Quest to fall in line with IASB

The Australian Accounting Standards Board has been issuing exposure drafts over the past few months in its quest to bring company reporting in Australia into line with international accounting standards.

Adoption of accounting standards issued by the International Accounting Standards Board is the result of a decision made last year by the Financial Reporting Council, the body that oversees the standard setter.

The adoption directive — first announced in July 2003 — means Australian companies will need to be ready to apply international financial reporting standards (previously known as international accounting standards) for reporting periods beginning on or after 1 January 2005.

An exposure draft — such as the recent one issued on accounting for inventories — represents the first formal public stage of the process of setting the accounting standard. Prior to the AASB's issuing an exposure draft, the board itself goes through a development process that includes discussing the scope of the issues to be raised. Board members undergo education sessions as well as expressing their own views on the area of accounting being covered by a standard.

Whereas the meetings of the AASB are held in public, an exposure draft is the first key opportunity for the stakeholders in the process to express their views on a specific standard.

Those submissions are collated by the AASB's technical staff. They analyse the responses and provide the AASB with a copy of all of the submissions as well as a summary document that gives the board a bird's eye view of the general feedback. Members of the AASB then decide whether there are any comments in which valid criticisms have been raised and if those criticisms require action of some kind.

A final standard is then prepared by the accounting standard setter's staff for the AASB to consider and approve, which represents the end of the core part of the process.

An accounting standard made by the AASB is a disallowable instrument. It is known as a piece of delegated legislation. This means that the parliament has given the power of making accounting standards to a body that has experts on it rather than developing the documents itself as a body of legislators.

A benefit of this process is that the standard is given legal backing, and compliance with it is critical under the Corporations Act. This also means an accounting standard can be disallowed by either House of the Federal Parliament if an objection to an accounting standard is raised by a member of parliament or a senator.

A disallowance of an accounting standard has only occurred once in the history of legally backed accounting pronouncements. The accounting standard on the acquisition of assets was disallowed in February 2000 by the Senate, following the moving of a motion by Senator Stephen Conroy, a Victorian Senator representing the Australian Labor Party.

This article was supplied by Tom Ravlic. Tom Ravlic is a financial journalist who has spent the past seven years covering the accounting profession, accounting and audit standard setting and corporate governance. His work has appeared in various publications including *Business Review Weekly*, *Personal Investment* (now *Personal Investor*), *The Age*, *CFO Magazine*, the *Australian CPA*, the *Company Director Journal* and the newsletters of the internationally renowned Lafferty Group. In addition to his freelance commitment to a wide range of publications, Tom has recently accepted an appointment to be editor of *Chartac Accountancy News*, published by Melbourne-based publisher Crown Content.