**Accounting Standards**

**What are accounting standards?**

Standards are instructions and guidelines for financial reporting issues.

They are technical documents that outline how a business should complete specific elements in recording transactions. They are mandatory (legally required) for all reporting entities.

**Examples of Standards**

*AASB 116 - Property, Plant and Equipment*

Provides guidance in accounting for physical assets:

* how costs are determined.
* methods to allocate (depreciate) costs over productive life.
* process to follow when non-current assets are disposed of.

*AASB 107 – Cash Flow Statements*

* Defines cash and cash equivalents
* Cash flows classified by operating, financing and investing activities
* Items that require separate disclosure - dividends, interest and tax

**Purposes of accounting standards**

1. To provide **information** that:

* allows *users* to make and evaluate decisions about allocating scarce resources.
* assists *directors* to discharge their obligations in relation to financial reporting.
* is relevant to assessing *performance*, *financial position*, *financing and investment.*
* satisfies the *qualitative characteristics* of being relevant, reliable, comparable and understandable

2. To facilitate the **operation of the Australian economy** by:

* reducing the cost of capital.

Investors may be reluctant to invest in an economy that is not well regulated by standards because they fear their funds might be mismanaged. A shortage of funds means that the cost of funds will increase as businesses compete for whatever funds are available.

* enabling Australian entities to compete effectively overseas.
* having Accounting Standards that are clearly stated and easy to understand.

3. To maintain **investor confidence** in the Australian economy, including its capital markets.

Concern for shareholders, reflected in high quality standards, will have a profound effect on performance of individual companies and the health of the economy.

**How accounting standards are developed in Australia.**

Australian accounting standards are prepared by the AASB.

The AASB is an independent committee whose members (except the chairman appointed by the Federal Treasurer) are appointed by the FRC.

Standards are developed in conformity with the Framework.

The Australian Government requires international accounting standards to be adopted, so the AASB must refer to the International Accounting Standards Board (IASB)

International standards are only aimed at *for-profit* entities, so these have been adapted to develop Australian standards to be used by *not-for-profit* and *public* entities as well *for-profit* entities.

The Australian Accounting Standards Board has developed a set of Australian accounting standards that fulfill the requirements of international accounting standards.

Australian standards differ only in that they can sometimes have more stringent requirements, asking the company to provide more information in its financial statements and notes than would normally have been required under an international standard.

**Role of regulatory bodies**

**The Financial Reporting Council** is an Australian statutory board within the portfolio of the Australian Minister for Superannuation and Corporate Laws. It oversees appointments and budgets for AASB and provides it with broad strategic direction.

* It oversees accounting standard setting process in Australia.
* It acts as an advisory body to the AASB.
* It appoints board members to AASB(chairman is appointed by the Federal Treasurer).
* It monitors the process for adopting international standards.
* It gives the Federal Treasurer reports and advice on the process of standard setting.
* It approves and monitors AASB’s plans, budgets and staffing.
* It cannot direct AASB in relation to developing standards.
* It cannot veto any standard formulated or recommended by AASB

The FRC therefore has a major indirect influence on the development of the Accounting Standards that companies are required to follow.

[www.frc.gov.au](http://www.frc.gov.au/)

**The International Accounting Standards Board** is an independent organization based in London responsible for establishing international standards. Its 14-member board consists of professionals with the best technical skills and relevant international background and experience.

* It is appointed, funded and overseen by the International Accounting Standards Committee Foundation (IASCF).
* The goal of the IASB is to provide the world’s integrated capital markets with a common language for financial reporting.
* Its function is developing a set of high quality global accounting standards which are transparent and comparable. The standards are the IFRS – International Financial Reporting Standards.
* It works with national accounting standard setters around the world such as Australia’s AASB.
* Since 2005, Australia has adopted the IASB’s International Framework, while retaining some of its own conceptual framework (SAC 1 – reporting entity, SAC2 –general purpose financial reports). AASB issues standards to match those issued by IASB, although they may differ slightly with more reference to Corporations Act 2001.

[www.iasb.org/Home.htm](http://www.iasb.org/Home.htm)

**The Australian Accounting Standards Board** is an independent accounting standards organization, based in Melbourne.

It has 13 members including the Chairman who is appointed by the Australian Government.

Its responsibilities include:

* Develop a conceptual framework, which does not have the force of an accounting standard, for the purpose of evaluating proposed standards
* Develop and issue accounting standards that have the force of law for all reporting entities in Australia. It makes accounting standards for the purpose of the Corporations Act and must refer to International Accounting Standards (IASB) in the preparation of Accounting Standards for use in Australia.
* It participates in and contributes to the development of a single set of Accounting Standards for worldwide use.
* It must carry out a cost benefit analysis of the impact of a proposed accounting standard to be used in Australia unless that standard is based on an existing international standard.

There are about 40 AASB standards which assist preparers of financial reports in specific areas e.g. inventories, non-current assets and foreign currency changes.

[www.aasb.com.au](http://www.aasb.com.au)

**The Australian Securities and Investments Commission** is Australia’s corporate, markets and financial services regulator. ASIC contributes to Australia’s economic reputation by ensuring financial markets are fair and transparent and supported by confident and informed investors and consumers.

* ASIC issues interpretations of accounting standards in the form of Practice Notes.
* It monitors compliance with the standards in relation to companies which are reporting entities.
* ASIC may refer practice issues to the AASB to consider possible amendments and changes to accounting standards.
* It efficiently receives, processes and stores information given to them.
* It makes information about companies available as soon as practicable.

[www.asic.gov.au](http://www.asic.gov.au)

**The Australian Securities Exchange** aims to provide a fair, informed and competitive market for securities.

* ASX provides for the listing and transfer of equities of listed public companies. It provides the system for trading of securities in the Australian market. This provides shareholders a market to dispose of shares to those wishing to become shareholders. Without such a market the capacity of companies to raise capital is severely restricted.
* ASX has a detailed set of regulations called Listing Rules which set out the requirements for a company to have its securities listed, and which listed companies need to comply with to maintain their listing. In essence, listing rules require that listed companies inform ASX of any information likely to affect investor’s decisions about the company’s securities e.g. changes in board membership or new contracts etc.
* It provides regulation of public companies and surveillance to ensure that regulations are followed.
* It requires listed companies to produce general purpose financial statements in accordance with accounting standards. [www.asx.com.au](http://www.asx.com.au/)

**Lobby groups**

Lobbyists are groups which attempt to influence standard setting with reference to their industries goals or interests. The impact of lobby groups on standard setting is viewed as a political process.

Lobbyists may represent members of the following types of organizations:

* Business Council of Australia
* Australian Shareholder’s Association
* CPA Australia
* Group of 100 ( an association of chief financial managers of Australia’s100 largest companies)
* Environment groups

Lobby groups work through

* Being appointed as member of FRC or AASB
* Being appointed to a committee or advisory group established by AASB or FRC
* Being involved in the standard setting process
* Engaging in public debate on issues relating to accounting standards

Examples of lobby group activities

* Australian Shareholder’s Association conducted a survey which showed that 93% of shareholders believe that executives of listed companies receive excessive pay.

Source: [www.asa.asn.au](http://www.asa.asn.au) 12 February 2009

* Group of 100 is active in making submissions to standard setters to ensure financial statements provide useful information.