

**[DRAFT] Accounting
Standard**

AASB 2009-X
April 2009

[DRAFT] Amendments to Australian Accounting Standards – Borrowing Costs of Not-for-Profit Public Sector Entities

[AASB 1, AASB 111 & AASB 123]

Prepared by the
Australian Accounting Standards Board

Draft AASB 2009-X [Draft] Amendments to Australian Accounting Standards - Borrowing Costs of Not-for-Profit Public Sector Entities will be considered by the Board at its meeting on 22 April 2009. Please note that the draft AASB does not reflect settled positions by the AASB and may change or be modified by the AASB. This draft is not an authoritative pronouncement of the AASB. Decisions become final only after completion of the formal processes required to issue an AASB. No responsibility is taken for the results of actions or omission to act taken on the basis of any information in this draft or for any errors or omissions.



Australian Government

**Australian Accounting
Standards Board**

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[Draft] Australian Accounting Standard AASB 2009-X *Amendments to Australian Accounting Standards – Borrowing Costs of Not-for-Profit Public Sector Entities* is set out in paragraphs 1 – 9. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. AASB 2009-X is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation and Application of Standards*, which identifies the Australian Accounting Interpretations. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

PREFACE

Standards Amended by AASB 2009-X

This Standard makes amendments to the following Australian Accounting Standards:

1. AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* (2004, as amended);
2. AASB 111 *Construction Contracts* (2004, as amended); and
3. AASB 123 *Borrowing Costs* (2007, as amended).

Reasons for Issuing this Standard

The amendments effected through this Standard arise from the Australian Accounting Standards Board's (AASB's) short-term review of the requirement in AASB 123 (2007, as amended) to capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Following that review, the AASB decided to reintroduce the option for not-for-profit public sector entities to expense those borrowing costs pending the outcome of:

- (a) the work of the New Zealand Financial Reporting Standards Board (FRSB) on the relationship between depreciated replacement cost and borrowing costs, in which the AASB agreed to participate;
- (b) the AASB and FRSB work on developing a *Process for Modifying, or Introducing Additional Requirements to, IFRSs for PBE/NFP*; and
- (c) the International Public Sector Accounting Standard Board's (IPSASB's) Borrowing Costs project.

Main Features of this Standard

Option to Expense Borrowing Costs

In respect of not-for-profit public sector entities, this Standard amends AASB 123 (2007, as amended) by reintroducing the option to expense borrowing costs and thereby allow, subject to the requirements in

AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, an entity to choose whether it expenses or capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Consequential disclosures about the accounting policy adopted are also specified.

As a consequence of reintroducing the option, this Standard would also amend AASB 111 (2004, as amended) to specify that costs that may be attributable to contract activity in general and can be allocated to specific contracts include borrowing costs only when the contractor capitalises borrowing costs in accordance with AASB 123 (2007, as amended).

Application Date

This Standard is applicable to annual reporting periods beginning on or after 1 January 2009 that end on or after 30 April 2009 with early adoption permitted for annual reporting periods beginning on or after 1 January 2009 that end before 30 April 2009 provided AASB 123 is also adopted for the same period. This Standard is required to be applied when AASB 123 is applied.

ACCOUNTING STANDARD AASB 2009-X

The Australian Accounting Standards Board makes Accounting Standard AASB 2009-X *Amendments to Australian Accounting Standards – Borrowing Costs of Not-for-Profit Public Sector Entities* under section 334 of the *Corporations Act 2001*.

Dated XX April 2009

Bruce Porter
Acting Chair - AASB

ACCOUNTING STANDARD AASB 2009-X

AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – BORROWING COSTS OF NOT-FOR-PROFIT PUBLIC SECTOR ENTITIES

Objective

- 1 The objective of this Standard is to amend AASB 123 *Borrowing Costs* (2007, as amended), and consequently amend AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* (2004, as amended) and AASB 111 *Construction Contracts* (2004, as amended), to reintroduce the option for not-for-profit public sector entities to expense borrowing costs.

Application

- 2 **This Standard applies to:**
 - (a) **each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;**
 - (b) **general purpose financial statements of each other reporting entity; and**
 - (c) **financial statements that are, or are held out to be, general purpose financial statements.**
- 3 **This Standard applies to annual reporting periods beginning on or after 1 January 2009 that end on or after 30 April 2009.**

- 4 **This Standard may be applied to annual reporting periods beginning on or after 1 January 2009 that end before 30 April 2009 provided AASB 123 is also adopted for the same period. When an entity applies this Standard to such an annual reporting period, it shall disclose that fact. This Standard shall be applied when AASB 123 is applied.**

Amendment to AASB 1

- 5 An Aus footnote is added at the end of the first sentence of paragraph IG23 of AASB 1 as follows:

Notwithstanding paragraph IG23 of this Standard, in accordance with AASB 123 (as amended by AASB 2009-X *Amendments to Australian Accounting Standards – Borrowing Costs of Not-for-Profit Public Sector Entities*) a not-for-profit public sector entity may choose to expense borrowing costs.

