

Compiled Accounting Standard

AASB 123

Borrowing Costs

This compiled Standard applies to annual reporting periods beginning on or after 1 January 2009 that end on or after 30 June 2009. Early application is permitted. It incorporates relevant amendments made up to and including 25 June 2009.

Prepared on 4 November 2009 by the staff of the Australian Accounting Standards Board.



Australian Government

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Standards Board**

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CONTENTS

COMPILATION DETAILS

COMPARISON WITH IAS 23

ACCOUNTING STANDARD AASB 123 *BORROWING COSTS*

	<i>Paragraphs</i>
Core Principle	1 – Aus1.0
Application	Aus1.1 – Aus1.5
Scope	2 – 4
Definitions	5 – 7
Recognition	8 – 9
Borrowing Costs Eligible for Capitalisation	10 – 15
Excess of the Carrying Amount of the Qualifying Asset Over Recoverable Amount	16
Commencement of Capitalisation	17 – 19
Suspension of Capitalisation	20 – 21
Cessation of Capitalisation	22 – 25
Disclosure	26 – Aus26.1
Transitional Provisions	27 – 28
Effective Date	29A

DELETED IAS 23 TEXT *Page 15*

BASIS FOR CONCLUSIONS ON IAS 23
(available on the AASB website)

Australian Accounting Standard AASB 123 *Borrowing Costs* (as amended) is set out in paragraphs 1 – 29A. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in this Standard are in *italics* the first time they appear in the Standard. AASB 123 is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation and Application of Standards*, which identifies the Australian Accounting Interpretations. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

COMPILATION DETAILS

Accounting Standard AASB 123 *Borrowing Costs* as amended

This compiled Standard applies to annual reporting periods beginning on or after 1 January 2009 that end on or after 30 June 2009. It takes into account amendments up to and including 25 June 2009 and was prepared on 4 November 2009 by the staff of the Australian Accounting Standards Board (AASB).

This compilation is not a separate Accounting Standard made by the AASB. Instead, it is a representation of AASB 123 (June 2007) as amended by other Accounting Standards, which are listed in the Table below.

Table of Standards

Standard	Date made	Application date (<i>annual reporting periods ... on or after ...</i>)	Application, saving or transitional provisions
AASB 123	14 Jun 2007	(<i>beginning</i>) 1 Jan 2009	see (a) below
AASB 2007-8	24 Sep 2007	(<i>beginning</i>) 1 Jan 2009	see (b) below
AASB 2008-5	24 Jul 2008	(<i>beginning</i>) 1 Jan 2009	see (c) below
AASB 2009-1	22 Apr 2009	(<i>beginning</i>) 1 Jan 2009 and (<i>ending</i>) 30 Apr 2009	see (d) below
AASB 2009-6	25 Jun 2009	(<i>beginning</i>) 1 Jan 2009 and (<i>ending</i>) 30 Jun 2009	see (e) below

- (a) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009.
- (b) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009, provided that AASB 101 *Presentation of Financial Statements* (September 2007) is also applied to such periods.
- (c) Entities may elect to apply this Standard, or its amendments to individual Standards, to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009.
- (d) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2009 that end before 30 April 2009, provided that AASB 123 *Borrowing Costs* (June 2007) is also applied to such periods.
- (e) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009, provided that AASB 101 *Presentation of Financial Statements* (September 2007) is also applied to such periods, and to annual reporting periods beginning on or after 1 January 2009 that end before 30 June 2009.

