

Materiality



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ACCOUNTING STANDARD AASB 1031 *MATERIALITY*

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Australian Accounting Standard AASB 1031 *Materiality* is set out in paragraphs 1 – 7. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. AASB 1031 is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation 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.

PREFACE

Introduction

The Australian Accounting Standards Board (AASB) makes Australian Accounting Standards, including Interpretations, to be applied by:

- (a) entities required by the *Corporations Act 2001* to prepare financial reports;
- (b) governments in preparing financial statements for the whole of government and the General Government Sector (GGS); and
- (c) entities in the private or public for-profit or not-for-profit sectors that are reporting entities or that prepare general purpose financial statements.

AASB 1053 *Application of Tiers of Australian Accounting Standards* establishes a differential reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements:

- (a) Tier 1: Australian Accounting Standards; and
- (b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 1 requirements incorporate International Financial Reporting Standards (IFRSs), including Interpretations, issued by the International Accounting Standards Board (IASB), with the addition of paragraphs on the applicability of each Standard in the Australian environment.

Publicly accountable for-profit private sector entities are required to adopt Tier 1 requirements, and therefore are required to comply with IFRSs. Furthermore, other for-profit private sector entities complying with Tier 1 requirements will simultaneously comply with IFRSs. Some other entities complying with Tier 1 requirements will also simultaneously comply with IFRSs.

Tier 2 requirements comprise the recognition, measurement and presentation requirements of Tier 1 but substantially reduced disclosure requirements in comparison with Tier 1.

Australian Accounting Standards also include requirements that are specific to Australian entities. These requirements may be located in Australian Accounting Standards that incorporate IFRSs or in other Australian Accounting Standards. In most instances, these requirements are either

restricted to the not-for-profit or public sectors or include additional disclosures that address domestic, regulatory or other issues. These requirements do not prevent publicly accountable for-profit private sector entities from complying with IFRSs. In developing requirements for public sector entities, the AASB considers the requirements of International Public Sector Accounting Standards (IPSASs), as issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants.

Reason for Issuing this Standard

As noted in the Preface to AASB 1031 *Materiality* (July 2004), at the time AASB 1031 was issued the *Framework for the Preparation and Presentation of Financial Statements* contained limited guidance on materiality in comparison to AASB 1031. Accordingly, as part of the AASB's implementation of the Financial Reporting Council's policy of adopting the Standards of the International Accounting Standards Board (IASB) for application to reporting periods beginning on or after 1 January 2005, the AASB decided to retain AASB 1031, in a revised format, to ensure that the meaning of materiality remained well explained.

The AASB has a policy of not providing unnecessary local guidance on matters covered by IFRSs. As a consequence, the AASB decided to withdraw AASB 1031 as was proposed in AASB Exposure Draft ED 243 *Withdrawal of AASB 1031 Materiality*. In making its decision to withdraw AASB 1031, the Board noted that it would not expect the withdrawal to change practice regarding the application of materiality in financial reporting. In particular, the withdrawal of AASB 1031 would not change the level of disclosure presently specified by other accounting standards.

The withdrawal of AASB 1031 requires consequential amendments to all Australian Accounting Standards (including Interpretations) to remove references to AASB 1031. Until all such references have been removed, this revised AASB 1031 (December 2013) is an interim Standard that cross-references to other Standards and the *Framework for the Preparation and Presentation of Financial Statements* (as identified in AASB 1048 *Interpretation of Standards*)¹ (*Framework*) that contain guidance on materiality. Once all the references to AASB 1031 have been removed from Standards, this Standard (AASB 1031) will be withdrawn.

¹ AASB *Framework for the Preparation and Presentation of Financial Statements* was amended in December 2013.

Main Features of this Standard

Application Date

This Standard is applicable to annual reporting periods beginning on or after 1 January 2014. Early adoption is not permitted.

Main Requirements

This Standard provides references to other Standards and the *Framework* that contain guidance on materiality.

Differences between this Standard and AASB 1031 (July 2004, as amended)

This Standard differs from AASB 1031 (July 2004, as amended) in that it removes the Australian guidance on materiality that is not available in IFRSs. It also directs constituents to other Australian pronouncements that contain guidance on materiality.

ACCOUNTING STANDARD AASB 1031

The Australian Accounting Standards Board makes Accounting Standard AASB 1031 *Materiality* under section 334 of the *Corporations Act 2001*.

Dated 20 December 2013

Kevin M. Stevenson
Chair – AASB

ACCOUNTING STANDARD AASB 1031

MATERIALITY

Objective

- 1 The objective of this Standard is to make cross-references to other Standards and the *Framework for the Preparation and Presentation of Financial Statements* (as identified in AASB 1048 *Interpretation of Standards*) (*Framework*) that contain guidance on materiality.¹

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 2014. Early adoption of this Standard is not permitted.**
- 4 **When applied or operative, this Standard supersedes AASB 1031 *Materiality* (July 2004, as amended).**

Application of Materiality

- 5 **The term ‘material’ is defined in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.**
- 6 When assessing materiality, the requirements in AASB 101 *Presentation of Financial Statements* and AASB 108 shall be applied.

¹ This Standard is an interim Standard pending the amendment of all other Standards (including Interpretations) to remove any references to AASB 1031. Removal of those references will facilitate the withdrawal of this Standard.

- 7 Paragraph QC11 of the *Framework* also addresses the concept of materiality.