Applying Materiality Judgements

Research Report

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A research report prepared for the New Zealand Accounting Standards Board (NZASB) of the External Reporting Board (XRB) on how the International Accounting Standards Board's (IASB's) requirements and guidance on materiality are applied to improve disclosures in general purpose financial statements.

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Table of Contents

1. Introduction 1
2. Key findings 1
3. Recommended actions 2
4. Background 2
5. Research approach and methodology 9
6. In-depth semi-structured interviews with financial reporting stakeholders of New Zealand companies 12
7. Content analyses on material disclosures related to NZ IFRS 15 – Findings 20
8. Conclusion 36
9. References and Bibliography 38
10. Appendices 42

1. Introduction

The study in this report was conducted in response to the International Accounting Standards Board (IASB) call for research on how the IASB's requirements and guidance on materiality are applied in practice. The study received financial support by the New Zealand Accounting Standards Board (NZASB) of the External Reporting Board (XRB). In the following sections we present the key findings, and recommendations based on that research as well as the details of the research.

2. Key findings

- There is a good understanding of the concept of materiality in New Zealand financial reporting practice.
- IASB Documents/IFRS Practice Statement 2 — Making Materiality Judgements is known, but not referred to by New Zealand financial statement preparers (see next).
- These preparers prefer using national guidance documents, especially those issued by New Zealand regulators, such as Financial Market Authority (FMA) (which references the IASB Documents/IFRS Practice Statement).
- Auditors, as trusted advisors, play a role in reporting entities' decisions on disclosure materiality.
- The research shows an increase in disclosures by New Zealand reporting entities largely due to new standards requiring more detailed disclosures but also related to Covid-19 disclosures, sustainability and other non-financial disclosures.
- There is a perceived cost associated with monitoring the level and quality of disclosures in financial statements by preparers.
- Divergent views exist between financial statements preparers and regulators on the process of determining material disclosures – preparers are of the opinion, that their business knowledge underpins their appropriate processes, in spite of voluminous requirements in reporting standards; while regulators consider that the processes used by the preparers may at times result in lower quality information disclosures.
- There is a high level of compliance with NZ IFRS 15 disclosure requirements in New Zealand, following the adoption of the new revenue standard. Of the observed revenue streams disclosures, type of goods or services and the market or customer type disclosures are predominant.

3. Recommended actions

- Standard setters, especially national/NZ standard setters, could use their website and communication with their stakeholders and preparers of financial statements to give more prominence to the IASB Documents/IFRS Practice Statement 2 — Making Materiality Judgements.
- Standard setters nationally and internationally could reinvigorate the message on importance of good quality, concise, but fit-for-purpose financial reporting, including the importance of "decluttering reports". This would alert preparers to the importance of financial reports that are informative, useful, and meaningful for the intended users.
- Standard setters nationally and internationally that develop new (and amended) standards, should be cognisant of the burden that reporting requirements might place on the preparers of financial statements.
- Close to the effective date of new and amended standards national and international standard setters should increase their communication on the benefits of the new requirements.
- Standard setters nationally and internationally should endeavour to provide better practice examples of financial statement communication.
- Standard setters nationally and internationally should consider developing an overall strategy for financial statements preparers on communication of financial information in conjunction with the non-financial information and sustainability related information. This is so that the communication is overall meaningful and useful to the users, that it is not increasingly voluminous and disconnected. Such overall reporting strategy should be developed in consultation with relevant stakeholders' representatives.

4. Background

In June 2022, the New Zealand Accounting Standards Board (NZASB) of the External Reporting Board (XRB) together with the International Accounting Standards Board (IASB) invited academic proposals for research projects relating to how the IASB's requirements and guidance on materiality are applied to improve disclosures in general purpose financial statements.

The aim of this research was to provide information to enable the IASB to assess what effects the IASB guidance documents have on materiality judgments made by preparers, and regulators in New Zealand

The IASB guidance documents of relevance to this research are:

- *Definition of Material* (Amendments to IAS 1 and IAS 8); 1
- IFRS Practice Statement 2 — *Making Materiality Judgements*; and
- Disclosure Initiative Case Studies: *Better Communication in Financial Reporting — Making disclosures more meaningful*.

Consequently, the objectives of this research project are to:

- Assess how entities have used the IASB documents to inform their disclosure practices;
- Assess whether the IASB documents have improved the provision of information that is useful to users of general-purpose financial statements;
- Understand how reporting entities are forming materiality judgements in relation to disclosures and what key factors are influencing these judgements – including assessing user needs, maintaining IFRS compliance, obtaining assurance over disclosures, considering possible regulatory reviews, and the cost of preparing disclosures; and
- Consider what other actions the IASB could take to support the provision of material information in financial statements and discourage preparers taking an IFRS disclosure checklist or boilerplate approach.

There is sizable literature on materiality and materiality judgements. The research presented in this report focuses on the concept and the application of the materiality in accounting, especially in reference to the disclosures in financial reporting.

Materiality in accounting

Materiality is concerned with the decision of which items are important enough to be separately disclosed either in the financial statements or in the notes to the financial statements (Bolt and Tregidga, 2022). Clarity regarding materiality is important because shareholders of reporting companies are entitled to have access to all material corporate information (Clark, 2021; Sherman and Young, 2016). However, an excessive volume of disclosures hinders usefulness of that information (ICA and NZICA, 2011). Thus, clarity around the important concept of what and when to disclose, enables preparers' decisions to disclose only decision relevant information, and also protects users from being burdened by an "avalanche of trivial information" (Clark, 2021; Ryan, 2021; Sherman and Young, 2016).

The definition of materiality has had a long history with continuing developments. The term was first defined by the American Accounting Association in 1954 (Chong, 2015).[1] Given the importance of materiality to various stakeholders and the importance of materiality when it comes to the relevance of financial information, several accounting and regulatory bodies, including the International Accounting Standard Board (IASB), Financial Accounting Standard Board (FASB), Global Reporting Initiative (GRI), International Auditing and Assurance Standard Board (IAASB), International Integrated Reporting Council (IIRC), and Sustainability Accounting Standards Board (SASB), have also subsequently provided their definitions of materiality. Table 1 summarises different definitions. The IASB also issued IFRS Practice Statement 2 - *Making Materiality Judgments*, which is a non-mandatory statement, aimed at providing guidance to preparers of financial information regarding application of the materiality concept and judgements related to materiality decisions (IFRS Practice Statement 2, 2017).

Table 1: Definitions of materiality by different standard setting bodies

Body	Definition
IASB	"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial reports make on the basis of those reports, which provide financial information about a specific reporting entity." Source: IAS 1- Presentation of Financial Statement, paragraph 7, https://www.xrb.govt.nz/dmsdocument/4324
FASB	"The magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement." Source: *FASB Concept Statement 2, Con2-6,* https://www.fasb.org/Page/ShowPdf?path=aop_CON2.pdf&title=CON+2+%28AS+AMENDED%29&acceptedDisclaimer=true&Submit=
GRI	"Particular information is considered 'material' - or relevant - if it could influence the decision-making of stakeholders in respect of the reporting company." Source: *The materiality madness: Why definitions matter*, page 1, https://www.globalreporting.org/media/r2oojx53/gri-perspective-the-materiality-madness.pdf
ISAAU	"Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements." Source: *ISA 320- Materiality in Planning and Performing an Audit*, paragraph 2, https://www.xrb.govt.nz/dmsdocument/595

[1] The American Accounting Association defined materiality as, "an item should be regarded as material if there is a reason to believe that the knowledge of it would influence the decision or attitude of informed investor".

Table 1: Definitions of materiality by different standard setting bodies

Body	Definition
IIRC	"A matter is material if it could substantively affect the organization's ability to create value in the short, medium, and long term." Source: *Materiality in integrated reporting: Guidance for the preparation of integrated reports*, https://www.integratedreporting.org/resource/materiality-in-integrated-reporting/
SASB	"Information is financially material if omitting, misstating, or obscuring it could reasonably be expected to influence investment or lending decisions that users make on the basis of their assessments of short-, medium-, and long-term financial performance and enterprise value." Source: *How does the definition of "materiality" in the SASB standards compare to that of the ISSB standards and that of other disclosure frameworks?* https://help.sasb.org/hc/en-us/articles/360060351771-How-does-the-definition-of-materiality-in-the-SASB-Standards-compare-to-that-of-the-ISSB-Standards-and-that-of-other-disclosure-frameworks-#:~:text=%E2%80%9CFor%20the%20purpose%20of%20SASB's,long%2Dterm%20financial%20performance%20and

While comparing different definitions of materiality by different standard setters and professional bodies, David and Abeysekera (2021) identify the presence of common themes across them. Information is considered material in almost all the definitions if its omission or misstatement individually or in aggregate and in conjunction with related events, transactions, or balances, can affect users' financial decisions making. But there is less agreement on what is generally immaterial.

In spite of many efforts by various standard setters, applying the concept of materiality remains challenging, resulting in vague and varied disclosures (Bolt and Tregidga, 2022; Brennan and Gray, 2005; Chewning et al., 1998; Clark, 2021; Dumay et al., 2015; Edgley, 2014; Edgley et al., 2015; Houghton et al., 2011; KPMG, 2020; Ryan, 2021; Sherman and Young, 2016). The reason for such various perspectives is partly due to different standard setters defining materiality through specific references to different groups of stakeholders as users of financial information. Furthermore, the Conceptual Framework for Financial Reporting proposes that materiality depends on the size and nature of the omission or a misstatement, however it also has to be judged in the context of surrounding circumstances (IFRS Practice Statement 2, 2017).

Consideration of contextual factors are found to be one of the major sources of 'noise' challenging uniformity of materiality decision making (Edgley, 2014; Mio et al., 2020), because it makes the use of any uniform quantitative thresholds hard to apply (Edgley, 2014; Mio et al., 2020). This lack of exact quantitative thresholds when deciding on materiality leads to complexity and subjectivity in application of the materiality concept (Clark, 2021). Hence,

materiality judgements made by different stakeholder groups and managers across different entities, and even by different managers within the same entity, will differ.

Bengali et al., (2021) and Clark (2021) evaluated differences in materiality judgements and causes that lead to such differences. They are of the view that financial reporting standards' use of the word “could” as opposed to “would” broadens the context, results in more diverse managerial judgements and leads to more varied disclosures. Some researchers are of the view that not only the contextual factors but also the lack of guidelines regarding the timing of material information disclosure also creates confusion in the application of the materiality concept (e.g., Bengali et al., 2021; Clark, 2021; Solomon, 2011).

Given the variety of approaches to materiality in practice and a number of contextual factors affecting materiality judgements, a body of research emerged providing suggestions on how to make the materiality definition easier to understand and follow (Appendix 1 summarizes the findings of relevant work concerning this strand of literature). Nevertheless, more recently Ajekwe (2022) argues that the principles-based nature of International Financial Reporting Standards creates a high level of flexibility and room for professional judgements in relation to materiality of items and he suggests that this is much better than applying rigid rules to materiality and reporting.

Solomon (2011) proposed that the materiality definition can be simplified by focusing on the real impact of an event or transaction on the investors i.e., an event or transaction can be considered material if it affects the share price and that should be the focus of materiality decision making. More recent research by Bolt and Tregidga (2022) propose that it is more useful for preparers to explain the application of materiality through stories or narratives. This is because, according to Bolt and Tregidga (2022), the stories make the application of materiality in a given context more visible and understandable. Karwowski (2019) agrees, suggesting that an explanation of the contextual and financial factors affecting materiality of an item would enhance the clarity of the process as the financial reports do not explain the qualitative and quantitative factors used to reach a conclusion on whether an item is material or not.

An issue arising from the variations in materiality definition and variations in application is the excess disclosure of information – such an overload can negatively affect users’ interpretation of the financial information. The issue of excess disclosure causing information overload has been identified in a joint report by the ICAS and NZICA (2011). This report recommended preparers consider whether the reported information warrants retaining or deleting so to significantly reduce information excess. Similar suggestions were provided by New Zealand Financial Markets Authority (FMA). The FMA finds that a significant portion of information disclosed by New Zealand companies in their annual reports is neither material nor decision relevant (FMA, 2014). The report explains the information overload problem in the following words:

"The concept of materiality seems to be clearly described in the NZ Framework. However, as acknowledged by the International Accounting Standards Board (IASB), its application in practice is seen by many as a major cause of disclosure overload. This may be due to a failure to use management's professional judgement when considering materiality, and therefore applying a 'tick box' approach to the financial statements. This results in financial statements that include a significant portion of immaterial and irrelevant disclosures." (Page 6).

Based on these findings, the FMA provided guidelines for more effective preparation of financial statements. Subsequently FMA conducted a follow up study to investigate any changes in the presentation of information by New Zealand companies following their guidelines issued in 2014. The findings of that review indicate that around 80% of the New Zealand reporting companies made some changes in the presentation of information, however, only 24% of the companies made significant changes (FMA, 2018).

Literature on the determinants of materiality decision making process provides some useful insights into the reasons for such variations. For example, Jennings et al. (1987) while studying materiality judgement behaviour of different stakeholders and the nature of items and transactions disclosed, report significant differences in the operational definition of materiality across different groups. They report that judges consider all instances of bribery and lawsuits to be material transactions, as users of such information would require disclosures, while on the other hand only 18% of the CPA preparers agreed with such materiality decisions for bribery and lawsuits. Jennings et al (1987) also report that preparers largely attempted to bury the instances of bribery, lawsuits, and associated costs under operational expenses, effectively omitting reporting the real nature of such financial statement items. Pattillo and Siebel (1973) report that the size of an item is the major determinant of materiality related decisions, similar findings are reported by Eilifsen and Messier (2015). However, Firth (1979), while investigating the materiality judgements of different stakeholders including users, preparers, and auditors, finds that different thresholds for extraordinary items in the financial statements determine what is to be considered material. Similarly, Iskander and Iselin (1999) report that the preparers, users, and auditors do not evidence a consensus on the acceptable level of materiality. That is, users use a lower materiality than auditors and preparers, even though preparers' and auditors' materiality is evidently very similar. Therefore, they suggest that as far as quantitative factors are concerned, the most important factor in determining materiality is net income, and that stakeholders consider the impact of an item on profitability as the most significant factor at the time of making their materiality decisions. Pattillo (1976) provides more specific findings in relation to materiality related judgements and suggests that items which have an impact of around 5% to 10% of net income require professional judgment i.e., the threshold of above 10% is considered material by all stakeholders while an item below 5% is considered immaterial by all stakeholders. This further indicates the need for additional guidance on how to apply the materiality concept in choosing what to disclose.

Additional evidence on materiality judgements is documented in a thorough review of materiality literature by Holstrum and Messier (1982) who identify major issues that make the application of the materiality concept an arduous task. They note that preparers are not fully aware of how financial information is used by financial statement users. Similarly, Bradbury and Scott (2021) report that the application of the concept of materiality is affected more by the nature of the users (regulator, auditor, or financial statements user) than by the suggested materiality quantitative thresholds. This is consistent with Bradbury et al., (2018) findings that there is a need for disclosures of most material but also relevant information for targeted users when preparing financial information such as summary annual reports.

To assist with the application of materiality concept in practice IASB issued a new guidance: IFRS Practice Statement 2 — *Making Materiality Judgements*. Since the issuance of this Practice Statement in 2017 as well as following the amendments to the IAS 1 in 2016, little further research has been published on the use and effectiveness of these promulgations. The limited evidence available is also inconclusive. Elkins and Entwisle (2018) investigated disclosures by Canadian, French, and German firms and report inconsistent disclosure practices from these jurisdictions, despite the new guidance. Johannesson and Ostlund (2018) also examined the impact of amendments to IAS 1 on Swedish firms' disclosure quality. Their results suggest an improvement in the overall disclosure quality and a reduction in adoption of a boilerplate reporting approach. Dyer et al. (2017) argue boilerplate reporting occurs when companies use standardised texts for disclosure, and it is a consequence of reporting entities "cutting and pasting" disclosures (Nelson and Richard, 2007). While this can be viewed as positive (McMullin et al, 2014) when it comes to comparability between different companies' disclosures, the negative side of this approach is that it leads to reporting information being less firm specific (Abraham and Shrivers, 2014). Therefore, there is a negative correlation between boilerplate reporting and understandability, leading to decreased disclosure quality (Hope et al, 2016).

Overall, the concept of materiality is of immense importance because it drives reporting entities' communication with their stakeholders. However, excess disclosures and providing immaterial information as well as not disclosing can hinder the usefulness of financial information. Various professional and standard setting bodies have provided useful definitions and tools for preparers, users, and auditors. Yet, despite standards and guidance, the literature suggests that challenges in applying the materiality concept persist due to different factors, perspectives and contextual elements influencing judgments.

5. Research approach and methodology

Based on the aims and the objectives of the research as well as the previous literature, this study answers two research questions:

1. As a result of the *IASB documents*, do New Zealand reporting entities have a better understanding of how to make materiality judgements in relation to information disclosed?
2. Has the use of the *IASB documents* resulted in changes to the information disclosed by New Zealand reporting entities?

To address these research questions, this research is conducted under four themes, so as to understand:

(a) whether entities use the *IASB documents* in making materiality judgements when preparing general purpose financial statements in accordance with IFRS Accounting Standards;

(b) how entities make materiality judgements to the application of disclosure requirements in IFRS Accounting Standards when preparing general purpose financial reports;

(c) whether entities changed their disclosure practices and the information they report in the year the *IASB documents* were published and afterwards (2017 onwards); and

(d) how standard setters can further dissuade immaterial disclosures.

Based on these four themes the research was conducted using two research approaches:

(a) Qualitative research through in-depth semi-structured interviews with financial reporting stakeholders of New Zealand companies. Ten CFOs and audit committee chairs were interviewed to provide evidence on themes (a)- (d). To provide further evidence representatives from four New Zealand regulators were also interviewed. The interview data once collected was thematically analysed, with responses and quotes carefully depicted and interpreted so to answer the research questions based on the objectives of the research project.

(b) Content analysis of the application of disclosures requirements under NZ IFRS 15 *Revenue from Contracts with Customers.*

NZ IFRS 15 was chosen for this analysis as it is an important standard that most reporting entities report against. The standard became mandatory from 1 January 2018.

The literature on the IFRS 15 suggests that the revenue information is important in reporting profits, thus, information about revenue is also important to the users of financial statements (Coetsee et al., 2022). The IASB issued IFRS 15 in May 2014, and it replaced two previous accounting standards, IAS 18 - Revenue and IAS 11- Construction Contracts. Previous standards required recognition of revenue from the sale of goods following the transfer of the risks and rewards to the customers, while revenue from construction contracts was to be recognised. Following the implementation of IFRS 15, both types of revenue should be recognised when the performance obligations, as stated in the contract, have been satisfied.

The introduction of IFRS 15 sought to capture the information about revenue in a more systematic way than the previous standard practice, and lead to the improved comparability of information across firms and industries. The new standard changed the visibility of contracts, especially long-term contracts, and enhanced revenue disclosures. It was expected that IFRS 15 would lead to disclosure of multiple revenue elements as opposed to the previous disclosure of simple sales streams and sales transactions (Tong, 2014). Overall, the implementation of IFRS 15 was expected to significantly increase the disclosure of material information on revenue for reporting entities (Davern et al., 2019).

Since the implementation of IFRS 15, literature provides mixed evidence regarding the impact of IFRS 15 on accounting numbers and the volume of disclosures. Napier and Stadler (2020) results, however, do not indicate overall significant changes in revenue compared to the previous application of IAS 18. Nonetheless, they do report a significant increase in revenue related disclosures under IFRS 15. They further report the reduction in understandability of IFRS 15 related disclosures from the external users' point of view.

In some countries, specifically in developing countries, there are reports of difficulties and non-compliance when it comes to the implementation of IFRS 15. For example, Karim and Riya (2022) report a general low level of compliance with the requirements of IFRS 15 in Bangladesh (they report on average 50% of non-compliance). The sector with the highest compliance in their study was found to be the telecommunication sector (76%) while the IT sector is reported as least compliant (28%). Specifically, lower compliance is found in disclosures regarding operating segments, performance obligations regarding the bill or hold arrangements, disclosures of the nature of goods and services as agent, and

warranty and other estimates. Coestsee et al. (2022) report that the first-time adoption of IFRS 15 by South African listed firms was generally smooth with good disclosures that are concise, coherent, and appropriate, leading to increased decision usefulness of the disclosed information. In that study, firms disaggregated revenue streams appropriately and showed an improvement over IAS 18 implementation. Contract assets and liabilities were segregated from other assets and liabilities, indicating an improvement in comparison to the earlier reporting regime of IAS 18. However, some, key assumptions and judgements used in revenue recognition under the new IFRS 15 standard were not appropriately conveyed, thus, they called for additional and better disclosures.

Davern et al. (2019) conducted a thorough survey of 143 preparers in Australia to understand the difficulties of implementing IFRS 15 and to understand preparers' viewpoints regarding the costs and benefits associated with IFRS 15 adoption in comparison to the use of IAS 11 and IAS 18. Their findings indicate that there is additional need for standard setters to convey the benefits of IFRS15 to adopters (in terms of improvement in business management due to better information). Such information is likely to motivate preparers to adopt the standard early and engage with its principles. In the case of IFRS 15, it appears that information about its benefits was not conveyed sufficiently and clearly. A significant proportion of the survey respondents (around 35%) in Devern et al. (2019) study was uncertain regarding compilation and integration of data needed to comply with IFRS 15 and they suggested that they needed to use external consultants to assist with the new standard implementation which increased the cost of compliance.

Overall, the emerging literature on IFRS 15 suggests that the new standard has not caused significant changes to the reported revenue, however it has increased the volume of disclosure in the financial statements. As would be expected, the industries that are characterised by significant revenue generated through contracts with customers, such as construction, telecommunication, and technology, report higher impacts of IFRS 15 on their accounting results, than other industries. However, the previous literature does not show whether companies make material changes to their disclosures on revenue over time or simply follow a boilerplate approach to revenue disclosure under IFRS 15 from one year to the next. Also, the research so far also indicates that the implementation of IFRS 15 has led to increased costs in information preparation and reporting, mostly due to preparers using experts, but also due to increased audit fees, presumably through auditors exerting more effort when auditing the increased volume of disclosures about revenue in the IFRS 15.

In this report we present findings on NZ IFRS 15 implementation effects on the revenue related disclosures in New Zealand within the context of materiality concept application and judgements of material disclosures. We provide this

evidence through content analysis of NZ IFRS 15 *Revenue from Contracts with Customers* disclosures by a sample of New Zealand companies.

We selected annual reports prepared by 40 New Zealand Stock Exchange (NZX) NZX 50 listed companies and analysed their financial statements for the extent to which revenue disclosures reflect a 'boilerplate'/'tick box' disclosure approach to reporting revenue. Boilerplate/tick box disclosures were assessed by contrasting IFRS 15 related disclosures in the sample of companies' annual reports with one of the Big 4 model financial statements disclosures on revenue in accordance with the NZ IFRS 15. We considered all Big 4 firms' model financial statements and settled on one set of such statements that we consider as most exhaustive and therefore most appropriate when it comes to revenue related disclosures examples.

We reviewed the financial statements of selected NZX companies for the period 2018 to 2021 so to assess the extent of the NZ IFRS 15 disclosure changes in that period. This enabled us to ascertain the change in the volume and type of NZ IFRS 15 disclosures with the proposition that limited change in disclosures on a year-by-year basis could indicate a 'boilerplate/tick box' approach to disclosures rather than active materiality judgements applied by the reporting entity. The 2018 to 2021 period was selected on the basis that the new NZ IFRS 15 standard came into use at the beginning of 2018 and that 2021 was the last full reporting year when this research project commenced.

6. In-depth semi-structured interviews with financial reporting stakeholders of New Zealand companies

We conducted in-depth semi-structured interviews with financial reporting stakeholders of New Zealand companies listed on NZX 50 (CEOs, or CFOs, or directors). Ten such interviewees participated in the interviews. All interviewees were experienced practitioners with generally over 15 years or more of experience in accountancy and business practice. We illustrate the findings from the interviews with selected quotes.

The questions we used to prompt the discussion with interviewees and collect the evidence were based on the need to gather evidence on:

(a) whether entities use the *IASB documents* in making materiality judgements when preparing general purpose financial statements in accordance with IFRS Accounting Standards;

(b) how entities make materiality judgements to the application of disclosure requirements in IFRS Accounting Standards when preparing general purpose financial reports;

(c) whether entities changed their disclosure practices and the information they report in the year the *IASB documents* were published and afterwards (2017 onwards); and

(d) how standard setters can further dissuade immaterial disclosures.

These are the key themes and the findings from these interviews:

6.1 What does materiality mean to reporting entities and the preparers of their financial statements?

The interviewees define materiality as an item of disclosure in the financial statements that is of consequence to a stakeholder/shareholder in making their investment decisions. Interviewees also referred to examples of specific disclosures in the notes to the financial statements (such as related parties transactions disclosures) that are not typically quantitatively material but could be considered material from the point of view of users or readers of financial statements. In general terms, the interviewees displayed a high level of confidence in knowing their businesses and knowing what material to their stakeholders is. This is illustrated by the following quotes:

> *"I define materiality as - does the item that we are talking about make an impact on anybody's decision making with regards when they read the information? So, if it's an adjustment to our profit, does it change the way people will view the profit? Does it change trends and the likes?" For example, we have some contracts that are for the supply and the installation of product, and under the revenue standard, we should clearly bifurcate those and account for them very separately. But from our perspective, it's not necessarily practical to do that for every product, because we have a number of projects and products. So, we typically treat it as one revenue pool and recognize it over time, based almost on a percentage to completion. Now, we do tests regularly to make sure that it's not materially different from what would be in place if we accounted for those two parts of revenue separately, and the reason for that is because that you don't usually supply all the product on day one if you've got a four-month project. You actually drop the product in over time, anyway. So, the timing marries up mostly, we test for that. But when I think about that for us, it's from a cost benefit perspective, it's easier for us to treat them the same. But that's not strictly in accordance with the standard, as the standard only needs to apply for material things. In that example, I think, what is material is, what will significantly change trends, or what would significantly change the reported gross margin or EBIT?"*

> *"I approach materiality form a commercial perspective – not to boil down the ocean but think in terms of what is important and material to the business".*

> *"Materiality is based on the perspective of what is the purpose of financial statements – to be useful to the stakeholders".*

In determining materiality for reporting purposes, the interviewees in this study are noticeably confident in knowing who their stakeholders are. They meet their shareholders at AGMs and/or through Shareholders Association. They also know who their bankers and analysts interested in their companies are, through regular interactions with those parties.

6.2 What guidance do reporting entities use to inform their disclosure practices?

We asked the interviewees whether they use the IASB Documents in determining disclosure materiality (2017 IFRS Practice Statement or earlier versions of similar documents). All interviewees responded negatively, while being familiar with the IASB documents, they do not use them.

> The interviewees generally refer to documents and guidance issued by national (New Zealand) regulators, such as the FMA's reports and guidance. Interviewees stated that IASB documents, such as the 2017 IFRS Practice Statement are not the easiest to locate on either the XRB or IASB websites and suggested more prominence of that Practice Standard. It also appears that the interviewees who have a background in auditing and may have worked in other jurisdictions (outside of New Zealand) tend to have more detailed understanding of the IASB materiality related guidance and documents.

While we investigated why the IFRS Practice Statement is not in use, the interviewees stated that the IFRS Practice Standard is not a standard and that therefore they do not feel that they need to use it. Generally, they expressed confidence in knowing what is likely to be material to their stakeholders/shareholders, and that they usually base their decisions on materiality of disclosures at every reporting date on what was material in the previous financial statements, adjusting that for any new circumstances, new reporting standard requirements and any other considerations relevant at the time. Interviewees also indicated that their auditors have made them aware of the IFRS Practice Statement especially in situations where there are some disagreements around a particular disclosure. The interviewees also indicated that they consider the disclosures required under the prescribed standards as a minimum that they must comply with, they use that to make an initial assessment of what is material to disclose and then they adjust where necessary with additional disclosures if appropriate. All interviewees also responded that in terms of the process, they generally start thinking about materiality in quantitative terms (as a percentage of revenue or similar basis) and then adjust their decisions around materiality of disclosures based on relevant qualitative factors and considerations/circumstances which change from one reporting period to another.

Most interviewees also stated that they don't have specific written internal standards, policies, or requirements when it comes to deciding on what is material enough to disclose.

Some mentioned that they as preparers receive guidance on how to assess materiality of disclosures from their Boards and Board committees. There also seems to be that auditors play a role in preparers finalising their decisions around disclosures in financial statements.

"Audit materiality is very much a calculation from what auditors say or what FMA allows – we take a wider view – a corporate point of view."

"The framework for materiality comes from the auditor".

"Starting point is the quantitative assessment then qualitative – allowing for judgement. We do so for the audit committee – what are the key judgements areas – valuation of assets is key area for us."

Despite a number of entities not having written policies on materiality judgements, the interviewees also reported consistency in their approach to those judgments. They conveyed that disclosure requirements in accounting/reporting standards are considered (especially when new or additional disclosures are prescribed by standard setters) and once they are assessed as applicable, they are consistently applied at every reporting period. One interviewee stated that in their organisation they regularly review the disclosures and delete what becomes immaterial. In addition, all the interviewees stated that they also review the disclosures for relevance at every reporting period.

"We do three level reviews of disclosures every year: first the audit team reviews our financials, then the second review is to check for company embedded disclosures and the final review is where the auditors send our financials to their technical team review."

The interviewees observed increasing levels of disclosures in the financial statements due to more detailed requirements posed by 'increasingly more complicated' financial reporting standards (NZ IFRS 9 was mentioned as an example). The interviewees were also aware of the FMA issued guidance in the document titled: "Improving Financial Statements" and they tend to follow the recommendations of FMA when preparing their financial statements. The interviewees also commented on the fact that the emphasis on non-financial reporting in recent years, as well as the influence of Covid related reporting and the sustainability/climate related risks reporting is or will increase the level of disclosures.

They consider that there is an overload of information in financial statements and that financial statements are becoming increasingly complicated. One of the interviewees proposed that there is a place for abbreviated and simplified reporting on the income statements in particular. The interviewees also perceive that the active monitoring of the volume of disclosures requires continuous effort, and it involves costs.

6.3 The role of standard setters and other stakeholders in further dissuading immaterial disclosures.

The interviewees in this study consider that the regulators have the biggest role to play when it comes to discouraging immaterial disclosures. Regulators are seen by preparers as focused on detail. The interviewees also pointed out that the current reporting standards are complex, the disclosures are voluminous and not necessarily tailored to the actual business practice. These opinions are well illustrated with the following quotes:

> *"Financial statements have almost become a departure from how the business is actually operating".*
>
> *"Climate related reporting has been a big focus in the last two years. I think it took away effort and focus from financial reporting (what we do and how we do it). I think financial reporting would need a similar drive and communication".*
>
> *"It seems to be with the reporting now - 'more is more'".*

Interestingly, the interviewees suggest that auditors cannot have a direct or a first role in discouraging immaterial disclosure, and that the preparers have to be responsible for the disclosures. While there is an acknowledgement that auditors have a role to play in materiality judgments, the preparers consider that the ultimate decision on what is material and what is appropriate to disclose in the financial statements, rests with the preparers, not auditors. The interviewees did mention that auditors are seemingly also bound by the disclosure requirements in reporting standards and the requirements by regulators placed on them for their conduct. Auditor rotation is also mentioned as one way to get a 'set of fresh eyes' to review the existing disclosures in the financial statements.

6.4 The actions that the IASB can take to support the provision of material information in financial statements and to discourage the immaterial disclosures.

The interviewees proposed that by preparers knowing their business and regularly reviewing financial statements, identifying where disclosures are obsolete or not appropriate is the best way to discourage immaterial disclosures. They do consider that standard setters and regulators, working with preparers all have a role to play when it comes to discouraging immaterial disclosures.

> *"If we genuinely care about it, there needs to be a collaborative approach, more than one player. More has to be done by all – standard setters, regulators, preparers".*

However, all interviewees also consider that the applicable reporting standards are currently detailed and 'wordy.' The suggestion to the standard setters by the interviewees, going forward, was 'to keep it simple' and continuously educate about materiality.

> *"We need to guide and educate about materiality – younger professionals need to learn about it earlier in their careers."*

6.5 In-depth interviews about materiality with regulators

Further evidence and insights were collected from regulators. These are the key themes and findings from the interviews conducted with the regulators' representatives:

Similarly, to preparer interviewees, the regulators also define materiality as referenced to information that is relevant to users in their decision making. Interviewed regulators also point out the difficulty of defining materiality when it comes to varied users. They referenced it to what is important to users in their decision making not what is solely concerning preparers. Regulators are more concerned with the material information being omitted or not disclosed than with the 'immaterial disclosure '. Regulators are also concerned with reporting entities 'ticking the boxes of disclosure' rather than telling informative stories with their financial statements. They do have concerns about relevant information not being in the financial statements and whether a reporting entity is 'telling the right story'. They consider that disclosure notes in the financial statements provide more informational value and more relevant content than the financial statements alone. Regulators representatives are also committed to seeing well informed, capable, and confident investors participating in NZ markets. To that end they think that financial statements need to be useful to investors so to support their decision making but also that the disclosed information needs to be understandable and adequate. In that sense the materiality of any information is not limited to financials statements only.

> *"The reality for us, any material information, whether it's within the financial statements in particular the right side of the financial statements, is linked to the usefulness, whatever is useful in particular for the investors to support their decision making. And then also I would say as well that it's understandable. So, it needs to be understandable to be useful. And finally, perhaps even with the decision making, maybe even a step further, that what we also want to see that investors are provided with adequate, useful information, so that they can make active decisions as well. So active decisions for us are also quite important. Materiality in that sense is any information limited, let's say, to the financial statements or financial reporting, that is of use for the investors when it comes to their decision making, but also for their understandability of what is going on with the entity."*

All regulators interviewed in this study are aware of the IASB documents although they comment that they do not see those documents in use by preparers very much. They also

pointed to the 2018 FMA publication "Improving Financial Statements" as a useful New Zealand reference in preparing financial statements. That publication is a 2018 report by FMA presenting the findings from their thematic review to determine the extent of improvements in the presentation of financial statements in New Zealand in a clear, concise, and effective way. The report also outlined some suggestions for additional improvements.

Regulators in this study observed from their reviews and findings that preparers tend to look at materiality very narrowly with a strong consideration of the quantitative aspect of materiality and not so much qualitative aspect. They further consider that the IASB Practice Statement is not very much in use because it is not a standard and it is not enforceable.

> *"Yes, I am familiar with it. Do I see it a lot used in practice? The answer is no. Do you think entities really apply it? Not really and similar to auditors, we don't see it often used to justify why certain disclosures are not made or other disclosures are made on the basis of that document."*
>
> *"I think that's actually one of the things that is quite specific for New Zealand, and what we see when we are monitoring and engaging with the regulated entities is that in general terms, a lot of our population still looks at materiality very narrowly, in New Zealand, the quantitative aspect almost exclusively. There is no consideration of the nature of that qualitative aspect, and absolutely very little consideration of the entity specific, or, you know, specific facts and circumstances as well, and that is what we see."*
>
> *"Practice statement is not enforceable, it's not prominent, at least not on the XRB's website. The practice statement, because of what it is, it's just guidance and it's not enforceable."*
> *"I think that the preparers just kind of do what they've done previously and not really think, "How can we make it a better document and make it more readable?" Because I think it is (financial statements) still very much a standalone document, which is a compliance exercise. But it's not really used to tell the story of the entity. If you look at what's in an annual report and what's in the financial statements, it's sometimes difficult to link the two areas."*
>
> *"There is no link. It is hard to read the financial statements and really understand what a company is doing. What we generally see is ticking the boxes and not writing the story in the annual report, and the link between those two, in most of the cases I think, is missing."*

Regulators also commented on increased but overall better disclosures around Covid and the effects of extreme weather events. Consequently, they observe better disclosures about assets impairments and hope for continuing improved disclosures around goodwill impairments and valuations. Regulators also commented on still noticing some of the 'boilerplate approach' to reporting by preparers.

> *"Especially with the listed entities, there are those NZX 50 entities that I believe that the 2018 report still applies to. We have seen changes in the quality or the effectiveness of the*

disclosures and the effectiveness of communicating what is important and what's material, and so on".

"So, there is a variety of improved quality of the financial reports of the NZX listed entities. But again, in terms of the NZX 50, we show that even after the 2018 report, we do see the cluttering again."

"I have to say that probably the last two years we've seen some better disclosures, and I think it has mainly to do with all the kind of significant events that we have had, so Covid, some of the weather events. I think people are better in describing the impact of those events on their financial statements. We hope that basically entities continue to do that for anything else as well. So, for example, impairment assessments have had better disclosures on how, for example, Covid has impacted that."

