International

Public Sector

Accounting

Standards

Board

**Exposure Draft 35**

September 2008

Comments are requested by January 7, 2009

*Proposed International Public Sector Accounting Standard*

# IPSAS 5 "Borrowing Costs" (Revised 200X)

International Federation of Accountants

## REQUEST FOR COMMENTS

The International Public Sector Accounting Standards Board, an independent standard-setting body within the International Federation of Accountants (IFAC), approved this Exposure Draft, ED 35, "Borrowing Costs (Revised 200X)," for publication in September, 2008. The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form.

Please submit your comments, preferably by email, so that they will be received by **January 7, 2009.** All comments will be considered a matter of public record. Comments should be addressed to:


Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street, 4th Floor
Toronto, Ontario M5V 3H2 CANADA

Email responses should be sent to: EDComments@ifac.org


Copies of this exposure draft may be downloaded free-of-charge from the IFAC website at **http://www.ifac.org**.

**ACKNOWLEDGMENT**

This Exposure Draft of an amended International Public Sector Accounting Standard is drawn in part from International Accounting Standard IAS 23 (revised 2007), "Borrowing Costs" published by the International Accounting Standards Board (IASB). Extracts from IAS 23 are reproduced in this publication of the International Public Sector Accounting Standards Board of the International Federation of Accountants with the permission of the International Accounting Standards Committee Foundation (IASCF).

The approved text of the International Financial Reporting Standards (IFRSs) is that published by the IASB in the English language, and copies may be obtained directly from IASB Publications Department, 30 Cannon Street, London EC4M 6XH, United Kingdom.

**E-mail: publications@iasb.org.**

**Internet: http://www.iasb.org.**

# INTRODUCTION

## Introduction to the International Public Sector Accounting Standards

The International Federation of Accountants' International Public Sector Accounting Standards Board (IPSASB) develops accounting standards for public sector entities referred to as International Public Sector Accounting Standards (IPSASs). The IPSASB recognizes the significant benefits of achieving consistent and comparable financial information across jurisdictions and it believes that the IPSASs play a key role in enabling these benefits to be realized. The IPSASB strongly encourages governments and national standard-setters to engage in the development of its Standards by commenting on the proposals set out in Exposure Drafts.

The IPSASB issues IPSASs dealing with financial reporting under the cash basis of accounting and the accrual basis of accounting. The accrual basis IPSASs are based on the International Financial Reporting Standards (IFRSs), issued by the International Accounting Standards Board (IASB), where the requirements of those Standards are applicable to the public sector. They also deal with public sector specific financial reporting issues that are not dealt with in IFRSs.

The adoption of IPSASs by governments will improve both the quality and comparability of financial information reported by public sector entities around the world. The IPSASB recognizes the right of governments and national standard-setters to establish accounting standards and guidelines for financial reporting in their jurisdictions. The IPSASB encourages the adoption of IPSASs and the harmonization of national requirements with IPSASs. Financial statements should be described as complying with IPSASs only if they comply with all the requirements of each applicable IPSAS.

## Due Process and Timetable

An important part of the process of developing IPSASs is for the IPSASB to receive comments on the proposals set out in Exposure Drafts from governments, public sector entities, auditors, standard-setters and other parties with an interest in public sector financial reporting. Accordingly, each proposed IPSAS is first released as an Exposure Draft, inviting interested parties to provide their comments. Exposure Drafts will usually have a comment period of four months, although longer periods may be used for certain Exposure Drafts. Upon the closure of the comment period, the IPSASB will consider the comments received on the Exposure Draft and may modify the proposed IPSAS in the light of the comments received before proceeding to issue a final Standard.

## Background and Purpose of the Exposure Draft

In early 2007, the IPSASB initiated, subsequent to its General Improvements Project completed in 2006, a continuous improvements project to update existing IPSASs to converge with the latest related IFRSs to the extent appropriate for the public sector.

As part of the project, the IPSASB reviewed the IASB's amendments to IAS 23, "Borrowing Costs" issued in March 2007.

The revised IAS 23 requires entities to capitalize borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The previous benchmark treatment of recognizing an expense in relation to borrowing costs in the period in which they are incurred has been withdrawn. In considering the applicability of the principles established in IAS 23 to the public sector, the IPSASB was cognizant that qualifying assets in the public sector, apart from those in GBEs, would not ordinarily be anticipated or intended to generate positive cash inflows, and that public sector entities frequently borrow for public policy purposes, including to maintain a benchmark bond rate, to sustain deficit financing and to further the government's monetary policy. At a national government level, and often at lower levels of government, borrowings are often not attributable to a particular asset acquisition or capital project. For these reasons, the IPSASB has decided that borrowing costs in the public sector should be recognized immediately as an expense, except in certain specific circumstances. The IPSASB continues, however, to maintain its strategy of converging IPSASs with IFRSs where appropriate. Therefore, it permits entities that incur borrowing costs specifically to acquire, construct or produce a qualifying asset to capitalize those borrowing costs in the same way that an entity applying IFRSs would. In all other circumstances entities shall recognize an expense for borrowing costs in the period in which they are incurred.

Until the proposed IPSAS 5 becomes effective, the requirements of the current version of IPSAS 5 remain in force.

## Presentation of the Proposed Amendments to IPSAS 5

The Exposure Draft presents a marked-up copy of the full text of IPSAS 5. The proposed changes are identified in marked-up type. In addition, compared to the former IPSAS 5, the proposed amended IPSAS 5 includes additional sections: "Introduction," "Appendix: Amendments to Other IPSASs," "Amendments to Guidance on Other IPSASs," "Illustrative Examples," "Basis for Conclusions," and "Table of Concordance."

## REQUEST FOR COMMENTS

The Exposure Draft proposes amendments to IPSAS 5. Comments are invited on the proposals in this Exposure Draft by January 7, 2009. The IPSASB invites comments on all the changes proposed in the Exposure Draft, and would particularly welcome comments to the question set out in the "Specific Matter for Comment" section. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

### Specific Matter for Comment

The IPSASB would particularly value comments on the following:

This Exposure Draft proposes that borrowing costs be recognized immediately as an expense except where borrowing costs are specifically incurred on qualifying assets. In such cases an entity is permitted, but not required to capitalize such costs (see paragraph 11). Do you agree with this proposal?

