

IAS® Standard 23 Borrowing Costs

















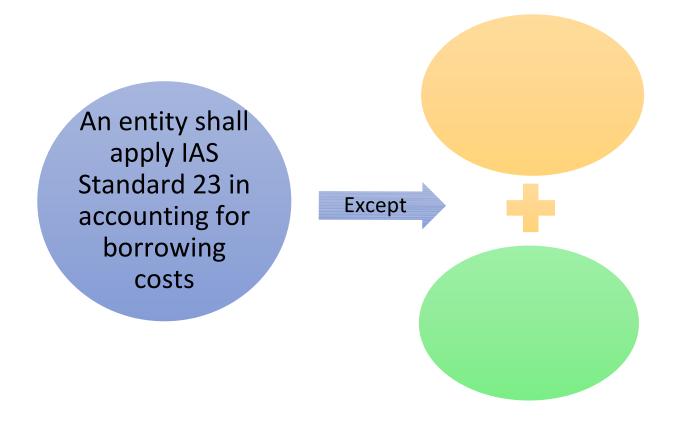
Co-funded by the Erasmus+ Programme of the European Union

- Recognize
- Capitalize

• Borrowing Cost

Qualifying Asset





An entity shall apply IAS Standard 23 in accounting for borrowing costs

a qualifying asset measured at fair value, for example a biological asset within the scope of IAS 41 Agriculture;

Except

An entity shall apply IAS Standard 23 in accounting for borrowing costs

a qualifying asset measured at fair value, for example a biological asset within the scope of IAS 41 Agriculture;

Except



inventories that are manufactured, or otherwise produced, in large quantities on a repetitive basis.