In terms of the responsibilities for dissuading the immaterial disclosures the regulators definitely think they have a role to play but don't want to take the role of a standard setter. They consider that FMA "Improving Financial Statements" publications issued in 2014 and 2018 have contributed to the improvements in disclosures. They are however, anticipating with climate related risk disclosures that there will be additional need for guidance. Regulators also see themselves as enforcers of accounting standards and requirements, not the standard setters. However, they do have a strong focus on financial statements not being misleading. They see that education of preparers and users on financial statements is important. Regulators also think that auditors have a role to play in discouraging immaterial disclosures by not having a 'boilerplate mentality' when it comes to their clients reporting. Interviewed regulators stated that they want to see preparers taking approach to disclosures with information relevance for users in their minds.

"Our role is to be, first of all, an enforcer of the accounting standards and requirements, including material information. In our act as well, we have a wider requirement that applies to every single disclosure in the financial statements. Our role is embedded in the act and what we do, and we can actually make a difference. Education-wise, absolutely, through our engagements with our stakeholders, whether it's some an external presentation, whether it's publications like this, whether it's the disclosures, whether it's the guidance, the information sheet, or the guidance notes, that we do. Yes, and engaging with the standard setters, because we are then enforcing those standards, so we need to be on the same page as any preparers and ultimately, as well, then it's using this information. And we recognize that and the importance of us actually being active in that area again, ever since 2014 when we started this journey on trying to make a difference and trying to point out that material information is actually very important."

Similarly, to preparers, regulators also consider reporting standards quite detailed and prescriptive when it comes to disclosures and are not surprised when reporting entities are reluctant to reduce disclosure. Regulators think that auditors have a role to play when it

comes to discussing with their clients where the disclosures are immaterial and that auditors could discourage immaterial disclosures. Regulators pointed to the fact that there is a lot of information that reporting entities provide in their financial statements and question whether all that information is relevant to users. They mentioned how disclosures of related parties and related parties' transactions, as an example, are particularly important in a small market such as the NZ market.

> *"We believe that auditors have a role to play in encouraging material disclosure, right, which effectively means discouraging immaterial disclosures. But we like to focus on encouraging material, encouraging what's relevant, encouraging what actually makes a difference in investors or users' decision making."*

> *"In terms of the auditors, it is as we mentioned there, so regular engagement with their clients on materiality, it has to come from both sides, so the preparer taking ownership of that but also the auditor being more active in those engagements and discussions with the clients, or with the corporate governance of their clients on a regular basis. The auditor as well, not to have that checklist disclosure mentality."*

7. Content analyses on material disclosures related to NZ IFRS 15 – Findings

As noted in the research methodology, the second approach to examining materiality judgements is by an examination of disclosures made by 40 New Zealand companies listed within the NZX 50[2] in respect to disclosure requirements in the standard NZ IFRS 15 *Revenue from Contracts with Customers* (mandatory application of that standard commenced on 1 January 2018). Analysis took place concurrently with the interviews to inform both approaches. Hence, this stage involved content analysis of annual reports of the identified companies in the period from 2018 to 2021, focusing on the extent to which revenue disclosures reflect a 'boilerplate'/'tick box' disclosure approach to reporting on revenue or whether they reflect the application of judgement when selecting material matters relating to revenue that are disclosed.[3] Materiality was assessed for each of these companies, by examining the disclosure and non-disclosure of specific revenue disclosures, based on the requirements of IFRS 15. Hence, if a company makes disclosures in relation to specific aspects of IFRS 15, we deem these disclosures to be material to that company in relation to revenue, and if there are no disclosures by a company in relation to IFRS 15 requirements, we deem that such non-disclosures were not material in relation to revenue for that company.

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[2] NZX 50 represent the largest 50 companies by market capitalisation listed on New Zealand Stock Exchange (NZX).

[3] We downloaded the annual reports of the sample firms from their websites and then hand-collected the data. Initially, we collected and discussed the data for a small sample of firms. Then two researchers collected the data for all sample firms from their annual reports and a third researcher checked the data for accuracy

To assess the boilerplate/template disclosures we:

1. Contrasted IFRS 15 related revenue disclosures in sampled companies' financial statements against the EY New Zealand illustrative consolidated financial statements.[4] The actual disclosures were compared with model IFRS 15 revenue disclosures for the year ended 31 December 2019 for NZ IFRS Tier 1 and Tier 2 for-profit entities (EY New Zealand, 2019)[5]. This was done to assess the disclosure or non-disclosure of specific revenue contents by these companies in line with the requirements of IFRS 15 as modelled by the EY New Zealand illustrative consolidated financial statements. Disclosures in relation to specific aspects of IFRS 15, were deemed to reflect material disclosures by the companies in relation to revenue, and non-disclosures in relation to other aspects of IFRS 15, were deemed to reflect immaterial disclosures in relation to revenue. The findings of this analysis are in presented in section 7.1.

2. Reviewed financial statements under observation for the period from 2018 to 2021 for the selected NZX companies so to assess the extent of revenue related disclosures changes from year-to-year. The change was expected to reflect the information of most relevance reported in each reporting period. Limited or no change in disclosures from year to year is interpreted as an indication of the 'template' or 'boilerplate' approach to disclosures, indicating non-active approach to materiality. The findings of this part of analysis are presented in section 7.2.

Sample composition

Table 2 presents the composition of the 40 companies observed in this research and drawn from the NZX 50 for the four years from 2018-2021 and classified by their industry[6]. From Table 2, it is observed that in the selected sample there are 12 industries. The biggest proportion came from the Energy industry with seven companies (28 observations in 4 years), and Healthcare and Social Assistance industry, also with seven companies, representing 18%

[4] The EY New Zealand illustrative consolidated financial statements, provide an up to date and comprehensive model designed to illustrate disclosure requirements for both Tier 1 for-profit entities reporting in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and Tier 2 for-profit entities reporting in accordance with NZ IFRS Reduced Disclosure Regime (NZ IFRS RDR).

[5] We reviewed and considered several illustrative examples of consolidated financial statements prepared by Big 4 accounting firms and decided that EY New Zealand illustrative consolidated financial statements are the most comprehensive and most recent illustrative example and therefore most appropriate for the content analysis required for this research project.

[6] We followed the Australian and New Zealand Standard Industrial Classification (ANZSIC) to compile and analyse the industry statistics.
See https://aria.stats.govt.nz/aria/?_ga=2.51334121.1144901134.1690510517-2021503829.1689659987#ClassificationView:uri=http://stats.govt.nz/cms/ClassificationVersion/CARS5587

of the sample each, respectively. The smallest proportion in the sample are one company each from the Construction industry, and the Information media industry representing 3% each respectively of the sample. Over the sample period from 2018-2021, companies made no changes in the industry classification.

Table 3 shows that all 40 companies under observation were audited by the Big 4 Audit firms: Deloitte, EY, KPMG and PWC. Of these 40 companies 16 (40%) were audited by PWC, while EY audited the least companies in the sample, seven (18%). Overall, there was no significant switching of auditors by companies in our sample during the period under observation. The exceptions were in 2020, when Fonterra switched auditors from PWC to KPMG and in 2021, Spark New Zealand switched from KPMG to Deloitte. Appendix 3, provides a comprehensive list of the 40 companies selected in the sample with their industries, and their auditors.

Table 2

Sample composition: 40 NZX listed companies by Industry

Reporting Years: 2018-2021

		Total Observations	
S/N	**Firm Industry**	**Number**	**%**
1	Construction	4	3%
2	Energy	28	18%
3	Financial Services	16	10%
4	Health Care and Social Assistance	28	18%
5	Hospitality	12	8%
6	Information media	4	3%
7	Manufacturing	20	13%
8	Property/Real Estate	12	8%
9	Retail	8	5%
10	Technology	8	5%
11	Telecommunication services	8	5%
12	Transport, Postal & Warehousing	12	8%
	Total	**160**	100%

Table 3											
Sample composition of the 40 companies selected from the NZX 50 by Auditor											
		Reporting Year									
		2018		**2019**		**2020**		**2021**		**Total**	
S/N	**Firm Auditor**	**Number**	**%**	**Number**	**%**	**Number**	**%**	**Number**	**%**	**Number**	**%**
1	Deloitte	8	20%	8	20%	8	20%	9	23%	33	21%
2	EY	7	18%	7	18%	7	18%	7	18%	28	18%
3	KPMG	9	23%	9	23%	10	25%	9	23%	37	23%
4	PWC	16	40%	16	40%	15	38%	15	38%	62	39%
	Total	**40**	100%	**40**	100%	**40**	100%	**40**	100%	**160**	100%

7.1 Material disclosure levels in relation to Revenue and IFRS 15 requirements

The results of the content analysis for identified companies from 2018- 2021, with respect to their material disclosures regarding revenue in accordance with NZ IFRS 15 are discussed below. NZ IFRS 15 related revenue disclosures provided by the sampled companies in their financial statements were contrasted against the EY New Zealand illustrative consolidated financial statements model NZ IFRS 15 revenue disclosures (EY New Zealand, 2019).

Specific section/note on revenue recognition separately disclosed in financial statements

Figure 1 shows the proportion of sampled firms providing a separate section or note for revenue recognition based on NZ IFRS 15. From 2018 when the new revenue recognition standard NZ IFRS 15, was adopted, 37 firms (92.5%), provided a specific section or a note on revenue in their financial statements, with only 3 firms (7.5%), not providing such a section or a note (Please see Appendix 2 for an example of a specific note on revenue recognition). This shows that the selected and observed firms mostly complied with the NZ IFRS 15 requirements at the point of adoption of the new standard. In 2019, 95% of the sampled firms included a separate revenue disclosure. However, after the first two years of NZ IFRS 15 adoption, specific revenue section disclosures by the sampled firms decreased (to 90% in 2020 and 87.5% in 2021 respectively). This is likely due to companies seeking to explain the impact of NZ IFRS 15 in the first two years (2018 and 2019), and then in the latter years, believing that separate revenue sections were unnecessary as the standard matured. This finding does not indicate a lack of revenue disclosures, rather it is that the companies under observation moved revenue disclosures to their segment reports or other sections of their financial statement notes in the subsequent years.

Figure 2, shows that a large (90%) and a steady number of firms over the sample period provide revenue information within their segment reports, especially information regarding the disaggregation of revenue sources. Also, 78% of the sampled companies in years 2018 and 2019, and 65% of the sampled companies in years 2020 and 2021 provided information in other parts of the financial statement notes, apart from a specific revenue section or within the segment report (Please see Appendix 2 for an example of information disclosed in segment report and other parts of financial statement notes). The numbers of disclosures regarding NZ IFRS 15 within the financial statement notes reduced in the latter years, 2020 and 2021 and implies that the disclosures in 2018 and 2019 were used to explain the immediate impact of the NZ IFRS 15 adoption.

