

The Development of Statements of Accounting Concepts and Accounting Standards

Prepared by the **Public Sector Accounting Standards Board** of
the **Australian Accounting Research Foundation** and by the
Australian Accounting Standards Board

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The Australian Accounting Research Foundation was established by the Australian Society of Certified Practising Accountants and The Institute of Chartered Accountants in Australia and undertakes a range of technical and research activities on behalf of the accounting profession as a whole. A major responsibility of the Foundation is the development of Statements of Accounting Concepts and Accounting Standards. The Public Sector Accounting Standards Board is one of the boards of the Foundation.

The Australian Accounting Standards Board was established by section 224 of the *Australian Securities Commission Act 1989*. It has responsibility for the development of accounting standards for application by companies and by other entities in the private sector, and for the development of Statements of Accounting Concepts.

Copies of this Statement are available for purchase from the offices of the Australian Accounting Research Foundation, 211 Hawthorn Road, Caulfield, Victoria 3162, Australia.

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PREFACE

Background to Development of the Policy Statement

From 1985 a "Foreword to Statements of Accounting Concepts and Statements of Accounting Standards" has been included in the Members' Handbooks of the Australian Society of Certified Practising Accountants and The Institute of Chartered Accountants in Australia (the Society and Institute) which, among other things, explains the procedures for the development of those pronouncements.

Also, in 1985 the then Accounting Standards Review Board (ASRB) issued ASRB Release 200 "Procedures for the Approval of Accounting Standards" which explained the establishment and operation of the ASRB.

Since 1985, the institutional arrangements for developing Statements of Accounting Concepts and Accounting Standards have changed as a result of the Accounting Standards Review Board being succeeded by the Australian Accounting Standards Board (AASB) in 1991. It was necessary to revise the Foreword and Release 200, which therefore provided an opportunity for the AASB and the Public Sector Accounting Standards Board (the Boards) to invite comment from interested parties on the procedures employed in the development of Statements of Accounting Concepts and Accounting Standards from those with an interest in financial reporting.

Outcomes of the Review Process

The Boards have decided, in the light of comments received and other considerations, to introduce changes to the procedures for the development of Statements of Accounting Concepts and Accounting Standards.

The more significant outcomes of the review process are:

- (a) the introduction of Consultative Groups;
- (b) the extended use of Project Advisory Panels;
- (c) the wider dissemination of information on exposure drafts;
- (d) the preparation of a statement setting out the reasons for the Boards' decisions in relation to key issues dealt with in Statements of Accounting Concepts and Accounting Standards; and

- (e) the publication of a report in the Annual Reports of the AASB and the Australian Accounting Research Foundation (AARF) on the functioning of the policies documented in Policy Statement 1.

The Boards will issue further Policy Statements detailing the nature and operations of their Consultative Groups and Project Advisory Panels.

In addition to the changes adopted, the Boards are reviewing the feasibility of establishing an emerging issues task force as a means of formalising the process of identifying and dealing with emerging issues.

The Australian Accounting Standards Board and the Public Sector Accounting Standards Board

Policy Statement 1 includes a discussion of the establishment and functions of the Australian Accounting Standards Board (AASB) and the Public Sector Accounting Standards Board (PSASB). At present, although liaising closely, the two Boards operate separately. At the date of issue of this Policy Statement, the feasibility of merging the two Boards and integrating their pronouncements is being reviewed by a working party established by the federal Attorney-General.

Details of the Boards' members and the Boards' activities are published in the Annual Reports of the AASB and the AARF, the *AARF & AASB Report* and, where appropriate, media releases. The PSASB also publishes a *PSASB Progress Report*.

Costs and Benefits

In considering changes to the procedures for the development of Statements of Accounting Concepts and Accounting Standards the Boards are mindful of the costs and benefits associated with the changes. The Boards have developed the procedures with regard to the resources presently available to them. As the level of resources available to the Boards change, there may be a need to review the procedures documented in the Policy Statement.

Comparison with Overseas Practices

The procedures adopted by the Boards are substantially the same as those of other major overseas standard-setting bodies. However, there are some exceptions. For example, in the United States of America there are full-time Board appointments, Board meetings are open to public observation, dissenting Board members' opinions are published, and an Emerging Issues Task Force is in operation.