Please provide your rationale for agreeing or disagreeing with this proposal.

## SUMMARY OF MAIN CHANGES TO IPSAS 5

## BORROWING COSTS

The main changes proposed are:

**Core Principle**

To replace the previous "objective" section with a "core principle" section (see paragraph 1), number this section as part of the standard and change this section from plain type to bold type.

**Scope**

To include in paragraph 6 a scope exclusion. The Standard does not apply to borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset measured at fair value at initial recognition. Previously, IPSAS 5 did not have this scope exclusion.

**Definitions**

To remove the following unnecessary definitions from paragraph 7: accrual basis, assets, cash, contributions from owners, distributions to owners, economic entity, expenses, government business enterprise, liabilities, net assets/equity and revenue. Accordingly, the guidance on these definitions (paragraphs 7–12 in existing IPSAS 5) has also been deleted.

**Recognition**

To require the immediate recognition as an expense of borrowing costs, except that where the borrowing costs are specifically incurred for the acquisition, construction or production of a qualifying asset an entity has the option to capitalize those borrowing costs.

Previously, IPSAS 5 specified two accounting treatments for the recognition of borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset – a benchmark treatment and an allowed alternative treatment. The benchmark treatment required such borrowing costs to be recognized as an expense. The allowed alternative treatment required such borrowing costs to be recognized as part of the cost of that qualifying asset.

To clarify in paragraph 13 that when an entity applies IPSAS 10, "Financial Reporting in Hyperinflationary Economies" it recognizes as an expense the part of borrowing costs that compensates for inflation during the same period in accordance with paragraph 24 of that Standard. Previously, IPSAS 5 did not contain this clarification.

**Transitional Provisions**

To include a transitional provision that, 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 capitalization is on or after the effective date.

To include a transitional provision that an entity may designate any date before the effective date and apply the standard to borrowing costs relating to all qualifying assets for which the commencement date for capitalization is on or after that date. Previously, IPSAS 5 did not include such a provision.

**PROPOSED AMENDED TEXT**

**IPSAS 5—BORROWING COSTS**

**CONTENTS**

International Public Sector Accounting Standard 5, “Borrowing Costs” (IPSAS 5) is set out in paragraphs 1–38 and the Appendix. All the paragraphs have equal authority. IPSAS 5 should be read in the context of its core principle and the Basis for Conclusions, the “Preface to the International Public Sector Accounting Standards”. IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors” provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

# Introduction

IN1. International Public Sector Accounting Standard (IPSAS) 5, “Borrowing Costs,” replaces IPSAS 5, “Borrowing Costs” (issued May 2000), and should be applied for annual reporting periods beginning on or after MM DD, YYYY. Earlier application is encouraged.

### Reasons for Revising IPSAS 5

IN2. The International Public Sector Accounting Standards Board developed this revised IPSAS 5 as a response to the International Accounting Standards Board’s amendments to International Accounting Standard (IAS) 23, “Borrowing Costs” in March 2007. The IASB amended IAS 23 as part of its convergence program with the United States’ Financial Accounting Standards Board (FASB). The revised IAS 23 converges with FASB Statement 34, “Capitalization of Interest Cost.”

IN3. The IPSAS differs significantly from the key requirement of the revised IAS 23, which is to capitalize borrowing costs directly attributable to the acquisition, construction or production of qualifying assets. The IPSAS requires the immediate expensing of borrowing costs, except for borrowing costs specifically incurred on qualifying assets, which may be expensed or capitalized. In such cases, the Standard gives entities the option of capitalizing those borrowing costs.

### Changes from Previous Requirements

IN4. The main changes from the previous version of IPSAS 5 are described below.

### Scope

IN5. The Standard does not apply to borrowing costs directly attributable to the acquisition, construction or production of an asset measured at fair value at initial recognition.

### Definitions

IN6. The Standard omits the following unnecessary terms: accrual basis, assets, cash, contributions from owners, distributions to owners, economic entity, expenses, government business enterprise, liabilities, net assets/equity and revenue. These terms are defined in other IPSASs and are reproduced in the “Glossary of Defined Terms.”

### Recognition

IN7. The Standard requires immediate recognition of borrowing costs as an expense, except where borrowing costs are specifically incurred for the acquisition, construction or production of a qualifying asset. In such cases an entity has the option to capitalize those borrowing costs. The Standard previously permitted the expensing or capitalizing as part of the cost of the asset, of borrowing costs directly attributable to the acquisition, construction or production of any qualifying asset.

IN8. The Standard clarifies that when an entity applies IPSAS 10, “Financial Reporting in Hyperinflationary Economies” it recognizes as an expense the part of borrowing costs that compensates for inflation during the same period in accordance with paragraph 24 of that Standard. Previously, IPSAS 5 did not contain this clarification.

**Transitional Provisions**

IN9. The Standard includes a transitional provision that, 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 capitalization is on or after the effective date.

IN10. The Standard provides a new transitional provision that an entity may designate any date before the effective date and apply the Standard to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after that date.

~~*The standards, which have been set in bold, should be read in the context of the commentary paragraphs in this Standard which are in plain type, and in the context of the "Preface to International Public Sector Accounting Standards." International Public Sector Accounting Standards are not intended to apply to immaterial items.*~~

## ~~Objective~~Core Principle

1. ~~This Standard prescribes the accounting treatment for borrowing costs. This Standard generally requires the immediate expensing of borrowing costs. However, the Standard permits, as an allowed alternative treatment, the capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.~~**Borrowing Costs are to be recognized as an expense in the period in which they are incurred, except where borrowing costs are specifically incurred for the acquisition, construction or production of a qualifying asset that is initially measured at cost. In such cases borrowing costs may form part of the cost of that qualifying asset.**

## Scope

~~1.~~2. ~~**This Standard should be applied in accounting for borrowing costs.**~~**An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for borrowing costs.**

~~2.~~3. **This Standard applies to all public sector entities other than Government Business Enterprises (GBEs).**

~~3.~~4. The "Preface to International Public Sector Accounting Standards" issued by the IPSASB explains that GBEs apply IFRSs which are issued by the IASB. GBEs are defined in IPSAS 1, "Presentation of Financial Statements."

