IAS 23 Borrowing Costs

MNP

SCOPE AND DEFINITIONS

An entity shall apply this Standard in accounting for borrowing costs

- Borrowing costs are interest and other costs that an entity incurs in connection with the borrowing of funds.
- Borrowing costs may include:
  - Interest expense calculated using the effective interest method described in IFRS 9 *Financial Instruments.*
  - Interest in respect of lease liabilities recognized in accordance with IFRS 16 *Leases,* and
  - 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. Depending on the circumstances, any of the following may be qualifying assets:

- Inventories
- Intangible assets
- Manufacturing plants
- Investment properties
- Power generation facilities
- Bearer plants

Financial assets and inventories that are manufactured, or otherwise produced, over a short period of time, are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

This Standard does **not** deal with the actual or imputed cost of equity, including preferred capital not classified as a liability.

An entity is **not required** to apply this Standard to borrowing costs directly attributable to the acquisition, construction, or production of:

- A qualifying asset measured at fair value, or
- Inventories that are manufactured, or otherwise produced, in large quantities on a repetitive basis.

RECOGNITION AND MEASUREMENT

1. An entity shall capitalize borrowing costs that are **directly attributable** to the acquisition, construction, or production of a **qualifying asset** as part of cost of that asset. Such borrowing costs are capitalized as part of the cost of the asset when it is probable that they will result in future economic benefits to the entity and the costs can be measured reliably.
   - The borrowing costs that are **directly attributable** to the acquisition, construction or production of a qualifying asset are those borrowing costs that would have been avoided if the expenditure on the qualifying asset had not been made.
2. An entity shall recognize other borrowing costs as an expense in the period in which it incurs them.

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 realizable value, the carrying amount is written down or written off in accordance with the requirements of other Standards.
- In certain circumstances, the amount of the write-down or write-off is written back.

BORROWING COSTS ELIGIBLE FOR CAPITALIZATION

Funds Borrowed Specifically to Obtain a Specific Qualifying Asset

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 cost eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

Funds Borrowed Generally and Used to Obtain a Qualifying Asset

- The entity shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset.
- The **capitalization rate** shall be the weighted average of the borrowing costs applicable to all borrowings of the entity that are outstanding:
  - Borrowing costs made specifically for the purpose of obtaining a qualifying asset shall be excluded from this calculation until substantially all the activities necessary to prepare that asset for its intended use or sale are complete.
- The amount of borrowing costs that an entity capitalizes during the period shall not exceed the amount of borrowing costs it incurred during that period.

$$\frac{\text{Total general borrowing costs for the period}}{\text{Weighted average total general borrowings outstanding in period}}$$

COMMENCEMENT OF CAPITALIZATION

- An entity shall begin capitalizing borrowing costs as part of the cost of a qualifying asset on the commencement date, which is the date when the entity first meets **all** the following conditions:
  - It incurs expenditures for the asset.
  - It incurs borrowing costs, and
  - It undertakes activities that are necessary to prepare asset for its intended use.
- Expenditures on qualifying assets include only those expenditures that have resulted in payments of cash, transfers of other assets or the assumption of interest-bearing liabilities, reduced by any progress payments received and grants received in connection with the asset.
- The activities necessary to prepare the asset for its intended use or sale 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 physical construction.

SUSPENDING CAPITALIZATION

- An entity shall suspend capitalization of borrowing costs during extended periods in which it suspends active development of a qualifying asset.
- An entity does not normally suspend capitalizing borrowing costs when:
  - During a period when it carries out substantial technical and administrative work.
  - When a temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale.

CEASING CAPITALIZATION

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