LKAS 23 – Borrowing Costs

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Core principle
BORROWING COSTS

Qualifying Assets
- Form part of the cost of the asset

Other Borrowing Costs
- Recognize as an expense

Scope
Accounting for borrowing costs

It does not deal with
- actual or imputed cost of equity
- qualifying assets measured at fair value Eg: biological assets
- inventories manufactured in large quantities on repetitive basis

Definitions
Borrowing costs: are interest and other costs incurred for 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.

Borrowing costs may include:

- Interest expense calculated using effective interest method as per LKAS 39
- Finance charges for finance leases as per LKAS 17
- Exchange differences arising on interest of foreign currency borrowings
Qualifying assets may be:

- Inventories
- Manufacturing plants
- Power generation facilities
- Intangible assets
- Investment properties

Examples of what is Not a qualifying asset:

- Inventories that are normally manufactured or produced in large quantities on a repetitive basis and over a short period of time
- Assets which are ready for use or sale, when acquired
Recognition

A. General Conditions
B. Excess of the Carrying Amount of the Qualifying Asset Over the Recoverable Amount
C. Commencement of Capitalization
D. Suspension of Capitalization
E. Cessation of Capitalization
A. General conditions:

- Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalized as part of the cost of the asset.

- Such borrowing costs can be capitalized when:
  - It is probable that they will result in future economic benefits to the entity; and
  - These costs can be measured reliably.
B. Excess of the Carrying amount over Recoverable Amounts

Qualifying Asset

Carrying amount > Recoverable amount

To be written down to the recoverable amount

C. Commencement of Capitalization

The capitalization process shall begin when:
- Expenditures for that asset are being incurred
- Borrowing costs are being incurred
- Activities that are necessary to prepare the asset for its intended use or sale are in progress
D. Suspension of Capitalization

- Capitalization of borrowing costs shall be suspended during extended periods in which active development is suspended.

E. Cessation of Capitalization

- When substantially all the activities are complete.
- When the construction of a qualifying asset is completed in parts and each part is capable of being used while construction continues on other parts.
Disclosure

- The amount of borrowing costs capitalised during the period
- The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation.
Transitional provisions

- When the adoption of this Standard constitutes a change in accounting policy, an entity is encouraged to adjust its financial statements in accordance with LKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.
Application of IFRIC

IFRIC 1 - Changes in Existing Decommissioning, Restoration and Similar Liabilities

IFRIC concluded that the unwinding of the discount is not a borrowing cost as defined in IAS 23
IFRIC Interpretation 12 - Service Concession Arrangements

• Borrowing costs attributable to the arrangement shall be recognized as an expense unless the operator has a contractual right to receive an intangible asset (a right to charge users of the public service).

• In this case borrowing costs attributable to the arrangement shall be capitalized during the construction phase.

Thank you.