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IAS 23 *Borrowing Costs*

The objective of this Standard is to prescribe the accounting treatment for borrowing costs.

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

Benchmark treatment – Borrowing costs shall be recognised as an expense in the period in which they are incurred.

Allowed alternative treatment – Borrowing costs shall be recognised as an expense in the period in which they are incurred, except to the extent that they are capitalised in accordance with paragraph 11.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalised as part of the cost of that asset. The amount of borrowing costs eligible for capitalisation shall be determined in accordance with this Standard. [Paragraph 11]

A *qualifying asset* is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset shall be determined as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation shall be determined 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. The amount of borrowing costs capitalised during a period shall not exceed the amount of borrowing costs incurred during that period.

The capitalisation of borrowing costs as part of the cost of a qualifying asset shall commence when:

- (a) expenditures for the asset are being incurred;
- (b) borrowing costs are being incurred; and
- (c) activities that are necessary to prepare the asset for its intended use or sale are in progress.

Capitalisation of borrowing costs shall be suspended during extended periods in which active development is interrupted.

Capitalisation of borrowing costs shall cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

The financial statements shall disclose:

- (a) the accounting policy adopted for borrowing costs;
- (b) the amount of borrowing costs capitalised during the period; and
- (c) the capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation.