Debate over extractives implications

The Australian Accounting Standards Board (AASB) has created a debate over whether a proposal on accounting for exploration costs of mining companies preserves or changes existing accounting practices in Australia.

AASB chairman David Boymal has in the past fortnight criticised the proposal as being everything other than grandfathering because some companies will need to change their accounting policies to comply with the new impairment regime.

The board believes the International Accounting Standards Board (IASB) has broken a promise to ensure grandfathering because of the reference to the impairment model that sits within the international impairment standard.

Boymal says in an AASB media release that companies will also need to get used to the concept that the standard will not give guidance on what they should do in other parts of their exploration and evaluation work.

That, the AASB chairman notes, will be covered by the other standards within the international framework.

Boymal's view highlights a concern from some commentators that the new exposure draft contains reference to the stringent impairment criteria, which is said by some to not be present in existing Australian practice as specified in AASB 1022.

Alison Kitchen, a KPMG partner specialising in the audit of mining companies, is trying to clarify what her firm sees as being the intent of the words in the proposed accounting standard. Kitchen holds a completely different view on how the new exposure draft needs to be interpreted. She says the IASB's intention is to grandfather existing practice and any interpretation of the exposure draft needs to bear that intent in mind.

'The thrust of these proposals in the ED is intended to be that companies can continue to apply their present accounting policy for exploration and evaluation expenditure upon the introduction of International Financial Reporting Standards which come into effect for reporting periods commencing on or after 1 January 2005', Kitchen says.

'These proposals are expected to remain in force for some years until the International Accounting Standards Board completes a project which has long been on their agenda covering a comprehensive review of accounting issues for the extractive industries.'

Kitchen believes the exposure draft proposes measures that are a welcome relief because the marketplace is confused about the conditions under which exploration and evaluation costs can be capitalised under the international proposals.

‘The ED permits companies to choose to retain their existing accounting policies with the comfort that, in due course, the IASB will clarify how the general rules apply,’ says Kitchen.

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.