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IFRS® Practice Statement

## Making Materiality Judgements

Practice Statement 2

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**Making Materiality Judgements  
Practice Statement 2**

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The IFRS Practice Statement 2 *Making Materiality Judgements* (Practice Statement) is set out in paragraphs 1–89. This Practice Statement should be read in the context of its objective and Basis for Conclusions, as well as in the context of the *Preface to International Financial Reporting Standards*, the *Conceptual Framework for Financial Reporting* and IFRS Standards.



## Introduction

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- IN1 The objective of general purpose financial statements is to provide financial information about a reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. The entity identifies the information necessary to meet that objective by making appropriate materiality judgements.
- IN2 The aim of this IFRS Practice Statement 2 *Making Materiality Judgements* (Practice Statement) is to provide reporting entities with guidance on making materiality judgements when preparing general purpose financial statements in accordance with IFRS Standards. While some of the guidance in this Practice Statement may be useful to entities applying the *IFRS for SMEs*<sup>\*</sup> Standard, the Practice Statement is not intended for those entities.
- IN3 The need for materiality judgements is pervasive in the preparation of financial statements. An entity makes materiality judgements when making decisions about recognition and measurement as well as presentation and disclosure. Requirements in IFRS Standards only need to be applied if their effect is material to the complete set of financial statements.
- IN4 This Practice Statement:
- (a) provides an overview of the general characteristics of materiality.
  - (b) presents a four-step process an entity may follow in making materiality judgements when preparing its financial statements (materiality process). The description of the materiality process provides an overview of the role materiality plays in the preparation of financial statements, with a focus on the factors the entity should consider when making materiality judgements.
  - (c) provides guidance on how to make materiality judgements in specific circumstances, namely, how to make materiality judgements about prior-period information, errors and covenants, and in the context of interim reporting.
- IN5 Whether information is material is a matter of judgement and depends on the facts involved and the circumstances of a specific entity. This Practice Statement illustrates the types of factors that the entity should consider when judging whether information is material.
- IN6 A Practice Statement is non-mandatory guidance developed by the International Accounting Standards Board. It is not a Standard. Therefore, its application is not required to state compliance with IFRS Standards.
- IN7 This Practice Statement includes examples illustrating how an entity might apply some of the guidance in the Practice Statement based on the limited facts presented. The analysis in each example is not intended to represent the only manner in which the guidance could be applied.