

AASB 123 Borrowing Costs vs. IFRS for SMEs Section 25 Borrowing Costs

1. Executive Summary

Main differences in recognition, measurement or presentation requirements

In respect of not-for-profit public sector entities, AASB 123 gives the option to expense or capitalise borrowing costs relating to qualifying assets. Otherwise, it requires capitalisation when particular criteria are met. The *IFRS for SMEs*, unlike AASB 123, requires expensing of all borrowing costs.

Disclosure proposals

It is proposed to exclude paragraph 26(b) from the Reduced Disclosure Regime (RDR).

2. Analysis of disclosure requirements

<p style="text-align: center;">Text in AASB 123 <i>Borrowing Costs</i></p>	<p style="text-align: center;">Text in <i>IFRS for SMEs</i> Section 25 <i>Borrowing Costs</i></p>	<p style="text-align: center;">Preliminary Staff Comment</p>
<p>Disclosure</p> <p>26 An entity shall disclose:</p> <p>(a) the amount of borrowing costs capitalised during the period; and</p> <p>(b) the capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation.</p>	<p>Disclosure</p> <p>25.3 Paragraph 5.5(b) requires disclosure of finance costs. Paragraph 11.48(b) requires disclosure of total interest expense (using the effective interest method) for financial liabilities that are not at fair value through profit or loss. This section does not require any additional disclosure.</p>	<p>In respect of for-profit entities and not-for-profit private sector entities paragraph 26(a) of AASB 123 should be retained in the RDR, consistent with paragraph IN5 of this Appendix, on the grounds that it relates to information that would be useful when an entity capitalises borrowing costs.</p> <p>Paragraph 26(a) of AASB 123 should also be retained for not-for-profit public sector entities because AASB 123 gives these entities the option to expense or capitalise borrowing costs in relation to qualifying assets and the information would be useful if an entity chooses to capitalise [see paragraph IN6(d) of this Appendix]</p> <p>Paragraph 26(b) should be excluded from the RDR on the basis of cost-benefit considerations and consistent with paragraph IN5 of this Appendix.</p>
<p>Aus26.1 A not-for-profit public sector entity shall disclose the accounting policy adopted for borrowing costs.</p>		<p>Paragraph Aus26.1 of AASB 123 could be excluded from the RDR on the basis that such disclosure would be made under AASB 101. However, excluding this paragraph from RDR may be interpreted by relevant entities as an exemption. As this paragraph would not lead to an added disclosure burden and is consistent with paragraph IN6(d) of this Appendix., it should be retained in the RDR.</p>

3. AASB 123 *Borrowing Cost*: Text of Proposed Disclosures

The following are the disclosure requirements of AASB 123 *Borrowing Costs*, showing requirements from which it is proposed entities applying the RDR should be exempt as shaded text.

26 An entity shall disclose:

- (a) the amount of borrowing costs capitalised during the period; and
- (b) the capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation.

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