ACCOUNTING STANDARDS BOARD

INTERPRETATION OF THE STANDARDS OF GENERALLY RECOGNISED ACCOUNTING PRACTICE

THE EFFECT OF PAST DECISIONS ON MATERIALITY

(IGRAP 21)

Issued by the
Accounting Standards Board

June 2021

Introduction

This pronouncement is set out in paragraphs .01 to .17. All paragraphs in this pronouncement have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. This pronouncement should be read in the context of its objective, its basis for conclusions and/or the basis for conclusions of its international equivalent, if applicable, the *Preface to the Standards of GRAP* and the *Framework for the Preparation and Presentation of Financial Statements*[1].

Standards of GRAP and Interpretations of the Standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions, as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards, published in the Government Gazette.

Directives should be read in conjunction with the applicable Standards of GRAP and Interpretations of the Standards of GRAP.

[1] In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting*.

Interpretation of the Standards of GRAP on *The Effect of Past Decisions on Materiality*

References

GRAP 1 *Presentation of Financial Statements*

GRAP 3 *Accounting Policies, Changes in Accounting Estimates and Errors*

Guideline *The Application of Materiality to Financial Statements*

Background

.01 The Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors* (GRAP 3) applies to the selection of accounting policies. Entities apply the accounting policies set out in the Standards of GRAP, except when the effect of applying them is immaterial. This means that entities could apply alternative accounting treatments to immaterial items, transactions or events (hereafter called "items")(see paragraph AG1.).

.02 The Board received questions from entities asking whether past decisions to not apply the Standards of GRAP to immaterial items effect future reporting periods. Entities observed that when they applied alternative accounting treatments to items in previous reporting periods, they kept historical records on an ongoing basis of the affected items. This was done so that they could assess whether applying these alternative treatments meant that the financial statements became materially "misstated" over time. If the effect was considered material, retrospective adjustments were often made.

.03 This Interpretation explains the nature of past materiality decisions and their potential effect on current and subsequent reporting periods.

Scope

.04 Entities apply the accounting policies set out in the Standards of GRAP, except when the effect of applying them is immaterial. This Interpretation explains the implications of adopting accounting policies for material items based on Standards of GRAP as well as applying alternative accounting treatments for immaterial items.

.05 This Interpretation applies to accounting policies and alternative accounting treatments related to the recognition and measurement of items. The presentation and disclosure of items is dealt with in the Standard of GRAP on *Presentation of Financial Statements* (GRAP 1).

Issues

.06 This Interpretation addresses the following issues:

(a) Whether past decisions about materiality affect subsequent reporting periods.

(b) Whether applying alternative accounting treatments based on materiality is a departure from the Standards of GRAP or an error.

Consensus

Do past decisions about materiality affect subsequent reporting periods?

.07 GRAP 3.07 explains how entities formulate accounting policies for items, and indicates the following: "Standards of GRAP set out accounting policies that the ASB has concluded result in financial statements containing relevant and reliable information about the transactions, other events and conditions to which they apply. Those policies need not be applied when the effect of applying them is immaterial".

.08 This means that when the effect of applying an accounting policy in a Standard of GRAP is:

- Material - An entity develops accounting policies for items using the principles outlined in the Standards of GRAP (hereafter referred to as "accounting policies").
- Immaterial - An entity may develop alternative accounting treatments for items (hereafter referred to as "alternative accounting treatments").

.09 Accounting policies and/or alternative accounting treatments are applied based on an entity's assessment of materiality during a reporting period and at the reporting date. Materiality is assessed based on all relevant facts and circumstances that exist at the time of assessment (see paragraph AG2.). As a result, the assessment of, and decisions about, materiality are period-specific and do not affect subsequent reporting periods unless an error occurred (see paragraphs .13 to .15 below).

.10 Accounting policies and/or alternative accounting treatments are applied consistently to similar items, or groups of items based on materiality. The effect of applying materiality is assessed for items (or groups of items) individually as well as collectively. (See paragraphs AG3. to AG5.)

.11 Alternative accounting treatments are applied to immaterial items (or group of items) in a reporting period in accordance with the treatment developed by an entity. Accounting policies are applied to items (or group of items) that are material in a reporting period based on the principles in the applicable Standard of GRAP.

