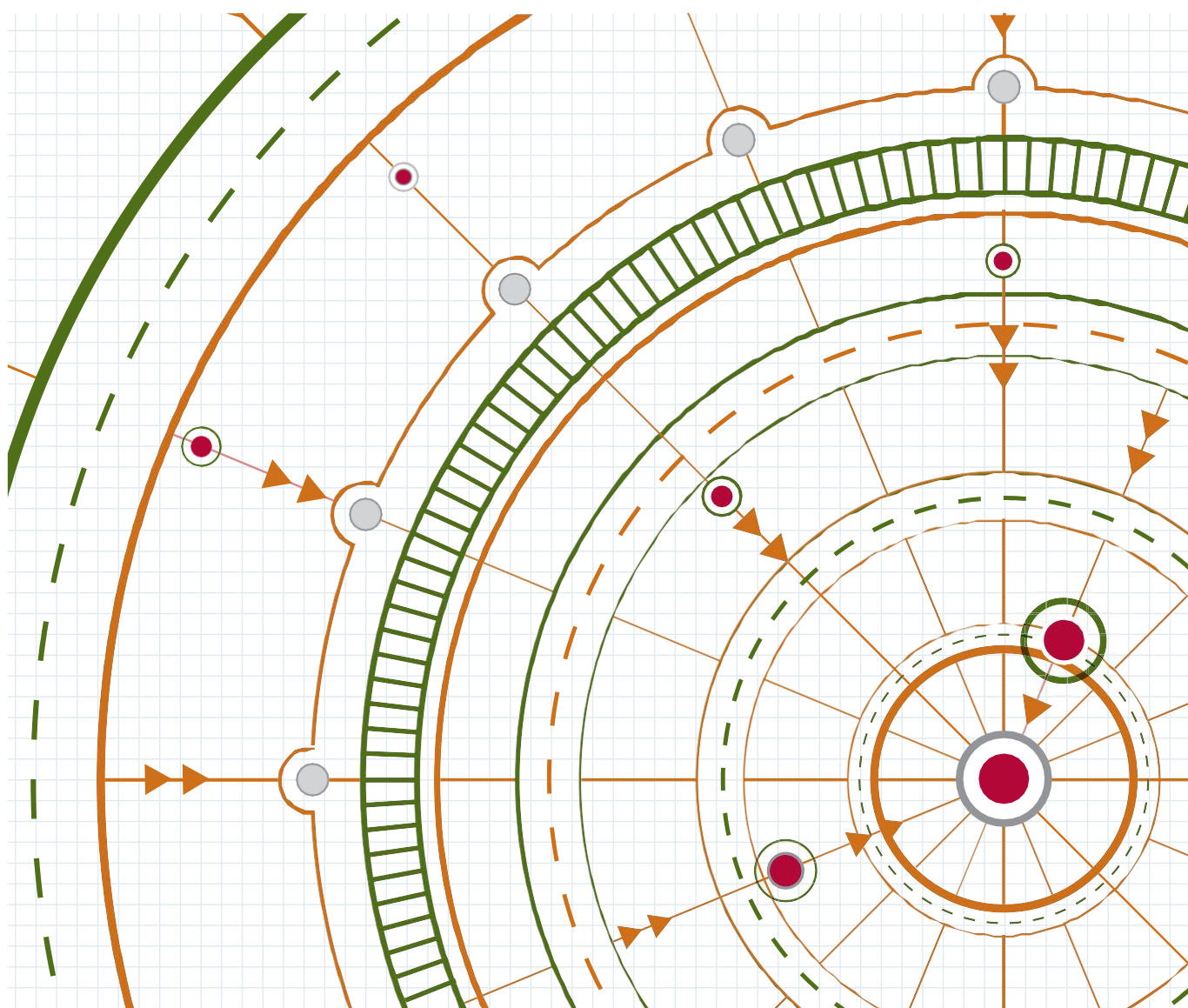


Module 25—Borrowing Costs



IFRS[®] Foundation

Supporting Material

for the *IFRS for SMEs*[®] Standard

including the full text of
Section 25 *Borrowing Costs*
of the *IFRS for SMEs* Standard
issued by the International Accounting Standards Board in October 2015

