IAS - 23

Borrowing Costs

By: http://www.WorldGAAPInfo.com

International Accounting Standard No. 23 (IAS 23)

Borrowing costs

This standard, revised in 1993, is effective for financial statements covering periods beginning on or after January 1 1995, replacing IAS 23, Capitalization of Interest, approved by the IASC in March 1984.

It has issued an Interpretation SIC which has links with IAS 23, these are the:

• SIC-2, Consistency - Capitalization of interest cost.

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Interest costs

The legislative part of this ruling, which appears in bold italics, should be understood in the context of the explanations and guidelines for their implementation and in line with the Preface to International Accounting Standards. It is not intended that international accounting standards applicable in the case of non-significant (see paragraph 12 of the Preface).

Objective

The objective of this Standard is to prescribe the accounting treatment of costs for interest. The Standard establishes, as a rule, the immediate recognition of costs and interest expenses. However, the ruling provides, as allowed alternative treatment, the capitalization of interest costs that are directly attributable to the acquisition, construction or production of certain assets that meet certain conditions.

Scope

1. This standard must be applied in accounting for interest costs.

2. This standard supersedes the previous IAS 23, Capitalization of Interest, passed in 1983.

3. This Standard does not address the cost, cash or charged, net worth, defined as such, the preferred capital not included as a liability.

Definitions

4. **The following terms are used in this Standard with the meanings specified below:**

   <u>Interest costs</u> are, interest and other costs, which the company incurs and that are related to the funds it has borrowed.

   A <u>skilled</u>, is one that necessarily requires a substantial period of time before it is ready for use or sale.

5. Among the interest costs of funds have been borrowed include:

   (a) interest on loans in the short and long term, as well as those from overdrafts on current accounts;

   (b) amortization of premiums or discounts on loans;

   (c) amortization of the cost of formal loan contracts;

(d) interest charges on finance leases accounted for in accordance with IAS 17, Leases and

(e) exchange differences from foreign currency loans, to the extent that they are regarded as adjustments to interest costs.

6. Examples of qualified assets are inventories that require a long period of time to be able to be sold, as well as manufacturing plants, power plants or buildings. However other investments, as well as stocks that are manufactured on a routine basis or that are produced in large amounts of repetitive and require short periods of time for manufacturing, are elements that can be qualified as assets for the purposes of this Standard. Neither qualified assets are assets that, when acquired, are now ready for use or intended to be for sale.

Interest costs - Preferential Treatment

Recognition

7. **Interest costs should be recognized as an expense in the period in which they are incurred.**

8. According to the preferential treatment, the costs are recognized as interest expense in the period in which they are incurred, regardless of the assets to which they were applicable.

Information Disclosure

9. **Financial statements must disclose information on policies and methods adopted for the interest costs.**

Interest costs - allowed alternative treatment

Recognition

10. **Interest costs should be recognized as an expense in the period in which they are incurred, except if they are capitalized in accordance with paragraph 11.**

11. **Interest costs that are directly attributable to the acquisition, construction or production of qualified assets should be capitalized as part of the cost of such assets. The amount of costs for interest capitalization could be determined in accordance with this Standard.**

12. Under the allowed alternative treatment, the interest costs that are directly attributable to the acquisition, construction or production of an asset is included in cost of it. These

interest costs are capitalized as part of the cost of assets, provided that it is probable that future economic benefits to the company and can be measured with sufficient reliability. The other costs are recognized as interest expense in the period in which incurred.

Interest costs could cap

13. Interest costs are directly attributable to the acquisition, construction or production of a skilled costs that could have been avoided if they had not made any payments in the asset. When a company takes funds provided, specifically intended to obtain an asset that meets the conditions for qualification, interest costs related to the asset in question can be easily identified.

14. It can be difficult to identify a direct relationship between loans and assets qualified to determine which loans could have been avoided. This difficulty is reflected, for example, when financial activity of the company is centralized. Difficulties also appear when a group of companies with credit makes a wide range of loans at different interest rates and then lend these funds, with different criteria, in other group companies. They can also arise when loans are used or referenced to a specified foreign currency, where the group operates in highly inflationary economies or fluctuations in exchange rates. As a result, the amount of interest costs that is directly attributable to the acquisition of an asset that meets the conditions for qualification may be difficult, and requires the use of criteria to do so.

15. **To the extent that funds are borrowed specifically for the purpose of obtaining a skilled, the amount of costs eligible for capitalization of interest in that asset is determined by the actual costs incurred by such loans during the year, less the income realized by the placement of funds in such investments.**

16. According to the agreements relating to financial assets, can happen that the company obtained the funds and interest costs incurred before they are used to make payments on the purchase or investment of assets in question. In such circumstances, the funds can invest time waiting to be spent in that asset. To determine the amount of interest costs that could be capitalized during the period, any performance of such funds is deducted from the cost incurred for interest on it.

