Dipen D Shah & Associates
CHARTERED ACCOUNTANTS

AMENDMENT IN INDIAN ACCOUNTING STANDARD 1

(W.E.F. 1/4/2023)

HOW "SIGNIFICANT" BECOMES "MATERIAL"

Ministry of Corporate Affairs amended the Companies (Indian Accounting Standards) Rules, 2015 by notification no G.S.R.242(E) dated 31st March 2023. The said amendment will come into effect from 1st April 2023.

As per the notification, in Ind As 1 word “significant accounting policies “is replaced with “material accounting policy information”. What is “material accounting policy information” is explained in para 117 as under.

“An entity shall disclose material accounting policy information (see paragraph 7). Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements.”

Moreover, guidance for disclosure of the type of material accounting policy information is provided in para newly inserted para 117A to 117E. The same is reproduced under.

117A

117A Accounting policy information that relates to immaterial transactions, other events, or conditions is immaterial and need not be disclosed. Accounting policy information may nevertheless be material because of the nature of the related transactions, other events, or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events, or conditions is itself material.

117B

117B Accounting policy information is expected to be material if users of an entity's financial statements would need it to understand other material information in the financial statements. For example, an entity is likely to consider accounting policy information material to its financial statements if that information relates to material transactions, other events or conditions and:

(a) the entity changed its accounting policy during the reporting period and this change resulted in a material change to the information in the financial statements;

(b) the entity chose the accounting policy from one or more options permitted by Ind ASs;

(c) the accounting policy was developed in accordance with Ind AS 8 in the absence of an Ind AS that specifically applies;

(d) the accounting policy relates to an area for which an entity is required to make significant judgments or assumptions in applying an accounting policy, and the entity discloses those judgments or assumptions in accordance with paragraphs 122 and 125; or

(e) the accounting required for them is complex and users of the entity's financial statements would otherwise not understand those material transactions, other events, or conditions— such a situation could arise if an entity applies more than one Ind AS to a class of material transactions.

117C

117C Accounting policy information that focuses on how an entity has applied the requirements of the Ind ASs to its own circumstances provides entity-specific information that is more useful to users of financial statements than standardized information, or information that only duplicates or summarises the requirements of the Ind ASs.

117D

117C Accounting policy information that focuses on how an entity has applied the requirements of the Ind ASs to its own circumstances provides entity-specific information that is more useful to users of financial statements than standardised information, or information that only duplicates or summarises the requirements of the Ind ASs.

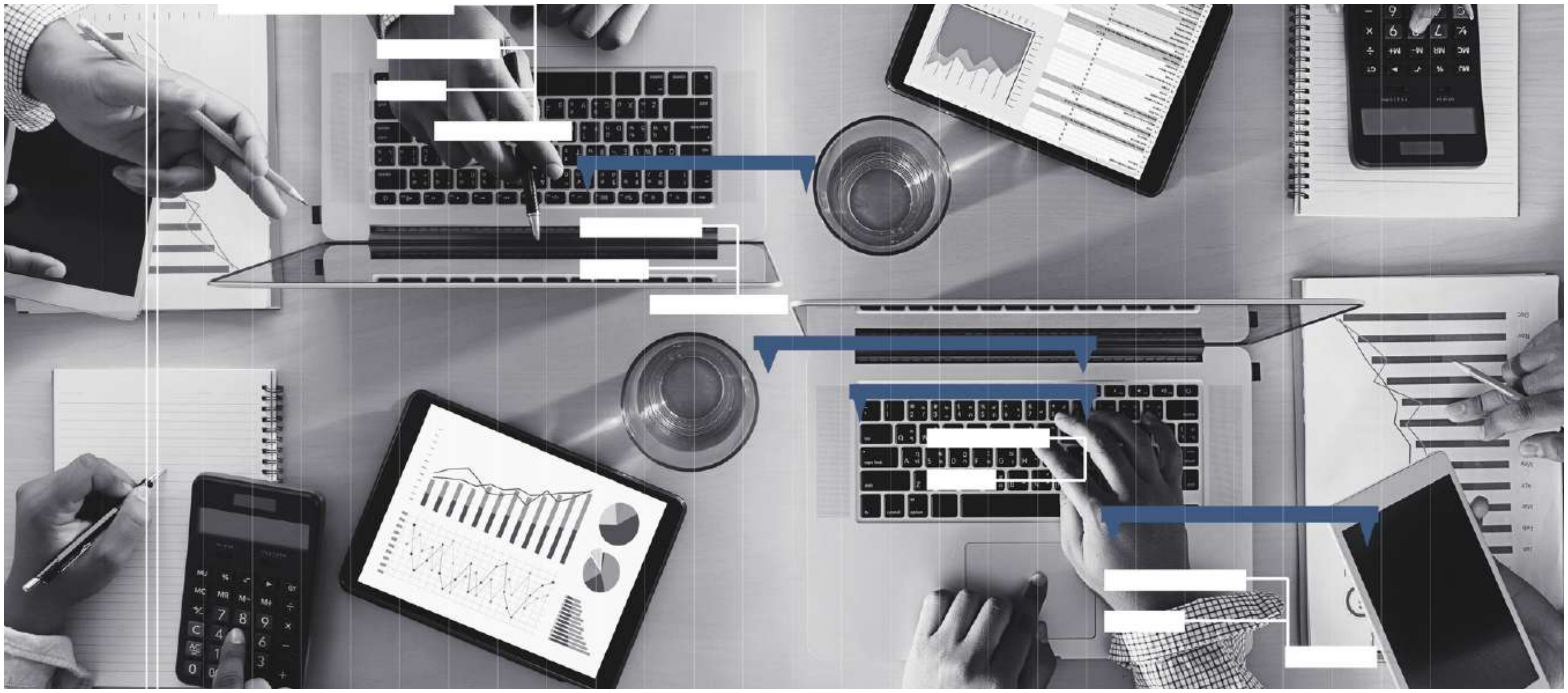
117E

117E An entity's conclusion that accounting policy information is immaterial does not affect the related disclosure requirements set out in other Ind ASs.

Additionally, para 122 is modified to disclose the judgments, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognized in the financial statements along with **material accounting policy information.**

Due to this notification, there will be a fundamental change in the way the accounting policies were disclosed in financial statements. Historically significant accounting policy section is flooded with information whether relevant or not. After this amendment, entities should be cautious in the selection of material accounting policy and what are the estimates used to decide said material accounting policy. The selection of disclosure of accounting policy may have an effect on the disclosures provided under other statutes as well as compliance under other statutes. Although what is material is provided in Ind As, it is open-ended and left to the wisdom of management. This amendment will make disclosure of accounting policies more meaningful and effective.

The said amendment is in line with an amendment made in IAS 1 with effect from 1.1.2023.



THANK YOU

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