POLICY STATEMENT 1

"THE DEVELOPMENT OF STATEMENTS OF ACCOUNTING CONCEPTS AND ACCOUNTING STANDARDS"

Statements of Accounting Concepts and Accounting Standards

Responsibility for development

- 1 The Australian Accounting Standards Board (AASB) and the Public Sector Accounting Standards Board (PSASB) have as their primary objective improving the quality of financial reporting by Australian reporting entities. In pursuing this objective the Boards develop and promulgate Statements of Accounting Concepts and Accounting Standards. The AASB and the PSASB have a close working relationship and most projects are undertaken jointly.
- 2 The AASB's primary responsibility is to develop accounting standards in respect of general purpose financial reporting by reporting entities that are companies (the AASB series of Accounting Standards or "AASB Standards"). The primary responsibility of the PSASB is to develop accounting standards in respect of general purpose financial reporting by reporting entities in the public sector.
- 3 The AASB and the PSASB develop jointly Statements of Accounting Concepts and develop jointly, or exclusively, Australian Accounting Standards ("AASs"). The AASB has agreed to develop jointly with the PSASB AASs for application by private sector reporting entities not subject to AASB Standards.
- 4 Where appropriate, the term "Accounting Standards" is used in this Policy Statement to refer to both AASB Standards and AASs.

Scope

- 5 Statements of Accounting Concepts enunciate the conceptual framework for general purpose financial reporting being developed by the Boards. The Statements are used by the Boards in the development of Accounting Standards, and set out the framework for dealing with transactions and other events which are not presently the subject of specific Accounting Standards. Accounting Standards deal with specific accounting policies

concerning a particular topic or industry. The AASB Standards and AASs usually have the same technical content, but may use different terminology to cater for their different application.

- 6 AASB Standards have application to reporting entities that are companies by virtue of the Corporations Law. Certain other entities are also required by legislation, ministerial directive or other government authority to apply such Standards. AASs have application to reporting entities which are not required to apply AASB Standards operative under the Corporations Law. These include most public sector reporting entities and most non-corporate private sector reporting entities.

Establishment and Functions of the Boards

Australian Accounting Standards Board

- 7 The Australian Accounting Standards Board was established by section 224 of the *Australian Securities Commission Act 1989*. It succeeded the Accounting Standards Review Board (ASRB), which operated in much the same capacity from 1988 to 1991. The ASRB was created in 1983 and operated in conjunction with the Accounting Standards Board of the Australian Accounting Research Foundation (AARF) until it merged with that Board in 1988.
- 8 The federal Attorney-General appoints the Director (Chairman) of the AASB and its 10 other members from nominations made by organisations with an interest in financial reporting. There are also observers to the AASB, being the Australian accounting profession's representative to the International Accounting Standards Committee, a representative of the New Zealand counterpart authority and a representative of the federal Attorney-General's Department.
- 9 Under section 226 of the *Australian Securities Commission Act 1989*, the AASB has the following functions, in respect of companies:
 - (a) to develop a conceptual framework, not having the force of an AASB Standard, for the purpose of evaluating proposed AASB Standards;
 - (b) to review proposed AASB Standards;

- (c) to sponsor or undertake the development of possible AASB Standards;
 - (d) to engage in such public consultation as may be necessary to decide whether or not it should make a proposed AASB Standard; and
 - (e) to make such changes to the form and content of a proposed AASB Standard as it considers necessary.
- 10 When making Standards, the AASB exercises its statutory powers under section 32 of the *Corporations Act 1989*.

Public Sector Accounting Standards Board

- 11 The PSASB was established in 1983 as a Board of the AARF by the Australian Society of Certified Practising Accountants and The Institute of Chartered Accountants in Australia (the Society and Institute).
- 12 The PSASB has eight members appointed by the Society and Institute. In addition, the Australian accounting profession's representative to the International Federation of Accountants' Public Sector Committee is a member of the PSASB by virtue of that office. The PSASB may also appoint observers.
- 13 Under the AARF's Constitution, the PSASB has the following functions relating to the development and promulgation of Statements of Accounting Concepts and AASs:
- (a) to devise and implement a process for the formulation and maintenance of AASs, Statements of Accounting Practice and Statements of Accounting Concepts of relevance to public sector reporting entities;
 - (b) to prepare, in conjunction with the AASB where appropriate, AASs, Statements of Accounting Practice and Statements of Accounting Concepts of relevance to public sector reporting entities for issuance by AARF on behalf of the Society and Institute;
 - (c) to prepare and issue, in conjunction with the AASB where appropriate, Accounting Guidance Releases and exposure drafts of AASs, Statements of Accounting Practice and

