Compiled AASB Standard **AASB 123**

Borrowing Costs

This compiled Standard applies to annual reporting periods beginning on or after 1 July 2013. Early application is permitted. It incorporates relevant amendments made up to and including 30 June 2010.

Prepared on 3 October 2014 by the staff of the Australian Accounting Standards Board.

Australian Government

Australian Accounting Standards Board

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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 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 July 2013. It takes into account amendments up to and including 30 June 2010 and was prepared on 3 October 2014 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** ***(annual reporting periods … on or after …)***	**Application, saving or transitional provisions**
AASB 123	14 Jun 2007	*(beginning)* 1 Jan 2009	see (a) below
AASB 2007-8	24 Sep 2007	*(beginning)* 1 Jan 2009	see (b) below
AASB 2008-5	24 Jul 2008	*(beginning)* 1 Jan 2009	see (c) below
AASB 2009-1	22 Apr 2009	*(beginning)* 1 Jan 2009 and *(ending)* 30 Apr 2009	see (d) below
AASB 2009-6	25 Jun 2009	*(beginning)* 1 Jan 2009 and *(ending)* 30 Jun 2009	see (e) below
AASB 2010-2	30 Jun 2010	*(beginning)* 1 Jul 2013	see (f) 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.

(f) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 July 2009 but before 1 July 2013, provided that AASB 1053 *Application of Tiers of Australian Accounting Standards* is also applied to such periods.

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]
Aus1.6-Aus1.7 (and preceding heading)	added	AASB 2010-2 [35]
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]

The AASB added a Basis for Conclusions to AASB 123 in September 2014.

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.

Entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements will not be in compliance with IAS 23.

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 July 2013. It incorporates relevant amendments contained in other AASB Standards made by the AASB up to and including 30 June 2010 (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 entities[1], 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.

Reduced Disclosure Requirements

Aus1.6 Paragraph 26(b) of this Standard does not apply to entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements. Entities applying Australian Accounting Standards – Reduced Disclosure Requirements may elect to comply with this excluded requirement.

Aus1.7 The requirement that does not apply to entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements are identified in this Standard by shading of the relevant text.

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.

BASIS FOR CONCLUSIONS

This Basis for Conclusions accompanies, but is not part of, AASB 123.

Background

BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board's considerations in reaching the conclusions in this Standard. Individual Board members gave greater weight to some factors than to others.

BC2 Before the mandatory application date of revised AASB 123 *Borrowing Costs* in 2009, the Board conducted a review of the requirement in AASB 123 for not-for-profit entities 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. As a result of that review, in April 2009 the Board issued AASB 2009-1 *Amendments to Australian Accounting Standards – Borrowing Costs of Not-for-Profit Public Sector Entities*. AASB 2009-1 amended AASB 123 to allow not-for-profit public sector entities to expense borrowing costs as incurred, regardless of how the borrowings are applied.

BC3 The Board intended for the relief granted under AASB 2009-1 to be of an interim nature pending the outcome of:

(a) the work of the New Zealand Financial Reporting Standards Board (FRSB)[1] on the relationship between depreciated replacement cost and borrowing costs, in which the AASB agreed to participate;

(b) the AASB and FRSB work on developing a Process for Modifying, or Introducing Additional Requirements to, IFRSs for PBE/NFP; and

(c) the International Public Sector Accounting Standards Board's (IPSASB's) Borrowing Costs project.

BC4 In March 2011, the AASB decided to reactivate its project on the application of AASB 123 by not-for-profit public sector entities, and evaluate the election for not-for-profit public sector entities to expense immediately all borrowing costs against its *Process for Modifying IFRSs for PBE/NFP* ('*Process*').

1 The FRSB has since been succeeded by the New Zealand Accounting Standards Board (NZASB).

BC5 In September 2014, the Board discussed the modification for not-for-profit public sector entities to expense borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset against its *Process*. The Board noted that the International Valuation Standards Council issued Technical Information Paper 2 *The Cost Approach for Tangible Assets* in April 2012, which includes discussion of inputs included in a model based on the cost approach, and that the IPSASB's Borrowing Cost project was on hold pending completion of the IPSASB's Conceptual Framework project.

BC6 The Board noted that it would not be appropriate for the accounting for borrowing costs of not-for-profit public sector entities to differ from that of for-profit entities merely because the Board may favour a different treatment conceptually. The Board confirmed that departure from the requirements of IAS 23 *Borrowing Costs* should only be permitted where not-for-profit specific reasons for departure exist.

BC7 The Board decided, on evaluation of IAS 23 against its *Process*, that the modification for not-for-profit public sector entities should be retained in AASB 123. The Board decided to add a Basis for Conclusions to AASB 123 to reflect its conclusions in this regard.

Significant Issues

GAAP/GFS Convergence

BC8 The Board weighed its policy on GAAP/GFS harmonisation against its policy of transaction neutrality, noting that requiring not-for-profit public sector entities 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 would create a further difference between Generally Accepted Accounting Principles (GAAP) and Government Finance Statistics (GFS). The Board considered the costs of tracking reconciling differences over the useful life of the assets, and noted that public sector infrastructure assets may have a longer useful life than most assets held by private sector entities.

Borrowing by Not-for-Profit Public Sector Entities

BC9 The Board discussed the nature of borrowing in the public sector. The Board observed that borrowing can be related to funding government activities or, in the case of the Commonwealth and depending on the economic circumstances, might have a public policy purpose such as supporting a domestic bond market.

BC10 The Board noted that Australian governments generally use centralised borrowing agencies and the distribution of borrowings to government departments or other agencies could take a different form to the initial debt raising, and that there may be little nexus between centralised borrowings and the individual qualifying assets in a government entity. Similarities in the use of centralised borrowing activities between the Australian government and large private sector entities were considered. The Board also noted that the level of complexity in terms of the number of lines of credit and the number of group entities responsible for acquiring or constructing qualifying assets is likely to be greater than that of the for-profit sector.

BC11 However, the Board also observed that the Standard envisages that entities may borrow centrally and acknowledges that this can create difficulties for determining whether a direct relationship between particular borrowings and a qualifying asset exists, and that the exercise of judgement would be required in such situations.

Measurement of Property, Plant and Equipment by Not-for-Profit Public Sector Entities

BC12 The Board discussed the prevailing practice in the Australian not-for-profit public sector of revaluing property, plant and equipment subsequent to initial measurement and recognition. The Board noted that the relatively brief time for which government-constructed assets would be qualifying assets that are measured at cost means that any benefit from including capitalising borrowing costs in the initial measurement of an asset would be very limited, as capitalising borrowing costs is consistent with a cost measurement model. This is particularly the case in the context of long-lived assets such as infrastructure assets, on the basis that the relative time for which an asset is likely to be measured at fair value would be significantly longer than the time for which the asset is under construction (and measured at cost).

Balance of Costs and Benefits

BC13 The Board concluded that it is appropriate to depart from its policy of transaction neutrality for cost-benefit reasons. The Board considered that the costs of requiring not-for-profit public sector entities to capitalise borrowing costs associated with qualifying assets would generally be at least as great as they are for private sector entities, but that any benefits would not be as great due to the prevalence in the public sector of the practice of revaluing property, plant and equipment to fair value.

BC14 The Board observed that the relief in paragraphs Aus8.1 and Aus8.2 does not prevent a not-for-profit public sector entity from adopting an accounting policy of capitalising borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.