.12 An alternative accounting treatment may have been applied to items (or groups of items) that were previously immaterial. If those similar items (or groups of items) are material in subsequent reporting periods and accounted for using an accounting policy based on the Standards of GRAP, this is not considered a change in accounting policy.

As a result, an entity does not retrospectively adjust the accounting of past items (or group of items) that were previously assessed as immaterial, unless an error occurred (see paragraphs .13 to .15 below).

Is applying an alternative accounting treatment a departure from the Standards of GRAP or an error?

.13 Materiality is assessed and applied during a reporting period and at each reporting date based on all facts and circumstances that exist at the time of assessment. GRAP 3 allows entities to not apply the accounting policies outlined in the Standards of GRAP when the effect of applying them is immaterial. This means that the application of materiality and alternative accounting treatments are not errors and are not departures from the Standards of GRAP. (See paragraph AG6.)

.14 In applying materiality, it is possible for an error to occur. An error may occur in the following circumstances:

(a) Immaterial items are omitted from the financial statements.

(b) An inappropriate alternative accounting treatment is applied because of a failure to use, or misuse of, reliable information that was available or could reasonably have been expected to be used at reporting date.

(c) An alternative accounting treatment is applied to immaterial items to achieve a particular presentation in the financial statements.

(d) An incorrect assessment of materiality is made resulting in material transactions being accounted for as immaterial transactions.

(See paragraph AG7.)

.15 Where an error has occurred, it is corrected using the principles in GRAP 3.

Transitional provisions

.16 This Interpretation shall be applied prospectively. Entities are not required to reassess the application of past decisions on materiality.

Effective date

.17 An entity shall apply this Interpretation for annual financial statements covering periods beginning on or after 1 April 2023. Earlier application is encouraged.

Appendix A – Application guidance

This appendix is an integral part of this Interpretation.

Background

AG1. An entity may develop alternative accounting treatments for transactions that are immaterial. Examples of alternative accounting treatments could include:

(a) Expensing assets that are immaterial based on their value and their nature even though specific Standards require the capitalisation of assets. For example, expensing low value, administrative assets when they meet the definition of property, plant and equipment.

(b) Expensing transaction cost that are immaterial to the acquisition of assets and liabilities even though the relevant Standard requires the capitalisation of such costs. For example, expensing transaction costs that are immaterial to financial instruments measured subsequently at amortised cost.

(c) Classifying certain assets in a particular way because they are immaterial. For example, classifying heritage assets that are immaterial both qualitatively and quantitatively as property, plant and equipment, or including the cost of certain intangible assets such as licences and servitudes in the cost of an item of property, plant and equipment.

Consensus

Do past decisions about materiality affect subsequent reporting periods?

AG2. Alternative accounting treatments and/or accounting policies are applied based on an entity's assessment of materiality – both quantitative and qualitative – during a reporting period and at the reporting date. This means that an entity should consider materiality throughout the reporting period to assess if materiality has been appropriately determined. For example: An entity may determine a quantitative materiality threshold at the start of the reporting period based on facts and circumstances that existed at the beginning of the period. This threshold will be used during the reporting period as a basis to apply alternative accounting treatments or accounting policies. At the reporting date, an entity would need to consider whether applying that quantitative materiality threshold is still appropriate based on facts and circumstances at the reporting date.

AG3. Materiality is used to apply alternative accounting treatments or accounting policies consistently to similar items or group of items in a reporting period. Depending on how quantitative materiality thresholds or qualitative materiality criteria are determined, it may be possible that items or group of items – that are similar in nature – are accounted for differently depending on their materiality in a reporting period.

AG4. Materiality is assessed and applied to items both individually and collectively (in aggregate), based on both the nature and the size of an item. Items may be immaterial individually but may be material collectively when aggregated with similar items. In assessing whether items are material – either individually or collectively – the effect on both the current and future reporting periods is considered. The effect on future periods is based on information available in the period and at the reporting date in which materiality is assessed. Information about the future could include strategic plans, budgets and other planning documents.

AG5. The following examples illustrate the effect of assessing and applying materiality individually and collectively.

Example 1 – Similar items are both immaterial and material in the same reporting period – Individual assessment of materiality appropriate

Background

Metropolitan Municipality A applies materiality to decide which items of computer equipment should be recognised as assets in accordance with the Standard of GRAP on *Property, Plant and Equipment* (GRAP 17). Computer equipment comprises (a) computer peripherals such as printers, screens, keyboards; and (b) high value computer equipment such as tablets, laptops, and servers. Computer equipment is mainly used for administrative purposes.

The municipality considers the nature, and value of computer equipment both individually and collectively, in determining materiality. The municipality determines that the effect of not capitalising computer peripherals in accordance with GRAP 17, even if considered collectively, is not likely to have a material effect on the financial statements both now and in the future. Based on this assessment, the municipality develops:

- Criteria identifying what is considered a computer peripheral based on the nature of the item using qualitative materiality.
- A quantitative materiality threshold which indicates that computer peripherals with an individual cost of less than R5 000 are immaterial and should be expensed in the year of purchase.
- A policy indicating that items that are not "computer peripherals" or items that have an individual cost of more than R5 000, should be capitalised as assets in terms of GRAP 17.

Analysis

In this scenario, the municipality acquires a range of similar items that are classified as "computer equipment". This could result in individual items of computer equipment (the computer peripherals) with a value of less than R5 000 being expensed, or individual items of computer equipment with a value of more than R5 000 being capitalised.

The alternative accounting treatment or accounting policy is applied consistently to all similar items in the same category of assets. The accounting will however depend on the materiality of each individual item.

In this example:

- The municipality would have both an accounting policy and an alternative accounting treatment and apply these based on materiality.

The municipality would need to determine the threshold at a low enough level to ensure that the effect of the cumulative expensing of individual items in the current and future reporting periods will not have a material effect on the financial statements – either in part or when taken as a whole.

Example 2 – Similar items are material in the reporting period – Collective assessment of materiality appropriate

College A develops a materiality threshold for the acquisition of computer equipment. Computer equipment comprises (a) computer peripherals such as printers, screens, keyboards, and external cameras and microphones; and (b) other computer equipment such as desktop computers, laptops, servers, and 3D printers. The College mainly offers IT related qualifications and most computer equipment acquired is used by students in its computer labs.

Given the volume and use of the computer equipment by students, computer equipment is an integral part of the College's infrastructure and service delivery. As computer equipment is integral to the College's service delivery, this means that it is material qualitatively. While the College determines that the value of individual items of computer equipment – including some computer peripherals – are immaterial, the collective (aggregate) value of all computer equipment is quantitatively material. As a result, the College decides that all computer equipment should be recognised in accordance with GRAP 17 because of its collective materiality.

Is applying an alternative accounting treatment a departure from the Standards of GRAP or an error?

AG6. In terms of GRAP 3, entities need not apply the principles in the Standards of GRAP to items when the effect is immaterial. This means that entities are allowed to not consider the Standards of GRAP in determining the recognition and/or measurement of immaterial items. As the Standards permit the use of alternative accounting treatments, the allowance to not utilise the Standards of GRAP is not a departure from the Standards of GRAP.

AG7. Materiality is a period-specific assessment that would not give rise to changes to prior period information in subsequent reporting periods. The exception is where an error occurred. The following errors could arise in the application of materiality:

(a) Immaterial items are omitted from the financial statements. Applying materiality does not mean that items are not accounted for at all in the financial statements.

Any items omitted from the financial statements – even if immaterial – result in an error.

(b) An inappropriate alternative accounting treatment is applied because of a failure to use, or misuse of, reliable information that was available or could reasonably have been expected to be used at reporting date. Applying materiality means using all available information in determining materiality and developing an alternative accounting treatment. If an entity does not use all available information (including information that could reasonably have been used), or misuses information, then an error could arise.

(c) An alternative accounting treatment is applied to immaterial items to achieve a particular presentation in the financial statements. Although alternative accounting treatments are only applied to immaterial items, if an alternative treatment is applied to achieve a specific result, then this would give rise to an error. For example, an entity may decide to develop an alternative accounting treatment for an immaterial account balance. The account balance could be made up of material debits and credits with the net effect being immaterial. If the net effect is to achieve a specific presentation or result, then this would result in an error.