17. **To the extent that funds come from loans generic used for qualified assets, the amount of interest costs that could be capitalized should be determined by applying a capitalization rate to the investment in that asset. The capitalization rate should be the weighted average cost of interest for the loans received by the company, which have been in force in the exercise and are different from those specifically agreed to finance an asset. The amount of costs by interest capitalized during the year must not exceed total interest costs to be incurred**

during the same period.

18. In some circumstances, it might be appropriate to include all loans received by the parent and their dependents in calculating the weighted average costs for interest, in other cases, however, will be used for each dependent, a weighted average costs Interest attributable to its own loans.

Excess amount of the asset on the amount recoverable

19. When the book value, or the expected final cost of qualified assets exceed its recoverable amount or net realizable value, the book will be reduced or low in accordance with the requirements of other International Accounting Standards. In some cases, the amount decreased because of low or recovering and can be replenished in accordance with those International Accounting Standards.

Top of the cap

20. The capitalization of interest costs as part of the cost of qualified assets, should commence when:

(a) expenses incurred in connection with the asset;

(b) costs incurred in interest and

(c) are taking the actions necessary to prepare the asset for its intended use or for sale.

21. Speaking of expenses on a skilled refers only to expenses that have resulted in cash payments, transfers of assets or when to take interest-bearing liabilities. The amount of expenditure will be reduced by the amount of advances and grants received in connection with the asset (see IAS 20 Accounting for government grants and Disclosure Public Aid). The average amount of assets in books for a year, including the costs previously capitalized interest is usually a reasonable approximation of the expenses to which they must apply the capitalization rate in that year.

22. The activities necessary to prepare the asset for its intended use or sale involves more than just the physical construction of it. Also includes technical and administrative work prior to the commencement of the physical construction, such as the activities associated with obtaining permits prior to the building itself. However, they exclude the mere holding of assets, are not being conducted on the changes involving the production or development. Therefore, as an example, interest costs incurred while land is being prepared, are capitalized in the years that such a development takes place. However, interest costs that are incurred while land acquired to build on them remain dormant in them without any preparation work; do not qualify to be capitalized.

Suspension of capitalization

23. The capitalization of interest costs should be suspended during periods in which disrupt the development of activities, if they are spread in a meaningful way in time.

24. They can also occur interest costs over the years in which they interrupted the activities necessary to prepare the asset for its intended use or for sale. Such costs of maintaining assets partially completed, do not qualify for capitalization. However, the cap should not be suspended during that period are being carried out major technical or administrative actions. Nor was suspended because of funding a temporary delay as a necessary part of the process of obtaining an asset available for use or for sale. For example, the cap continuously for the long period required for the maturation of stock, or during the time interval in which the high water levels delay construction of a bridge, provided that such high level is normal in this region Geographic during the construction period.

End of capitalization

25. The capitalization of interest costs due to end when they have completed all or almost all activities necessary to prepare the asset qualified for its intended use or sale.

26. Normally, an asset is ready for use or expected to be sold when completed the physical construction of it, even still be carried out administrative work on it. If all you need is to carry out minor modifications, such as the decoration of the building following the specifications of the buyer or user, this is an indication that all construction activities are substantially completed.

27. When the construction of a qualified asset to capitalize interest costs is made by parties, each party can be used separately while the other end, the capitalization of interest costs due to end when completed, substantially all activities necessary to prepare that part for its intended use or sale.

28. An industrial park comprising several buildings, where each can be used separately, is an example of active qualified to be able to capitalize interest costs, where each side is capable of being used while construction continues on the others. Conversely, an asset that needs to be completed in full before each of the parties may be used, for example, is an industrial plant in which it should be conducted in several sequential processes each of the parties that make up, such as a steel factory.

Information Disclosure

29. Financial statements must disclose information about the following:

(a) the accounting policies adopted in relation to interest costs;

(b) the amount of interest costs capitalized during the period; and

(c) the capitalization rate used to determine the amount of costs eligible for interest capitalization.

Transitional Provision

30. When the adoption of this Standard constitutes a change in the accounting policies are advised to adjust the entity's financial statements in accordance with IAS 8 Accounting policies, changes in accounting estimates and errors. Alternatively, the only entities capitalized interest costs incurred after the effective date of the Standard, which meet the conditions to be capitalized.

Effective Date

31. The International Accounting Standard is effective for financial statements covering periods beginning on or after January 1 1995.