with extensive explanations, self-assessment questions and case study

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Contents

INTRODUCTION	1
Which version of the <i>IFRS for SMEs</i> Standard?	1
This module	1
<i>IFRS for SMEs</i> Standard	2
Introduction to the requirements	3
What has changed since the 2009 <i>IFRS for SMEs</i> Standard	3
REQUIREMENTS AND EXAMPLES	4
Scope of this section	4
Recognition	7
Disclosures	8
SIGNIFICANT ESTIMATES AND OTHER JUDGEMENTS	9
COMPARISON WITH FULL IFRS STANDARDS	10
TEST YOUR KNOWLEDGE	11
APPLY YOUR KNOWLEDGE	13
Case study	13
Answer to case study	14

Module 25—Borrowing Costs

The accounting requirements applicable to small and medium-sized entities (SMEs) discussed in this module are set out in the *IFRS for SMEs* Standard, issued by the International Accounting Standards Board (Board) in October 2015. This module has been prepared by IFRS Foundation education staff. The contents of Section 25 *Borrowing Costs* of the *IFRS for SMEs* Standard are set out in this module and shaded grey. The Glossary of terms of the *IFRS for SMEs* Standard (Glossary) is also part of the requirements. Terms defined in the Glossary are reproduced in **bold type** the first time they appear in the text of Section 25. The notes and examples inserted by the education staff are not shaded. These notes and examples do not form part of the *IFRS for SMEs* Standard and have not been approved by the Board.

INTRODUCTION

Which version of the *IFRS for SMEs*[®] Standard?

When the *IFRS for SMEs* Standard was first issued in July 2009, the Board said it would undertake an initial comprehensive review of the Standard to assess entities' experience of the first two years of its application and to consider the need for any amendments. To this end, in June 2012, the Board issued a Request for Information: *Comprehensive Review of the IFRS for SMEs*. An Exposure Draft proposing amendments to the *IFRS for SMEs* Standard was subsequently published in 2013, and in May 2015 the Board issued *2015 Amendments to the IFRS for SMEs* Standard.

The document published in May 2015 only included amended text, but in October 2015, the Board issued a fully revised edition of the Standard, which incorporated additional minor editorial amendments as well as the substantive May 2015 revisions. This module is based on that version.

The *IFRS for SMEs* Standard issued in October 2015 is effective for annual periods beginning on or after 1 January 2017. Earlier application was permitted, but an entity that did so was required to disclose the fact.

Any reference in this module to the *IFRS for SMEs* Standard refers to the version issued in October 2015.

This module

This module focuses on accounting for borrowing costs applying Section 25 *Borrowing Costs* of the *IFRS for SMEs* Standard. It introduces the subject and reproduces the official text along with explanatory notes and examples designed to enhance understanding of the requirements. The module identifies the significant judgements required in accounting for borrowing costs. In addition, the module includes questions designed to test your understanding of the requirements and a case study that provides a practical opportunity to apply the requirements to account for and present borrowing costs applying the *IFRS for SMEs* Standard.

Module 25—Borrowing Costs

Upon successful completion of this module, you should, within the context of the *IFRS for SMEs* Standard, be able to:

- distinguish borrowing costs from other costs;
- determine when and how to recognise borrowing costs;
- understand how to present borrowing costs in financial statements; and
- demonstrate an understanding of the significant judgements that are required in accounting for borrowing costs.

IFRS for SMEs Standard

The *IFRS for SMEs* Standard is intended to apply to the general purpose financial statements of entities that do not have public accountability (see Section 1 *Small and Medium-sized Entities*).

The *IFRS for SMEs* Standard is comprised of mandatory requirements and other non-mandatory material.