DEFINITIONS

Borrowing costs

Qualifying asset

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Borrowing costs

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

Qualifying asset

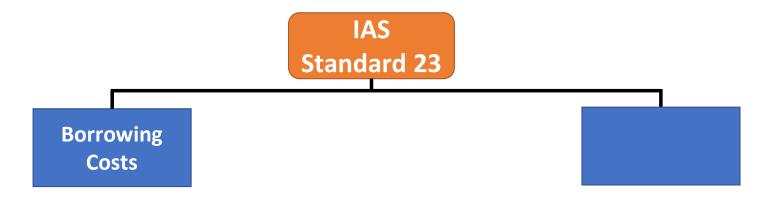
DEFINITIONS

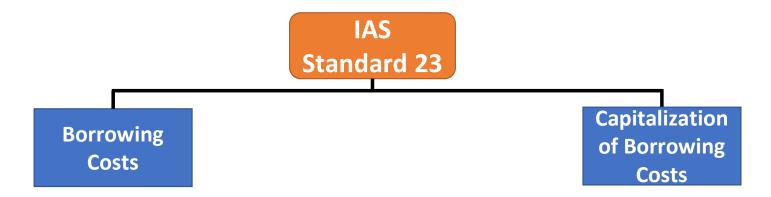
Borrowing costs

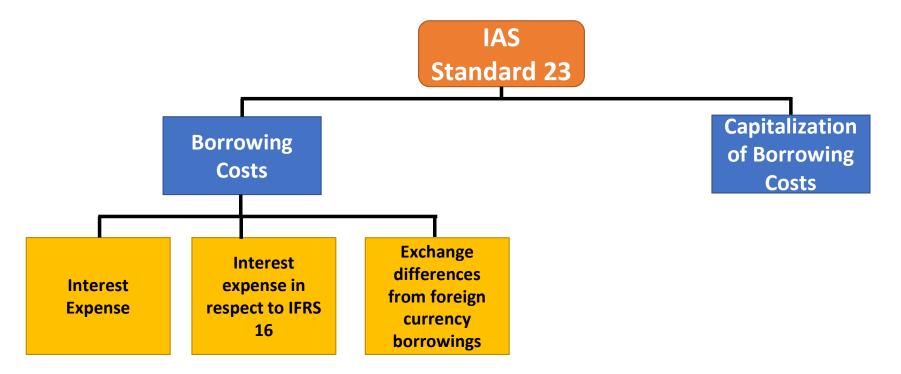
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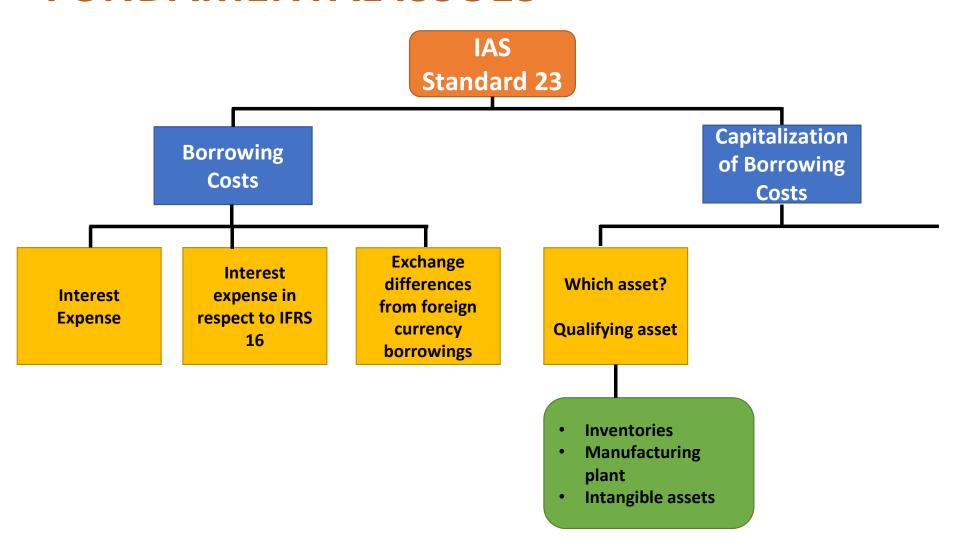
Qualifying asset

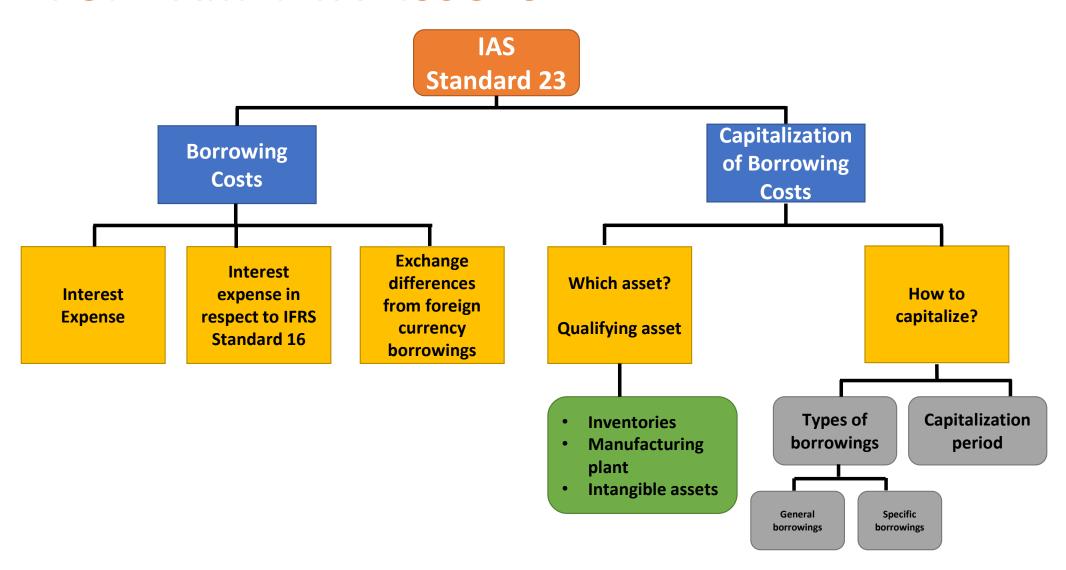
 A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