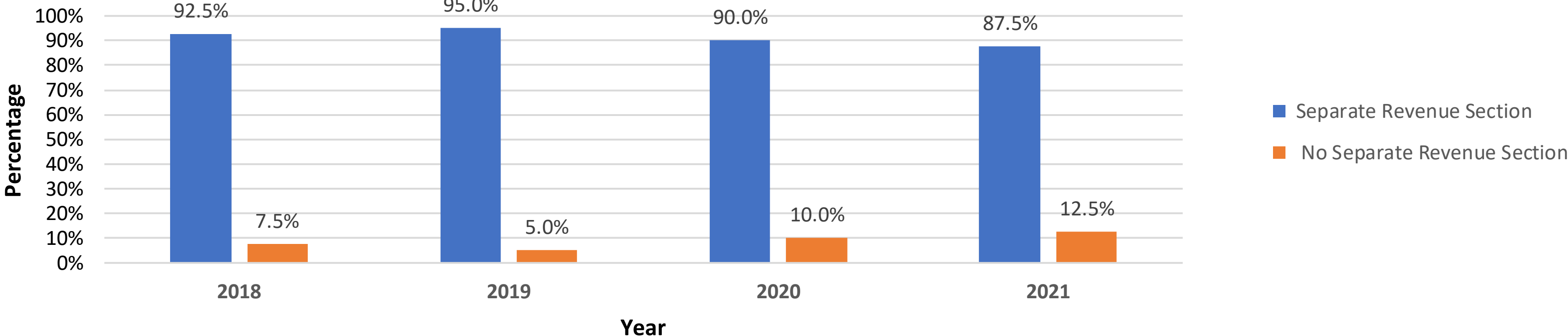
Figure 1: Separate Revenue Section Disclosure
Percentage
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
92.5%
7.5%
95.0%
5.0%
90.0%
10.0%
87.5%
12.5%
2018
2019
2020
2021
Year
Separate Revenue Section
No Separate Revenue Section

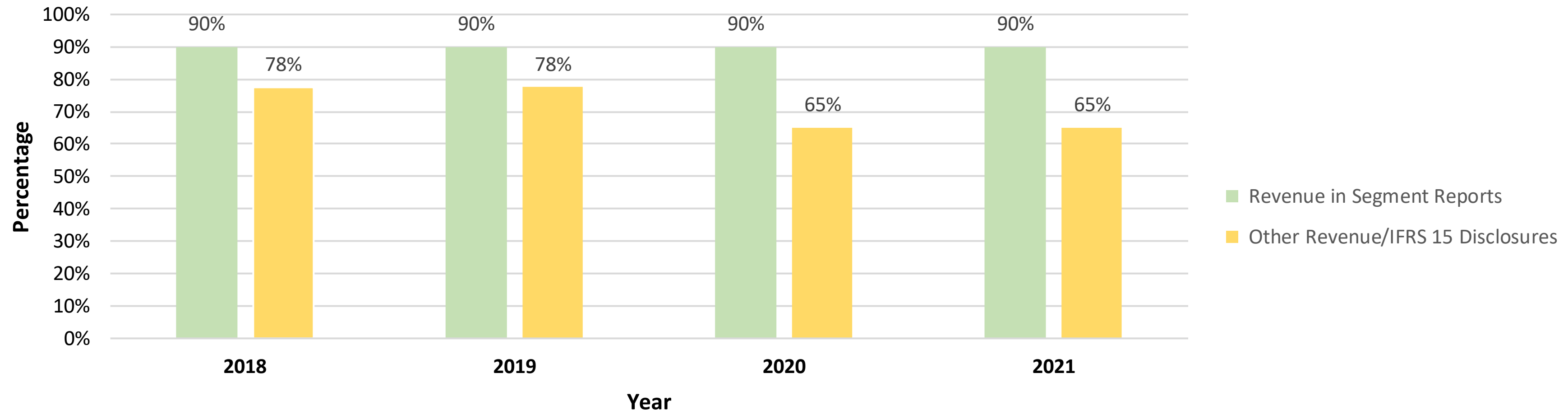
Figure 2: Segment Report Revenue and Other Revenue/IFRS 15 dislosures
Percentage
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
90%
78%
90%
78%
90%
65%
90%
65%
2018
2019
2020
2021
Year
Revenue in Segment Reports
Other Revenue/IFRS 15 Disclosures

Revenue information disaggregation disclosures

We further investigate the categories of disaggregation of revenue sources as disclosed by the sampled companies and contrasted to the EY model on NZ IFRS 15 revenue disclosure guidelines on material revenue sources. Figure 3 reports revenue disaggregation categories in each of the four years from 2018 - 2021. It shows that overall, the companies under observation mostly disaggregated their sources of revenue based on the 'type of goods or service' category (78% in 2018, 83% in 2019, 88% in 2020 and 88% in 2021) and the 'market or customer type' category (80% in 2018, 83% in 2019, 83% in 2020, and 85% in 2021). The use of 'sales channels' (23% in 2018, 25% in 2019, 25% in 2020, and 33% in 2021) and 'timing of goods and services transfer' (30% in 2018, 30% in 2019, 28% in 2020 and 25% in 2021) were the lowest basis of disaggregation of revenue sources employed by the companies. In terms of year to year changes in disclosure of disaggregation of revenue sources, there were only minor variations from year to year in the revenue diaggregation disclosures. These results suggest that of the revenue disaggregation categories recommended by NZ IFRS 15, the most frequent disclosures for New Zealand companies under observation are the 'type of goods or service' and the 'market or customer type'. It also shows that these companies have some level of 'boilerplate' approach to such disclosures as there were few changes in the revenue disaggregation over the four years and subsequent to the initial adoption of the standard and resutant initial disclosures. These findings also reflect that the companies in this research sample seemingly did not change their revenue streams frequently if at all.

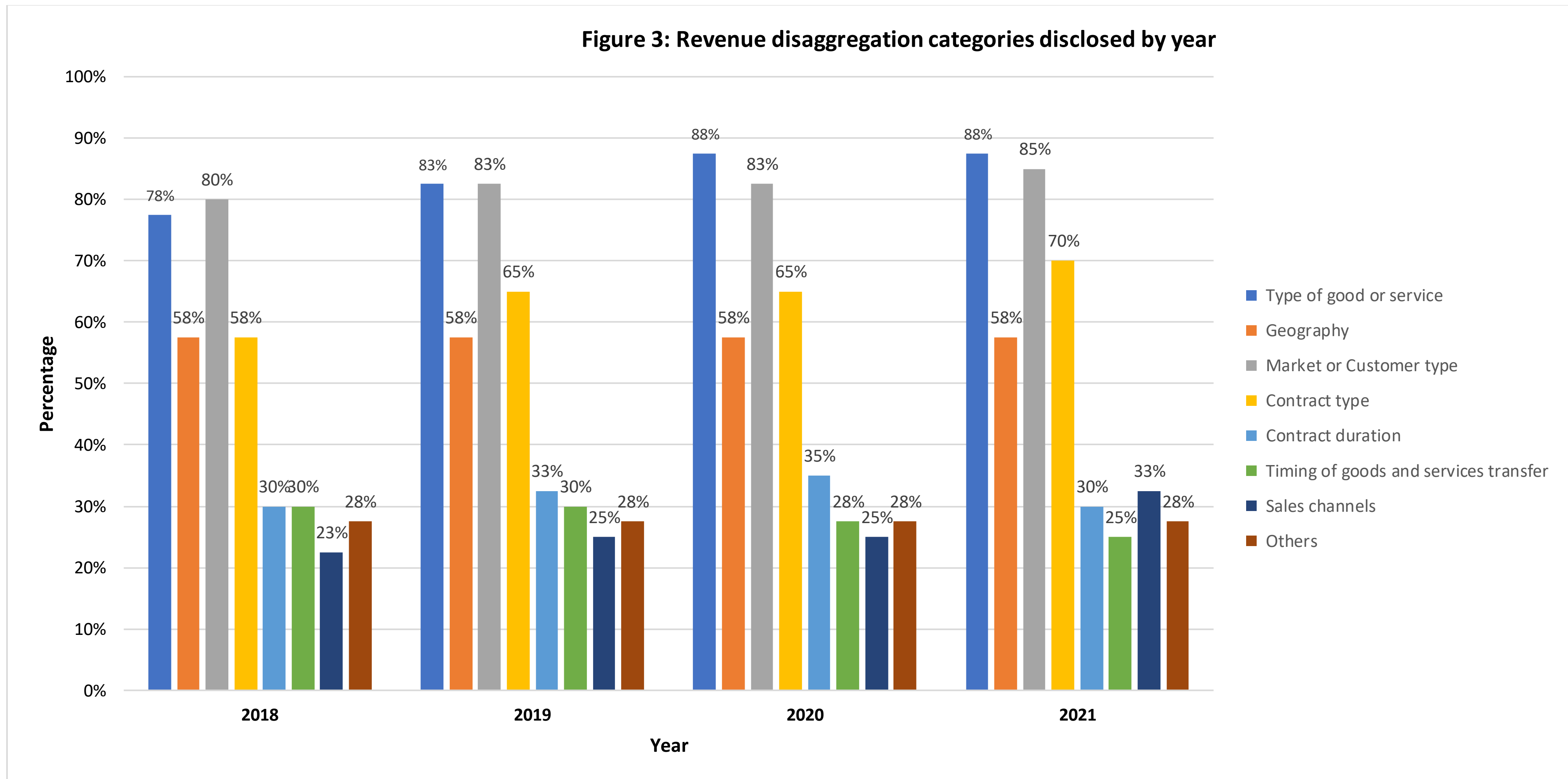
Figure 3: Revenue disaggregation categories disclosed by year
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Percentage
78%
58%
80%
58%
30%
30%
23%
28%
83%
58%
83%
65%
33%
30%
25%
28%
88%
58%
83%
65%
35%
28%
25%
28%
88%
58%
85%
70%
30%
25%
33%
28%
2018
2019
2020
2021
Year
Type of good or service
Geography
Market or Customer type
Contract type
Contract duration
Timing of goods and services transfer
Sales channels
Others

Other specific NZ IFRS 15 requirements disclosures

NZ IFRS 15 outlines five specific areas/issues reporting companies should consider for revenue disclosure. Table 4 shows on an aggregate level over the four years (2018-2021), the level of disclosure with NZ IFRS 15 in that respect and for each of the five areas.

Table 4: Aggregate material specific revenue/NZ IFRS 15 disclosure levels

Specific NZ IFRS 15 requirements	%
Disclosures regarding the balances of *receivables, payables, contract assets and contract liabilities*	**97%**
Disclosures regarding the *'the right of return assets and refund liabilities or provisions* (excluding provisions for bad & doubtful debts)'	**23%**
Disclosures regarding *when the entity typically satisfies its performance obligations (for example, upon shipment, upon delivery, as services are rendered or upon completion of service)*	**54%**
Disclosures on *'the significant payment terms'.*	**39%**
Disclosures on *'the nature of the goods or services that the entity has promised to transfer, highlighting any performance obligations to arrange for another party to transfer goods or services'.*	**39%**
Disclosures on *'types of warranties and related obligations'.*	**18%**

Table 4 reports that the highest level of disclosures by the sampled companies s relate to the balances of *receivables, payables, contract assets and contract liabilities*, with 97% of the companies disclosing these balances during the sample period. This is unsurprising, considering that companies usually have specific note disclosures for their receivables and payables. Disclosures around the *performance obligations* in relation to the recognition of revenue were noted by 54% of the sampled companies, while 39% of the sampled companies disclosing information on the *payment terms* and the *nature of the goods or services to be transferred*. The least numbers of disclosures regarded *the right of return assets and refund liabilities* at 23% and *types of warranties and related obligations* at 18%. It is apparent the sampled firms provided services that usually do not carry any warranties or right of return in their service contracts.

7.2 Material changes to revenue disclosures over time and the exceptions to 'template' or 'boilerplate' approach to disclosures.

We further used the content analysis to review the financial statements for the period from 2018 - 2021 for the selected NZX companies to assess the extent of revenue related disclosures changes from year-to-year in order to reflect changes in the material information disclosed. Limited or no change in disclosures on a year-to-year basis is interpreted as an indication that preparers used the 'template' or 'boilerplate' approach rather than engaging

in active materiality judgements. We examine seven areas of revenue/ NZ IFRS 15 related disclosures for such changes from year-to-year and note the folliwing questions we sought to answer:

1. Did companies change their disclosure or non-disclosure *of a separate section for revenue* in their annual report notes in any year, during the period from 2018 to 2021?
2. Did companies change their disclosure or non-disclosure about *the right of return assets and refund liabilities or provisions* in their annual report notes in any year, during the period from 2018 to 2021?
3. Did companies change their disclosure or non-disclosure about their *performance obligations* in their annual report notes in any year, during the period from 2018 to 2021?
4. Did companies change their disclosure or non-disclosure about *significant payment terms,* in their annual report notes in any year, during the period from 2018 to 2021?
5. Did companies change their disclosure or non-disclosure about the *nature of the goods or services to be transferred,* in their annual report notes in any year, during the period from 2018 to 2021?
6. Did companies change their disclosure or non-disclosure about *types of warranties and related obligations* in their annual report notes in any year, during the period from 2018 to 2021?
7. Did companies change their disclosure or non-disclosure about *the types of revenue categories disaggregation* in their annual report notes in any year, during the period from 2018 to 2021?

Figure 4, shows that overall, few companies made changes to their revenue recognition disclosures during the sample period from 2018-2021. Except for changes made to the types of revenue categories, where 16 companies (40%) disclosed changes in the composition of their revenue streams disaggregation, only eight (20%) of the 40 sampled companies made changes to disclosures related to revenue in accordance with NZ IFRS 15 requirements during the period 2018-2021. Specifically, seven (17.5%) changed their approach to disclosing a separate section on revenue in their financial statement notes during the sample period. This finding can be explained in two ways. Firstly, two of these companies did not have a separate section for revenue disclosure in the first year (2018) of compliance with NZ IFRS 15, mainly because of their year end dates. Subsequently these companies (Fonterra and ATM Milk) 'caught up' with the NZ IFRS 15 adoption process and disclosed revenue as a distinct section in their financial statements notes from 2019. Secondly, as noted earlier, some companies disclosed revenue as a separate section in their notes in the first two years (2018 and 2019) to explain the impact of the adoption of NZ IFRS 15, and then in the latter years, chose not to

provide a separate revenue section in their financial statements notes. They determined that NZ IFRS 15 did not have a material impact on their revenue type and its timing of recognition. Below is an example of one of these companies comments in 2018 on the issue:

> *"NZ IFRS 15 Revenue from Contracts with Customers (effective for accounting periods beginning on or after 1 January 2018), is based on the principle that revenue is recognised when control of a good or service transfers to a customer. This standard does not apply to rental income which makes up more than 80 per cent of the total revenue of the Group. The standard is applicable to operating expense recovery income and management fees. Argosy has assessed the effects of applying the new standard on the consolidated financial statements. The Group concludes that the standard does not have a material impact on the timing of revenue recognition."*

Argosy Property Ltd Annual Report 2018, page 51

We observe in Figure 4 that only two (5%) of the 40 sampled companies made material changes to their revenue disclosures during the sample period about the information related to right of return assets and refund liabilities or provisions. Also, eight (20%) of the 40 sampled companies made material changes to their disclosures about their performance obligations for revenue recognition. This could be attributed to companies changing product and service lines, which would require further explanations around performance obligations. Furthermore, several of these companies made no disclosures in respect of performance obligations in 2018 (the first year of adoption) and subsequently started making these disclosures from 2019 as they further comprehended the requirements of NZ IFRS 15 compared to NZ IAS 18. For the other three revenue/NZ IFRS 15 dislosures examined, two (5%) of the 40 sampled companies made changes during the sample period disclosing types of warranties and related obligations, and three (7.5%) made changes to provide disclosures about the nature of the goods or services transferred, and about significant payment terms.

In the next section, we further provide discussion of analyses based on industry and auditors findings.

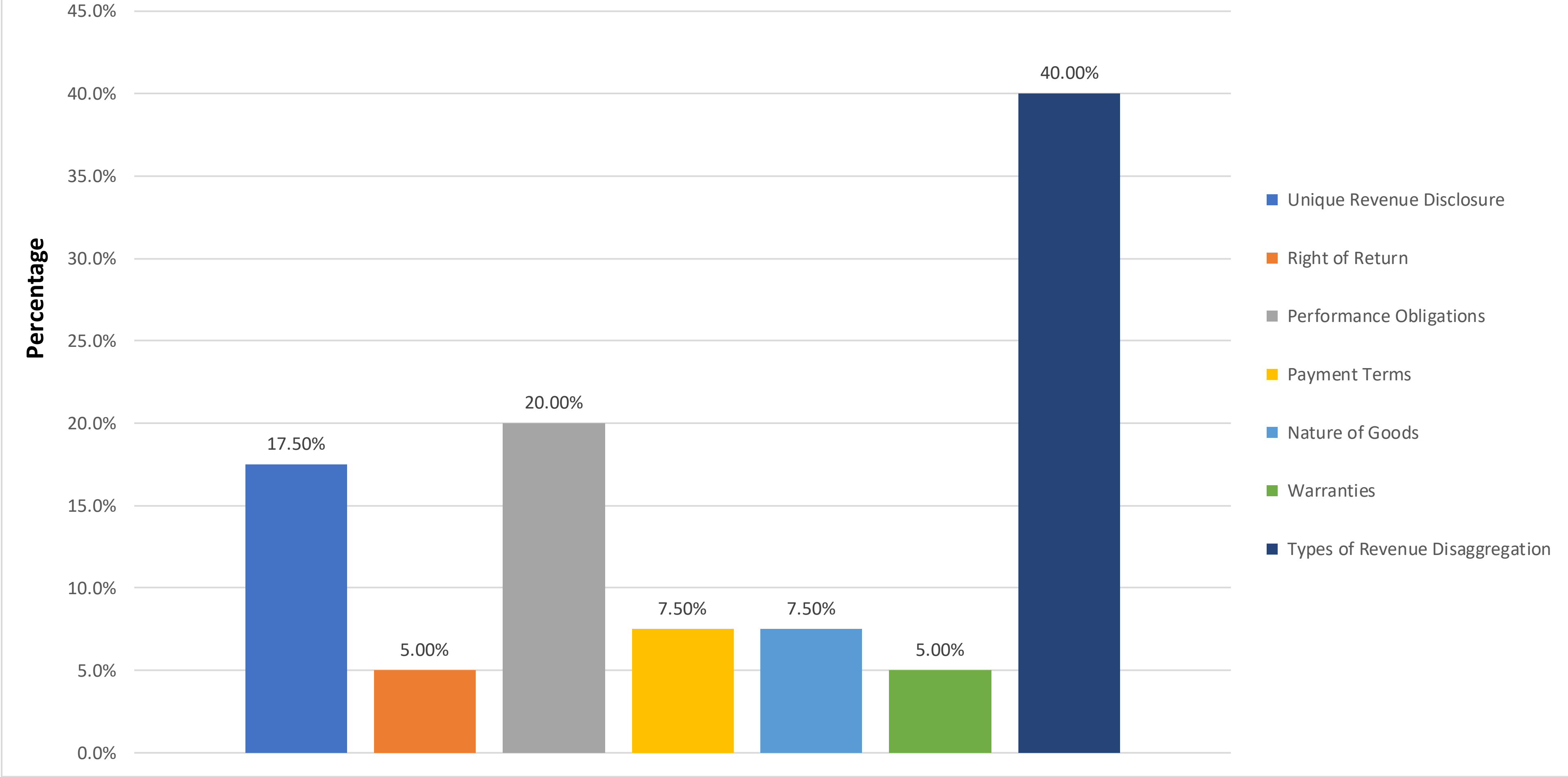
Figure 4: Aggregate material changes to revenue disclosures over time (2018-2021)
Percentage
45.0%
40.0%
35.0%
30.0%
25.0%
20.0%
15.0%
10.0%
5.0%
0.0%
17.50%
5.00%
20.00%
7.50%
7.50%
5.00%
40.00%
Unique Revenue Disclosure
Right of Return
Performance Obligations
Payment Terms
Nature of Goods
Warranties
Types of Revenue Disaggregation

Material changes to revenue disclosures over time and exceptions to template' or 'boilerplate' approach to disclosures- across industry and the auditor.

Table 5 reports further analysis of specific companies that changed their revenue disclosures during the sample period (2018-2021). This analysis is based on these companies' industries and auditors.

Panel A, Table 5 shows that of the seven companies that changed from disclosing a separate section on revenue in their annual report during the sample period, three (43%) were audited by Deloitte, two (29%) were audited by EY, and one (14%) each were audited by KPMG and PWC respectively. The eight companies (20%) that made material changes in relation to disclosures about their performance obligations for revenue recognition, were evenly split (two each) in terms of their auditor. The changes in relation to this disclosure maybe influenced by the industry of these companies rather than their auditors, considering 'the right of return' is usually associated with a sale of goods and not sales of services. Of the 16 companies (40%) that disclosed changes in the composition of their revenue streams during the sample period, eight (50%) were audited by PwC. This is likely a reflection of PwC's market share dominance in that particular sector (See Table 3).

Panel B, Table 4 reports that of the seven companies that changed their approach to disclosing a separate section on revenue in the annual report notes during the sample period, three (43%) were in the Health Care/ Social Assistance industry, two (29%) were in Manufacturing, and one (14%) each were in Property/Real Estate and Energy industry respectively. Of the eight (20%) of the 40 sampled companies that changed disclosures about their performance obligations, three (38%) were in the Energy industry, one (13%) was in Retail, and two (25%) each, were in Manufacturing, and the Health Care/ Social Assistance industry respectively.

The two companies that made changes to their disclosures on the right of return assets and refund liabilities or provisions, were in Retail and Manufacturing industries. This can be explained by these two industries involving sale of goods, which usually attracts a customer's right to return of goods within a particular timeframe. In a similar vein the two companies who made changes during the sample period to disclosures about types of warranties and related obligations are in Technology and Health Care/ Social Assistance industries. This is unsurprising as these industries tend to provide warranties on their services and significant changes to the policies on these warranties need to be reflected in the financials statements accoring to NZ IFRS 15 requirements.

Of the 16 companies (40%) who disclosed material changes in the composition of their revenue streams during the sample period, three (19%) were in the Financial Services industry, two (13%) were in Manufacturing and also three (13%) were in Health Care/ Social Assistance industry. Combined, these three industries represent 50% of the companies that changed their disclosures of the composition of their revenue streams during the sample period. This is due to the rapid pace of change in products and service lines that the companies within these industries offer and the rapid pace of their growth in new markets, locations and

customer bases. In summary, there does not appear to be a pervasive clustering or an effect of particular change to disclosures on revenue in specific industries.

Overall, our conclusions after analysing the application of NZ IFRS 15 disclosure requirements on sample companies is, that there is a high level of compliance with NZ IFRS 15 disclosure requirements in New Zealand. Of the observed revenue streams disclosures, type of goods or services and the market or customer type disclosures are predominant. The highest level of disclosures by the sampled companies are in relation to balances of receivables, payables, contract assets and contract liabilities, while the least number of disclosures cover types of warranties and related obligations. Overall, except for some changes made to the disclosed types of revenue categories, few companies made changes to their financial statements' format or disclosures in relation to revenue recognition during the sample period. These changes were not driven by material impacts of NZ IFRS 15 on their type of revenue or the timing of revenue recognition, but more by their increased understanding of the level of disclosure required and subsequent adjustments to their earlier stance on disclosures.

In the few instances where changes were made to revenue/NZ IFRS 15 disclosures during the sample period, we do not observe a pervasive influence of any company industry or auditor on these disclosure changes. Therefore, the findings of this research suggest that New Zealand companies had a high level of compliance with disclosure requirements on initial adoption of the NZ IFRS 15, however in subsequent periods, they took more of a 'boilerplate', repeated or constant approach to selected disclosures.

Table 5: Material changes to revenue disclosures by sample companies over time (2018-2021) across industry and auditor type

	Panel A: Companies revenue disclosures categories by companies' auditor														
		Separate revenue statement		Right of return		Performance obligations		Significant payment terms		Nature of goods or services		Warranties		Revenue stream categories	
S/N	**Firm Auditor**	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**
1	Deloitte	3	43%	-	-	2	25%	-	-	-	-	1	50%	3	19%
2	EY	2	29%	-	-	2	25%	-	-	-	-	-	-	2	13%
3	KPMG	1	14%	-	-	2	25%	1	33%	1	33%	1	50%	3	19%
4	PWC	1	14%	2	100%	2	25%	2	67%	2	67%	-	-	8	50%
	Total	7	100%	2	100%	8	100%	3	100%	3	100%	2	100%	16	100%
	Panel B: Companies revenue disclosures categories by industry														
		Separate revenue statement		Right of return		Performance obligations		Significant payment terms		Nature of goods or services		Warranties		Revenue stream categories	
S/N	**Firm Industry**	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**	**No**	**%**
1	Property/Real Estate	1	14%	-	-	-	-	-	-	-	-	-	-	1	6%
2	Manufacturing	2	29%	1	50%	2	25%	2	67%	1	33%	-	-	2	13%
3	Energy	1	14%	-	-	3	38%	1	33%	1	33%	-	-	1	6%
4	Health Care/ Social Assistance	3	43%	-	-	2	25%	-	-	-	-	1	50%	3	19%
5	Retail	-	-	1	50%	1	13%	-	-	-	-	-	-	1	6%
6	Information media	-	-	-	-	-	-	-	-	-	-	-	-	1	6%
7	Technology	-	-	-	-	-	-	-	-	1	33%	1	50%	1	6%
8	Financial Services	-	-	-	-	-	-	-	-	-	-	-	-	1	6%
9	Hospitality	-	-	-	-	-	-	-	-	-	-	-	-	3	19%
10	Telecommunication services	-	-	-	-	-	-	-	-	-	-	-	-	1	6%
11	Transport, Postal & Warehousing	-	-	-	-	-	-	-	-	-	-	-	-	1	6%
	Total	7	100%	2	100%	8	100%	3	100%	3	100%	2	100%	16	100%

8. Conclusion

The research in this report was undertaken with the expected outcomes/contributions to IASB/NZASB as follows:

- To provide evidence on whether New Zealand reporting entities have used the *IASB documents* / (and which ones) to inform their disclosure practices and make materiality judgements for financial reporting.
- To provide evidence on the key factors that are driving preparers' materiality judgements in practice for their general purpose financial reports.
- To provide insights from stakeholders on the role of regulators and auditors in decisions about what not to disclose in general purpose financial reports.
- To provide insights from key stakeholders on how standard setters (national and international) can further discourage immaterial disclosures.
- To provide evidence on entities' current disclosure practices relating to IFRS 15 *Revenue from Contracts with Customers*.