The non-mandatory material includes:

- a preface, which provides a general introduction to the *IFRS for SMEs* Standard and explains its purpose, structure and authority;
- implementation guidance, which includes illustrative financial statements and a table of presentation and disclosure requirements;
- the Basis for Conclusions, which summarises the Board's main considerations in reaching its conclusions in the *IFRS for SMEs* Standard issued in 2009 and, separately, in the 2015 Amendments; and
- the dissenting opinion of a Board member who did not agree with the issue of the *IFRS for SMEs* Standard in 2009 and the dissenting opinion of a Board member who did not agree with the 2015 Amendments.

In the *IFRS for SMEs* Standard, Appendix A: Effective date and transition, and Appendix B: Glossary of terms, are part of the mandatory requirements.

In the *IFRS for SMEs* Standard, there are appendices to Section 21 *Provisions and Contingencies*, Section 22 *Liabilities and Equity* and Section 23 *Revenue*. These appendices provide non-mandatory guidance.

The *IFRS for SMEs* Standard has been issued in two parts: Part A contains the preface, all the mandatory material and the appendices to Section 21, Section 22 and Section 23; and Part B contains the remainder of the material mentioned above.

Further, the SME Implementation Group (SMEIG), which assists the Board with supporting implementation of the *IFRS for SMEs* Standard, publishes implementation guidance as 'questions and answers' (Q&As). These Q&As provide non-mandatory, timely guidance on specific accounting questions raised with the SMEIG by entities implementing the *IFRS for SMEs* Standard and other interested parties. At the time of issue of this module (September 2018) the SMEIG has not issued any Q&As relevant to this module.

Module 25—Borrowing Costs

Introduction to the requirements

The objective of general purpose financial statements of a small or medium-sized entity is to provide information about the entity's financial position, performance and cash flows that is useful for economic decision-making by a broad range of users who are not in a position to demand reports tailored to meet their particular information needs. Such users include, for example, owners who are not involved in managing the business, existing and potential creditors and credit rating agencies.

The objective of Section 25 is to prescribe general requirements for accounting for borrowing costs.

Borrowing costs are interest and other costs incurred in connection with the borrowing of funds.

This section requires an entity to recognise all borrowing costs as an expense in profit or loss in the period in which they are incurred. Other sections also specify requirements for the accounting and reporting of borrowing costs. For example, Section 11 *Basic Financial Instruments* specifies requirements for interest expense calculated using the effective interest rate method and Section 20 *Leases* specifies requirements for finance charges in respect of finance leases.

What has changed since the 2009 IFRS for SMEs Standard

This section of the *IFRS for SMEs* Standard was unchanged by the 2015 Amendments. However, this module reproduces other editorial changes.

Module 25—Borrowing Costs

REQUIREMENTS AND EXAMPLES

Scope of this section

- 25.1 This section specifies the accounting for **borrowing costs**. Borrowing costs are interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs include:
- (a) interest **expense** calculated using the **effective interest method** as described in Section 11 *Basic Financial Instruments*;
 - (b) finance charges in respect of **finance leases** recognised in accordance with Section 20 *Leases*; and
 - (c) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Notes

Paragraphs 11.16–11.20 (Section 11 *Basic Financial Instruments*) deal with the application of the effective interest method, which is also covered in Module 11 *Basic Financial Instruments*.

Examples—scope

- Ex 1 **An entity incurs interest at the fixed rate of 5% per year on a CU100,000⁽¹⁾ loan from a local bank.**

The 5% interest on the loan is a borrowing cost.

- Ex 2 **An entity issued a CU100,000 debenture to a local bank. The debenture contract requires the entity, on the sixth anniversary of the loan, to pay the local bank CU134,010 (CU100,000 repayment of capital and CU34,010 premium) to redeem the debenture. The debenture has a coupon of zero (sometimes called an ‘interest-free’ debenture).**

The redemption premium is a borrowing cost. Applying Section 11 *Basic Financial Instruments* the entity accounts for the debenture at amortised cost. Amortised cost requires amortisation of the CU34,010 premium (the borrowing cost) to be recognised over the life of the debenture using the effective interest method.