5. This Standard does not deal with the actual or imputed cost of net assets/equity. Where jurisdictions apply a capital charge to individual entities, judgment will need to be exercised to determine whether the charge meets the definition of borrowing costs or whether it ~~should~~ is to be treated as an actual or imputed cost of net assets/equity.

~~4.~~6. **This Standard shall not be applied to borrowing costs specifically incurred for the acquisition, construction or production of a qualifying asset measured at fair value at initial recognition.**

## Definitions

~~5.~~7. **The following terms are used in this Standard with the meanings specified:**

~~**<u>Accrual basis</u> means a basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate. The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue and expenses.**~~

~~**<u>Assets</u> are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.**~~

**<u>Borrowing costs</u> are interest and other expenses incurred by an entity in connection with the borrowing of funds.**

~~**<u>Cash</u> comprises cash on hand and demand deposits.**~~

~~**<u>Contributions from owners</u> means future economic benefits or service potential that has been contributed to the entity by parties external to the entity, other than those that result in liabilities of the entity, that establish a financial interest in the net assets/equity of the entity, which:**~~

~~(a) **Conveys entitlement both to distributions of future economic benefits or service potential by the entity during its life, such distributions being at the discretion of the owners or their representatives, and to distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or**~~

~~(b) **Can be sold, exchanged, transferred or redeemed.**~~

~~**<u>Distributions to owners</u> means future economic benefits or service potential distributed by the entity to all or some of its owners, either as a return on investment or as a return of investment.**~~

~~**<u>Economic entity</u> means a group of entities comprising a controlling entity and one or more controlled entities.**~~

~~**<u>Expenses</u> are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.**~~

~~**<u>Government Business Enterprise</u> means an entity that has all the following characteristics:**~~

~~(a) **Is an entity with the power to contract in its own name;**~~

~~(b) **Has been assigned the financial and operational authority to carry on a business;**~~

~~**(c) Sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;**~~

~~**(d) Is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and**~~

~~**(e) Is controlled by a public sector entity.**~~

~~**Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.**~~

~~**Net assets/equity is the residual interest in the assets of the entity after deducting all its liabilities.**~~

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

~~**Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.**~~

**Terms defined in other International Public Sector Accounting Standards are used in this Standard with the same meaning as in those other Standards, and are reproduced in the Glossary of Defined Terms published separately.**

**Borrowing Costs**

~~6.~~8. Borrowing costs may include:

(a) Interest on ~~bank overdrafts and~~ short-term and long-term borrowings;

(b) Amortization of discounts or premiums relating to borrowings;

(c) Amortization of ancillary costs incurred in connection with the arrangement of borrowings;

(d) Finance charges in respect of finance leases recognized in accordance with IPSAS 13, "Leases"; and

(e) Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

~~**Economic Entity**~~

~~7. The term economic entity is used in this Standard to define, for financial reporting purposes, a group of entities comprising the controlling entity and any controlled entities.~~

~~8. Other terms sometimes used to refer to an economic entity include administrative entity, financial entity, consolidated entity and group.~~

~~9. An economic entity may include entities with both social policy and commercial objectives. For example, a government housing department may be an economic entity which includes entities that provide housing for a nominal charge, as well as entities that provide accommodation on a commercial basis.~~

### ~~Future Economic Benefits or Service Potential~~

~~10. Assets provide a means for entities to achieve their objectives. Assets that are used to deliver goods and services in accordance with an entity's objectives but which do not directly generate net cash inflows are often described as embodying service potential. Assets that are used to generate net cash inflows are often described as embodying "future economic benefits." To encompass all the purposes to which assets may be put, this Standard uses the term "future economic benefits or service potential" to describe the essential characteristic of assets.~~

### ~~Government Business Enterprises~~

~~11. Government Business Enterprises (GBEs) include both trading enterprises, such as utilities, and financial enterprises, such as financial institutions. GBEs are, in substance, no different from entities conducting similar activities in the private sector. GBEs generally operate to make a profit, although some may have limited community service obligations under which they are required to provide some individuals and organizations in the community with goods and services at either no charge or a significantly reduced charge. IPSAS 6, "Consolidated and Separate Financial Statements" provides guidance on determining whether control exists for financial reporting purposes, and should be referred to in determining whether a GBE is controlled by another public sector entity.~~

### ~~Net Assets/Equity~~

~~12. Net assets/equity is the term used in this Standard to refer to the residual measure in the statement of financial position (assets less liabilities). Net assets/equity may be positive or negative. Other terms may be used in place of net assets/equity, provided that their meaning is clear.~~

### Qualifying Assets

9. ~~Examples of qualifying assets are office buildings, hospitals, infrastructure assets such as roads, bridges and power generation facilities, and inventories that require a substantial period of time to bring them to a condition ready for use or sale. Other investments, and those assets that are routinely produced over a short period of time, are not qualifying assets.~~

~~Assets that are ready for their intended use or sale when acquired also are not qualifying assets.~~Depending on the circumstances, examples of qualifying assets include:

(a) Hospitals;

(b) Office buildings;

(c) Infrastructure assets such as roads and bridges;

(d) Power generation facilities;

(e) Intangible assets; and

(f) Investment properties.

~~13.~~ Inventories that are produced over a short period of time and financial assets are not qualifying assets. Assets that are ready for their intended use, sale or distribution when acquired are not qualifying assets.

~~**Borrowing Costs—Benchmark Treatment**~~

~~**Recognition**~~

~~14.~~ ~~**Borrowing costs should be recognized as an expense in the period in which they are incurred.**~~

~~15.~~ ~~Under the benchmark treatment, borrowing costs are recognized as an expense in the period in which they are incurred, regardless of how the borrowings are applied.~~

~~**Disclosure**~~

~~16.~~ ~~**The financial statements should disclose the accounting policy adopted for borrowing costs.**~~

~~**Borrowing Costs—Allowed Alternative Treatment**~~

## Recognition

~~17.~~10. **An entity shall ~~Borrowing costs should be~~ recognize~~d~~ borrowing costs as an expense in the period in which it ~~they are incurred~~incurs them, except to the extent that they are capitalized in accordance with paragraph 11~~18~~.**

~~18.~~11. **Borrowing costs that are ~~directly attributable to~~specifically incurred for the acquisition, construction or production of a qualifying asset ~~should~~ may be capitalized as part of the cost of that asset. The amount of borrowing costs eligible for capitalization ~~should~~ shall be determined in accordance with this Standard.**

~~19.~~12. ~~Under the allowed alternative treatment, borrowing~~Borrowing costs that are ~~directly attributable to~~specifically incurred for the acquisition, construction or production of ~~an~~ a qualifying asset ~~are~~ may be included in the cost of that asset. Such borrowing costs ~~are~~ may be capitalized as part of the cost of the asset when it is probable that they will result in future economic benefits or service potential to the entity and the costs can be measured reliably. Other borrowing costs are recognized as an expense in the period in which they are incurred.