Statements of Accounting Concepts of relevance to public sector reporting entities; and

- (d) to keep under review existing AASs, Statements of Accounting Practice, Statements of Accounting Concepts and Accounting Guidance Releases of relevance to public sector reporting entities.

- 14 This Policy Statement addresses the procedures for the development of Statements of Accounting Concepts and Accounting Standards. The procedures for the development of Accounting Guidance Releases are documented in Accounting Guidance Release AAG 1 "Purpose and Scope of Accounting Guidance Releases and Procedures for Issuance". The procedures for the development of Statements of Accounting Practice are generally the same as those adopted for Statements of Accounting Concepts and Accounting Standards.

Research and administrative support

- 15 The research and administrative support for the AASB and the PSASB is provided on an ongoing basis by the staff of the AARF. The Board of Management of the AARF manages the AARF's resources for the purpose of achieving the Boards' objectives.

Procedures of the Boards in Developing Statements of Accounting Concepts and Accounting Standards

Consultative Groups

- 16 Each Board consults with members of its broadly-constituted Consultative Group to increase the involvement of various interested groups in the standard-setting process. Members of the Consultative Groups include representatives of parties interested in and affected by Statements of Accounting Concepts and Accounting Standards. The role of the members of these groups is to provide advice to the Boards on major technical issues, the Boards' work programs, project priorities, due process and matters of relevance to the Boards, as part of the procedures for the development of Statements of Accounting Concepts and Accounting Standards.

Selection of topics

- 17 Research projects for possible development are initiated by the Boards in response to the identification of emerging issues. These issues may be identified in submissions and other materials received from interested parties such as preparers and users of financial reports, inconsistencies or inadequacies in practice observed by, or brought to the attention of, members of the Boards or staff of the AARF or identified in research studies, or the development of a pronouncement by an overseas standard-setting authority.
- 18 The continuing development of the conceptual framework for financial reporting also gives rise to new topics and the need to review existing Accounting Standards.
- 19 The Boards' work programs are published in the *AARF & AASB Report* and in selected professional journals, at least annually. A commentary on reasons for project priorities and reasons for changes in previously published priorities is attached to the work programs. Interested parties are invited to comment on the content of the work programs and identified priorities. The Boards give consideration to these comments in their ongoing review of priorities.

Project Advisory Panels

- 20 At the time a project is added to the Boards' work programs, the Boards may invite people with relevant expertise to join a Project Advisory Panel. The appointment of and background of members of a Project Advisory Panel are published in the *AARF & AASB Report*. In addition to reviewing progress at key points in a project's development, this Panel serves as a resource base available at all stages of the project.

Accounting discussion papers or accounting theory monographs

- 21 An accounting discussion paper or accounting theory monograph, designed to investigate critically all relevant conceptual and practical (including economic and legal) aspects of a topic with the objective of informing the Boards and other readers, may be prepared by an AARF staff member or an external contractor. This document, which is usually published, involves canvassing the literature, documenting current practice and examining local and overseas pronouncements and relevant legislative requirements.

Any recommendations contained in an accounting discussion paper or accounting theory monograph are those of the author.

Key decisions questionnaires

- 22 Based on the issues explored in the accounting discussion paper or accounting theory monograph, a key decisions questionnaire is prepared. The questionnaire identifies the principal issues to be resolved in the preparation of a proposed Statement of Accounting Concepts or a proposed Accounting Standard. The questionnaire is considered by the Boards in the context of the accounting discussion paper or accounting theory monograph, and tentative decisions are made. These decisions form the basis upon which a draft exposure draft is prepared.