(d) An incorrect assessment of materiality is made resulting in material transactions being accounted for as immaterial transactions. This could be similar to (b). If materiality is incorrectly assessed, either as a result of not using all available information or for other reasons, this could result in an error.

In each of the scenarios above, an entity applies the requirements in GRAP 3 on errors to determine the appropriate accounting treatment. The treatment in GRAP 3 would depend on whether the error is material.

AG8. The following examples illustrate the period specific effects of materiality decisions and when an error may arise as a result of past decisions.

Example 3A – Materiality is a period-specific assessment that does not affect subsequent reporting periods – Materiality revised downwards in subsequent periods

Using the same facts as in Example 1.

Background

<u>Year 1</u>

The total value of computer peripherals acquired during the year with an individual cost of less than R5 000 amounted to R100 000 and was recognised as an expense. The total value of computer peripherals and other computer equipment acquired with an individual value of more than R5 000 amounted to R4 million and was recognised as property, plant and equipment.

Year 2

The municipality establishes a major, high-tech call centre to respond to service delivery, finance and other related queries from the public. This results in a significant investment in new computer equipment of all types (both computer peripherals and other computer equipment). The establishment of the call centre means that the municipality needs to reconsider its assessment of materiality for computer equipment.

Given the nature and volume of computer equipment acquired during the year, as well as expected purchases in subsequent reporting periods, the municipality revises its criteria and materiality threshold to indicate that only certain items of computer equipment with a value of R3 000 or less can be expensed. The result is that some items that either by their nature or value were considered "computer peripherals" and expensed in prior years, would now be recognised as assets in accordance with GRAP 17.

Analysis

Based on the fact pattern, there is a change in both the qualitative criteria as well as the quantitative materiality threshold from year 1 to year 2. Materiality is assessed during a reporting period and at the reporting date based on facts and circumstances on the date of assessment. The municipality's determination of materiality in year 1 was appropriate based on the information available and activities undertaken at that time. As a result, the municipality will not make any adjustments in year 2 for the computer equipment that was expensed in year 1 as a result of the change in materiality for the same items in year 2 if they were to be acquired under the revised materiality threshold.

Example 3B – Materiality is a period-specific assessment that does not affect subsequent reporting periods – Materiality revised upwards in subsequent periods

Background

Using the same facts as in Example 1.

Year 1

The total value of computer peripherals acquired during the year with an individual cost of less than R5 000 amounted to R100 000 and was recognised as an expense. The total value of computer peripherals and other computer equipment acquired with an individual value of more than R5 000 amounted to R4 million and was recognised as property, plant and equipment.

Year 2

As a result of shortages locally in the key components used to manufacture computer equipment, the municipality signed an agreement to source computer equipment from an international supplier for a period of 5 years. As a result of an increased cost of the equipment due to import tariffs and a depressed exchange rate, the municipality decided to increase its quantitative threshold for expensing or capitalising assets. There was no change to the entity's assessment of qualitative materiality. The threshold was revised to R6 000.

Analysis

The effect of the change in the materiality threshold should be considered in the following situations:

- Assets capitalised in prior periods – The change in materiality from R5 000 in year 1 to R6 000 in year 2 has no effect on the assets already capitalised, i.e. they will not be expensed in year 2 based on the change. This is consistent with the principles in the Interpretation that materiality assessments are period specific.
- Items acquired in year 2 – The new materiality threshold should be applied to items acquired in year 2, i.e. items with a cost of more than R6 000 would now be capitalised. The effect is that items that would have been capitalised using the previous materiality threshold of R5 000, would now be expensed in year 2. No changes are made to previous treatment of items.

Example 4 – Effect of an incorrect assessment of materiality

Using the same facts as in Example 1, except that in year 2, the municipality realises that in developing its threshold, one of the circumstances in described in paragraph .14 occurred. As a result, it concludes that it made an error. The municipality will need to apply GRAP 3 to correct the error.

Appendix B - Consequential amendments

The purpose of this appendix is to identify the consequential amendments to other Standards of GRAP resulting from the issue of this Standard. Amended text is shown with new text underlined and deleted text struck through.

