

IAS 23 BORROWING COSTS

HISTORY OF IAS 23

November 1982	Exposure Draft E24 <i>Capitalisation of Borrowing Costs</i>
March 1984	IAS 23 <i>Capitalisation of Borrowing Costs</i>
1 January 1986	Effective Date of IAS 23 (1984)
August 1991	Exposure Draft E39 <i>Capitalisation of Borrowing Costs</i>
December 1993	IAS 23 (1993) <i>Borrowing Costs</i> (revised as part of the 'Comparability of Financial Statements' project based on E32)
1 January 1995	Effective Date of IAS 23 (1993) <i>Borrowing Costs</i>
25 May 2006	Exposure Draft of proposed amendments to IAS 23 Click for Press Release (PDF 57k)
29 March 2007	IASB issues Amendments to IAS 23 to require capitalisation of borrowing costs Click for Press Release (PDF 51k)

RELATED INTERPRETATIONS

SIC 2 Consistency - Capitalisation of Borrowing Costs
SIC 2 was superseded by and incorporated into IAS 8 in December 2003.
Issues Relating to This Standard that IFRIC Did Not Add to Its Agenda

AMENDMENTS UNDER CONSIDERATION BY IASB

[Exposure Draft of Proposed Amendments to IAS 23](#) issued in May 2006.

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, 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

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] Borrowing cost does not include actual or imputed cost of equity capital, including any preferred capital not classified as a

liability pursuant to **IAS 32**. [IAS 23.1]

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

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]

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]

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] 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.

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 [IAS 23.29]

The accounting policy adopted
Amount of borrowing cost capitalised during the period
Capitalisation rate used

IAS 23 Revised in March 2007 to Require Capitalisation of Borrowing Costs

On 29 March 2007, the IASB issued a revised IAS 23 Borrowing Costs. The main change from the previous version is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise borrowing costs as part of the cost of such assets.

The revised IAS 23 does not require the capitalisation of borrowing costs relating to assets measured at fair value, and inventories that are manufactured or produced in large quantities

on a repetitive basis, even if they take a substantial period of time to get ready for use or sale.

The revised Standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. Earlier application is permitted. Click for [Press Release](#) (PDF 51k).

Special newsletter on borrowing cost amendments

Deloitte's IFRS Global Office has published a special edition of our IAS Plus Newsletter titled [IASB Issues Revised Standard on Borrowing Costs](#) (PDF 99k).