Borrowing costs on land (IAS 23 *Borrowing Costs*)—September 2018

The Committee received a request about when an entity ceases capitalising borrowing costs on land.

In the fact pattern described in the request:

a. an entity acquires and develops land and thereafter constructs a building on that land—the land represents the area on which the building will be constructed;
b. both the land and the building meet the definition of a qualifying asset; and
c. the entity uses general borrowings to fund the expenditures on the land and construction of the building.

The request asked whether the entity ceases capitalising borrowing costs incurred in respect of expenditures on the land (land expenditures) once it starts constructing the building or whether it continues to capitalise borrowing costs incurred in respect of land expenditures while it constructs the building.

The Committee observed that in applying IAS 23 to determine when to cease capitalising borrowing costs incurred on land expenditures:

a. an entity considers the intended use of the land. Land and buildings are used for owner-occupation (recognised as property, plant and equipment applying IAS 16 *Property, Plant and Equipment*); rent or capital appreciation (recognised as investment property applying IAS 40 *Investment Property*); or for sale (recognised as inventory applying IAS 2 *Inventories*). The intended use of the land is not simply for the construction of a building on the land, but rather to use it for one of these three purposes.
b. applying paragraph 24 of IAS 23, an entity considers whether the land is capable of being used for its intended purpose while construction continues on the building. If the land is not capable of being used for its intended purpose while construction continues on the building, the entity considers the land and building together to assess when to cease capitalising borrowing costs on the land expenditures. In this situation, the land would not be ready for its intended use or sale until substantially all the activities necessary to prepare both the land and building for that intended use or sale are complete.

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine when to cease capitalising borrowing costs on land expenditures. Consequently, the Committee decided not to add this matter to its standard-setting agenda.