Amendment to AASB 111

- 6 Paragraph Aus18.1 is added after paragraph 18 of AASB 111 as follows:

Aus18.1 In respect of not-for-profit public sector entities, costs that may be attributable to contract activity in general and can be allocated to specific contracts also include borrowing costs only when the contractor capitalises borrowing costs in accordance with AASB 123 *Borrowing Costs*.

Amendments to AASB 123

- 7 Paragraph Aus1.0 is added after paragraph 1 of AASB 123 as follows:

Aus1.0 In respect of not-for-profit public sector entities¹, borrowing costs may be expensed in accordance with paragraph Aus8.1.

- 8 Paragraphs Aus8.1 and Aus8.2 are added after paragraph 8 of AASB 123 as follows:

¹ In April 2009, the AASB agreed to reintroduce the expense option for not-for-profit public sector entities. The AASB currently has a project on the application of AASB 123 to not-for-profit public sector entities.

Aus8.1 A not-for-profit public sector entity may elect to recognise borrowing costs as an expense in the period in which they are incurred regardless of how the borrowings are applied.

Aus8.2 In respect of not-for-profit public sector entities, paragraphs 9-26, 27 and 28 apply only when an entity elects to capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

9 Paragraph Aus26.1 is added after paragraph 26 of AASB 123 as follows:

Aus26.1 A not-for-profit public sector entity shall disclose the accounting policy adopted for borrowing costs.

BASIS FOR CONCLUSIONS

The Basis for Conclusions accompanies, but is not part of, AASB 2009-X.

Introduction

- BC1 This Basis for Conclusions summarises the Australian Accounting Standard Board's (AASB's) decisions in reaching the conclusions in this Standard. Individual Board members gave greater weight to some factors than to others.

Background

- BC2 The AASB issued AASB 123 *Borrowing Costs* in July 2004 and, consistent with IAS 23 *Borrowing Costs* at that time, thereby allowed entities to choose whether to expense or capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset.
- BC3 In 2007, the International Accounting Standards Board (IASB) amended IAS 23 to remove the option and prescribe the capitalisation approach. Accordingly, the AASB revised AASB 123 in June 2007 to align with the revised IAS 23.
- BC4 The International Public Sector Accounting Standards Board (IPSASB) issued IPSAS 5 *Borrowing Costs* in May 2000 and also gave the option to expense or capitalise borrowing costs. After the issue of revised IAS 23 in 2007, the IPSASB initiated a project to consider borrowing costs of not-for-profit public sector entities. As part of the project, the IPSASB issued Exposure Draft ED 35 *IPSAS 5 Borrowing Costs (Revised 200X)*. Among its proposals, the IPSASB proposed to not require the capitalisation of borrowing costs.
- BC5 The IPSASB's proposal to retain the expensing option received support from some Australian public sector constituents.

Significant Issues

- BC6 In considering whether to defer the withdrawal of the option of expensing borrowing costs by reintroducing that option, the AASB noted that:
- (a) the New Zealand Financial Reporting Standards Board (FRSB) deferred the application of revised NZ IAS 23

Borrowing Costs (2007, as amended) by public benefit entities, thereby retaining the expense option;

- (b) there are issues surrounding the relationship between the revaluation model commonly adopted by not-for-profit public sector entities, the use of depreciated replacement cost within that model and the capitalisation of borrowing costs. The FRSB is undertaking work on the relationship between depreciated replacement cost and borrowing costs. The AASB agreed to participate in that work. The outcome of that work may inform the AASB on how borrowing costs should be treated in the longer term;
- (c) it is still developing its *Process for Modifying, or Introducing Additional Requirements to, IFRSs for PBE/NFP*, and borrowing costs will provide a test case for that *Process* once it is further developed; and
- (d) as noted in paragraph BC4, the IPSASB is undertaking a project on borrowing costs of not-for-profit public sector entities and the IPSASB's Exposure Draft proposes to retain the option to expense borrowing costs.

BC7 Accordingly, the AASB decided to reintroduce the option to expense borrowing costs for not-for-profit public sector entities pending the outcome of the FRSB/AASB work on depreciated replacement cost, further development of the *Process for Modifying, or Introducing Additional Requirements to, IFRSs for PBE/NFP* and the outcome of the IPSASB's project on borrowing costs.

Application Date

BC8 This Standard is applicable to annual reporting periods beginning on or after 1 January 2009 that end on or after 30 April 2009 with early adoption permitted for annual reporting periods beginning on or after 1 January 2009 that end before 30 April 2009 provided AASB 123 is also adopted for the same period. This Standard is required to be applied when AASB 123 is applied.

BC9 Paragraphs 3 and 4 of this Standard relating to application dates enable not-for-profit public sector entities that chose the option to expense borrowing costs under AASB 123 (2004) to continue to apply that option without interruption.