

## IFRS IN BRIEF

### IAS 23 *Borrowing Costs*

#### SCOPE

Borrowing costs that are directly attributable to the acquisition or construction of qualifying assets are capitalised as part of the cost of that asset.

Other borrowing costs are recognised as expenses when accrued.

Capitalisation of borrowing costs on qualifying assets is not optional.

#### DEFINITIONS

##### **Borrowing costs**

Interest and other costs associated with borrowing funds and would have been avoided if the expenditure on the qualifying asset hadn't occurred. This may include:

- Interest calculated using the effective interest rate (IFRS 9)
- Interest on lease liabilities (IFRS 16)
- Exchange rate differences arising on funding borrowed, to the extent that they are considered an adjustment to borrowing costs

Borrowing costs can arise from two different sources:

- Specific borrowings that are directly associated with the acquisition of the qualifying assets
- General borrowings, that a proportion of them are used for the acquisition of the qualifying assets. A proportion of such borrowing cost can be capitalised using the weighted average of such borrowing costs

##### **Qualifying Asset**

A qualifying asset is any asset that necessarily takes a substantial period of

time to get ready for intended use. This requires construction, or otherwise production of the asset. This may include:

- Property, plant, and equipment
- Inventory
- Investment properties
- Bearer plants
- Intangible assets

*A substantial period of time* is not defined.

Activities that may be included in preparing the qualifying asset include both construction and technical and administrative work required before construction commences.

#### CAPITALISATION

##### **Commencement**

Capitalisation commences when the entity first

- Incurs expenditure on the qualifying asset
- Incurs borrowing costs
- Undertakes activities to prepare the qualifying asset

##### **Suspension**

Capitalisation is suspended during extended periods when no active development is being undertaken.



## Cessation

Capitalisation ceases when substantially all the activities required to prepare the qualifying asset for its intended use or sale are complete.

## DISCLOSURES

Entities are required to disclose the amount of borrowing costs capitalised during the period and the associated interest rate.

## CONTACTS

### BOAZ DAHARI

Moore Israel  
[boazd@lionorl.co.il](mailto:boazd@lionorl.co.il)

### CHRISOF STEUBE

Moore Singapore  
[christofsteube@moorestephens.com.sg](mailto:christofsteube@moorestephens.com.sg)

### EMILY KY CHAN

Moore CPA Limited  
[emilykychan@moore.hk](mailto:emilykychan@moore.hk)

### IRINA HUGHES

Johnston Carmichael  
[Irina.Hughes@icca.co.uk](mailto:Irina.Hughes@icca.co.uk)

### KRISTEN HAINES

Moore Australia  
[kristen.haines@moore-australia.com.au](mailto:kristen.haines@moore-australia.com.au)

### NEES DE VOS

Moore DRV  
[N.de.Vos@drv.nl](mailto:N.de.Vos@drv.nl)

### PAUL CALLAGHAN

Moore Oman  
[paul.callaghan@moore-oman.com](mailto:paul.callaghan@moore-oman.com)

### SAHEEL ABDULHAMID

Moore JVB LLP  
[saheel@moore-jvb.com](mailto:saheel@moore-jvb.com)

### TAN KEI HUI

Moore Malaysia  
[keihui@moore.com.my](mailto:keihui@moore.com.my)

### TESSA PARK

Moore Kingston Smith  
[TPark@mks.co.uk](mailto:TPark@mks.co.uk)

### THEODOSIOS DELYANNIS

Moore Greece  
[theodosios.Delyannis@moore.gr](mailto:theodosios.Delyannis@moore.gr)

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