Using a spreadsheet or financial calculator, the effective interest rate (r) on this debenture is calculated at 5% (ie the present value of a single payment of CU134,010 at the end of six years at 5% is CU100,000) (Calculation: $CU100,000 \times (1+r)^6 = CU134,010$).

⁽¹⁾ In this example, and in all other examples in this module, monetary amounts are denominated in ‘currency units (CU)’.

Module 25—Borrowing Costs

The premium of CU34,010 would be amortised as follows:

Year	Amortisation of premium (5% × liability)	Liability	Premium
	CU	CU	CU
		100,000	34,010
1	5,000	105,000	29,010
2	5,250	110,250	23,760
3	5,513	115,763	18,247
4	5,788	121,551	12,459
5	6,078	127,629	6,381
6	6,381	134,010	0

Ex 3 An entity incurred CU1,000 in legal fees to raise a CU100,000 loan that bears interest at the fixed rate of 5% per year. The principal of the loan is repayable six years after the loan was raised.

The loan would be accounted for in accordance with Section 11 as a basic financial instrument (see paragraph 11.8(b)). The interest on the loan is a borrowing cost. In addition, the amortisation of the legal fees (ancillary cost incurred to arrange the borrowing) is a borrowing cost (see paragraph 11.18). Applying Section 11 the entity accounts for the loan at amortised cost. Amortised cost requires the CU1,000 transaction costs be included in the initial measurement of the liability and recognised over the life of the loan using the effective interest method.

Ex 4 An entity entered, as lessee, into a finance lease over an item of equipment. In accordance with paragraph 20.9, at the commencement of the lease term the entity recognised a CU100,000 asset and a CU100,000 liability. The entity incurred CU5,000 costs to negotiate and arrange the lease. In accordance with paragraph 20.11, the entity apportioned the minimum lease payments between the finance charge and reduction of the outstanding liability.

The lease would be accounted for in accordance with Section 20.

The finance charge is a borrowing cost.

The CU5,000 cost to negotiate and arrange the lease is an initial direct cost of the lessee, and is not treated as borrowing costs.

Applying paragraph 20.9, such costs are added to the amount recognised as an asset. The effect of adding initial direct costs to the carrying amount of the asset (and hence increasing the carrying amount by CU5,000) will be to increase, by CU5,000, the total amount of depreciation recognised over the shorter of the lease term and the asset’s useful life.

Module 25—Borrowing Costs

Ex 5 An entity incurs interest at the fixed rate of 2% per year on a FCU100,000⁽²⁾ loan from a foreign bank that is repayable in full on the sixth anniversary of the loan. The functional currency of the entity is the currency unit (CU). The entity borrowed money in a foreign currency (FCU) because it believed that after taking account of the expected foreign exchange loss, the effective interest rate on the FCU denominated loan would be 4% per year when equivalent local CU-denominated loans bear interest at 5% per year. Changes in the CU/FCU exchange rate proved to be consistent with the entity's predictions.

The exchange losses and the interest on the liability are borrowing costs. The sum of the exchange losses and the interest for the reporting period are less than what the interest would have been on an equivalent CU denominated loan for the reporting period (see paragraph 25.1(c)).

Ex 6 The facts are the same as in Example 5. However, in this example, assume the foreign exchange losses and interest on the FCU-denominated loan exceeded the amount that interest expense would have been had the entity borrowed in its functional currency (the CU).

The entity's accounting policy for borrowing costs on foreign currency denominated loans limits total borrowing costs (interest and exchange differences on the principal) to a theoretical borrowing cost based on what the interest would have been on an equivalent CU-denominated loan for the reporting period. The excess exchange loss, if any, is classified as a foreign exchange loss.

