IAS 23 ***Consolidated and Separate Financial Statements*** (November 2009)

Meaning of 'general borrowings'

The IFRIC received a request for guidance on what borrowings comprise “general borrowings” for purposes of capitalisation of borrowing costs in accordance with IAS 23. IAS 23 paragraph 14 states that “*To the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset*, the entity shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate shall be the weighted average of *the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset*” (emphasis added). The request asked for guidance on the treatment of general borrowings used to purchase a specific asset other than a qualifying asset as defined in the standard.

The IFRIC noted that because paragraph 14 of IAS 23 refers only to qualifying assets, some conclude that borrowings related to specific assets other than qualifying assets cannot be excluded from determining the capitalisation rate for general borrowings. Others note the general principle in paragraph 10 that the borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are borrowing costs that would have been avoided if the expenditure on the qualifying asset had not been made. The IFRIC noted that paragraph 11 of IAS 23 states ‘the determination of the amount of borrowing costs that are directly attributable to the acquisition of a qualifying asset is difficult and the exercise of judgement is required.’

The IFRIC noted that the standard itself acknowledges that judgement will be required in its application. In addition, the IFRIC concluded that any guidance it could provide would be in the nature of application guidance rather than an interpretation. The IFRIC also noted that the Board will consider whether to add this issue to the annual improvements project.

At its meeting in July, the Board noted that IAS 23 excludes only debt used to acquire qualifying assets from the determination of the capitalisation rate. The Board decided not to include this issue in the annual improvements project.

The IFRIC therefore decided not to add the issue to its agenda