



IAS 23 Borrowing costs

Objective

Borrowing costs are finance charges that are directly attributable to the acquisition, construction or production of a qualifying asset that forms part of the cost of that asset, i.e. such costs are capitalised. All other borrowing costs are recognised as an expense.

Scope

The Standard does not apply to the following:

- (a) actual or imputed cost of equity, including preferred capital not classified as a liability.
- (b) a qualifying asset measured at fair value, for example a biological asset measured in accordance with IAS 41 *Agriculture*; or
- (c) inventories that are manufactured, or otherwise produced, in large quantities on a repetitive basis.

Effective date

An entity shall apply the Standard for annual periods beginning on or after 1 January 2009. Earlier application is permitted.

Defined terms

Borrowing costs is interest and other costs incurred by an entity in connection with the borrowing of funds.

Examples may include:

- (a) interest expense calculated using the effective interest rate method as described in IAS 39 *Financial Instruments: Recognition and Measurement*;
- (b) finance charges in respect of finance leases recognised in accordance with IAS 17 *Leases* (IFRS 16 *Leases* if early adopted or when it becomes effective); and
- (c) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

A *qualifying asset* is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Examples may include:

- (a) inventories
- (b) manufacturing plants
- (c) power generation facilities
- (d) intangible assets
- (e) investment property
- (f) bearer plants

Recognition

An entity shall 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. An entity shall recognise other borrowing costs as an expense in the period in which it is incurred.

Borrowing costs eligible for capitalisation

Specific borrowings:

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.

General borrowings:

To the extent that an entity borrows funds generally and uses it for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

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.

Commencement, suspension and cessation

Capitalisation of borrowing costs **commences** when the entity meets all the following conditions:

- It incurs expenditures for the asset; and
- It incurs borrowing costs; and
- It undertakes activities that are necessary to prepare the asset for its intended use or sale.

The activities necessary to prepare the asset for its intended use or sale encompass more than the physical construction of the asset. They include technical and administrative work prior to the commencement of physical construction, such as the activities associated with obtaining permits prior to the commencement of the physical construction.

However, such activities exclude the holding of an asset when no production or development that changes the asset's condition is taking place. For example, borrowing costs incurred while land is under development are capitalised during the period in which activities related to the development are being undertaken.

An entity shall **suspend** capitalisation of borrowing costs during extended periods in which it suspends active development of a qualifying asset.

An entity may incur borrowing costs during an extended period in which it suspends the activities necessary to prepare an asset for its intended use or sale.

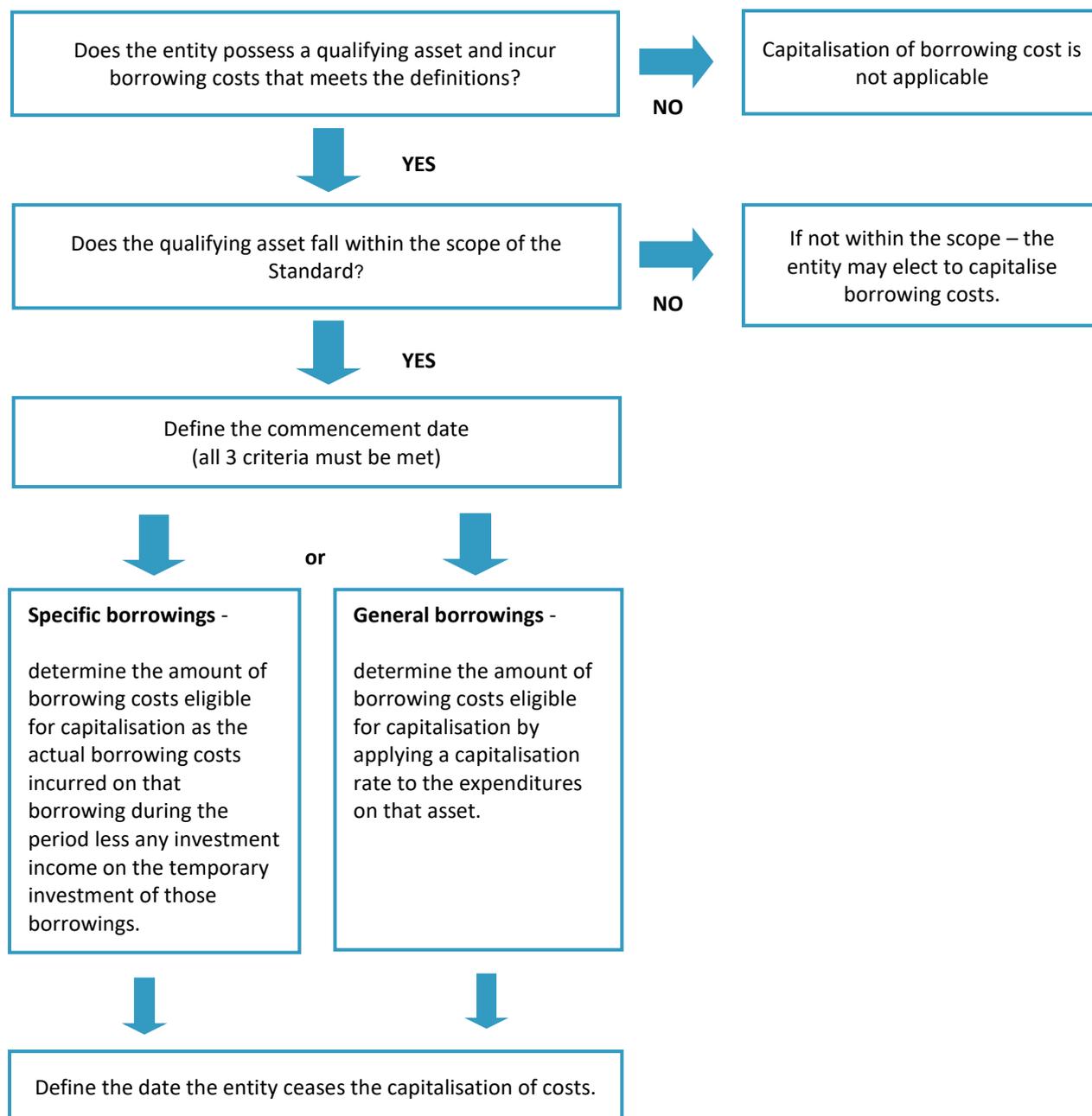
Such costs are costs of holding partially completed assets and do not qualify for capitalisation. However, an entity does not normally suspend capitalising borrowing costs during a period when it carries out substantial technical and administrative work.

An entity also does not suspend capitalising borrowing costs when a temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale. For example, capitalisation continues during the extended period that high water levels delay construction of a bridge, if such high-water levels are common during the construction period in the geographical region involved.

An entity shall cease capitalisation of borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. When an entity completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues other parts, the entity shall cease capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

Decision tree

The purpose of the decision tree is to summarise the main requirements of the Standard.



Excess of the carrying amount of the qualifying asset over recoverable amount

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or net realisable value, the carrying amount is written down or written off in accordance with the requirements of other IAS 36 *Impairment of Assets* or IAS 2 *Inventories*.

Disclosure

In the Notes to the financial statement:

- (a) An entity shall disclose:
 - (i) the amount of borrowing costs capitalised during the period; and
 - (ii) the capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation.