ASB NEPAL

लेखामान बोर्ड

ACCOUNTING STANDARDS BOARD

(Formed by the Government of Nepal under the Nepal Chartered Accountants Act, 1997)

Carve-outs/ Alternative Treatment in Nepal Financial Reporting Standards for Small & Medium-sized Entities (NFRS for SMEs) 2017

The Nepal Financial Reporting Standards (NFRS) for Small and Medium-sized Enterprises (SMEs) 2017 were introduced to ensure the fairness of financial statements prepared by SMEs. However, the stakeholders expressed that the implementation of provisions related to borrowing costs, may not result in true and fair view of the entity's financial statements. The existing provision in Nepal Accounting Standard (NAS) 23 Borrowing Costs also permits the capitalization of the borrowing costs. Hence, to facilitate the implementation of the NFRS for SMEs 2017, the 162nd Meeting of the Accounting Standard Board held on 11 July 2024 (27 Ashadh 2081) resolved the following Carve-outs on Section 25 of NFRS for SMEs with the following Alternative Treatment.

SN	Section	Existing Provision	Carve-Outs/ Alternative Treatment
1	Section 25 : Borrowing Cost	**Recognition** 25.2 An entity shall recognise all borrowing costs as an expense in profit or loss in the period in which they are incurred.	**Recognition** 25.2 An entity may adopt a policy of capitalising borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Where an entity adopts a policy of capitalisation of borrowing costs, it shall be applied consistently to a class of qualifying assets. Where an entity does not adopt a policy of capitalising borrowing costs, all borrowing costs shall be recognised as an expense in profit or loss in the period in which they are incurred. 25.2A The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are those borrowing costs that would have been avoided if the expenditure on the qualifying asset had not been made. 25.2B To the extent that an entity borrows funds specifically for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

SN	Section	Existing Provision	Carve-Outs/ Alternative Treatment
			25.2C To the extent that funds applied to obtain a qualifying asset form part of the entity's general borrowings, the amount of borrowing costs eligible for capitalisation are determined by applying a capitalisation rate to the expenditure on that asset. For this purpose, the expenditure on the asset is the average carrying amount of the asset during the period, including borrowing costs previously capitalised. The capitalisation rate used in an accounting period shall be the weighted average of rates applicable to the entity's general borrowings that are outstanding during the period. This excludes borrowings by the entity that are specifically for the purpose of obtaining other qualifying assets. The amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period. 25.2D An entity shall: (a) capitalise borrowing costs as part of the cost of a qualifying asset from the point when it first incurs both expenditure on the asset and borrowing costs, and undertakes activities necessary to prepare the asset for its intended use or sale; (b) suspend capitalisation during extended periods where active development of the asset has paused; and (c) cease capitalisation when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

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SN	Section	Existing Provision	Carve-Outs/ Alternative Treatment
2	**Section 25 : Borrowing Cost**	**Disclosures** 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.	**Disclosures** 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. When a policy of capitalising borrowing costs is not adopted, this section does not require any additional disclosure. 25.3A Where a policy of capitalisation is adopted, an entity shall disclose: (a) the amount of borrowing costs capitalised in the period, and (b) the capitalisation rate used.

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