The amount of the exchange loss that can be accounted for as a borrowing cost is limited in accordance with the entity's accounting policy that implements the requirements of paragraph 25.1(c). The limitation is such that the total borrowing cost (interest and exchange differences on the principal) does not exceed a theoretical borrowing cost based on what the interest would have been on an equivalent CU-denominated loan for the reporting period.⁽³⁾ The excess exchange loss, if any, is classified as a foreign exchange loss.

⁽²⁾ In this example, and all other examples in this module, foreign currency monetary amounts are denominated in 'foreign currency units (FCU)'.

⁽³⁾ Other methods of implementing the requirements of paragraph 25.1(c) may also be acceptable.

Module 25—Borrowing Costs

Recognition

25.2 An entity shall recognise all borrowing costs as an expense in **profit or loss** in the period in which they are incurred.

Examples—recognition

Ex 7 On 1 January 20X1 an entity borrowed CU100,000 from a local bank. The bank charges interest on the loan at the fixed rate of 5% per year. Interest is payable annually in arrears (on 31 December each year). The principal (CU100,000) is repayable in full on the sixth anniversary of the loan.

The entity must recognise CU5,000 interest (borrowing cost) as an expense in the determination of profit or loss for each of the years ended 31 December 20X1 to 31 December 20X6.

Ex 8 On 1 July 20X1 an entity borrowed CU100,000 from a local bank. The bank charges interest on the loan at the fixed rate of 5% per year. Interest is payable annually in arrears (on 30 June each year). The principal (CU100,000) is repayable in full on the sixth anniversary of the loan. The entity's annual reporting period ends on 31 December.

The entity must recognise CU2,500 interest (borrowing cost) as an expense in the determination of profit or loss for each of the years ended 31 December 20X1 and 31 December 20X7 (because interest accrues for the six months the loan is in existence in each of those years).

The entity must recognise CU5,000 interest (borrowing cost) as an expense in the determination of profit or loss for each of the years ended 31 December 20X2 to 31 December 20X6.

Ex 9 On 1 January 20X1 an entity issued a CU100,000 'interest-free' debenture to a local bank. The debenture contract requires the entity to pay the local bank CU110,250 to redeem the debenture on 31 December 20X2.

The entity must recognise CU5,000 and CU5,250 borrowing costs respectively as an expense in the determination of profit or loss for the years ended 31 December 20X1 and 31 December 20X2 (refer to table below). The borrowing cost is the redemption premium calculated using the effective interest method.

The effective interest rate (r) on this debenture is calculated at 5%—the present value of a single payment of CU110,250 at the end of two years at 5% is CU100,000 (Calculation: $CU100,000 \times (1+r)^2 = CU110,250$).

Module 25—Borrowing Costs

Applying Section 11 *Basic Financial Instruments* the entity accounts for the debenture at amortised cost. Amortised cost requires amortisation of the CU10,250 premium (the borrowing cost) to be recognised over the life of the debenture using the effective interest method.

The premium of CU10,250 would be amortised as follows:

Year	Amortisation of premium (5% × liability)	Liability	Premium
	CU	CU	CU
		100,000	10,250
1	5,000	105,000	5,250
2	5,250	110,250	0

Ex 10 On 1 January 20X1 an entity incurred CU5,000 in transaction costs to raise a CU100,000 loan that bears interest at the fixed rate of CU5,000 (or 5%) per year. Interest is payable yearly in arrears (on 31 December each year). The principal of CU100,000 is repayable in full on the second anniversary of the loan.

The entity must recognise CU7,406^(a) and CU7,594^(c) in borrowing costs respectively as expenses in the determination of profit or loss for the years ended 31 December 20X1 and 31 December 20X2. The borrowing cost includes the transaction costs and the interest calculated using the effective interest method in accordance with Section 11 *Basic Financial Instruments*.

