

**Concept Definition****1) What is materiality?**

Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful. Both the amount (quantity) and nature (quality) of misstatements are relevant to deciding what is material.

2) Our objective?

When preparing financial statements, we must determine materiality and ensure that the financial statements are materially correct.

3) Materiality determination - The Final Call

There are no rules that can be applied consistently to determine materiality. The materiality level is often determined by applying a percentage to a chosen benchmark.

4) Our Case

In our case we have distinguished materiality at financial statement level with respect to line items appearing in balance sheet and profit and loss account.

PACKAGES LIMITED

Materiality & Its Determination



MATERIALITY LEVELS - based on annual audited financial figures for the year Dec 31, 2017

Financial Statements distribution

Description	Balance as at 31-12-2017	Materiality Threshold	Materiality Threshold	Deriving factor for Materiality
BALANCE SHEET				
EQUITY AND LIABILITIES				
Rupees In thousand				
Issued, subscribed and paid up capital	893,795	-	0.00%	Each transaction is considered material .
- Dividend: claimed & unclaimed	39,307	-	0.00%	Each transaction is considered material .
Reserves				
- Compliance with laws & regulations	57,673,481	-	0.00%	Each transaction is considered material .
Preference shares / convertible stock reserve	606,222	-	0.00%	Each transaction is considered material .
Accumulated profits	6,492,264		Various	Please refer Profit & Loss section below.
Finances/ Debts	3,901,200	-	0.00%	Each transaction is considered material .
- Repayments/ withdrawals	-	-	0.00%	Each transaction is considered material .
- Mark-up	189,760	-	0.00%	Each transaction is considered material .
Deferred income tax liabilities	343,673	17,184	5.00%	At each account level detail
Retirement benefits	358,264		Expert valuation	As per Actuarial Valuation
Deferred liabilities	325,181	16,259	5.00%	At each account level detail

PACKAGES LIMITED

Materiality & Its Determination



Description	Balance as at 31-12-2017	Materiality Threshold	Materiality Threshold	Deriving factor for Materiality
Rupees In thousand				
Trade and other payables				
- Trade creditors	1,435,501	43,065	3.00%	At each account level detail
- Bills payable	140,178	4,205	3.00%	At each account level detail
- Accrued & other liabilities	1,401,213	42,036	3.00%	At each account level detail
- Sales tax payable	6,398	64	1.00%	At each account level detail
- Advances from customers	73,816	738	1.00%	At each account level detail
- Deposits - interest free repayable on demand	7,193	72	1.00%	At each account level detail
- TFCs payable	1,387	-	0.00%	Each transaction is considered material .
ASSETS				
Property, plant and equipment				
1) Operating assets	4,198,010	83,960	2.00%	At each account level detail
Major spare parts and stand-by equipment	61,569	1,231	2.00%	Each transaction is considered material .
2) Capital work-in-progress				
- Civil works	107,797	3,234	3.00%	At each account level detail
- Plant and machinery	769,549	23,086	3.00%	At each account level detail
- Advances	47,814	1,434	3.00%	At each account level detail

PACKAGES LIMITED

Materiality & Its Determination



Description	Balance as at 31-12-2017	Materiality Threshold	Materiality Threshold	Deriving factor for Materiality
Rupees In thousand				
Investment property	134,696	4,041	3.00%	At each account level detail
Intangible assets	4,688	141	3.00%	At each account level detail
Investments	60,166,443	-	0.00%	Each transaction is considered material .
Long-term loans and deposits	18,204	546	3.00%	At each account level detail
Stores and spares	422,218	12,667	3.00%	At each account level detail
Stock-in-trade	1,954,668	58,640	3.00%	At each account level detail
Trade debts	2,392,215	11,961	0.50%	At each account level detail
Loans, advances, deposits, prepayments and other receivables	728,868	21,866	3.00%	At each account level detail
Income tax receivable	2,699,887	53,998	2.00%	Each transaction is considered material .
Cash and bank balances	182,207	-	0.00%	Each transaction is considered material .

PACKAGES LIMITED

Materiality & Its Determination



PROFIT AND LOSS ACCOUNT

Description	Balance as at 31-12-2017	Materiality Threshold	Materiality Threshold	Deriving factor for Materiality
Rupees In thousand				
Sales	18,105,302	178,905	2.50%	Profit before tax
Cost of sales				
- Materials consumed (net of stocks)	10,253,107	178,905	2.50%	Profit before tax
- Salaries, wages and amenities	1,385,379	34,634	2.50%	At each account level detail
- Traveling	27,895	697	2.50%	At each account level detail
- Fuel and power	681,020	17,026	2.50%	At each account level detail
- Production supplies	384,994	9,625	2.50%	At each account level detail
- Excise duty and sales tax	-	-	2.50%	At each account level detail
- Rent, rates and taxes	73,494	1,837	2.50%	At each account level detail
- Insurance	39,053	976	2.50%	At each account level detail
- Repairs and maintenance	315,505	7,888	2.50%	At each account level detail
- Packing expenses	310,467	7,762	2.50%	Sales value at each account level
- Depreciation on property, plant and equipment	616,893	6,169	1.00%	Depreciation for a particular should be accurate and only rounding off difference is considered Immaterial if its cumulative effect is not more of than 1% of depreciation expense for that particular period.
- Amortization of intangible assets	5,411	54	1.00%	Amortization for a particular should be accurate and only rounding off difference is considered Immaterial if its cumulative effect is not more of than 0.1% of amortization expense for that particular period.
- Technical fee and royalty	31,661	792	2.50%	Profit before tax
- Other expenses	244,644	6,116	2.50%	Profit before tax

PACKAGES LIMITED

Materiality & Its Determination



Description	Balance as at 31-12-2017	Materiality Threshold	Materiality Threshold	Deriving factor for Materiality
Rupees In thousand				
Administrative expenses	1,009,898	25,247	2.50%	At each account level detail
Distribution and marketing costs	1,129,438	28,236	2.50%	Sales value at each account level
Other operating expenses	495,779	12,394	2.50%	Profit before tax
Other operating income	227,127	5,678	2.50%	At each account level detail
Finance costs	445,495	22,275	5.00%	At each account level detail
Investment income	6,273,905	-	0.00%	Each transaction is considered material .
Taxation	939,903	46,995	5.00%	Compliance with laws

Reference Figures for Materiality Threshold

	PKR '000'
	31-12-2017
1) Net sales	18,105,302
Cost of sales	14,369,523
Profit before tax	7,156,201
Administrative expenses	1,009,898
Distribution and marketing costs	1,129,438