

IAS 23

Borrowing Costs

In April 2001 the International Accounting Standards Board (Board) adopted IAS 23 *Borrowing Costs*, which had originally been issued by the International Accounting Standards Committee in December 1993. IAS 23 *Borrowing Costs* replaced IAS 23 *Capitalisation of Borrowing Costs* (issued in March 1984).

In March 2007 the Board issued a revised IAS 23 that eliminated the option of immediate recognition of borrowing costs as an expense.

Other Standards have made minor consequential amendments to IAS 23. They include *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41) (issued June 2014), IFRS 9 *Financial Instruments* (issued July 2014), IFRS 16 *Leases* (issued January 2016) and *Annual Improvements to IFRS Standards 2015–2017 Cycle* (issued December 2017).

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BORROWING COSTS**

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APPROVAL BY THE BOARD OF IAS 23 ISSUED IN MARCH 2007	

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**BASIS FOR CONCLUSIONS
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DISSENTING OPINIONS**

International Accounting Standard 23 *Borrowing Costs* (IAS 23) is set out in paragraphs 1–30 and the Appendix. All of the paragraphs have equal authority but retain the IASC format of the Standard when it was adopted by the IASB. IAS 23 should be read in the context of its core principle and the Basis for Conclusions, the *Preface to IFRS Standards* and the *Conceptual Framework for Financial Reporting*. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

International Accounting Standard 23 *Borrowing Costs*

Core principle

- 1 Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognised as an expense.

Scope

- 2 An entity shall apply this Standard in accounting for borrowing costs.
- 3 The Standard does not deal with the actual or imputed cost of equity, including preferred capital not classified as a liability.
- 4 An entity is not required to apply the Standard to borrowing costs directly attributable to the acquisition, construction or production of:
- (a) a qualifying asset measured at fair value, for example a biological asset within the scope of IAS 41 *Agriculture*; or
 - (b) inventories that are manufactured, or otherwise produced, in large quantities on a repetitive basis.

Definitions

- 5 This Standard uses the following terms with the meanings specified:
- Borrowing costs* are interest and other costs that an entity incurs in connection with the borrowing of funds.
- A *qualifying asset* is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.
- 6 Borrowing costs may include:
- (a) interest expense calculated using the effective interest method as described in IFRS 9;
 - (b) [deleted]
 - (c) [deleted]
 - (d) interest in respect of lease liabilities recognised in accordance with IFRS 16 *Leases*; and
 - (e) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.
- 7 Depending on the circumstances, any of the following may be qualifying assets:
- (a) inventories
 - (b) manufacturing plants

- (c) power generation facilities
- (d) intangible assets
- (e) investment properties
- (f) 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.

Recognition

- 8 An entity shall capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. An entity shall recognise other borrowing costs as an expense in the period in which it incurs them.
- 9 Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are included in the cost of that asset. Such borrowing costs are capitalised 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. When an entity applies IAS 29 *Financial Reporting in Hyperinflationary Economies*, it recognises as an expense the part of borrowing costs that compensates for inflation during the same period in accordance with paragraph 21 of that Standard.

Borrowing costs eligible for capitalisation

- 10 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. When an entity borrows funds specifically for the purpose of obtaining a particular qualifying asset, the borrowing costs that directly relate to that qualifying asset can be readily identified.
- 11 It may be difficult to identify a direct relationship between particular borrowings and a qualifying asset and to determine the borrowings that could otherwise have been avoided. Such a difficulty occurs, for example, when the financing activity of an entity is co-ordinated centrally. Difficulties also arise when a group uses a range of debt instruments to borrow funds at varying rates of interest, and lends those funds on various bases to other entities in the group. Other complications arise through the use of loans denominated in or linked to foreign currencies, when the group operates in highly inflationary economies, and from fluctuations in exchange rates. As a result, 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.

- 12 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 costs eligible for capitalisation as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.
- 13 The financing arrangements for a qualifying asset may result in an entity obtaining borrowed funds and incurring associated borrowing costs before some or all of the funds are used for expenditures on the qualifying asset. In such circumstances, the funds are often temporarily invested pending their expenditure on the qualifying asset. In determining the amount of borrowing costs eligible for capitalisation during a period, any investment income earned on such funds is deducted from the borrowing costs incurred.
- 14 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 all borrowings of the entity that are outstanding during the period. However, an entity shall exclude from this calculation borrowing costs applicable to borrowings made specifically for the purpose of obtaining a qualifying asset 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 capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.
- 15 In some circumstances, it is appropriate to include all borrowings of the parent and its subsidiaries when computing a weighted average of the borrowing costs; in other circumstances, it is appropriate for each subsidiary to use a weighted average of the borrowing costs applicable to its own borrowings.

Excess of the carrying amount of the qualifying asset over recoverable amount

- 16 When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or net realisable 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 in accordance with those other Standards.

