

Explanatory Statement

Accounting Standard AASB 123 *Borrowing Costs*

June 2007



Australian Government

**Australian Accounting
Standards Board**

EXPLANATORY STATEMENT

Reasons for Issuing AASB 123

The Australian Accounting Standards Board (AASB) is implementing the Financial Reporting Council's policy of adopting the Standards of the International Accounting Standards Board (IASB) for application to reporting periods beginning on or after 1 January 2005. The AASB has decided it will continue to issue sector-neutral Standards, that is, Standards applicable to both for-profit and not-for-profit entities, including public sector entities. Except for Standards that are specific to the not-for-profit or public sectors or that are of a purely domestic nature, the AASB is using the IASB Standards as the "foundation" Standards to which it adds material detailing the scope and applicability of a Standard in the Australian environment. Additions are made, where necessary, to broaden the content to cover sectors not addressed by an IASB Standard and domestic, regulatory or other issues.

The IASB defines International Financial Reporting Standards (IFRSs) as comprising:

- (a) International Financial Reporting Standards;
- (b) International Accounting Standards; and
- (c) Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

The Australian equivalents to IFRSs are:

- (a) Accounting Standards issued by the AASB that are equivalent to Standards issued by the IASB, being AASBs 1 – 99 corresponding to the IFRS series and AASBs 101 – 199 corresponding to the IAS series; and
- (b) Interpretations issued by the AASB corresponding to the Interpretations adopted by the IASB, as listed in AASB 1048 *Interpretation and Application of Standards*.

The IASB has issued IAS 23 *Borrowing Costs* which supersedes IAS 23 *Borrowing Costs* (as amended to December 2003) for annual reporting periods beginning on or after 1 January 2009. AASB 123 *Borrowing Costs*, the Australian equivalent to IAS 23, was made by the AASB in July 2004. The AASB needs to issue an amended AASB 123 *Borrowing Costs* to enable Australian reporting entities to continue to be

compliant with International Financial Reporting Standards in relation to borrowing costs.

Main Features of this Standard

Application Date

This Standard is applicable to annual reporting periods beginning on or after 1 January 2009, with early adoption permitted for annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009.

Main Requirements

This Standard requires the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use. All other borrowing costs are immediately recognised as expenses.

Transitional Provisions

When application of this Standard constitutes a change in accounting policy, an entity applies the Standard to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after the application date. However, an entity may designate any date before the application date and apply the Standard to borrowing costs relating to all qualifying assets for which the commencement date for capitalisation is on or after that date.

Differences between this Standard and AASB 123 as issued in July 2004

In relation to borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset, AASB 123 as issued in July 2004 permitted entities to either:

- (a) immediately recognise them as an expense; or
- (b) capitalise them as part of the carrying amount of a qualifying asset.

Under this Standard, only the capitalisation treatment is permitted.

Consequential amendments

Consequential amendments to other Australian equivalents to International Financial Reporting Standards are included in AASB 2007-6 *Amendments to Australian Accounting Standards arising from AASB 123* (June 2007).

Consultation Prior to Issuing this Standard

The AASB issued Exposure Draft ED 149 *Proposed Amendments to AASB 123 Borrowing Costs*, the Australian equivalent to the IASB Exposure Draft of *Proposed Amendments to IAS 23 Borrowing Costs*, in May 2006. ED 149 proposed the adoption of the IASB proposals in Australia and sought comment on the appropriateness of requiring capitalisation of interest costs to qualifying assets and removing the option to expense all interest costs. Eight submissions were received in respect of the proposals in the ED and although there was support for adopting an Australian equivalent to IAS 23 there was concern about the implications of mandating the capitalisation of interest costs on qualifying assets for the objective of harmonising GAAP and GFS reporting requirements for public sector entities.

A Regulatory Impact Statement has not been prepared in connection with the issue of AASB 123 as the amendments made do not have a substantial direct or indirect impact on business or competition, are of a minor or machinery nature and clarify existing requirements.