- (a) $CU95,000^{(b)} \times 7.796\%^{(e)} = CU7,406$ — finance cost for the year ended 31 December 20X1.
- (b) $CU100,000$ loan proceeds less $CU5,000$ transaction costs = $CU95,000$ —liability at 1 January 20X1.
- (c) $CU97,406^{(d)} \times 7.796\%^{(e)} = CU7,594$ finance cost for the year ended 31 December 20X2.
- (d) $CU95,000^{(b)} + CU7,406^{(a)}$ less $CU5,000$ payment = $CU97,406$ — liability at 31 December 20X1.
- (e) The effective interest rate is 7.796% per year, which can be determined using a finance calculator as follows: $FV = CU100,000$, $n = 2$, $P = CU95,000$, $PMT = -CU5,000$, where FV = Future Value, n = number of of periods, P = Starting Principal and PMT = Annuity Payment.

Disclosures

25.3 Paragraph 5.5(b) requires disclosure of finance costs. Paragraph 11.48(b) requires disclosure of total interest expense (using the effective interest method) for **financial liabilities** that are not at **fair value** through profit or loss. This section does not require any additional disclosure.

Notes

While Section 25 does not contain specific disclosure requirements relating to borrowing cost, paragraph 5.5(b) requires disclosure of finance cost. Borrowing costs are a component of finance costs and therefore should be disclosed in accordance with paragraph 5.5(b).

Module 25—Borrowing Costs

SIGNIFICANT ESTIMATES AND OTHER JUDGEMENTS

Applying the requirements of the *IFRS for SMEs* Standard to transactions and events often requires the exercise of judgement, including making estimates. Information about significant judgements made by an entity's management and key sources of estimation uncertainty are useful when assessing an entity's financial position, performance and cash flows.

Consequently, in accordance with paragraph 8.6, an entity must disclose the judgements—apart from those involving estimates—that its management has made when applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Furthermore, applying paragraph 8.7, an entity must disclose information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Other sections of the *IFRS for SMEs* Standard require disclosure of information about particular judgements and estimation uncertainties.

Recognition and measurement

Judgement is required to determine the exchange difference component of borrowing costs arising from foreign currency borrowings to the extent they are regarded as adjustments to interest costs.

Module 25—Borrowing Costs

COMPARISON WITH FULL IFRS STANDARDS

When accounting for and reporting borrowing costs for periods beginning on 1 January 2017, the main differences between the requirements of full IFRS Standards (see IAS 23 *Borrowing Costs*) and the *IFRS for SMEs* Standard (see Section 25 *Borrowing Costs*) are:

- The *IFRS for SMEs* Standard is drafted in simpler language than that used in full IFRS Standards.
- Full IFRS Standards require borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset to be capitalised as part of the cost of the asset. For cost-benefit reasons, the *IFRS for SMEs* Standard requires such costs to be charged as expenses.
- The composition of borrowing costs in full IFRS Standards (see paragraph 6 of IAS 23) and the *IFRS for SMEs* Standard (see paragraph 25.1) are similar. However, differences between borrowing costs as defined in IAS 23 and Section 25 may arise because the requirements for accounting for the underlying liability may be different. For example, interest expense calculated in accordance with Section 11 *Basic Financial Instruments* of the *IFRS for SMEs* Standard might differ from ‘interest’ calculated on the same instrument in accordance with full IFRS Standards (IFRS 9 *Financial Instruments* or IAS 39 *Financial Instruments: Recognition and Measurement*).

Module 25—Borrowing Costs

TEST YOUR KNOWLEDGE

Test your knowledge of the requirements for borrowing costs applying the *IFRS for SMEs* Standard by answering the questions provided.

Once you have completed the test, check your answers against those set out beneath it.

Mark the box next to the most correct statement.

Question 1

Borrowing cost comprises:

- (a) interest and other costs an entity incurs when borrowing funds.
- (b) interest expense calculated using the effective interest method described in Section 11 *Basic Financial Instruments* only.
- (c) finance charges in respect of finance leases recognised in accordance with Section 20 *Leases* only.
- (d) none of the above.