Exposure drafts

- 23 A draft exposure draft is prepared by the Boards and is refined through discussion and review of relevant materials. In some cases, a draft exposure draft may be sent for comment to selected entities, user groups, individuals, academics, practitioners and other parties chosen for their knowledge of, interest in and involvement with the topic. The draft exposure draft is reviewed and may be amended after consideration of the views expressed by respondents to any selective exposure.
- 24 Following refinement, the draft is issued as an exposure draft by the AARF on behalf of the Boards. Exposure drafts invite comment from all interested parties on the acceptability of proposed standards. The period for comment is usually at least three months but this may be varied according to circumstances. Depending on the topic, the Boards may arrange forums such as seminars and public hearings to enable further discussion and interchange of opinion.
- 25 A preface identifies the major issues upon which the Boards specifically seek comment. An explanation of any significant differences from the Standards in other major standard-setting jurisdictions is also included.
- 26 Exposure drafts are distributed to subscribers to the AARF Subscription Service and are made available to any member of the public, including members of the Society and Institute and representatives of organisations throughout the community such as other professional bodies, industry and user groups and government departments and authorities. During the comment

period, individual copies of an exposure draft are available without charge.

- 27 In conjunction with the distribution of an exposure draft, a media release is prepared and distributed nationally. Each exposure draft is also made available for publication in the journals of the Society and Institute and other relevant journals.

Finalisation of Statements of Accounting Concepts and Accounting Standards

- 28 After consideration of all the views expressed in submissions received on an exposure draft, and with due cognisance of public debate generated as a result of the exposure draft and the accounting discussion paper or accounting theory monograph, a draft Statement of Accounting Concepts or draft Accounting Standard is prepared. A statement setting out the reasons for the Boards' decisions in relation to the key issues on the topic is also prepared.
- 29 Respondents to exposure drafts are sent a letter of acknowledgement, a report, where appropriate, on the progress of the project and, where a public hearing will be held, notice of the public hearing. Once the Boards have completed their deliberations on the topic, respondents are sent a brief summary of the comments received. In addition, comments received on an exposure draft, other than those provided on a confidential basis, are made publicly available through the Society and Institute libraries.
- 30 Once the Boards have decided that a Statement of Accounting Concepts or Accounting Standard should be approved for issue, the Statement or Standard is forwarded to the National Councils of the Society and Institute and, in respect of Statements of Accounting Concepts and AASB Standards, also to the federal Attorney-General's Department and the Australian Securities Commission, for a 30-day period for review in respect of substantive policy matters.
- 31 Comments received in respect of the 30-day review period are considered by the Boards in finalising the Statement of Accounting Concepts or Accounting Standard. Statements of Accounting Concepts are issued by the AARF on behalf of the Society and Institute and by the AASB. AASs are issued by the AARF on behalf of the Society and Institute. AASB Standards are made and

issued by the AASB. In common with other subordinate legislation, an AASB Standard must be notified in the *Commonwealth Government Gazette*, under section 48 of the *Acts Interpretation Act 1901*.

- 32 Statements of Accounting Concepts and Accounting Standards are distributed to subscribers to the AARF Subscription Service and are made available to any member of the public, including members of the Society and Institute and representatives of organisations throughout the community such as other professional bodies, industry and user groups and government departments and authorities. In conjunction with the distribution of Statements of Accounting Concepts and Accounting Standards, a media release is prepared and distributed nationally. Notice of the issue and availability of Statements of Accounting Concepts and Accounting Standards is publicised in the journals of the Society and Institute and other relevant journals where possible.
- 33 In common with other subordinate legislation, an AASB Standard must be tabled in both Houses of federal Parliament within 15 sitting days of its making under section 48 of the *Acts Interpretation Act 1901*. After tabling, there is a further period of 15 sitting days during which notice of a motion to disallow the Standard may be given in either House. A House in which such notice has been given may disallow the Standard by resolution. Furthermore, the Standard is deemed to have been disallowed if, at the end of 15 sitting days after such notice has been given, the notice has not been withdrawn and the motion has not been called on, or the motion has been called on, moved and seconded and has not been withdrawn or otherwise disposed of.
- 34 Once a Statement of Accounting Concepts is approved for issue by the AASB and/or PSASB, the Society and Institute have a 60-day period during which they consider whether they will require compliance by their members. In respect of an AAS approved for issue by the AASB and/or PSASB, the Society and Institute have a 60-day period during which they may veto the AAS.