GRAP 3 *Accounting Policies, Changes in Accounting Estimates and Errors*

Amend paragraph .17 in GRAP 3:

.17 The following are not changes in accounting policies:

- ***(a) the application of an accounting policy for events or transactions, other events or conditions that differ in substance from those previously occurring;***
- ***(b) the application of a new accounting policy for transactions, other events or conditions that did not occur previously ~~or that were immaterial~~;***
- ***(bA) <u>the application of an accounting policy for transactions, other events or conditions that were previously immaterial</u>; and***
- ***(c) a change to the cost model when a reliable measure of fair value is not available (or vice versa) for an asset that a Standard of GRAP would otherwise require or permit to be measured at fair value.***

Add a basis for conclusions to GRAP 3:

Basis for conclusions

This basis for conclusions gives the Accounting Standards Board's (the Board's) reasons for accepting or rejecting certain proposals related to the accounting for accounting policies, changes in accounting estimates and errors. This basis for conclusions accompanies, but is not part of, this Standard.

Amendment to paragraph .17

BC1. The Board issued an Interpretation on *The Effects of Past Decisions on Materiality* in [add date]. The Interpretation provides guidance on whether the application of an accounting policy based on Standards of GRAP to items that were previously considered immaterial is a change in an accounting policy, an error or something else.

BC2. Based on paragraph .17 of this Standard, the Board agreed that the application of an accounting policy based on Standards of GRAP to those items is not a change in accounting policy as the Standards of GRAP were not previously applied to those items. The Board however agreed that an amendment is needed to paragraph .17(b) to indicate that it is not necessarily the application of a "new" policy. The policy may have always existed but was not previously applied because of materiality.

Basis for conclusions

The basis for conclusions gives the Accounting Standard Board's (the Board's) reasons for accepting or rejecting certain proposals to past decisions about materiality. This basis for conclusions accompanies, but is not part of, this Interpretation.

Background

BC1. The Board issued the Guideline on *The Application of Materiality to Financial Statements* (Guideline) in 2019. The Guideline aims to ensure that entities consider materiality when preparing their financial statements. This includes applying materiality when selecting accounting policies for the recognition and measurement of items and considering what information should be presented and how it should be disclosed.

BC2. When applying materiality, the Guideline – along with GRAP 1 and GRAP 3 - should be considered. Paragraph .07 of GRAP 3 states the following: *"Standards of GRAP set out accounting policies that the ASB has concluded result in financial statements containing relevant and reliable information about the transactions, other events and conditions to which they apply. Those policies need not be applied when the effect of applying them is immaterial"*.

BC3. Respondents who commented on the Exposure Draft of the proposed Guideline indicated that, when they had not applied the Standards of GRAP to immaterial items in the past, they had been required to keep record of past transactions. This was so that they could assess if these transactions would have a material effect on the financial statements over time. Where it was considered that these past transactions were cumulatively material, retrospective adjustments were required to the financial statements. Respondents noted that keeping record of past transactions where materiality was applied is onerous and negated the benefit of applying materiality. Respondents asked that the Board to provide guidance in this area. The Board agreed that it would provide guidance and initiated a project to review the principles in GRAP 3 to assess if they adequately deal with this issue.

BC4. The Board reviewed the requirements in GRAP 3 and agreed that guidance is needed to interpret the principles in the Standard. As a result, the Board agreed to develop an Interpretation of the Standards of GRAP. The Board also agreed that a minor change is needed to GRAP 3.

Scope of the project

BC5. GRAP 3 applies to the selection of accounting policies. Accounting policies are defined in GRAP 3 as "the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements". These policies could address the recognition, measurement, presentation and disclosure of information.

BC6. The key issue that the Interpretation aims to address is the effect of past decisions about materiality and whether they could require retrospective adjustment and retrospective restatement in subsequent reporting periods. As a result, the

Interpretation only deals with past decisions about materiality in relation to the recognition and measurement of items. The presentation and disclosure of items based on their materiality should be considered by applying the principles in GRAP 3 and GRAP 1.