Question 2

Borrowing costs do not include:

- (a) interest incurred on bank overdrafts.
- (b) incremental administrative fees incurred in connection with raising loans.
- (c) finance charges in respect of finance leases recognised in accordance with Section 20 *Leases*.
- (d) dividends declared to equity holders.

Question 3

An entity must:

- (a) recognise all borrowing costs as an expense in profit or loss in the period in which they are incurred.
- (b) recognise all borrowing costs as an expense in profit or loss in the period in which they are incurred, except to the extent they are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale and so are capitalised as part of the cost of that asset.
- (c) choose either (a) or (b) above as its accounting policy for borrowing costs and apply the chosen policy consistently to all of its borrowing costs.

Module 25—Borrowing Costs

Answers

- Q1 (a) see paragraph 25.1
- Q2 (d) see paragraph 25.1
- Q3 (a) see paragraph 25.2

Module 25—Borrowing Costs

APPLY YOUR KNOWLEDGE

Apply your knowledge of the requirements for accounting for borrowing costs applying the *IFRS for SMEs* Standard by completing the case study provided.

Once you have completed a case study, check your answers against those set out beneath it.

Case study

On 1 January 20X1 SME A took a loan of FCU150,000 from a foreign bank, which was translated to CU300,000 on that date. The *FCU-denominated* loan is repayable on 31 December 20X9 and bears interest at the fixed rate of 2% per year. Interest is payable yearly in arrears (on 31 December each year) while the loan is outstanding. The entity borrowed in a foreign currency because it believed that after taking account of the expected foreign exchange loss, the effective interest rate on the FCU-denominated loan would be approximately 4% per year, in comparison with 5% per year on an equivalent local CU-denominated loan. Changes in the CU/FCU exchange rate proved to be consistent with the entity's predictions.

On 1 January 20X1 SME A incurred and paid CU5,000 in transaction costs when borrowing CU200,000 from Bank Z. The *CU-denominated*, fixed-rate loan bears interest at 5% per year (compounded annually). Both the principal and the accrued interest must be settled on 31 December 20X5.

On 31 March 20X1 SME A issued a *debenture* with a face value of CU100,000 to Bank Y for CU90,000 (the debenture was issued at a CU10,000 discount). There are no interest payments on the debenture. However, on 1 April 20X4, SME A must pay Bank Y CU105,000 to redeem the debenture (the debenture must be redeemed at a CU5,000 premium).

On 30 June 20X1 SME A entered, as lessee, into a *finance lease* over an item of equipment. To recognise the rights and obligations in the lease SME A recognised a CU100,000 asset and a CU100,000 liability. The interest rate implicit in the lease is 5% per year. Lease payments are made annually in arrears.

On 31 August 20X1, SME A entered, as lessee, into an *operating lease* over an item of equipment. In accordance with the lease agreement SME A paid CU1,000 per month for the right to use the item of equipment from 1 September 20X1 to 31 January 20X2.

SME A's functional currency is the currency unit (CU). At 31 December 20X1 the exchange rate was CU2.04:FCU1.

Prepare accounting entries to record the liabilities and borrowing costs in the accounting records of SME A for the year ended 31 December 20X1.

Module 25—Borrowing Costs

Answer to case study

1 January 20X1

Dr	Cash	CU300,000	
	Cr	Financial liability	CU300,000

To recognise the FCU-denominated long-term financial liability.

Dr	Cash	CU200,000	
	Cr	Financial liability	CU200,000

To recognise the CU-denominated long-term financial liability.

Dr	Financial liability	CU5,000	
	Cr	Cash	CU5,000

To recognise transaction costs in raising the CU-denominated, long-term financial liability.

31 March 20X1

Dr	Cash	CU90,000	
	Cr	Financial liability	CU90,000

To recognise the CU100,000 (debenture) long-term financial liability issued at a discount of CU10,000 (see Section 11 Basic Financial Instruments).

30 June 20X1

Dr	Property, plant and equipment (leases equipment)	CU100,000	
	Cr	Financial liability	CU100,000

To recognise the asset (leased equipment) and long-term financial liability arising from the finance lease.