Table of Amendments

Paragraph affected	How affected	By ... [paragraph]
Aus1.0	added	AASB 2009-1 [7]
Aus1.1	amended	AASB 2007-8 [7, 8]
Aus1.4	amended	AASB 2007-8 [8]
6	amended amended	AASB 2008-5 [38] AASB 2009-6 [63]
Aus8.1	added	AASB 2009-1 [8]
Aus8.2	added	AASB 2009-1 [8]
Aus26.1	added	AASB 2009-1 [9]
29 (preceding heading)	amended	AASB 2008-5 [39]
29A	added	AASB 2008-5 [40]

COMPARISON WITH IAS 23

AASB 123 and IAS 23

AASB 123 *Borrowing Costs* as amended incorporates IAS 23 *Borrowing Costs* as issued and amended by the International Accounting Standards Board (IASB). Paragraphs that have been added to this Standard (and do not appear in the text of IAS 23) are identified with the prefix “Aus”, followed by the number of the preceding IASB paragraph and decimal numbering. Paragraphs that apply only to not-for-profit entities begin by identifying their limited applicability.

Compliance with IAS 23

For-profit entities that comply with AASB 123 as amended will simultaneously be in compliance with IAS 23 as amended.

Not-for-profit entities using the added “Aus” paragraphs in the Standard that specifically apply to not-for-profit entities may not be simultaneously complying with IAS 23. Whether a not-for-profit entity will be in compliance with IAS 23 will depend on whether the “Aus” paragraphs provide additional guidance for not-for-profit entities or contain requirements that are inconsistent with the corresponding IASB Standard and will be applied by the not-for-profit entity.

ACCOUNTING STANDARD AASB 123

The Australian Accounting Standards Board made Accounting Standard AASB 123 *Borrowing Costs* under section 334 of the *Corporations Act 2001* on 14 June 2007.

This compiled version of AASB 123 applies to annual reporting periods beginning on or after 1 January 2009 that end on or after 30 June 2009. It incorporates relevant amendments contained in other AASB Standards made by the AASB up to and including 25 June 2009 (see Compilation Details).

ACCOUNTING STANDARD AASB 123

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.

Aus1.0 In respect of not-for-profit public sector entities¹, borrowing costs may be expensed in accordance with paragraph Aus8.1.

Application

Aus1.1 This Standard applies to:

- (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;
- (b) general purpose financial statements of each other reporting entity; and
- (c) financial statements that are, or are held out to be, general purpose financial statements.

¹ In April 2009, the AASB agreed to reintroduce the expense option for not-for-profit public sector entities. The AASB currently has a project on the application of AASB 123 to not-for-profit public sector entities.

Aus1.2 This Standard applies to annual reporting periods beginning on or after 1 January 2009.

[Note: For application dates of paragraphs changed or added by an amending Standard, see Compilation Details.]

Aus1.3 This Standard may be applied to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009. When an entity applies this Standard to such an annual reporting period, it shall disclose that fact.

Aus1.4 The requirements specified in this Standard apply to the financial statements where information resulting from their application is material in accordance with AASB 1031 *Materiality*.

Aus1.5 When applicable, this Standard supersedes AASB 123 *Borrowing Costs* as notified in the *Commonwealth of Australia Gazette* No S 294, 22 July 2004.

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; 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 AASB 139 *Financial Instruments: Recognition and Measurement*;
 - (b) [deleted by the IASB]
 - (c) [deleted by the IASB]
 - (d) finance charges in respect of finance leases recognised in accordance with AASB 117 *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.

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.**

Aus8.1 A not-for-profit public sector entity may elect to recognise borrowing costs as an expense in the period in which they are incurred regardless of how the borrowings are applied.

- Aus8.2 In respect of not-for-profit public sector entities, paragraphs 9-26, 27 and 28 apply only when an entity elects to 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.
- 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 AASB 129 *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 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 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 AASB 120 *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.**
- Aus26.1 A not-for-profit public sector entity shall disclose the accounting policy adopted for borrowing costs.**

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 application date.**

- 28 **However, an entity may designate any date before the application 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.**

Effective Date

29 [Deleted by the AASB]

- 29A Paragraph 6 is amended by AASB 2008-5 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project* issued in July 2008. An entity shall apply that amendment for annual reporting 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.

Withdrawal of IAS 23 (revised 1993)

30 [Deleted by the AASB]

DELETED IAS 23 TEXT

Deleted IAS 23 text is not part of AASB 123.

Paragraph 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.

Paragraph 30

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