

# IFRS AT A GLANCE

## IAS 23 *Borrowing Costs*





# IAS 23 *Borrowing Costs*

Also refer:  
 IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*  
 IFRIC 12 *Service Concession Arrangements*

Effective Date  
 Periods beginning on or after 1 January 2009

## DEFINITIONS

### BORROWING COSTS

- Borrowing costs are interest and other costs incurred by an entity in connection with the borrowing of funds
- Borrowing costs may include:
  - Interest on bank overdrafts and short-term and long-term borrowings (including intercompany borrowings)
  - Amortisation of discounts or premiums relating to borrowings
  - Amortisation of ancillary costs incurred in connection with the arrangement of borrowings
  - Finance charges in respect of finance leases
  - Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

### QUALIFYING ASSET

- A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale
- Examples include:
  - Inventories (that are not produced over a short period of time)
  - Manufacturing plants
  - Power generation facilities
  - Intangible assets
  - Investment properties.

## RECOGNITION

- Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are required to be capitalised as part of the cost of that asset
- Other borrowing costs are recognised as an expense when incurred
- If funds are borrowed specifically, the amount of borrowing costs eligible for capitalisation are the actual borrowing costs incurred on that borrowing less any investment income on the temporary investment of any excess borrowings not yet used
- If funds are borrowed generally, the amount of borrowing costs eligible for capitalisation are determined by applying a capitalisation rate (weighted average of borrowing costs applicable to the general borrowings) to the expenditures on that asset. The amount of the borrowing costs capitalised during the period cannot exceed the amount of borrowing costs incurred during the period.
- Once a qualifying asset funded through specific borrowings becomes ready for its intended use or sale (such that borrowing costs incurred on the specific borrowings can no longer be capitalised as part of the cost of that qualifying asset), those borrowings then become part of the pool of general borrowings (R).

Capitalisation commences when:

- Expenditures for the asset are being incurred
- Borrowing costs are being incurred
- Activities that are necessary to prepare the asset for its intended use or sale are in progress.

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the construction of a qualifying asset is completed in parts and each part is capable of being used while construction continues on other parts, capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare that part for its intended use or sale are completed.

### TRANSITIONAL PROVISIONS

- When application of the revised IAS 23 constitutes a change in accounting policy, IAS 23 is applied to qualifying assets for which commencement date for capitalisation is on or after the effective date of the Standard
- Entities may designate any date prior to the effective date to apply the revised IAS 23 relating to all qualifying assets for which commencement date is on or after that date.

### DISCLOSURE

- Amount of borrowing cost capitalised during the period
- Capitalisation rate used.

# CONTACT

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