31 December 20X1

Dr	Profit or loss (borrowing cost—interest and exchange loss on accrued interest)	CU6,120 ^(a)	
	Cr	Cash	CU6,120

To recognise settlement of interest and the foreign exchange loss on the accrued interest, on the FCU-denominated financial liability.

Dr	Profit or loss (borrowing cost—exchange loss)	CU6,000 ^(b)	
	Cr	Financial liability	CU6,000

To recognise the exchange loss on the FCU-denominated, long-term financial liability regarded as an adjustment to interest costs.

Dr	Profit or loss (borrowing costs—interest and transaction costs)	CU10,789 ^(d)	
	Cr	Financial liability	CU10,789

To recognise finance costs (interest and transaction costs) on the CU-denominated long-term financial liability.

Module 25—Borrowing Costs

Dr	Profit or loss (borrowing costs—discount on issue and premium on redemption)	CU3,559 ^(g)	
	Cr Financial liability		CU3,559

To recognise finance costs on the long-term financial liability—debenture.

Dr	Profit or loss (borrowing costs—finance cost)	CU2,500 ⁽ⁱ⁾	
	Cr Financial liability (current liability)		CU2,500

To recognise finance costs on the lease liability.

Other accounting entries (not borrowing costs)

The entity would recognise the operating lease rental as follows:

Dr	Profit or loss (operating lease costs)	CU4,000 ^(j)	
	Cr Cash		CU4,000

To recognise operating lease payments.

The entity would recognise depreciation on the equipment acquired through the finance lease. It would also recognise the cash payments made in accordance with the finance lease.

The calculations and explanatory notes below do not form part of the answer to this case study:

- (a) $\text{FCU}150,000 \times 2\% \text{ interest} \times 2.04 \text{ exchange rate} = \text{CU}6,120$ interest and foreign exchange loss on the interest expense.
- (b) $\text{CU}306,000^{(c)}$ less $\text{CU}300,000$ carrying amount of the FCU-denominated loan at 1 January 20X1 = $\text{CU}6,000$ exchange loss.
- (c) $\text{FCU}150,000 \times 2.04 \text{ exchange rate} = \text{CU}306,000$ carrying amount of the FCU150,000 loan at 31 December 20X1.
Changes in the CU/FCU exchange rate proved to be consistent with the entity's predictions.
- (d) $\text{CU}195,000^{(e)} \times 5.533\% \text{ effective interest rate}^{(f)} = \text{CU}10,789$ finance cost—interest and transaction costs.
- (e) $\text{CU}200,000$ loan less $\text{CU}5,000$ transaction costs = $\text{CU}195,000$ carrying amount at 1 January 20X1.
- (f) The effective interest rate of 5.533% was computed using a financial calculator. It could also be determined as follows: $\text{CU}200,000 \times 1.05^5 = \text{CU}255,256.3$, which equals the sum of the principal and compounded interest due at the end of 5 years. The rate that discounts the $\text{CU}255,256.3$ back to the initial carrying amount of $\text{CU}195,000$ is 5.533%, which is determined as follows: $(\text{CU}255,256.3 / \text{CU}195,000)^{1/5} - 1$.
- (g) $\text{CU}90,000$ proceeds on issue $\times 5.273\% \text{ effective interest rate}^{(h)} \times 9/12$ months (1 April to 31 December) = $\text{CU}3,559$.
- (h) The effective interest rate of 5.273% is computed using a financial calculator or spreadsheet.
- (i) $\text{CU}100,000$ liability $\times 5\% \text{ interest rate implicit in the lease} \times 6/12$ months (1 July to 31 December) = $\text{CU}2,500$ finance cost.
- (j) 4 months (1 September to 31 December) $\times \text{CU}1,000$ operating lease payments = $\text{CU}4,000$ operating lease expense (note—operating lease expense is not a borrowing cost).