Consensus

Formulating an alternative accounting treatment

BC7. As noted in paragraph BC2., an entity is not required to apply the accounting policies set out in the Standards of GRAP if the effect of applying them is immaterial. This means that an entity may develop alternative accounting treatments for immaterial items. GRAP 3 does not provide guidance on how the alternative accounting treatment should be formulated when the requirements in the Standards are not applied. However, the Board agreed that an alternative accounting treatment should not be inconsistent with the definitions, and qualitative characteristics and constraints principles set out in the *Conceptual Framework for General Purpose Financial Reporting* (the Conceptual Framework).

Past materiality decisions and their impact on subsequent reporting periods

BC8. As noted in paragraph BC3., past practice may have resulted in retrospective adjustments and/or retrospective restatements being made to the financial statements as a result of past materiality decisions.

BC9. The Board noted that GRAP 3 requires retrospective adjustments in the following circumstances:

- Retrospective application for changes in accounting policy, i.e. applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.
- Retrospective restatement for the correction of prior period errors, i.e. correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.

BC10. The Board analysed the requirements of GRAP 3 to assess if either of these circumstances may exist when applying materiality.

Can past assessments of materiality give rise to a change in accounting policy?

BC11. The Board reviewed the following paragraphs in GRAP 3:

GRAP 3.16: *"A change in the accounting treatment, recognition or measurement of a transaction, event or condition within a basis of accounting is regarded as a change in accounting policy*".

GRAP 3.17: "*The following are not changes in accounting policies:*

(a) the application of an accounting policy for events or transactions, other events or conditions that differ in substance from those previously occurring;

(b) *the application of a new accounting policy for transactions, other events or conditions that did not occur previously or that were immaterial; and*

(c) *a change to the cost model when a reliable measure of fair value is not available (or vice versa) for an asset that a Standard of GRAP would otherwise require or permit to be measured at fair value*".

BC12. The Board noted the following:

(a) While paragraph .16 refers to changes in the treatment of a transaction being a change in accounting policy, the emphasis is on "within a basis of accounting". The same paragraph exists in the International Public Sector Accounting Standard on *Accounting Policies, Changes in Accounting Estimates and Errors,* and is relevant where some entities apply accrual accounting and others apply another basis (such as cash).

(b) Paragraphs 3.16 and 3.17 should be read together as GRAP 3.17(b) indicates that the application of a new accounting policy to transactions, other events or conditions that were immaterial, is not considered a change in accounting policy. This means that if an alternative accounting treatment was applied to items based on materiality in previous reporting periods, the application of an accounting policy based on Standards of GRAP in subsequent periods to similar items is not a change in an accounting policy. This is because an accounting policy based on the Standards of GRAP was not previously applied in accounting for those transactions, other events or conditions.

BC13. The Board noted potential issues with the wording in GRAP 3 as the reference to "new" seems to imply that the accounting policy based on Standards of GRAP never existed or is being adopted in that reporting period. In fact, the policy may have existed but may not have been previously applied because of materiality. As a result, the Board agreed that the wording in GRAP 3.17(b) should be amended.

BC14. The Board noted that the effect of applying GRAP 3.17 is that entities would not present comparative information when accounting policies are applied for the first time to material items. Some may argue that this reduces comparability of information and that retrospective restatements should be made to prior year information to ensure comparability. However, the Board concluded that there should be no retrospective restatement for the following reasons:

- A retrospective restatement would require a retrospective change in the accounting treatment applied in prior years. This is inconsistent with the main principle in this Interpretation.
- If the information was immaterial in previous periods, it would have limited relevance to users in subsequent periods.

Are past materiality assessments errors?

BC15. The Board reviewed the following definition and paragraph in GRAP 3:

Definition of a prior period errors: *"Prior period errors are omissions from, and misstatements in, an entity's financial statements for one or more prior periods arising from a failure to use, or misuse, reliable information that was available and could reasonably be expected to have been obtained and taken into account in preparing those financial statements. These errors result from mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud"*.

GRAP 3.07: "*…it is inappropriate to make, or leave uncorrected, immaterial departures from the Standards to achieve a particular presentation of an entity's financial position, financial performance or cash flows"*.

BC16. Materiality is assessed based on information available about facts and circumstances that existed during a reporting period and at a reporting date. In applying materiality, an entity uses reliable information that was available or could reasonably have been expected to be used in preparing the financial statements. As a result, the Board concluded that assessments of materiality are period specific. Hindsight is not applied to assessments of materiality made in prior reporting periods.