13. When an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity recognizes an expense for the borrowing costs in the period in which they are incurred. When an entity applies IPSAS 10, "Financial Reporting in Hyperinflationary Economies," it recognizes as an expense the part of borrowing costs that compensates for inflation during the same period in accordance with paragraph 24 of that Standard.

~~20.~~14. **Where an entity adopts the ~~allowed alternative~~ treatment in paragraph 11, that treatment ~~should~~ shall be applied consistently to all borrowing costs that are ~~directly attributable to~~specifically incurred for the acquisition, construction or production of all qualifying assets of the entity.**

**Borrowing Costs Eligible for Capitalization**

~~21.~~15. ~~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 outlays 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. Funds sourced from general borrowings of the entity are not specifically incurred and costs related to such borrowings are not eligible for capitalization.

~~22.~~16. ~~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 an economic entity uses a range of debt instruments to borrow funds at varying rates of interest, and transfers those funds on various bases to other entities in the economic entity.~~ Funds ~~which~~ that have been borrowed centrally may be transferred to other entities within the economic entity as a loan, a grant or a capital injection. ~~Such transfers~~Some loans may be interest-free or require that only a portion of the actual interest cost be recovered and grants or capital injections do not normally incur interest. ~~Other complications arise through the use of loans denominated in or linked to foreign currencies, when the economic entity 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 judgment is required.~~ Public sector entities may coordinate borrowing to further the economic and fiscal policies of the government. In both cases, borrowing costs in respect of such borrowings do not qualify for capitalization.

~~23.~~17. **To the extent that an entity borrows funds ~~are borrowed~~ specifically for the purpose of ~~obtaining~~ acquiring, constructing or producing a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalization ~~on that asset should 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.**

~~24.~~18. 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 outlays on the qualifying asset. In such circumstances, the funds are often temporarily invested pending their outlay on the qualifying asset. In determining the amount of borrowing costs eligible for capitalization during a period, any investment income earned on such funds is deducted from the borrowing costs incurred.

~~25.~~ **~~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 capitalization should be determined by applying a capitalization rate to the outlays on that asset. The capitalization rate should 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 capitalized during a period should not exceed the amount of borrowing costs incurred during that period.~~**

Borrowing Costs Incurred by the Economic Entity

~~26.~~19. ~~Only those borrowing costs applicable to the borrowings of the entity may be capitalized. When a controlling entity borrows funds which are passed on to a controlled entity with no, or only partial, allocation of borrowing costs, the controlled entity may capitalize only those borrowing costs which it itself has incurred.~~ If a controlling entity borrows funds which are then loaned to a controlled entity, the controlled entity may capitalize only those borrowing costs which it itself incurs specifically in relation to the acquisition, construction or production of a qualifying asset. Such costs will normally be documented in the loan agreement with the controlling entity. Where a controlled entity receives an interest-free capital contribution or capital grant, it will not incur any borrowing costs and consequently will not capitalize any such costs.

~~27.~~20. When a controlling entity transfers funds at partial cost to a controlled entity, the controlled entity may capitalize that portion of borrowing costs which it itself has incurred specifically for the acquisition, construction or production of a qualifying asset. These borrowing costs are not necessarily identical to the borrowing costs incurred by the controlling entity. In the financial statements of the economic entity, the full amount of borrowing costs specifically incurred for the acquisition, construction or production of a qualifying asset can be capitalized ~~to~~ as part of the cost of that ~~the~~ qualifying asset, provided that appropriate consolidation adjustments have been made to eliminate those costs capitalized by the controlled entity.

~~28.~~21. When a controlling entity has transferred funds at no cost to a controlled entity, neither the controlling entity nor the controlled entity would meet the criteria for capitalization of borrowing costs in their separate financial statements. However, if the economic entity met the criteria for capitalization of borrowing costs, it would be able to capitalize the borrowing costs to the qualifying asset in its financial statements.

~~29.~~22. ~~In some circumstances, it is appropriate to include all borrowings of the controlling entity and its controlled entities when computing a weighted average of the borrowing costs; in other circumstances, it is appropriate for each controlled entity to use a weighted average of the borrowing costs applicable to its own borrowings~~When a controlling entity borrows funds generally, and lends part of those funds to a controlled entity specifically for the acquisition, construction or production of a qualifying asset, the borrowing costs of the controlling entity are not eligible for capitalization either by that controlling entity in its separate financial statements or by the economic entity in its consolidated financial statements. The borrowing costs of the controlled entity may, however, be eligible for capitalization in the controlled entity's separate financial statements. If the controlling entity borrows funds specifically for the acquisition, construction or production of a qualifying asset by a controlled entity, those borrowing costs, if transferred to the controlled entity, may be capitalized in the separate financial statements of the controlled entity and in the consolidated financial statements of the economic entity.

**Excess of the Carrying Amount of the Qualifying Asset over Recoverable Amount**

~~30.~~23. When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable service amount or its current replacement cost, or its recoverable amount or net realizable value, the carrying amount is written down or written off in accordance with the requirements of ~~other international and/or national accounting standards~~IPSAS 12, "Inventories", IPSAS 21, "Impairment of Non-Cash-Generating Assets" or IPSAS 26, "Impairment of Cash-Generating Assets." In certain circumstances, the amount of the write-down or write-off, in relation to an impairment of assets, is written back in accordance with ~~those other standards~~IPSAS 21 or IPSAS 26.

**Commencement of Capitalization**

~~31.~~24. **~~The capitalization of borrowing costs as part of the cost of a qualifying asset should commence when~~An entity may begin capitalizing borrowing costs as part of the cost of a qualifying asset, in accordance with paragraph 11, on the commencement date. The commencement date for capitalization is the date when the entity first meets all of the following conditions:**

(a) **~~Outlays for the asset are being incurred~~It incurs outlays for the assets;**

(b) **~~Borrowing costs are being incurred~~It incurs borrowing costs specifically ~~related to~~incurred for the acquisition, construction or production of the qualifying asset; and**

(c) **It undertakes ~~Activities~~ activities that are necessary to prepare the asset for its intended use, ~~or~~ sale ~~are in progress~~or distribution.**

~~32.~~25. Outlays on a qualifying asset include only those outlays that have resulted in payments of cash, transfers of other assets or the assumption of interest-bearing liabilities. ~~The average carrying amount of the asset during a period, including borrowing costs previously capitalized, is normally a reasonable approximation of the outlays to which the capitalization rate is applied in that period.~~

~~33.~~26. The activities necessary to prepare the asset for its intended use, ~~or~~ sale or distribution 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. 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~~ may be capitalized 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 capitalization.

**Suspension of Capitalization**

~~34.~~27. **An entity shall suspend ~~Capitalization~~ capitalization of borrowing costs ~~should be suspended~~ during extended periods in which it suspends active development ~~is interrupted, and expensed~~of a qualifying asset.**

~~35.~~28. An entity may incur ~~Borrowing~~ borrowing costs ~~may be incurred~~ during an extended period in which ~~the~~ it suspends the activities necessary to prepare an asset for its intended use, ~~or~~ sale or distribution~~are interrupted~~. Such costs are costs of holding partially completed assets and do not qualify for capitalization. However, an entity does not normally suspend capitalizing~~ation of~~ borrowing costs ~~is not normally suspended~~ during a period when it carries out substantial technical and administrative work ~~is being carried out~~. An entity also does not suspend ~~Capitalization~~ capitalizing~~ation~~ ~~of~~ borrowing costs ~~is also not suspended~~ when a temporary delay is a necessary part of the process of getting an asset ready for its intended use, ~~or~~ sale or distribution. For example, capitalization continues during ~~an~~ the extended period ~~needed for inventories to mature or an extended period during which~~that high water levels delay construction of a bridge, if such high water levels are common during the construction period in the geographic region involved.

### Cessation of Capitalization

~~36.~~29. **An entity shall cease ~~Capitalization~~ capitalizing ~~of~~ borrowing costs ~~should cease~~ when substantially all the activities necessary to prepare the qualifying asset for its intended use, ~~or~~ sale or distribution are complete.**

~~37.~~30. An asset is normally ready for its intended use, ~~or~~ sale or distribution 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 ~~is~~ are outstanding, this indicates that substantially all the activities are complete.

~~38.~~31. **When an entity completes the construction of a qualifying asset ~~is completed~~ in parts and each part is capable of being used while construction continues on other parts, the entity shall cease ~~capitalization~~ capitalizing ~~of~~ borrowing costs ~~should cease~~ when it completes substantially all the activities necessary to prepare that part for its intended use, ~~or~~ sale or distribution~~are completed~~.**

~~39.~~32. An office development 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 used while construction continues on other parts. Examples of qualifying assets that need to be complete before any part can be used include an operating ~~theatre~~ room in a hospital when all construction must be complete before the ~~theatre~~ room may be used; a sewage treatment plant where several processes are carried out in sequence at different parts of the plant; and a bridge forming part of a highway.

## Disclosure

~~40.~~33. **~~The financial statements should~~An entity shall disclose:**

(a) **The accounting policy adopted for borrowing costs incurred specifically for the acquisition, construction or production of qualifying assets; and**

(b) **The amount of borrowing costs capitalized during the period, if any.~~; and~~**

~~(c) The capitalization rate used to determine the amount of borrowing costs eligible for capitalization (when it was necessary to apply a capitalization rate to funds borrowed generally).~~

## Transitional Provisions

~~41.~~34. **When ~~the adoption~~ 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 capitalization is on or after the effective date. ~~is encouraged to adjust its financial statements in accordance with IPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors." Alternatively, entities following the allowed alternative treatment should capitalize only those borrowing costs incurred after the effective date of this Standard which meet the criteria for capitalization.~~**

35. **However, an entity may designate any date before the effective date and apply the Standard to borrowing costs relating to all qualifying assets for which the commencement date is on or after that date.**

## Effective Date

~~42.~~36. **This IPSAS becomes effective for annual financial statements covering periods beginning on or after ~~July 1, 2001~~Month XX, 20XX. Earlier application is encouraged. If an entity applies the Standard from a date before Month XX, 20XX it shall disclose that fact.**

~~43.~~37. When an entity adopts the accrual basis of accounting, as defined by International Public Sector Accounting Standards, for financial reporting purposes, subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

## Withdrawal of IPSAS 5 (issued 2000)

38. This standard supersedes IPSAS 5, "Borrowing Costs" issued in 2000.

## Appendix

### Amendments to Other IPSASs

*The amendments in this appendix shall be applied for annual financial statements covering periods beginning on or after MM DD, YYYY. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.*

A1. In IPSAS 2, "Cash Flow Statements," paragraph 41 is amended to read as follows:

41. The total amount of interest paid during a period is disclosed in the cash flow statement whether it has been recognised as an expense in the statement of financial performance or capitalized in accordance with ~~the allowed alternative treatment in~~ IPSAS 5, "Borrowing Costs."

A2. In IPSAS 11, "Construction Contracts," paragraph 26 is amended to read as follows:

26. Costs that may be attributable to contract activity in general and can be allocated to specific contracts include:

(a) Insurance;

(b) Costs of design that are not directly related to a specific contract; and

(c) Construction overheads.

Such costs are allocated using methods that are systematic and rational and are applied consistently to all costs having similar characteristics. The allocation is based on the normal level of construction activity. Construction overheads include costs such as the preparation and processing of construction personnel payroll.

~~Costs that may be attributable to contract activity in general and can be allocated to specific contracts also include borrowing costs~~. ~~when the contractor adopts the allowed alternative treatment in IPSAS 5, "Borrowing Costs."~~

A3. In IPSAS 17, "Property, Plant and Equipment," paragraph 37 is amended to read as follows:

37. The cost of an item of property, plant and equipment is the cash price equivalent or, for an item referred to in paragraph 27, its fair value at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognized as interest over the period of credit unless such

interest is ~~recognized in the carrying amount of the item~~capitalized in accordance with ~~the allowed alternative treatment in~~ IPSAS 5.

## Amendments to Guidance on Other IPSASs

*The following amendments to guidance on other IPSASs are necessary in order to ensure consistency with the revised IPSAS 5.*

IGA1. In the Guidance on Implementing IPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors," Example 2 is amended:

### Example 2—Change in Accounting Policy with Retrospective Application

2.1. During 20X2, the entity changed its accounting policy for the treatment of borrowing costs that are ~~directly attributable to~~specifically incurred for the acquisition of a hydro-electric power station which is under construction. In previous periods, the entity had capitalized such costs. The entity has now decided to expense, rather than capitalize them. Management judges that the new policy is preferable because it results in a ~~more transparent~~ treatment of finance costs ~~and is consistent with local industry practice~~~~, making~~that makes the entity's financial statements more ~~comparable~~ transparent.

2.2. The entity capitalized borrowing costs incurred of CU2,600 during 20X1 and CU5,200 in periods prior to 20X1. All borrowing costs incurred in previous years with respect to the acquisition of the power station were capitalized.

2.3. The accounting records for 20X2 show surplus before interest of CU30,000; and interest expense of CU3,000 (which relates only to 20X2).

2.4. The entity has not recognized any depreciation on the power station because it is not yet in use.

2.5. In 20X1, the entity reported:

| | CU |
|---|---|
| Surplus before interest | 18,000 |
| Interest expense | – |
| Surplus | 18,000 |

2.6. 20X1 opening accumulated surpluses was CU20,000 and closing accumulated surpluses was CU38,000.

2.7. The entity had CU10,000 of contributed capital throughout, and no other components of net assets/equity except for accumulated surplus.

**Public Sector Entity—Statement of Financial Performance**

| | 20X2 | (restated) 20X1 |
|---|---|---|
| | CU | CU |
| Surplus before interest | 30,000 | 18,000 |
| Interest expense | (3,000) | (2,600) |
| Surplus | 27,000 | 15,400 |

**Public Sector Entity—Statement of Changes in Net Assets/Equity**

| | Contributed capital | (restated) Accumulated Surplus | Total |
|---|---|---|---|
| | CU | CU | CU |
| Balance at December 31 20X0 as previously reported | 10,000 | 20,000 | 30,000 |
| Change in accounting policy with respect to the capitalization of interest (Note 1) | - | (5,200) | (5,200) |
| Balance at December 31 20X0 as restated | 10,000 | 14,800 | 24,800 |
| Surplus for the year ended December 31 20X1 (restated) | - | 15,400 | 15,400 |
| Balance at December 31 20X1 | 10,000 | 30,200 | 40,200 |
| Surplus for the year ended December 31 20X2 | - | 27,000 | 27,000 |
| Closing at December 31 20X2 | 10,000 | 57,200 | 67,200 |

**Extracts from the Notes**

1. During 20X2, the entity changed its accounting policy for the treatment of borrowing costs related to a hydro-electric power station. Previously, the entity capitalized such costs. They are now written off as expenses as incurred. Management judges that this policy provides reliable and more relevant information because it results in a more transparent treatment of finance costs ~~and is consistent with local industry practice, making the entity's financial statements more comparable~~. This change in accounting policy has been accounted for retrospectively and the comparative statements for 20X1 have been restated. The effect of the change on 20X1 is tabulated below. Opening accumulated surpluses for 20X1 have been reduced by CU5,200 which is the amount of the adjustment relating to periods prior to 20X1.

| | CU |
|---|---|
| *Effect on 20-1* | |
| (Increase) in interest expense | (2,600) |
| (Decrease) in surplus | (2,600) |
| *Effect on periods prior to 20-1* | |
| (Decrease) in surplus | (5,200) |
| (Decrease) in assets in the course of construction and in accumulated surplus | (7,800) |

# Illustrative Examples

## Expensing of Borrowing Costs

National Government B has a range of responsibilities including providing infrastructure, education and healthcare for the citizens of its country. The government is also responsible for regulating the financial markets and developing appropriate monetary and fiscal policies. There are no laws or binding arrangements that restrict its ability to borrow or lend funds. Government B has net assets of CU500,000,000,000 and in the previous reporting period recognized a surplus of CU20,000,000,000. This was the seventh consecutive year in which it recognized a surplus.

Government B takes the view that a liquid debt securities market is a necessary component of its monetary policy, consequently it has a policy of maintaining CU100,000,000,000 in sovereign debt securities on issue to ensure that there is a benchmark bond available for the national securities market. The proceeds of these debt securities are invested in Government B's sovereign wealth fund, which currently has a balance of CU150,000,000,000. This fund invests in a wide range of equity and debt securities, commodities and property, both in country B and internationally.

In 20X0 Government B decides to build a high speed rail line between two major cities. The estimated cost of the rail line is CU2,000,000,000. Government B will finance the construction of the rail line from its accumulated surpluses.

*Analysis*

The CU100,000,000,000 in bonds that Government B has in the debt securities market are issued for monetary policy purposes and are unrelated to the decision to construct a rail line.  Government B may not capitalize any of its borrowing costs.

## Capitalization of Borrowing Costs

Municipal Government A is subject to a constitutional restriction requiring it to balance its budget. Under the law, Government A may only issue debt to develop public infrastructure, and in such cases it requires the approval of voters in a ballot initiative.

In 20X8, Government A decides to build a new subway line for its transit system. The estimated cost of the subway line is CU2,000,000,0000. It will finance this by a bond issue. In November 20X8 during the legislative elections, Government A includes a question asking the voters for approval to issue bonds to finance the building of the subway line. It receives approval from the majority of voters.

*Analysis*

The bond issue is issued specifically to finance the construction of a qualifying asset. Government A may elect to recognize the borrowing costs incurred to ready the subway line for use as part of the cost of the asset and capitalize them.

## Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, ED 35, "Borrowing Costs (Revised 200X)." This Basis for Conclusions only notes the IPSASB's reasons for departing from provisions of the related International Accounting Standard.*

### Background

BC1. The IPSASB's IFRS Convergence Program is an important element in IPSASB's work program. The IPSASB's strategy is to converge accrual basis IPSASs with IFRSs issued by the IASB where appropriate for public sector entities. Accrual basis IPSASs that are converged with IFRSs retain the requirements, structure and text of the IFRSs, unless there is a public sector specific reason for a departure.

BC2. IPSAS 5, "Borrowing Costs," issued in May 2000, was based on IAS 23, "Borrowing Costs" (revised in 1993). In March 2007, the IASB issued a revised version of IAS 23 superseding the 1993 version. The IASB's revision of IAS 23 resulted from the Short-Term Convergence Project it is conducting jointly with the Financial Accounting Standards Board (FASB) in the United States (US). The Short-Term Convergence Project is aimed at reducing those differences between IFRSs and US Generally Accepted Accounting Principles for non-governmental entities that are capable of resolution in a relatively short time and can be addressed outside major projects. The major change made to the former IAS 23 (1993) was to eliminate the benchmark treatment of immediate expense recognition of borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. Therefore, under the revised IAS 23, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized to form part of the cost of that asset.

BC3. The IPSASB completed a General Improvements Project in 2006. In early 2007, the IPSASB initiated a continuous improvements project to update existing IPSASs to converge with the latest related IFRSs, to the extent appropriate for the public sector. As part of the project, the IPSASB reviewed the IASB's amendments to IAS 23 issued in March 2007.

BC4. ED 35 differs significantly from the key requirement of the revised IAS 23, which is to capitalize borrowing costs directly attributable to the acquisition, construction or production of qualifying assets. The IPSASB decided that it was inappropriate to require public sector entities to capitalize borrowing costs. ED 35 therefore retains the option of either capitalizing or immediately expensing borrowing costs, when those costs are specifically incurred in relation to financing the acquisition, construction or production of a qualifying asset. However, unlike the existing IPSAS 5 and the revised IAS 23, this proposed IPSAS does not permit or require borrowing costs to be capitalized in relation to other borrowings that are directly attributable to financing the acquisition, construction or production of a qualifying asset. When borrowing costs are not specifically incurred in relation to financing the acquisition, construction or production of a qualifying asset, ED 35 would require immediate expensing of those borrowing costs. This Basis for Conclusions explains the public sector specific reasons for these departures from the revised IAS 23. These are in relation to:

- Borrowing in the Public Sector;
- Specifically Incurred Borrowing Costs and Directly Attributable Borrowing Costs;
- Non-Cash-Generating Assets and the Revaluation Model in IPSAS 17; and
- Convergence with Statistical Bases of Reporting.

**Borrowing in the Public Sector**

BC5. Borrowing in the public sector is often centralized and borrowing requirements are determined for the economic entity as a whole. Borrowing may be for investing, financing or operating activities. The aggregate level of borrowing will be set in the context of political and economic factors, such as decisions on the appropriate levels of taxation. The funding allocated to specific programs and entities may be derived from a variety of sources, and consequently the resources transferred are often indistinguishable in character. A feature of fiscal management in the public sector is that governments sometimes budget for deficits, occasionally for extended periods of time, and those deficits are financed by borrowing. In many jurisdictions outlays on qualifying assets are a relatively minor part of the government's annual outlays, the bulk of which are consumed by expenses, such as the payment of social benefits to individuals and households. This can be distinguished from the for-profit sector in which entities would normally budget for a loss only in unusual circumstances, and certainly not for an indefinite period. Therefore, in the public sector it is often difficult to distinguish financing from external borrowing and other sources of finance and there is often no meaningful way to attribute borrowing costs to qualifying assets.

BC6. Governments and other public sector entities may borrow for public policy purposes, for example they may issue debt securities to provide liquidity in the capital markets. Often these securities form the benchmark security for the bond market and a common basis for pricing other securities.

BC7. The reasons for public sector borrowing outlined in the preceding paragraphs mean that there is little linkage between these types of borrowing and the acquisition, construction or production of qualifying assets. For example, a government that has a policy of maintaining CU100 billion in bonds in the market, while not actually needing the cash, will find that, if it were required to capitalize borrowing costs, it would capitalize interest for any qualifying assets acquired, constructed or produced in any years in which bonds are outstanding. While it may be feasible to allocate these borrowings to qualifying assets, the IPSASB is of the view that doing so is unlikely to provide relevant and reliable information or enhance accountability. It is also likely that the cost to do so would exceed the related benefits, if any.

BC8. In the public sector controlling entities may have a large number of controlled entities. Many of these controlled entities are responsible for acquiring, constructing or producing qualifying assets. Although there will be a general policy framework, many controlled entities are likely to have their own financial management systems, reflecting their own reporting needs. Funding for such controlled entities may be by means of appropriation from a central fund without regard to whether such appropriations are financed from taxes, borrowings or other sources. Any accounting system to track directly attributable borrowing costs and their application to qualifying assets is likely to be complex and resource intensive. The IPSASB is of the view that in these cases, the costs incurred in capitalizing borrowing costs would be likely to exceed the related benefits, if any.

BC9. The IPSASB acknowledged, however, that there may be cases where public sector entities borrow specifically to finance the acquisition, construction or production of a qualifying asset, for example, where a municipality issues bonds specifically to finance an identified infrastructure project. The IPSASB considered that in such cases capitalizing borrowing costs may be appropriate and therefore entities should be permitted to capitalize borrowing costs specifically incurred for the acquisition, construction or production of a qualifying asset. However, because of cost-benefit considerations and issues associated with the relevance of the resulting information, the IPSASB concluded that the capitalization of borrowing costs should not be required, but instead should be optional in cases where a public sector entity borrows specifically to finance the acquisition, construction or production of a qualifying asset.