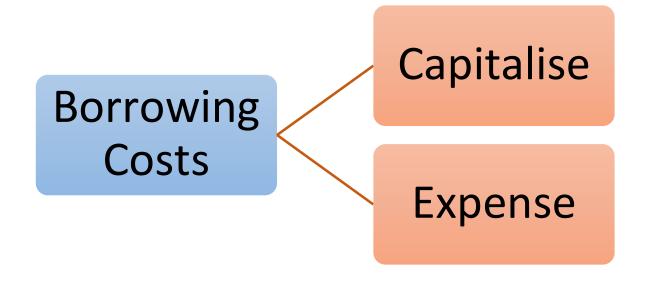


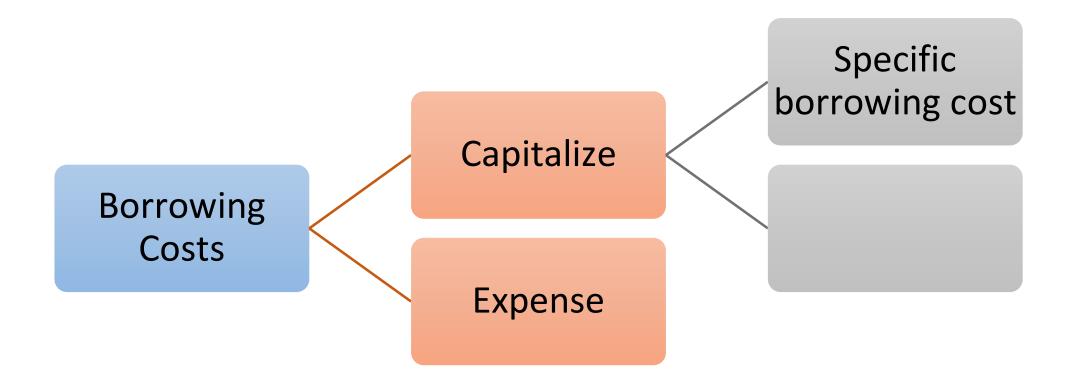


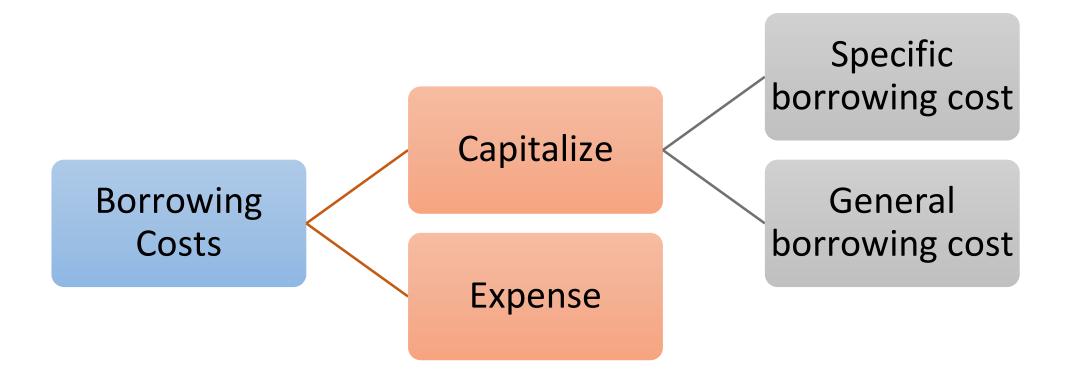












CAPITALIZATION RATE

- General Borrowings
- CU10,000,000, 10% loan
- CU8,000,000, 14.5% loan

CAPITALIZATION RATE

- General Borrowings
- CU10,000,000, 10% loan
- CU8,000,000, 14.5% loan
- Capitalization Rate = $\frac{Total\ borrowing\ cost}{Total\ Principal\ Amount\ of\ Loans}$
- Capitalization Rate = $\frac{(10,000,000x0.10) + (8,000,000x0.145)}{10,000,000 + 8,000,000}$
- Capitalization Rate = $\frac{1,000,000+1,160,000}{18,000,000}$
- Capitalization Rate = $\frac{2,160,000}{18,000,000}$ =0.12 or 12%

| YEAR 2020 | | | | | | | | | |
|-----------|--|--|--|--|--|--|--|--|-----------|
| January | | | | | | | | | December |
| CU100,000 | | | | | | | | | CU100.000 |

Interest Expense of CU100.000 made in January ≠

Interest Expense of CU100.000 made in December

| Date | Actual Expenditure A | Capitalization Period B | Weighted Average Expenditure A x B |
|-------------|-------------------------|-------------------------|--|
| 1 January | | | |
| 1 March | | | |
| 1 September | | | |
| 1 December | | | |
| TOTAL | | | |

| Date | Actual Expenditure A | Capitalization Period B | Weighted Average Expenditure A x B |
|-------------|-------------------------|-------------------------|--|
| 1 January | 100,000 | | |
| 1 March | 360,000 | | |
| 1 September | 300,000 | | |
| 1 December | 240,000 | | |
| TOTAL | 1,000,000 | | |

