IAS 23 — Borrowing Costs

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Overview

IAS 23 *Borrowing Costs* requires that borrowing costs directly attributable to the acquisition, construction or production of a 'qualifying asset' (one that necessarily takes a substantial period of time to get ready for its intended use or sale) are included in the cost of the asset. Other borrowing costs are recognised as an expense.

IAS 23 was reissued in March 2007 and applies to annual periods beginning on or after 1 January 2009.

History of IAS 23

November 1982	Exposure Draft E24 *Capitalisation of Borrowing Costs*
March 1984	IAS 23 *Capitalisation of Borrowing Costs*
1 January 1986	Effective date of IAS 23 (1984)
August 1991	Exposure Draft E39 *Capitalisation of Borrowing Costs*
December 1993	IAS 23 (1993) *Borrowing Costs* (revised as part of the 'Comparability of Financial Statements' project)
1 January 1995	Effective date of IAS 23 (1993) *Borrowing Costs*
25 May 2006	Exposure Draft of proposed amendments to IAS 23
29 March 2007	IASB amends IAS 23 to require capitalisation of borrowing costs.
22 May 2008	IAS 23 amended for 'Annual Improvements to IFRSs 2007 for

	components of borrowing costs
1 January 2009	Effective date of March 2007 and May 2008 amendments to IAS 23

Related Interpretations

- SIC-2 *Consistency – Capitalisation of Borrowing Costs*. **SIC-2 was superseded by and incorporated into IAS 8 in December 2003.**

Amendments under consideration by the IASB

- None

Summary of IAS 23

Objective of IAS 23

The objective of IAS 23 is to prescribe the accounting treatment for borrowing costs. Borrowing costs include interest on bank overdrafts and borrowings, finance charges on finance leases and exchange differences on foreign currency borrowings where they are regarded as an adjustment to interest costs.

Key definitions

Borrowing cost may include: [IAS 23.6]

- interest expense calculated by the effective interest method under IAS 39,
- finance charges in respect of finance leases recognised in accordance with IAS 17 Leases, and
- exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs

This standard does not deal with the actual or imputed cost of equity, including any preferred capital not classified as a liability pursuant to IAS 32. [IAS 23.3]

A **qualifying asset** is an asset that takes a substantial period of time to get ready for its intended use or sale. [IAS 23.5] That could be property, plant, and equipment and investment property during the construction period, intangible assets during the development period, or "made-to-order" inventories. [IAS 23.6]

Scope of IAS 23

Two types of assets that would otherwise be qualifying assets are excluded from the scope of IAS 23:

- qualifying assets measured at fair value, such as biological assets accounted for under IAS 41 Agriculture
- inventories that are manufactured, or otherwise produced, in large quantities on a repetitive basis and that take a substantial period to get ready for sale (for example, maturing whisky)

Accounting treatment

Recognition

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset and, therefore, should be capitalised. Other borrowing costs are recognised as an expense. [IAS 23.8]

Measurement

Where funds are borrowed specifically, costs eligible for capitalisation are the actual costs incurred less any income earned on the temporary investment of such borrowings. [IAS 23.12] Where funds are part of a general pool, the eligible amount is determined by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate will be the weighted average of the borrowing costs applicable to the general pool. [IAS 23.14]

Capitalisation should commence when expenditures are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress (may include some activities prior to commencement of physical production). [IAS 23.17-18] Capitalisation should be suspended during periods in which active development is interrupted. [IAS 23.20] Capitalisation should cease when substantially all of the activities necessary to prepare the asset for its intended use or sale are complete. [IAS 23.22] If only minor modifications are outstanding, this indicates that substantially all of the activities are complete. [IAS 23.23]

Where construction is completed in stages, which can be used while construction of the other parts continues, capitalisation of attributable borrowing costs should cease when substantially all of the activities necessary to prepare that part for its intended use or sale are complete. [IAS 23.24]

Disclosure [IAS 23.26]

- amount of borrowing cost capitalised during the period
- capitalisation rate used

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