5.11 | Materiality concept

- **Materiality concept**
- **Application of the concept in preparing financial statements**

Materiality concept

- In accounting, materiality depends on the extent by which information can impact the decision making ability of stakeholders.

- Accordingly, questions such as those including if an accounting transaction should be recorded as an asset or expense, is decided using the materiality concept, based on the level of importance of the particular item, size of activity, and nature.

Application of the concept

- Purchase of a stapling machine for the business will be written off as expenses in the income statement. On the other hand, purchase of machinery will be considered as capital investment and recorded as an asset.

- A loan given to a director of a company, however small it may be, must be disclosed separately.

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