 2011. It incorporates relevant amendments contained in other AASB Standards made by the AASB up to and including 15 December 2009 (see Compilation Details).

ACCOUNTING STANDARD AASB 1031

MATERIALITY

Objective

1 The objective of this Standard is to:

(a) define materiality;

(b) explain the role of materiality in making judgements in the preparation and presentation of the financial statements; and

(c) require the standards specified in other Australian Accounting Standards to be applied when information resulting from their application is *material*.

Application

2 This Standard applies to each entity preparing financial statements in accordance with Australian Accounting Standards.

3 This Standard applies to annual reporting periods beginning on or after 1 January 2005.

[Note: For application dates of paragraphs changed or added by an amending Standard, see Compilation Details.]

4 This Standard may be applied to annual reporting periods beginning before 1 January 2005. An entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act may apply this Standard to annual reporting periods beginning before 1 January 2005, when an election has

been made in accordance with subsection 334(5) of the Corporations Act.

5 **When applied or operative, this Standard supersedes:**

(a) **AASB 1031 *Materiality* as notified in the *Commonwealth of Australia Gazette* No S 357, 22 September 1995; and**

(b) **AAS 5 *Materiality* as issued in September 1995.**

6 Notice of this Standard was published in the *Commonwealth of Australia Gazette* No S 294, 22 July 2004.

Purpose

7 Financial reporting encompasses the provision of financial statements and related financial and other information. Financial statements are the principal means of communicating financial information about a reporting entity to users. In order to meet the objective of general purpose financial reporting, information provided in the financial statements needs to be useful to users for making and evaluating decisions about the allocation of resources and possess the qualitative characteristics specified in the *Framework for the Preparation and Presentation of Financial Statements*.

8 General purpose financial reporting involves making decisions about the information to be included in general purpose financial statements and how it is presented. In making these judgements, considerations of materiality play an essential part. This is because the inclusion of information which is not material or the exclusion of information which is material may impair the usefulness of the information provided to users.

Application of Materiality

9 **The standards specified in other Australian Accounting Standards apply to the financial statements when information resulting from their application is material. Information is material if its omission, misstatement or non-disclosure has the potential, individually or collectively, to:**

(a) **influence the economic decisions of users taken on the basis of the financial statements; or**

(b) **affect the discharge of accountability by the management or governing body of the entity.**

10 The notion of materiality influences whether an item or an aggregate of items is required to be recognised, measured or disclosed in accordance with the requirements of an Australian Accounting Standard. When an item or an aggregate of items is not material, application of the materiality notion does not mean that those items would not be recognised, measured or disclosed, but rather that the entity would not be required to recognise, measure or disclose those items in accordance with the requirements of an Australian Accounting Standard.

11 In addition to guiding the application of the recognition, measurement and disclosure requirements, the notion of materiality guides the margin of error that is acceptable in the amount attributed to an item or an aggregate of items and the degree of precision required in estimating the amount of an item or an aggregate of items.

12 In deciding whether an item or an aggregate of items is material, the size and nature of the omission or misstatement of the items usually need to be evaluated together. In particular circumstances, either the nature or the amount of an item or an aggregate of items could be the determining factor. For example:

(a) in the context of error corrections or adjustments for events occurring after the reporting period, materiality based on amount alone is sufficient to require a correction or an adjustment to be made; and

(b) it may be necessary to treat as material an item or an aggregate of items which would not be judged material on the basis of the amount involved, because of their nature. This may apply when:

(i) transactions occur between an entity and parties who have a fiduciary responsibility in relation to that entity, such as those transactions outlined in AASB 124 *Related Party Disclosures* and AASB 1046 *Director and Executive Disclosures by Disclosing Entities*; or

(ii) restrictions on the powers and operations of the entity affect the risks and uncertainties relating to an item, for example, legal restrictions imposed by governments on assets held in foreign countries; or

(iii) an entity expands its operations into a new segment which affects the assessment of the risks and opportunities facing the entity; or

(iv) a change in circumstances puts the entity in danger of breaching a financial covenant.