BC17. Although the Board agreed that assessments of materiality are period specific, they concluded that if an entity did not use, or misused, reliable information that was available and could reasonably have been expected to have been obtained and taken into account in preparing those financial statements, then an error occurred. Failure to consider all relevant facts and circumstances may lead an entity to develop an inappropriate alternative accounting treatment or an inappropriate materiality threshold.

BC18. The Board concluded that errors may also arise in the following instances:

(a) An immaterial item was omitted from the financial statements.

(b) The alternative accounting treatment results in an immaterial departure from the Standards of GRAP made to achieve a particular presentation in the financial statements.

Are alternative accounting treatments departures from the Standards of GRAP?

BC19. The application of materiality in deciding whether to apply alternative accounting treatments or accounting policies is not a departure from the Standards of GRAP. The Board agreed that only those immaterial departures from the Standards of GRAP to achieve a particular presentation in the financial statements is an error.

Conclusion

BC20. Based on the analysis of the requirements of GRAP 3, the Board concluded that past decisions on materiality:

- Are period specific.
- Are not changes in accounting policies, are not errors, and are not departures from the Standard.

- Do not require the restatement of prior period information unless an error has occurred as outlined in paragraph BC16. and BC17.

Applying alternative accounting treatments and accounting policies

BC21. The Board debated whether, once an accounting policy is adopted for an item or group of items, that policy should be applied consistently to all those items in subsequent reporting periods irrespective of their materiality.

BC22. In debating this issue, the Board considered paragraph .12 of GRAP 3 which explains the following:

> "*An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless a Standard of GRAP specifically requires or permits categorisation of items for which different accounting policies may be appropriate. If a Standard requires or permits such categorisation, an appropriate accounting policy shall be selected and applied consistently to each category.*"

BC23. The Board agreed that this paragraph deals with the consistent application of an accounting policy where accounting policy choices exist in Standards of GRAP for particular classes or categories of assets. For example, the choice to apply the cost or the revaluation method to certain classes of assets. As accounting treatments are not based on the Standards of GRAP, they are not considered "accounting policies" as contemplated in paragraph .12 of GRAP 3.

BC24. GRAP 3 does not specifically indicate that once an accounting policy is applied, an entity can no longer consider materiality in accounting for transactions. On this basis, the Board discussed whether it could be possible to have alternative accounting treatments and accounting policies being applied to similar items or group of items in a single reporting period depending on whether they are material or not.

BC25. The Board agreed that whether this situation occurs may depend on how materiality is assessed and applied. In particular, this could be affected by whether materiality is assessed and applied individually or collectively to items or groups of items. The Board agreed that while materiality is assessed for individual items, an entity will also need to assess the collective effect of not applying the Standards of GRAP to individually immaterial items. Where the effect of collectively not applying the Standards of GRAP to individual items is immaterial, it may be possible to have both alternative accounting treatments and accounting policies being applied to similar items in a reporting period. However, if the collective effect of individual items is material, then the Standards of GRAP may always need to be applied to that particular item or group of items.

BC26. The Board concluded that the effect of paragraph BC24. is that alternative accounting treatments and accounting policies could be applied to similar items or group of items in a single reporting period depending on the level at which materiality is determined, based on all available facts and circumstances on the date of assessment.

Transitional provisions

BC27. Given the diversity in practice historically about whether past decisions about materiality could be viewed as errors or departures from the Standards of GRAP, the Board agreed that transitional provisions were needed for the initial application of the Interpretation. The Interpretation provides explicit guidance about the circumstances in which an error may occur. One of the circumstances in which an error could arise is when an entity fails to use, or misuses, reliable information that was available or could reasonably have been expected to be used at reporting date. As it would be difficult for an entity to make this assessment without applying hindsight, the Board agreed that the Interpretation should be applied prospectively, and that past decisions about materiality need not be revisited. This includes if an error was made. However, an entity is not precluded from making retrospective adjustments if it identifies errors in prior years relating to the application of materiality. However, an entity should demonstrate that the changes do not result from the application of hindsight.