

Exposure Draft

Definition of Material Amendments to Ind AS 1 and Ind AS 8

(Last date for Comments: April 6, 2019)



Issued by
Accounting Standards Board
The Institute of Chartered Accountants of India

Exposure Draft
Definition of Material
(Amendments to Ind AS 1 and Ind AS 8)

Following is the Exposure Draft of the Amendments to Ind AS 1, *Presentation of Indian Accounting Standards*, and Ind AS 8, *Accounting Policies, Change in Accounting Estimates and Errors*, issued by the Accounting Standards Board of the Institute of Chartered Accountants of India for comments. The Exposure Draft proposes refinements to the definition of ‘material’ and aligns this definition with other Ind AS. These refinements are intended to make the definition easier to understand and are not intended to alter the concept of materiality in Ind AS.

The Board invites comments on any aspect of this Exposure Draft. Comments are most helpful if they contain a clear rationale and, where applicable, provide suggestions for alternative wording.

Comments can be submitted using one of the following methods, so as to be received not later than **April 6, 2019**.

1. Electronically: Click on <http://www.icai.org/comments/asb/> to submit comments online. (Preferred method)
2. Email: Comments can be sent to commentsasb@icai.in
3. Postal: Secretary, Accounting Standards Board, The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002.

Further clarifications on any aspect of this Exposure Draft may be sought by e-mail to asb@icai.in.

Amendments to Ind AS 1, *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. ~~The Framework for the Preparation and Presentation of Financial Statements issued by the Institute of Chartered Accountants of India 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.~~

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.

...

Effective date

...

139T Definition of Material (Amendments to Ind AS 1 and Ind AS 8) amended paragraph 7 of Ind AS 1 and paragraph 5 of Ind AS 8, and deleted paragraph 6 of Ind AS 8. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 April, 2020.

Amendments to Ind AS 8 *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 Ind AS 1 and is used in this Standard with the same meaning.~~

...

6 ~~[Refer Appendix 1] 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 in accordance with Indian Accounting Standards* issued by the Institute of Chartered Accountants of India 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.~~

...

Effective date

...

54H Definition of Material (Amendments to Ind AS 1 and Ind AS 8), amended paragraph 7 of Ind AS 1 and paragraph 5 of Ind AS 8, and deleted paragraph 6 of Ind AS 8. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 April, 2020.

Amendments in other Ind AS

Note: The following are the amendments to the other Ind AS due to amendments in Ind AS 1 and Ind AS 8. *Framework for the Preparation and Presentation of Financial Statements in accordance with Indian Accounting Standards* issued by ICAI also needs to be aligned with the proposed amendments. It may be noted that *The Conceptual Framework for Financial Reporting* issued by IASB in March 2018, which is already aligned with IAS 1 and IAS 8 w.r.t materiality, is being considered for formulating corresponding Conceptual framework under Ind AS. Therefore, at present, no change is proposed in the *Framework for the Preparation and Presentation of Financial Statements in accordance with Indian Accounting Standards*.

(The above Note will not form part of Ind AS).

Amendments to Ind AS 10, *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 those the 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 *Definition of Material* (Amendments to Ind AS 1 and Ind AS 8), amended paragraph 21. An entity shall apply those amendments when it applies the amendments to the definition of material in paragraph 7 of Ind AS 1 and paragraphs 5 and 6 of Ind AS 8.

Amendments to Ind AS 34, *Interim Financial Reporting*

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

Materiality

...

- 24 Ind AS 1 ~~and Ind AS 8 *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. ~~Ind AS 1 information and~~ requires separate disclosure of material items, including (for example) discontinued operations, and Ind AS 8, *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

...

56-58 Refer Appendix 1.

- 59 *Definition of Material (Amendments to Ind AS 1 and Ind AS 8)* amended paragraph 24. An entity shall apply those amendments when it applies the amendments to the definition of material in paragraph 7 of Ind AS 1 and paragraphs 5 and 6 of Ind AS 8.

Amendments to Ind AS 37 *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 Ind AS 10 *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 Definition of Material (Amendments to Ind AS 1 and Ind AS 8), amended paragraph 75. An entity shall apply those amendments when it applies the amendments to the definition of material in paragraph 7 of Ind AS 1 and paragraphs 5 and 6 of Ind AS 8.