From: David Maxwell [mailto:davemax@ozemail.com.au]
Sent: Monday, 9 March 2009 11:55 AM
To: Robert Keys
Subject: ED 176 - Borrowing Costs for not-for-profits

Robert,

As you know, I am the contractor responsible to the SA Local Government Association for the drafting of the Model Statements and guidelines for use by SA Councils. As such, I have the responsibility for interpreting the accounting standards and providing practical guidance on their application by SA Councils.

In relation to AASB 123, the guidance inserted on the capitalisation of interest is as follows:
"To determine the amount of interest to be capitalised as part of the cost of a qualifying asset:

1. Calculate the weighted average interest rate of all Council's borrowings at the commencement of period under review (or the commencement of construction).

2. Apply that interest rate to the average project cost of the qualifying asset (i.e. opening balance + closing balance divided by two). If the project cost includes interest previously capitalised, then that forms part of the project cost on which subsequent interest is calculated.

The calculation is made at least annually, but may be done more frequently if desired."

I feel that this results in substantial compliance with the existing standard, yet is a sufficiently simple procedure to be reliably followed by the often under-skilled staff in small, remote Councils. There is also the fact that the scale of projects undertaken by Councils is very much smaller than by other levels of government.

Accordingly, I doubt that the impact of capitalising - or not capitalising - will be significant in the local governemnt area.

Cheers,

David

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