

TREASURY ANALYSIS - AASB 123 & AASB 2009-1

AASB 123 *Borrowing Costs* (June 2007) and AASB 2009-1 (April 2009) replaces AASB 123 (July 2004)

Major impact of changes for 2009/10

- AASB 123 *Borrowing Costs* (June 2007, as amended by AASB 2009-1) requires the capitalisation of directly attributable borrowings costs, in relation to the acquisition, construction or production of a qualifying asset, except for not-for-profit public sector entities, which are permitted to either capitalise or expense borrowing costs. Previously all entities had the option to either expense or capitalise borrowing costs.
- NSW Treasury will mandate that General Government Sector (GGS) not-for-profit agencies must continue to expense borrowing costs. Not-for-profit Public Trading Entities (PTEs) will have the option to either expense or capitalise borrowing costs.

Key features of Standard

- AASB 123 (June 2007, as amended by AASB 2009-1, and other miscellaneous amending Standards) applies to annual reporting periods beginning on or after 1 January 2009 (i.e. years ending on or after 30 June 2010, for 30 June year end entities).
- The revised AASB 123 substantially replicates the requirements of AASB 123 (July 2004), except for the areas discussed under 'main differences' below.

Main differences applicable for 2009/10 compared to 2008/09

- *Removal of expensing option* - Except for the not-for-profit public sector, an entity must 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 (AASB 123.8). Not-for-profit public sector agencies have the option to expense or capitalise.
- *Scope exclusions* - An entity is not required to apply the Standard to borrowings costs directly attributable to the acquisition or construction or production of (AASB 123.4):
 - a qualifying asset measured at fair value e.g. biological assets (see below)
 - inventories manufactured, or otherwise produced, in large quantities on a repetitive basis.

Impact on the public sector

- NSW Treasury will mandate the expensing option for GGS not-for-profit public sector entities and will allow either expensing or capitalisation for not-for-profit PTEs. This means there will be no impact on not-for-profit public sector entities, as NSW Treasury previously mandated the expensing option for GGS agencies to converge with GFS, but permitted PTEs to choose either option. For-profit public sector entities will no longer have the option to expense borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset, but will be required to capitalise these costs.
- Not-for-profit public sector entities must disclose the accounting policy adopted for borrowing costs.
- Subsequent to initial recognition, NSW public sector agencies are required to measure property, plant and equipment (AASB 116) and investment property (AASB 140) at fair value. However, as these assets must initially be recognised at cost, borrowing costs on such assets are not excluded from the scope of AASB 123.

Policy and Implementation issues

- Any for-profit agencies (& any not-for-profit PTE that elects to capitalise borrowing costs) that previously expensed borrowing costs will need to cease expensing borrowing costs, where they satisfy the AASB 123 criteria for capitalisation in relation to the acquisition, construction or production of a qualifying asset. This may require new systems and processes to capture relevant information to calculate the amount of costs to be capitalised.

- The amended Standard applies *prospectively* to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after the application date (i.e. annual reporting periods beginning on or after 1 January 2009). 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.
- NSW Treasury will update the Treasury Mandates to clarify that GGS not-for-profit agencies must expense borrowing costs, while not-for-profit PTE entities have the option to expense or capitalise.

This summary has been written in general terms and is intended for reference only. Agencies should review the contents of the AASB Standard to determine its application in particular circumstances.