**Specifically Incurred Borrowing Costs and Directly Attributable Borrowing Costs**

BC10. Having concluded that the option to capitalize borrowing costs should be limited to such costs related to financing specifically incurred for the acquisition, construction or production of a qualifying asset, the IPSASB considered whether the term “directly attributable” used in IAS 23 achieves this objective. In IAS 23, borrowing costs that are “directly attributable” to the acquisition, construction or production of qualifying assets are those borrowing costs that would have been avoided if the expenditure on the qualifying asset had not been made. Effectively, this means any borrowings of the entity are attributed to the acquisition, construction or production of qualifying assets. Such borrowings are not limited to funds borrowed specifically for the purpose of acquiring, constructing or producing a particular qualifying asset. Thus "directly attributable" borrowing costs may include costs related to general borrowing, including interest on short-term borrowings such as bank overdrafts, which are not linked to any particular project. The IPSASB therefore concluded that the term "directly attributable" is broader than "specifically incurred" and that its use would not be in accordance with its conclusion that, in the public sector, the option to capitalize borrowing costs should be limited to those costs specifically incurred to finance the acquisition, construction or production of a qualifying asset. An approach of apportioning otherwise avoidable borrowing costs is also likely to be complex for the reasons outlined in paragraph BC8 and is likely to give rise to costs that exceed the related benefits.

BC11. The IPSASB noted that some governments operate under fiscal rules that only permit them to borrow for capital purposes. The IPSASB concluded that the existence of such rules on their own is insufficient to create a strong enough link between borrowing and the acquisition, construction or production of specific qualifying assets for the option to capitalize borrowing costs to be exercised.

**Non-Cash-Generating Assets and the Revaluation Model in IPSAS 17**

BC12. Under the requirements of IPSAS 17, "Property, Plant and Equipment," many specialized non-cash-generating assets are revalued to fair value on the basis of a cost-based estimate of fair value such as depreciated replacement cost. Current guidance on such revaluation bases does not adequately address the issue of how borrowing costs should be incorporated into the calculation of fair value. In the absence of authoritative guidance on this issue the IPSASB was concerned at the prospect of a range of practices emerging in response to compulsory capitalization of borrowing costs, which would reduce the reliability of the information provided. The IPSASB therefore concluded that it would be inappropriate to require capitalization in respect of qualifying assets that are carried on the revaluation model in IPSAS 17.

**Convergence with Statistical Bases of Reporting**

BC13. The IPSASB has a key strategic theme to converge IPSASs with statistical bases of reporting where appropriate. Under statistical bases of reporting borrowing costs are recognized as an expense in the period in which they are incurred. The IPSASB concluded that the approach to borrowing costs adopted in ED 35 furthers this strategic theme in an appropriate manner.

### Overall Conclusion: Approach to Borrowing Costs, Qualitative Characteristics of Financial Reporting and Balance between Benefit and Cost

BC14. For the above reasons the IPSASB concluded that requiring public sector entities to capitalize borrowing costs as part of the cost of qualifying assets would not satisfy the qualitative characteristics of general purpose financial reporting. In particular, the IPSASB believes that capitalizing borrowing costs generally would diminish the reliability of information reported in the financial statements of public sector entities while achieving, at best, a modest increase in the relevance of the information reported. Similarly, for these reasons, such a requirement generally would not enhance the accountability of public sector entities. The IPSASB also believes that, in many cases, the cost of capitalizing borrowing costs would likely exceed any benefits obtained.

BC15. The IPSASB also concluded that, in view of the reasons for public sector borrowing (see paragraphs BC5–BC7), permitting public sector entities to capitalize borrowing costs that are directly attributable, but not specifically incurred, in relation to financing the acquisition, construction or production of a qualifying asset would not increase the relevance and reliability of information reported in their financial statements and would not enhance their accountability.

### Other Difference—Outlays

BC16. The term “expenditures” in IAS 23 refers to those expenditures that result in payments of cash, transfers of other assets or the assumption of interest-bearing liabilities. However, the term “expenditure” has a narrower meaning in the public sector context, referring specifically to payments of cash. Therefore, both the existing IPSAS 5 and ED 35 use the term “outlay(s)" instead of the equivalent term “expenditure(s)” used in IAS 23.

**Table of Concordance**

This table shows how the contents of the superseded version of IPSAS 5 and the current version of IPSAS 5 correspond. Paragraphs are treated as corresponding if they broadly address the same matter even though the guidance may differ.

| Superseded IPSAS 5 paragraphs | Current IPSAS 5 paragraph |
|---|---|
| Objective | 1 |
| 1 | 2 |
| 2 | 3 |
| 3 | 4 |
| 4 | 5 |
| 5 | 7 |
| 6 | 8 |
| 7 | None |
| 8 | None |
| 9 | None |
| 10 | None |
| 11 | None |
| 12 | None |
| 13 | 9 |
| 14 | None |
| 15 | None |

| Superseded IPSAS 5 paragraphs | Current IPSAS 5 paragraph |
|---|---|
| 16 | None |
| 17 | 10 |
| 18 | 11 |
| 19 | 12 |
| 20 | 14 |
| 21 | 15 |
| 22 | 16 |
| 23 | 17 |
| 24 | 18 |
| 25 | None |
| 26 | 19 |
| 27 | 20 |
| 28 | 21 |
| 29 | 22 |
| 30 | 23 |
| 31 | 24 |

| Superseded IPSAS 5 paragraphs | Current IPSAS 5 paragraph |
|---|---|
| 32 | 25 |
| 33 | 26 |
| 34 | 27 |
| 35 | 28 |
| 36 | 29 |
| 37 | 30 |
| 38 | 31 |
| 39 | 32 |
| 40 | 33 |
| 41 | 34 |
| 42 | 36 |
| 43 | 37 |
| None | 6 |
| None | 13 |
| None | 35 |
| None | 38 |

**Comparison with IAS 23**

International Public Sector Accounting Standard (IPSAS) 5, "Borrowing Costs (Revised)" is drawn in part from International Accounting Standard (IAS) 23, "Borrowing Costs" (revised 2007). The main differences between IPSAS 5 (Revised) and IAS 23 are as follows:

- IPSAS 5 (Revised) requires the recognition of an expense in relation to borrowing costs in the period in which they are incurred, except that borrowing costs specifically incurred for the acquisition, construction or production of a qualifying asset may be capitalized. IAS 23 requires the capitalization of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset.
- IPSAS 5 (Revised) uses different terminology, in certain instances, from IAS 23. The most significant examples are the use of the terms net assets/equity, economic entity, controlling entity and controlled entity in IPSAS 5. The equivalent terms in IAS 23 are equity, group, parent and subsidiary.
- IPSAS 5 (Revised) uses the term "outlay(s)" to replace the equivalent term "expenditure(s)."

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