IAS 23 BORROWING COSTS

FACT SHEET

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This fact sheet is based on existing requirements as at 31 December 2015 and it does not take into account recent standards and interpretations that have been issued but are not yet effective

IMPORTANT NOTE

This fact sheet is based on the requirements of the International Financial Reporting Standards (IFRSs). In some jurisdictions, the IFRSs are adopted in their entirety; in other jurisdictions the individual IFRSs are amended. In some jurisdictions the requirements of a particular IFRS may not have been adopted. Consequently, users of the fact sheet in various jurisdictions should ascertain for themselves the relevance of the fact sheet to their particular jurisdiction. The application date included below is the effective date of the initial version of the standard.

IASB APPLICATION DATE (NON-JURISDICTION SPECIFIC)

IAS 23 was reissued in March 2007 and is applicable for annual reporting periods commencing on or after 1 January 2009.

SCOPE

IAS 23 shall be applied in accounting for borrowing costs but it does not deal with the actual or imputed cost of equity, including preferred capital not classified as a liability.

The standard does not apply to borrowing costs directly attributable to acquisition, construction or production of:

- a qualifying asset measured at fair value, e.g. a biological asset; or
- inventories that are manufactured, or otherwise produced, in large quantities on a repetitive basis

RECOGNITION AND MEASUREMENT

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset are capitalised. These are costs that would have been avoided if the expenditure on the qualifying asset had not been made.

Other borrowing costs are recognised as an expense in the period in which the entity incurs them.

Specific borrowings

When an entity borrows funds specifically for 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 these borrowings.

Non-specific borrowings

However, where the borrowed funds are centrally co-ordinated or borrowed generally (e.g. use of a range of debt instruments which incur different rates of interest and lends those funds to other entities within the group), and used for a qualifying asset, the amount eligible for capitalisation shall be determined by applying a capitalisation rate to the expenditures of 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. The amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs incurred during that period.

Commencement of capitalisation

Capitalisation of borrowing costs commences when:

- expenditures for the qualifying asset are incurred,
- borrowing costs are incurred, and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

Suspension of capitalisation

Borrowing costs shall not be capitalised during extended periods in which an entity suspends active development of a qualifying asset.

Cessation of capitalisation

Borrowing costs are no longer capitalised when substantially all the activities necessary to prepare the qualifying assets for its intended use or sale are complete.

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, borrowing costs are no longer capitalised when the entity substantially completes all the activities necessary to prepare that part for its intended use or sale.

DISCLOSURES

Refer to Appendix 1 for a checklist to assist with IAS 23 disclosure requirements.

DEFINITIONS

Borrowing costs	Interest and other costs incurred by an entity in connection with the borrowing of funds.
Qualifying asset	An asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

AUSTRALIAN SPECIFIC REQUIREMENTS

The Australian equivalent standard is AASB 1*23 Borrowing Costs* and is applicable to annual reporting periods commencing on or after 1 January 2009.

In respect of not-for-profit public sector entities, these entities may elect to recognise borrowing costs as an expense in the period in which they are incurred regardless of how the borrowings are applied.

A not-for-profit public sector entity shall disclose the accounting policy adopted for borrowing costs.

REDUCED DISCLOSURE REQUIREMENTS (RDR)

On 30 June 2010, the Australian Accounting Standards Board published AASB 1053 *Application of Tiers of Australian Accounting Standards* (and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements*) which established a differential reporting framework, consisting of two Tiers of reporting requirements for preparing general purpose financial statements:

a. Tier 1: Australian Accounting Standards; and

b. Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.

A Tier 2 entity is a 'reporting entity' as defined in SAC 1 *Definition of the Reporting Entity* that does not have 'public accountability' as defined in AASB 1053 and is not otherwise deemed to be a Tier 1 entity by AASB 1053.

RDR is applicable to annual periods beginning on or after 1 July 2013.

When developing AASB 1053, the AASB concluded that the Australian Government and state, territory and local governments should be subject to Tier 1 requirements. The AASB also decided that General Government Sectors of the Australian Government and state and territory governments should continue to apply AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, without the reduction in disclosures provided by Tier 2. Other public sector entities are able to apply Tier 2 reporting requirements.

The requirements that do not apply to RDR entities are identified in Appendix 1 by shading of the relevant text.

APPENDIX 1 – DISCLOSURE CHECKLIST

This checklist can be used to review your financial statements. You should complete the "Yes / No / N/A" column about whether the requirement is included. To ensure the completeness of disclosures, provide an explanation for "No" answers.

CODE		YES / NO / N/A	EXPLANATION (*If required*)
IAS 23.26	Has the entity disclosed: 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?		

OTHER MATTERS

LEGAL NOTICE

DISCLAIMER

LIMITATION OF LIABILITY

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