

Borrowing Cost

- IAS 23 Borrowing Cost

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Definition

- Borrowing costs:
 - Interest and other costs incurred by an entity in connection with the borrowing of funds
- Qualifying asset:
 - An asset that necessarily takes a substantial period of time to get ready for its intended use or sale

Accounting treatment

- Borrowing costs that directly relate to the acquisition, construction or production of a qualifying asset must be capitalised as part of the cost of that asset.

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Types of borrowing costs

- Funds borrowed specifically:
 - Capitalise actual borrowing costs incurred less investment income on temporary investment of funds
- Funds borrowed generally:
 - Capitalise borrowing costs calculated as the weighted average cost of borrowings for the period multiplied by the expenditure on the qualifying asset
 - Note that the amount capitalised should not exceed total borrowing costs incurred in the period

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Commencement of capitalisation

- Capitalisation of borrowing costs should begin 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

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Suspension and cessation of capitalisation

- Capitalisation of borrowing costs should be suspended during extended periods when development is interrupted. For example due to workforce strikes or inclement weather.
- Capitalisation of borrowing costs should cease when substantially all of the activities necessary to prepare the qualifying asset for its intended use or sale are complete.
- This is likely to be when the asset is ready for use (even if it is not being used).