To that end, the overall key findings in this research are:

The majority of interviewed preparers and regulators in this report are familiar with the IASB Documents/IFRS Practice Statement 2 — Making Materiality Judgements. They know that those documents exist, however those documents are not generally used in New Zealand by preparers and regulators. Predominant reasons include the lack of enforceability of the documents; that they are not standards, and the lack of visibility of those documents/resources on standard setters' websites. Since the IASB's materiality documents are not reporting standards, most preparers do not perceive them of equal importance or standing as prescribed IFRSs. To increase their salience, standard setters should communicate more about those documents, why they are important. They should also make them easily accessible and encourage their use.

It also appears that preparers perceive guidance issued by national regulators as the most important reference when preparing their financial statements. Further, preparers generally have existing processes in place to assess materiality and disclosures suitable to their entities and business circumstances, although generally these are not written policies, but are generally existing accepted practices. Overall, the sampled preparers do not take the 'boilerplate approach' to disclosures. Rather, preparers tend to use quantitative guidelines as a starting point in assessing what is material for them to disclose, and then adjust their decisions by considering qualitative factors. Practical decisions on the level of disclosures are also strongly influenced by the prescribed detailed disclosures in the reporting standards.

Auditors play a role in assisting preparers to assess disclosure appropriateness, including those that are immaterial. Once decided upon, practice is consistent – that is, once the preparers judge a disclosure to be material and reportable, it usually remains in the reporting

periods that follow the initial decision. Practice is driven by the cost of consequent changes, but also costs associated with the continuous monitoring of disclosures. Cost is likely to be a deterrent in practicing frequent "decluttering of financial statements". Preparers also appear to be well aware of their stakeholders/shareholders and their stakeholders' needs, assessed by frequently interacting through various ways with them.

Regarding the volume of disclosures, both preparers and regulators report observed increases in disclosures in recent years. They explain that these have been driven by new reporting standards and new disclosures requirements. In addition, Covid-19 has demanded increased disclosures, as have other non-financial disclosures related to sustainability and climate related risks. These requirements are seen as sources of current and future increases in disclosures. Interviewees hold the opinion that the way to reduce immaterial disclosures in financial statements is for standard setters and regulators to take a more holistic approach to all reporting, by providing an appropriate framework and by considering how the financial reporting is to develop and look like with every new reporting standard being introduced.

Preparers hold the view that regulators have a role to play in reducing immaterial disclosures by taking a broader view of the financial reports. The interviews suggest that preparers and the regulators seem to be approaching financial reporting from different perspectives. While preparers are concerned with what they should include in the financial statements as a minimum as well as what is relevant and informative disclosure, the regulator's approach examines what has not been disclosed, stating that omissions could be relevant to the users. Nevertheless, preparers opine that the level of disclosures in the prescribed standards are voluminous and do not always reflect actual real and everyday business practice. The prescribed reporting standards combined with non-financial reporting and sustainability reporting needs can potentially lead users to not being able to "see a forest for the trees". In other words, disclosures are increasing but financial reports may not convey the real and important story about the businesses. Regulators agree that there is a real danger of reporting that does not convey the coherent and easily understandable story about the reporting entity. Regulators consider that auditors are important contributors in assisting preparers in "decluttering their financial statements" and conveying the right information about businesses.

This research also concentrated on disclosures in NZ IFRS 15 – *Revenue from Contracts with Customers*. New Zealand companies show a high level of compliance with the disclosure requirements in this standard. Following its initial adoption, companies disclosed more and provided relevant information on the impact of the new standard adoption, while in subsequent reporting periods they tended to adjust their disclosures to reflect other relevant information. In general terms, once the reporting entities adopt a reporting standard and the required disclosures, they tend to not change them in subsequent reporting periods unless there are valid business reasons to do so. This finding is supported by both quantitative and qualitative data in this research project.

In conclusion, to encourage immaterial disclosures the standard setters not only need to reemphasise the importance of good quality, informative and material reporting, but also when reviewing existing standards or introducing new standards, they should be cognisant of the quantity and the quality of disclosures they are setting as standardised practice and what effects those will have on the increase in overall disclosures and the potential "overload". The results of the research reported in this report are overall consistent with findings of previous similar studies in other jurisdictions.

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10. Appendices

Appendix 1: Summary of Literature

References	Research Objectives	Methodology/ Sample / Study Settings	Key Findings
Panel A: Materiality in accounting- Literature			
Ajekwe, 2022	The paper examines the application of professional judgement by the preparers of financial statements under IFRS.	Discussion	The author reports that the use of professional judgement is pervasive in the preparation of financial statements. The use of professional judgement is particularly visible in the areas of going concern, materiality, accruals, accounting policies, presentation and disclosures, recognition and de-recognition, classifications, and revenue recognition.
Bagnoli et al., 2021	The paper examines the impact of change or modification in definition of materiality on managers information disclosure decisions.	Discussion	Lack of clarity in the definition of materiality leads to confusion about material misstatements. By using a model with uncertainty thresholds, the findings indicate that managers reveal private information only when the cost of material misstatements is high. Furthermore, a change in the definition of materiality have implications including the level of misreporting and managerial trading.
Bolt and Tregidga, 2022	Whether using storytelling and narratives makes the materiality clearer.	US study: Interviews with participants having knowledge or use of materiality judgements	Participants have difficulty defining what materiality is, but they can relate "stories" about its practical application. These stories play a crucial role in helping participants understand and convey materiality for themselves and others. Three types of stories are used in this process: lived, adopted, and hypothetical. Additionally, there are "rehearsed" and "ongoing" narratives, which can take on any of the three-story types. The use of stories to understand and convey materiality highlights a disconnect between the static, technical definitions favoured by standard setters and guidance providers, and the imaginative processes used by participants.
Bradbury and Scott, 2021	The paper investigates enforcement actions in the post-IFRS regime.	New Zealand study: from 2007 to 2010 comprising 167 companies	The findings shows that common issues raised by the regulators in the post-IFRS regime are pertaining presentation of financial statements and disclosures. Furthermore, auditors and regulators have different perspectives in relation to IFRS. The paper also reports that materiality judgement is largely based on qualitative factors.
Bradbury et al., 2018	The paper examines the summary annual reports of local councils	New Zealand study: content analysis of financial	The findings indicate that summary annual reports are significantly shorter than the annual reports, however, this reduction does not improve the readability of the financial statements indicating that summary annual reports might not be an

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References	**Research Objectives**	**Methodology/ Sample / Study Settings**	**Key Findings**
		statements of 66 local councils	appropriate remedy to reduce the complexity of financial statements. Furthermore, the content score analysis indicates that there is a trade-off between summarization and disclosure contents of financial statements.
Brennan and Gray, 2005	The paper analyses definitions of materiality given by different bodies, followed by the context and application of materiality judgements	Literature review	The paper concludes that both preparers and auditors have incentives to keep the level of materiality high, which is not in the best interest of the shareholders or users of financial information. The authors, therefore, suggest that disclosures on preparers materiality judgements and explanation of the process will enhance the transparency of financial information.
Chewning et al., 1998	The paper studies materiality decisions by auditors and the associated investors response by investigating the market response to equity-for-debt swapes disclosures (ordinary versus extraordinary income classification)	US study: Quantitative study examining 10-k forms or annual reports	The results indicate that auditors consider an equity-for-debt swap transaction material (extra-ordinary item) when the impact is more than 10% of income while all the transaction having an impact of less than 4% are considered immaterial (ordinary item) while results for transactions between 4% and 10% of income are not significant. These results indicate that impact of a transaction on net income is used as a base by the auditors. Furthermore, market has a strong reaction to swaps classified as extraordinary (abnormal period cumulative market returns) while the abnormal returns for transactions considered ordinary are not statistically significant.
Chong, 2015	The paper analyses various definitions of materiality suggested by different bodies	Discussion	The paper suggests that the definition of materiality should be flexible (principle based) enabling the preparers, auditors, regulators, and judges to incorporate the context in their materiality judgements. The papers suggest the following definition of materiality: "Matters which would influence the decision making of a prudent stockholder, after considering the qualitative and quantitative variables, and fairness on presenting in the financial statements" (page 27).
Clark, 2021	The paper attempts to show that materiality judgement is not just a compliance requirement, but it is a moral responsibility and has ethical implications. However, regardless of this, the definitions used by different bodies are different which	Discussion	The paper concludes that regardless of the fact the preparers' judgement regarding materiality has significant ethical implications, the materiality judgements of preparers operating under different accounting standards regime will be different because of four areas which are significantly different accords different stands: use of different language across different standards have materiality judgement implications, the conditions resulting for an item to become material are not clear across different definitions, time orientation used in different definitions is different (i.e., past versus future) which will significantly affect the judgement, and reporting frequency requirements across different bodies are different, thus, the value of

Appendix 1: Summary of Literature			
References	**Research Objectives**	**Methodology/ Sample / Study Settings**	**Key Findings**
	complicates the application of materiality judgements.		information disclosed across different regimes is different. These potential confusions and differences are manifested in the financial information in three ways. First, the information disclosed across different accounting standard regimes is not identical. Second, management attitude concerning the release of bad news across different regimes is different. Third, management cherry pick information and have a tendency to under report.
David and Abeysekera, 2021	The paper reviews the audit literature to examine the integration of the materiality concept within the regulatory framework. The paper also seeks to highlight the standards and guidelines that provide support for the application of the concept of materiality.	Literature review	After reviewing different definition of materiality by different bodies, the paper identifies the following common themes across all: The basis for materiality of an item, transaction, balance, or event is its ability to affect decision making of the users of financial information. Context or surrounding circumstances affect the materiality judgement of preparers as well as auditors.
DeZoort et al., 2003	The paper examines whether external auditor's justification for materiality and the clarity of the accounting problem identification affect audit committee support of auditor during their disagreement with management	US study: Experimental research design	The findings indicate that audit committee provide more support to auditors at the time of auditor-management disagreement when the auditors clearly explain the quantitative as well as qualitative factors of their materiality judgment and when the issue is precisely explained.
Dumay et al., 2015	The study examines the Non-Financial Information (NI) disclosure practices firms.	Australian study using two largest companies: Examines publicly available non-financial disclosures followed by semi-structured interviews	The study proposes a model of disclosure influenced by material legitimacy, which refers to the type of legitimacy that allows organizations to align their strategic legitimacy with the institutional legitimacy of their key stakeholders. This model illustrates the efforts of companies to attain mutually advantageous outcomes for themselves and their stakeholders. However, the challenge lies in determining which matters are deemed material and deserving of disclosure i.e., this issue points at the significance of materiality determination.
Edgley, 2014	The paper examines the relevance and role of the concept of materiality from a historical perspective.	US and UK study: The paper investigates professional guidelines, and literature	The concept of Materiality is not just a technical idea which has grown over time rather the idea has played many roles such as a moral responsibility for managers, to reduce over auditing by the auditors, a strong basis for reporting financial information, a rule of thumb to follow during audits and disclosures, a way to

Appendix 1: Summary of Literature			
References	**Research Objectives**	**Methodology/ Sample / Study Settings**	**Key Findings**
		etc. using a metaphoric analysis	manage risks, and as a professional shield by the preparers and auditors. The concept can be changed easily to fit new priorities and challenges, and is affected by context, characteristics of person making the judgement, and financial problems.
Edgley et al., 2015	The paper examines the logics and values which shape the process of social and environmental reporting and assurance. The paper particularly investigates the conceptualization and operationalization of materiality by the accountants and assurers.	UK study: Interviews of accounting and non-accounting assurers from Big 4 firms	The study finds that the application of materiality is a complex phenomenon and the use of materiality judgements in social and environmental disclosures are even more complicated. Even though, materiality in social and environment disclosures share the threshold characteristic with conventional accounting materiality but the focus has been shifted on the significance of disclosures for stakeholders pointing at the importance of stakeholders' engagement in the process., The findings further indicate that the emergence of social and environmental disclosures has created a tension between the institutional logics followed by accounting and non-accounting assurers.
Eilifsen and Messier, 2015	The paper examines the materiality guidelines issued by eight largest public accounting firms registered in US	US study: documentary analysis followed by questionnaires	The findings indicate consistency across all the firms in terms of use of quantitative thresholds in their materiality judgements. More specifically, all these firms use earnings before income taxes, total assets/ revenue, and total equity as a benchmark at the time of overall materiality level determination. They use a percentage of overall materiality level as a tolerable level of materiality. Seven out of eight firms consider a misstatement worth 3 to 5 percent of the overall materiality as material misstatement while one firm considers it to be 5 to 8 percent. All the firms provide detail regarding qualitative factors affecting their materiality judgments.
Firth, 1979	The paper examines whether materiality judgements across individual varies	UK study: Experimental research design involving 150 participants	Participants were given scenarios with losses and gains on items and were asked to identify extraordinary items requiring separate disclosures. The results indicate significant differences in materiality judgements across participants. The author, therefore, suggest more clear guidelines regarding materiality judgements.
Houghton et al., 2011	The paper examines the understandability of auditors' materiality judgements by the users of financial statements.	Australian study: Focus group interviews	The findings indicate a lack of understanding in relation to auditors' materiality judgments by users of financial statements, particularly the qualitative materiality. These findings point at the need for public disclosures in relation to the level of materiality determination.
Holstrum and Messier, 1982	The paper examines materiality literature	Literature review	The paper identifies three key issues which make the application of the concept of materiality an arduous task. First, the preparers are not exactly aware of the utilization of the financial information by the users of financial statements. Second, preparers, auditors, and users are heterogenous groups with dissimilar incentives,

Appendix 1: Summary of Literature			
References	**Research Objectives**	**Methodology/ Sample / Study Settings**	**Key Findings**
			thus, unanimity in relation to the definition of the term is hard to achieve. Third, the impact of the preparers' materiality judgements on decision usefulness of the information is largely unknown.
Iskandar and Iselin, 1999	The paper investigates the materiality literature to understand the process of materiality judgment and the development in materiality literature over time.	Literature review	The findings indicate that the preparers, users, and auditor do not have a consensus over the level of materiality e.g., users' level of materiality is less than auditors and preparers, however, the difference between preparers and auditors is not conclusive. Furthermore, materiality judgments by different auditors are different indicating that personal and contextual factors affect the materiality judgment process. This further indicates the need for more guidance on materiality. As far as the quantitative factors are concerned, the most key factor in the determination of materiality is net income while most significant non-financial factor is industry. From methodological perspective, the emerging trend in materiality research is experimental design while earlier research was more focused on interviews and archival data.
Jennings et al., 1987	The paper examines materiality judgements on various stakeholders including auditors, judges, corporate lawyers, bank loan officers, chartered accountants, and credit analysts	US study: Experimental research design	The findings indicate significant difference in the materiality judgements of different stakeholders. These findings indicate that the issue if of significant importance. The authors are of the view that due to the importance of contextual factors at the time of materiality judgements, it is hard to give more specific thresholds and guidelines and it is hard for different bodies to reach a consensus, however, they assert for the need of some compromise to resolve the issue. Furthermore, standard requiring auditors to disclose their materiality level will be helpful.
Karwowski, 2019	The paper examines the materiality literature followed by content analysis to understand materiality and related issues	Literature review and content analysis	The study concludes that materiality is pervasive in financial statements and the history of using the terminology dates to 1860's. The process of materiality judgement is complex as it involves the application of quantitative thresholds but also requires incorporation of contextual factors in the decisions. Furthermore, the content analysis indicates that the use of the materiality term in financial statements is common, however, none of the financial statements provide any detail on the quantitative thresholds and conceptual factors leading up to the materiality decisions.
Mio et al., 2020	The paper examines the materiality determination process during implementation of integrated reporting as opposed to materiality	Italian study: Case study of one company using content analysis and interviews. The	The findings indicate that the initiation of integrated reporting is initiated based on market logic while the social and environmental related reporting was initiated based in strategic logic. The results further indicate that the material topics identified under

Appendix 1: Summary of Literature

References	Research Objectives	Methodology/ Sample / Study Settings	Key Findings
	decisions at the time of social and environmental reporting	paper uses institutional logics as the theoretical lens	the two reporting frameworks are significantly different because of the difference in the orientation of the reasons for initiating the two reporting frameworks.
Panel B: IFRS 15- Literature			
Coetsee et al., (2022)	The paper examines the appropriateness, rigour, and decision usefulness of South African firms' IFRS 15 related information by analysing the nature, amount, timing, and uncertainty of information.	Content analysis of annual reports of 60 listed companies listed on Johannesburg Stock Exchange representing 9 industries.	The findings suggest a smooth implementation of the standard in South Africa. Particular aspects which improved the reporting included disaggregation of revenue into different streams and disaggregation of contract assets and liabilities. The major issue identified by study is the lack of disclosures regarding key assumptions and judgements used in revenue recognition.
Davern et al., (2019)	The paper examines preparers perspective regarding the challenges they face the implementation of IFRS 15 and also the costs and benefits of IFRS 15 adoption.	Australian study based on a survey of 143 preparers	The findings suggest that the benefits associated with the adoption of IFRS 15 were not clearly conveyed to the preparers, thus, they considered it a practice which enhanced the costs of preparing financial information. The authors advocate for more information sharing and consultation amongst the stakeholders at the time of a new standard implementation.
Kabir and Su (2022)	The paper examines the impact of IFRS 15 on revenue recognition practices of New Zealand and Australian firms	NZ and AUS study: 396 annual reports	The findings indicate that the impact of IFRS 15 was visible on only around 37% of the sampled firms. The affected firms reported a reduction in revenue, profitability, retained earnings, and accounts receivables after the implementation of the standard.
Karim and Riya (2022)	The paper examines compliance with disclosure requirements of IFRS 15	Bangladesh Sample of 88 companies across 14 sectors	The results indicate a general low level of compliance with IFRS disclosure requirements in Bangladesh. The sector with the highest compliance was found to be the telecommunication sector (76%) while the IT sector being the least compliant (28%). Particular areas with less compliance include disclosures regarding operating segments, performance obligations regarding the bill or hold arrangements, nature of goods and services in case of an agent, and warranty and other estimates.

Appendix 1: Summary of Literature

References	Research Objectives	Methodology/ Sample / Study Settings	Key Findings
Napier and Stadler (2020)	The paper examines the impact of IFRS 15 on various aspects including presentation and disclosure of revenue, understandability of revenue related information, and impact on firm cash flows	European sample using annual reports, comment letters and interviews	The findings indicate that the importance and implications of IFRS 15 varies from industry to industry and the impact is specifically visible in the telecommunication industry. Furthermore, the standard increased the complexity of financial information from users and auditors' viewpoints.
Onie et al., (2023)	The paper examines the impact of IFRS 15 on value relevance of financial information	Top 300 Australian firms representing 11 industries	The findings suggest that the impact of IFRS 15 was visible for only 33% of the sample firms where around 8% reported an increase in retained earnings while around 27% reported decrease in profitability and retained earnings. Furthermore, affected firms were not clustered in specific industries.
Veysey (2020)	A discussion of Napier and Stadler (2020) in light of author own experience as a practitioner	Discussion paper	The paper concludes that the impact of IFRS 15 on accounting numbers and related disclosures is not significant.

Appendix 2: Case study excerpt examples of revenue and IFRS 15 requirements disclosures

1. Specific section/note on revenue recognition separately disclosed in annual report notes

Freightways Limited – Annual Report 2019, page 61.

Note 3. Revenue from contracts with customers

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines:

2019	Express Package $000	Postal $000	Storage & Handling $000	Destruction Activities $000	Other $000	Total $000
Revenue from external customers	397,220	54,041	62,567	59,707	42,157	615,692
Timing of revenue recognition:						
At a point in time	-	3,480	-	20,083	8,848	32,411
Over time	397,220	50,561	62,567	39,624	33,309	583,281
	397,220	54,041	62,567	59,707	42,157	615,692
2018						
Revenue from external customers	376,604	50,492	62,130	52,721	38,939	580,886
Timing of revenue recognition:						
At a point in time	-	3,468	-	18,990	6,974	29,432

2. Revenue/IFRS 15 information disclosed in the Segment report

Stride Property Group – Annual Report 2018, page 39.

NOTE 2: OPERATING SEGMENTS

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the respective Board of each of SPL and SIML, as each makes all key strategic resource allocation decisions (such as those concerning acquisition, divestment and significant capital expenditure). Stride consists of two operating segments, being SPL and SIML.

SPL's revenue streams are earned from investment properties owned in New Zealand, with no specific exposure to geographical risk. Given SPL's diverse client base, no one tenant represents greater than 10% of the portfolio contract rental. SIML's revenue streams are earned from the management of the real estate investment of Investore, Diversified NZ Property Trust (Diversified Trust) and SPL. For the revenue earned from these entities, refer note 22 on related party disclosures.

The following is an analysis of Stride's results, by reportable segments, from continuing operations. Management fees paid from SPL to SIML are eliminated on consolidation and therefore do not appear in the consolidated statement of comprehensive income for Stride.

Segment profit	SPL $000	SPL eliminations $000	SIML $000	SIML eliminations $000	2018 $000
Net rental income	56,597	1,013	–	–	57,610
Management fee income	–	–	20,989	(7,714)	13,275
Less corporate expenses					
Corporate overhead expenses	29	–	(10,444)	–	(10,415)
Administration expenses	(7,147)	5,487	(1,751)	–	(3,411)
		5,487	(12,195)	–	(13,826)

3. Revenue/ IFRS 15 information disclosed in the other parts of the annual report notes.

Oceania Healthcare– Annual Report 2019, page 87.

5.7 New Accounting Standards

(a) New and amended standards adopted by the Group

In the current year, the Group adopted all mandatory new and amended standards and interpretations, including:

***NZ IFRS 9, Financial Instruments ("NZ IFRS 9")* (effective for the Group from 1 June 2018)**

This standard addresses the classification, measurement and recognition of financial assets (cash, trade receivables and sundry receivables) and financial liabilities, the impairment of financial assets and hedge accounting. See notes 5.3 and 5.6 for further details on its application to the Group.

***NZ IFRS 15, Revenue from contracts with customers ("NZ IFRS 15")* (effective for the Group from 1 June 2018)**

This standard addresses the recognition of revenue from contracts with customers. The standard is based on the principle that revenue is recognised when control of a good and service transfer to a customer and establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. See note 2.2 for further details on its application to the Group.

Appendix 3: Detail of firms used in the analysis

S/N	Company name	Industry	Auditor Name
1	Fletcher Building	Construction	EY
2	Contact Energy	Energy	KPMG
3	Genesis Energy	Energy	Deloitte
4	Infratil	Energy	KPMG
5	Manawa Energy	Energy	PWC
6	Mercury	Energy	EY
7	Meridian Energy	Energy	Deloitte
8	Vectors	Energy	KPMG
9	ANZ Banking	Financial Services	KPMG
10	Heartland Group	Financial Services	KPMG
11	Pushpay Holdings	Financial Services	Deloitte
12	Westpac Banking	Financial Services	PWC
13	Arvida Community	Health Care and Social Assistance	EY
14	EBOS	Health Care and Social Assistance	Deloitte
15	Oceania Healthcare	Health Care and Social Assistance	PWC
16	Pacific Edge	Health Care and Social Assistance	PWC
17	Ryman Healthcare	Health Care and Social Assistance	Deloitte
18	Summerset Holdings	Health Care and Social Assistance	EY
19	Vital Healthcare Infra	Health Care and Social Assistance	Deloitte
20	Restaurant Brands	Hospitality	PWC
21	Skycity Entertainment Group	Hospitality	PWC
22	Tourism Holding Ltd	Hospitality	PWC
23	Skynetwork Television	Information media	PWC
24	ATM Milk	Manufacturing	EY
25	Fisher & Paykel	Manufacturing	PWC
26	Fonterra	Manufacturing	PWC
27	Skellerup Holdings	Manufacturing	EY
28	Synlait Milk	Manufacturing	Deloitte
29	Argosy Property	Property/Real Estate	Deloitte
30	KIWI Property	Property/Real Estate	PWC
31	Stride Property	Property/Real Estate	PWC
32	Kathmandu	Retail	PWC
33	The Warehouse	Retail	PWC
34	Eroad	Technology	KPMG
35	Vista Group ltd	Technology	PWC
36	Chorus	Telecommunication services	KPMG
37	Spark New Zealand	Telecommunication services	KPMG
38	Freightways Ltd	Transport, Postal & Warehousing	PWC
39	Main Freight	Transport, Postal & Warehousing	EY
40	Port of Tauranga	Transport, Postal & Warehousing	KPMG