



IAS 23 Borrowing Costs

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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, amortisation of discounts or premiums on borrowings, amortisation of ancillary costs incurred in the arrangement of 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 1]

- **Borrowing cost** is interest and other costs incurred by an enterprise in connection with the borrowing of funds. [IAS 23.4] Interest includes amortisation of discount/premium on debt. Other costs include amortisation of debt issue costs and certain foreign exchange differences that are regarded as an adjustment of interest cost. [IAS 23.5]

[Key Definitions 2]

- A **qualifying asset** is an asset that takes a substantial period of time to get ready for its intended use. [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]

Accounting Treatment 1

- **Benchmark treatment.** All borrowing costs should be expensed in the period in which they are incurred. [IAS 23.7]
- **Allowed alternative treatment.** Borrowing costs in relation to the acquisition, construction and production of a qualifying asset should be treated as part of the cost of the relevant asset. [IAS 23.10-11]
- Where the allowed alternative is adopted, that treatment should be applied consistently to all borrowing costs incurred for the acquisition, construction and production of qualifying assets. [[SIC 2](#)]

Accounting Treatment 2

- 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 23.15]
- 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 23.17]

Accounting Treatment 3

- Where the alternative treatment is followed, 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 23.20]

Accounting Treatment 4

- Capitalisation should be suspended during periods in which active development is interrupted. Capitalisation should cease when substantially all of the activities necessary to prepare the asset for its intended use or sale are complete. [IAS 23.25]
- If only minor modifications are outstanding, this indicates that substantially all of the activities are complete.

Accounting Treatment 5

- 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 23.27]

[Disclosure]

- The accounting policy adopted
- Amount of borrowing cost capitalised during the period
- Capitalisation rate used
- [IAS 23.29]

[Reference]

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