



नेपाल चार्टर्ड एकाउन्टेन्ट्स संस्था
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NEPAL
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Nepal Financial Reporting Standards for Small and Medium-sized Entities (NFRS for SMEs) 2017 तथा Nepal Accounting Standards for Not-for-Profit Organizations (NAS for NPOs) 2018 को Carve Out बारे सूचना ।

Nepal Financial Reporting Standards for Small and Medium-sized Entities (NFRS for SMEs) 2017 तथा Nepal Accounting Standards for Not-for-Profit Organizations (NAS for NPOs) 2018 मिति २०७८ आषाढ २८ गते बसेको परिषदको २५८औं बैठकबाट पारित भई आ.व. २०८०/८१ बाट अनिवार्य रूपमा लागू भइरहेको र कार्यान्वयनका विषयमा विभिन्न सरोकारवाला निकायसँग छलफल भई उक्त मानहरू कार्यान्वयनका लागि सहजीकरण गरिदिन अनुरोध भएकोमासो मानहरूको प्रावधानहरु कार्यान्वयनमा सहजीकरण गर्न नेपाल लेखामान बोर्डको सिफारिस बमोजिम मिति २०८१ श्रावण २८ गते बसेको परिषदको ३३३ औं बैठकबाट NFRS for SMEs 2017 को Section 25.2 र Section 25.3 तथा NAS for NPOs 2018 को Section 6 र Section 15.2 मा संलग्न बमोजिमको Carve-Out प्रदान गरिने निर्णय गरिएकोले यो सूचना सबैको जानकारीको लागि प्रकाशित गरिएको छ ।


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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.

S N	Section	Existing Provision	Carve-Outs/ Alternative Treatment
1	Section 25 : Borrowing Cost	<p>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.</p>	<p>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.</p> <p>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.</p> <p>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.</p> <p>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</p>

S N	Section	Existing Provision	Carve-Outs/ Alternative Treatment
			<p>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.</p> <p>25.2D An entity shall:</p> <ul style="list-style-type: none"> (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.
2	<p>Section 25 : Borrowing Cost</p>	<p>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.</p>	<p>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.</p> <p>25.3A Where a policy of capitalisation is adopted, an entity shall disclose:</p> <ul style="list-style-type: none"> (a) the amount of borrowing costs capitalised in the period, and (b) the capitalisation rate used.

**Carve-outs/ Alternative Treatment in
Nepal Accounting Standards for Not-for-Profit Organizations (NAS for NPOs) 2018**

To ensure the fair presentation of financial statements, NPOs in Nepal shall follow either the full NFRS or the Nepal Accounting Standards for Not-for-Profit Organizations (NAS for NPOs) issued by the Accounting Standards Board. Nepal Accounting Standards for Not-for-Profit Organizations (NAS for NPOs) 2018 were introduced to ensure the fairness of financial statements prepared by NPOs in Nepal. However, the stakeholders have expressed the implementation challenges regarding Fund accountability statement, Statement of budget variance & Disclosure of Fair Value of Investment Property. Hence, to facilitate the implementation of the NAS for NPOs 2018, the 162nd Meeting of the Accounting Standard Board held on 11 July 2024 (27 Ashadh 2081) resolved the following Carve-outs on Section 6 & 15.2 of NAS for NPOs with the following Alternative Treatment.

NAS Reference No.	Existing Provision	Carve-Outs/ Alternative Treatment
Chapter I Section 6: Financial Statements	<p>The financial statements include to each of the following documents:</p> <ul style="list-style-type: none"> a) Statement of financial position; b) Statement of income and expenditure; c) Statement of change in reserve; d) Cash flow statement; and e) Statement of accounting policies and notes to financial statements. <p>As part of the explanatory notes to the financial statements, NPOs may also include supplementary schedules and information based on or derived from, and expected to be read with, such statements. Financial statements would not, however, normally include such items as reports by the governing body/management, statements by the chairman, discussion and analysis by management and similar items that may be included in a financial or annual report of a corporate entity, unless required by the relevant Donor Agreements.</p> <p>In NPOs it is required to separate the activities of externally funded projects from the 'core' activity of managing the organization. Each funded project should have a neutral effect on the Statement of Income & Expenditure (i.e. neither surplus nor deficit) and the total income and costs of these projects may fluctuate significantly from year to year. Donors are interested to see the sources and level of income generated for funding the core management of the organization, as well as the types of expenditure</p>	<p>A complete set of financial statements comprises:</p> <ul style="list-style-type: none"> (a) a statement of financial position as at the end of the period; (b) a statement of income and expenditure; (c) a statement of changes in reserve for the period; (d) a statement of cash flows for the period; (e) notes, comprising significant accounting policies and other explanatory information; <p>An entity may use titles for the statements other than those used in this Standard.</p>

NAS Reference No.	Existing Provision	Carve-Outs/ Alternative Treatment
	<p>that are covered, as this gives a guide as to the sustainability of the organization and helps to justify the level of administration charges made against projects. Therefore, the NPOs shall prepare the following two statements for externally funded projects as Project Level Reporting as required by the Agreement where the above mentioned first five statements may or may not be relevant.</p> <p>f. Fund accountability statement g. Statement of budget variance (Budgeted Vs Actual Expenditure Report)</p>	
<p>Chapter II Section 15.2 : Investments</p>	<p>Investment in property are properties that are held to earn rentals or for capital appreciations. Investment in property should be measured initially at cost. For subsequent measurement an entity must adopt the cost model as its accounting policy for all investment properties.</p> <p>Under the cost model, investment property is measured at cost less accumulated depreciation and any accumulated impairment losses. Fair value is disclosed.</p> <p>Gains and losses on disposal are recognised in Income and Expenditure.</p>	<p>Investment in property are properties that are held to earn rentals or for capital appreciations. Investment in property shall be measured initially at cost. For subsequent measurement an entity shall adopt the cost model as its accounting policy for all investment properties.</p> <p>Under the cost model, investment property is measured at cost less accumulated depreciation and any accumulated impairment losses. Disclosure of fair value is optional.</p> <p>Gains and losses on disposal are recognised in Income and Expenditure.</p>