13 In determining whether the amount of an item or an aggregate of items is material:

(a) the amount of an item or an aggregate of items relating to the statement of financial position is compared with the more appropriate of:

   (i) the recorded amount of equity; and

   (ii) the appropriate asset or liability class total; or

(b) the amount of an item or an aggregate of items relating to the statement of comprehensive income is compared with the more appropriate of the:

   (i) profit or loss and the appropriate income or expense amount for the current reporting period; and

   (ii) average profit or loss and the average of the appropriate income or expense amounts for a number of reporting periods (including the current reporting period); or

(c) the amount of an item or an aggregate of items relating to the statement of cash flows is compared with the more appropriate of the:

   (i) net cash provided by or used in the operating, investing, financing or other activities as appropriate, for the current reporting period; and

   (ii) average net cash provided by or used in the operating, investing, financing or other activities as appropriate, for a number of reporting periods (including the current reporting period).

14 As not-for-profit entities are primarily concerned with the achievement of objectives other than the generation of profit, such as service delivery, it may not be appropriate to assess materiality for statement of comprehensive income items by reference to profit or loss or average profit or loss in the manner outlined in paragraph 13(b). In these cases, the guidance set out in paragraphs 17-19 is more appropriate to consider. A not-for-profit entity is an entity whose principal objective is not the generation of profit. A not-for-profit entity can be a single entity or a group of entities comprising the parent and each of the entities that it controls.

15 Quantitative thresholds used as guidance for determining the materiality of the amount of an item or an aggregate of items shall, of necessity, be drawn at arbitrary levels. Materiality is a matter of professional judgement influenced by the characteristics of the entity and the perceptions as to who are, or are likely to be, the users of the financial statements, and their information needs. Materiality judgements can only be properly made by those who have the facts. In this context, the following quantitative thresholds may be used as guidance in considering the materiality of the amount of items included in the comparisons referred to in paragraph 13 of this Standard:

(a) an amount which is equal to or greater than 10 per cent of the appropriate base amount may be presumed to be material unless there is evidence or convincing argument to the contrary; and

(b) an amount which is equal to or less than 5 per cent of the appropriate base amount may be presumed not to be material unless there is evidence, or convincing argument, to the contrary.

16 In relation to items or an aggregate of items in the statement of comprehensive income, an amount as referred to in paragraph 15 is an amount after allowing for any income tax effect when the base amount has itself been determined after allowing for any income tax effect.

17 In practice materiality judgements are typically made on the basis described in paragraph 13. However, further indications of materiality may be evident from making assessments of the items in an absolute and a relative context. This may necessitate disclosure of information in the financial statements about items which are not considered material in amount in accordance with paragraph 13.

18 In absolute terms, consideration is given to the financial statements as a whole. In particular, consideration is given to factors which may indicate deviations from normal activities such as the reversal of a trend, turning a profit into a loss or creating or eliminating the margin of solvency in a statement of financial position. For example, when the entity's financial position has deteriorated, and the entity has revalued items of property, plant or equipment upwards, information regarding the revaluation of those assets would be likely to be material, and thus the accounting and disclosure requirements specified in AASB 116 *Property, Plant and Equipment* would apply, even though the revaluation amount may not be material by comparison with the recorded amount of equity.

19 In relative terms, items are compared to any directly related items. The amount of an item may not be material when judged on the basis

described in paragraph 13, but its size in relation to a related item may indicate that information about it is material. For example, the amount of interest revenue would be compared with the amount of the relevant loans. Such a comparison may indicate that information about the interest is material because its amount is much lower (or higher) than expected, having regard to the loan balance and applicable interest rates.

APPENDIX

DEFINED TERM

This appendix is an integral part of AASB 1031.

Material	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. 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.