| Date | Actual Expenditure A | Capitalization Period B | Weighted Average Expenditure A x B |
|-------------|-------------------------|-------------------------|--|
| 1 January | 100,000 | 12/12 | |
| 1 March | 360,000 | 10/12 | |
| 1 September | 300,000 | 4/12 | |
| 1 December | 240,000 | 1/12 | |
| TOTAL | 1,000,000 | | |

| Date | Actual Expenditure A | Capitalization Period B | Weighted Average Expenditure A x B |
|-------------|-------------------------|-------------------------|--|
| 1 January | 100,000 | 12/12 | 100,000 |
| 1 March | 360,000 | 10/12 | 300,000 |
| 1 September | 300,000 | 4/12 | 100,000 |
| 1 December | 240,000 | 1/12 | 20,000 |
| TOTAL | 1,000,000 | | 520,000 |

CAPITALIZED BORROWING COST

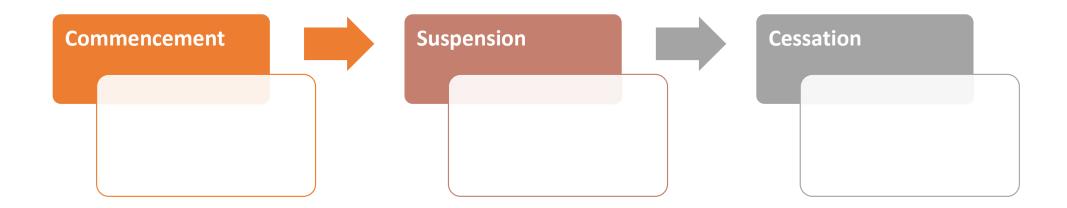
Borrowing Cost to be Capitalized =
 Capitalization rate x Weighted Average Expenditure Total

CAPITALIZED BORROWING COST

- Borrowing Cost to be Capitalized =
 Capitalization rate x Weighted Average Expenditure Total
- Borrowing Cost to be Capitalized = 0.12x 520,000
- Borrowing Cost to be Capitalized = CU62,400

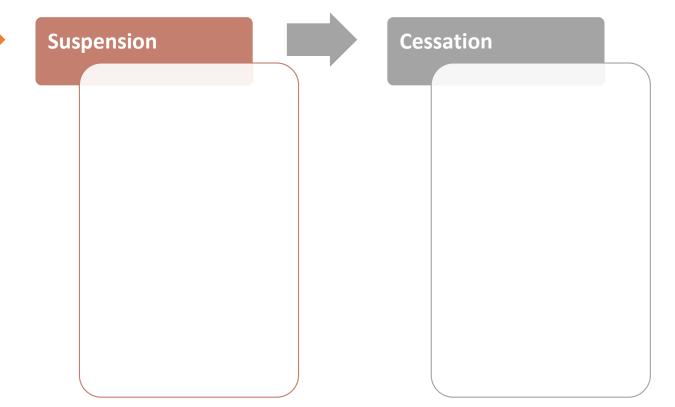
CAPITALIZED BORROWING COST

- Borrowing Cost to be Capitalized =
 Capitalization rate x Weighted Average Expenditure Total
- Borrowing Cost to be Capitalized = 0.12x 520,000
- Borrowing Cost to be Capitalized = CU62,400
- Total borrowing cost of the period : 2,160,000
- Capitalized Borrowing Cost: 62,400
- Expensed Borrowing Cost: 2,097,600



Commencement

- An entity shall begin capitalizing borrowing costs as part of the cost of a qualifying asset on the commencement date.
 - incur expenditures
 - incur borrowing costs
 - undertake activities that are necessary to prepare the asset for its intended use or sale.



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Suspension

 An entity shall suspend capitalization of borrowing costs during extended periods in which it suspends active development of a qualifying asset

Cessation

Commencement

- An entity shall begin capitalizing borrowing costs as part of the cost of a qualifying asset on the commencement date.
 - incur expenditures
 - incur borrowing costs
 - undertakes activities that are necessary

Suspension

 An entity shall suspend capitalization of borrowing costs during extended periods in which it suspends active development of a qualifying asset

Cessation

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

DISCLOSURE

- An entity shall disclose:
- (a) the amount of borrowing costs capitalized during the period; and
- (b) the capitalization rate used to determine the amount of borrowing costs eligible for capitalization.



