Authority of Statements of Accounting Concepts and Accounting Standards

- 35 The authority of AASB Standards is established under the Corporations Law.

- 36 The status of Statements of Accounting Concepts and AASs with respect to members of the Society and Institute is identified in Miscellaneous Professional Statement APS 1 "Conformity with Statements of Accounting Concepts and Accounting Standards" ("Accounting Standards" in this case being the AASs).
- 37 Statements of Accounting Concepts and AASs are also given legislative backing in respect of certain reporting entities in the private or public sectors through requirements specified in legislation, ministerial directives or other government authority.

International Developments

- 38 Accounting Standards are, as far as possible, compatible with International Accounting Standards issued by the International Accounting Standards Committee (IASC). The relative timing of a particular project on the work programs of the Australian Boards and the IASC will affect the extent to which compatibility is achieved. As noted in the Society's and Institute's Miscellaneous Professional Statement APS 3 "Compatibility of Australian Accounting Standards and International Accounting Standards", where an International Accounting Standard has been issued previously in respect of a subject covered by a new or revised AAS, the AAS will carry an endorsement detailing compatibility with the International Accounting Standard. In addition, where an AAS differs from an International Accounting Standard, reasons for any material differences will be given where appropriate. Where an International Accounting Standard has been issued previously in respect of a subject covered by a new or revised AASB Standard, a statement of compatibility with the International Accounting Standard will be given including, where appropriate, reasons for any material differences.
- 39 Where an International Accounting Standard has been issued in respect of a subject that has not been covered by an Accounting Standard, the Boards will consider the International Accounting Standard as the basis for an Accounting Standard.
- 40 Through the AARF, the Boards are kept informed of the activities of overseas accounting standard-setting bodies, such as those in the United States of America, the United Kingdom, New Zealand and Canada.
- 41 Section 226(4A) of the *Australian Securities Commission Act 1989* requires that the AASB consult with its New Zealand counterpart.

To facilitate this an observer from the New Zealand authority is invited to attend meetings of the AASB. This reflects the impact of Closer Economic Relations with New Zealand and the efforts being made to harmonise financial reporting at an international level. Where a New Zealand Standard has been issued previously in respect of a subject covered by a new or revised AASB Standard, a statement of compatibility with the New Zealand Standard will be given including, where appropriate, reasons for any material differences.

Applicability and Scope

- 42 AASs are intended to apply to all reporting entities in the private or public sectors to which AASB Standards do not apply. AASB Standards are intended to apply to all companies that are reporting entities. Any limitation on the applicability of Accounting Standards would be stated in the text of specific Standards.
- 43 Accounting Standards normally contain statements of purpose which identify the transactions and other events which are intended to be dealt with by the Standards.
- 44 Notwithstanding the inclusion of statements concerning the applicability and purpose of Accounting Standards, the Standards are generally not intended to apply to immaterial items. Standards normally apply where they are of material consequence. In some cases, items or disclosures are deemed to be material.

Operative Date

- 45 Statements of Accounting Concepts and Accounting Standards contain a paragraph indicating their date of application. Usually, at least twelve months notice is given before a Statement or Standard becomes operative but this may be varied according to circumstances. Where less than twelve months notice is provided, reasons are given by the Boards.
- 46 Statements of Accounting Concepts and Accounting Standards state the manner in which the requirements of the Statement or Standard are to be introduced, and the manner of accounting for any resulting adjustments.
- 47 In general, the requirements of Statements of Accounting Concepts and Accounting Standards remain in force until the operative date

of any amendment to those requirements or until the particular Statement or Standard is withdrawn. Early application of Statements and Standards is possible, for example section 285 of the Corporations Law permits directors to elect to apply an AASB Standard before it formally becomes applicable.

Review and Revision

- 48 In recognition of the changing environment in which Statements of Accounting Concepts and Accounting Standards are developed and applied, the Boards undertake a regular program of review and revision of existing Statements and Standards.
- 49 A review of an existing Statement of Accounting Concepts or Accounting Standard that will potentially result in a significant revision is progressed in accordance with the procedures outlined above and the revised Statement or Standard is approved in the normal manner. A review that will result in only minor amendment to an existing Statement or Standard may be progressed using only some of the procedures outlined above.