

IAS 23 BORROWING COSTS

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Objective?

- to prescribe the accounting treatment for borrowing costs.

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Scope?

- This standard does not deal with the actual or imputed cost of equity, including preferred capital not classified as a liability.

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Borrowing Costs?

- Are interest and other costs incurred by an entity in connection with the borrowing of funds.

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Borrowing costs may include;

- Interest on bank overdrafts and short-term and long-term borrowings
- Amortization of discounts or premiums relating to borrowings
- Amortization of ancillary costs incurred in connection with the arrangement of borrowings
- Finance charges in respect of finance leases recognized in accordance with IAS 17
- Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

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Recognition?

- Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying asset shall be capitalized as a part of the cost of that asset.
- Borrowing costs other than the costs that are directly attributable to the acquisition, construction or production of qualifying asset shall be recognized as an expense in the period in which they are incurred.

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Qualifying Asset???

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

Examples for qualifying assets?

- Inventories that require a substantial period of time to bring them to a saleable condition
- Manufacturing plants
- Power generation facilities
- Investment properties

Borrowing Costs Eligible for Capitalization

- When an entity borrow 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.

When the financing activity o an entity is co-ordinated centrally???

- The determination of the amount of borrowing costs tat are directly attributable to the acquisition of a qualifying asset is difficult and the exercise of judgment is required.

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If funds borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization ???

- Shall be determined by applying a capitalization rate to the expenditures on the asset.

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Capitalization Rate???

- Shall 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.

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- The amount of borrowing costs capitalized during a period shall not exceed the amount of borrowing costs incurred during that period.

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Commencement of Capitalization

- The capitalization of borrowing costs as part of the cost of a qualifying asset shall commence when;
- Expenditures for the asset are being incurred
- Borrowing costs are being incurred; and
- Activities that are necessary to prepare the asset for its intended use or sale are in progress.

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Suspension of Capitalization

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

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What shall be done with the borrowing costs incurred during an extended period in which the activities necessary to prepare an asset for its intended use or sale are interrupted?

- Capitalization of borrowing costs is not suspended during a period when substantial technical and administrative work is being carried out.
- Capitalization of borrowing costs is not suspended when a temporary delay is a necessary part of the process of getting an asset for its intended use or sale.

Cessation of Capitalization

- Capitalization of borrowing costs shall cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale 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, capitalization of borrowing costs shall cease when substantially all the activities necessary to prepare that part for its intended use or sale are completed.

Disclosure???

- Financial statements shall disclose:
 - The accounting policy adopted for borrowing costs;
 - The amount of borrowing costs capitalized during the period; and
 - The capitalization rate used to determine the amount of borrowing costs eligible for capitalization.