Commencement of capitalisation

- 17 An entity shall begin capitalising borrowing costs as part of the cost of a qualifying asset on the commencement date. The commencement date for capitalisation is the date when the entity first meets all of the following conditions:
- (a) it incurs expenditures for the asset;
 - (b) it incurs borrowing costs; and

(c) **it undertakes activities that are necessary to prepare the asset for its intended use or sale.**

- 18 Expenditures on a qualifying asset include only those expenditures that have resulted in payments of cash, transfers of other assets or the assumption of interest-bearing liabilities. Expenditures are reduced by any progress payments received and grants received in connection with the asset (see IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*). The average carrying amount of the asset during a period, including borrowing costs previously capitalised, is normally a reasonable approximation of the expenditures to which the capitalisation rate is applied in that period.
- 19 The activities necessary to prepare the asset for its intended use or sale encompass more than the physical construction of the asset. They 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 the physical construction. However, such activities exclude the holding of an asset when no production or development that changes the asset's condition is taking place. For example, borrowing costs incurred while land is under development are capitalised during the period in which activities related to the development are being undertaken. However, borrowing costs incurred while land acquired for building purposes is held without any associated development activity do not qualify for capitalisation.

Suspension of capitalisation

- 20 **An entity shall suspend capitalisation of borrowing costs during extended periods in which it suspends active development of a qualifying asset.**
- 21 An entity may incur borrowing costs during an extended period in which it suspends the activities necessary to prepare an asset for its intended use or sale. Such costs are costs of holding partially completed assets and do not qualify for capitalisation. However, an entity does not normally suspend capitalising borrowing costs during a period when it carries out substantial technical and administrative work. An entity also does not suspend capitalising borrowing costs when a temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale. For example, capitalisation continues during the extended period that high water levels delay construction of a bridge, if such high water levels are common during the construction period in the geographical region involved.

Cessation of capitalisation

- 22 **An entity shall cease capitalising borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.**
- 23 An asset is normally ready for its intended use or sale when the physical construction of the asset is complete even though routine administrative work might still continue. If minor modifications, such as the decoration of a property to the purchaser's or user's specification, are all that are outstanding, this indicates that substantially all the activities are complete.

- 24 **When an entity completes the 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 capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.**
- 25 A business park comprising several buildings, each of which can be used individually, is an example of a qualifying asset for which each part is capable of being usable while construction continues on other parts. An example of a qualifying asset that needs to be complete before any part can be used is an industrial plant involving several processes which are carried out in sequence at different parts of the plant within the same site, such as a steel mill.

Disclosure

- 26 An entity shall disclose:
- (a) the amount of borrowing costs capitalised during the period; and
 - (b) the capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation.

Transitional provisions

- 27 When application of this Standard constitutes a change in accounting policy, an entity shall apply the Standard to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after the effective date.
- 28 However, an entity may designate any date before the effective date and apply the Standard to borrowing costs relating to all qualifying assets for which the commencement date for capitalisation is on or after that date.
- 28A *Annual Improvements to IFRS Standards 2015–2017 Cycle*, issued in December 2017, amended paragraph 14. An entity shall apply those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments.

Effective date

- 29 An entity shall apply the Standard for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the Standard from a date before 1 January 2009, it shall disclose that fact.
- 29A Paragraph 6 was amended by *Improvements to IFRSs* issued in May 2008. An entity shall apply that amendment for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.
- 29B IFRS 9, as issued in July 2014, amended paragraph 6. An entity shall apply that amendment when it applies IFRS 9.

- 29C IFRS 16, issued in January 2016, amended paragraph 6. An entity shall apply that amendment when it applies IFRS 16.
- 29D *Annual Improvements to IFRS Standards 2015–2017 Cycle*, issued in December 2017, amended paragraph 14 and added paragraph 28A. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. If an entity applies those amendments earlier, it shall disclose that fact.

Withdrawal of IAS 23 (revised 1993)

- 30 This Standard supersedes IAS 23 *Borrowing Costs* revised in 1993.

Appendix **Amendments to other pronouncements**

The amendments in this appendix shall be applied for annual periods beginning on or after 1 January 2009. If an entity applies this Standard for an earlier period, the amendments in this appendix shall be applied for that earlier period. In the amended paragraphs, new text is underlined and deleted text is struck through.

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The amendments contained in this appendix when this IFRS was issued in 2007 have been incorporated into the relevant IFRSs published in this volume.

Approval by the Board of IAS 23 issued in March 2007

International Accounting Standard 23 *Borrowing Costs* (as revised in 2007) was approved for issue by eleven of the fourteen members of the International Accounting Standards Board. Messrs Cope, Danjou and Garnett dissented. Their dissenting opinions are set out after the Basis for Conclusions.

Sir David Tweedie

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Thomas E Jones

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