NZ International Accounting Standard 23 (Diff Rep)

Borrowing Costs (NZ IAS 23 (Diff Rep))

Issued November 2012

This Standard was issued by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 24(1)(a) of the Financial Reporting Act 1993.

This Standard is a Regulation for the purposes of the Regulations (Disallowance) Act 1989.

As at1 December 2012, the requirements in this Standard are identical to the requirements in NZ IAS 23 *Borrowing Costs* as applied by qualifying entities. Versions of NZ IAS 23 applied by qualifying entities prior to adoption of this Standard are available on the Archived Standards page of the External Reporting Board (XRB) website at xrb.govt.nz

The following New Zealand Interpretations refer to NZ IAS 23 (Diff Rep):

- NZ IFRIC 1 (Diff Rep) *Changes in Existing Decommissioning, Restoration and Similar Liabilities*
- NZ IFRIC 12 (Diff Rep) *Service Concession Arrangements*

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NZ INTERNATIONAL ACCOUNTING STANDARD 23 (Diff Rep) *BORROWING COSTS* (NZ IAS 23 (Diff Rep))

NZ International Accounting Standard 23 (Diff Rep) *Borrowing Costs* (NZ IAS 23 (Diff Rep)) is set out in paragraphs 1–30. NZ IAS 23 (Diff Rep) is based on International Accounting Standard 23 *Borrowing Costs* (IAS 23), as revised by the International Accounting Standard Board (IASB) in 2007. All the paragraphs have equal authority. Paragraphs in bold type state the main principles. NZ IAS 23 (Diff Rep) should be read in the context of its objective and the New Zealand *Conceptual Framework for Financial Reporting (Diff Rep)* (NZ *Framework (Diff Rep)*). NZ IAS 8 (Diff Rep) *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Any additional material is shown with grey shading and the paragraphs are denoted with “NZ”.

HISTORY OF AMENDMENTS

Table of Pronouncements – NZ IAS 23 (Diff Rep) *Borrowing Costs*

This table lists the pronouncement establishing NZ IAS 23 (Diff Rep).

Pronouncements	**Date approved**	**Early operative date**	**Effective date (annual reporting periods… on or after …)**
NZ IAS 23 (Diff Rep) *Borrowing Costs*	Nov 2012	Early adoption permitted	1 Dec 2012

Table of Amended Paragraphs in NZ IAS 23 (Diff Rep)		
Paragraph affected	**How affected**	**By … [date]**
Paragraph NZ 1.1	Inserted	NZ IAS 23 (Diff Rep) [Nov 2012]
Paragraphs 27–28	Deleted	NZ IAS 23 (Diff Rep) [Nov 2012]
Paragraphs 29–29A	Deleted	NZ IAS 23 (Diff Rep) [Nov 2012]
Paragraph NZ 29A.1	Inserted	NZ IAS 23 (Diff Rep) [Nov 2012]

The following tables list the pronouncements establishing and substantially amending NZ IAS 23 as applied by qualifying entities prior to the issue of this Standard as NZ IAS 23 (Diff Rep).

Pronouncements	**Date approved**	**Early operative date**	**Effective date (annual reporting periods… on or after …)**
NZ IAS 23 *Borrowing Costs* (revised 2007)	July 2007	Early adoption encouraged	1 Jan 2009
Improvements to NZ IFRSs	June 2008	Early application permitted	1 July 2009
Amendments to NZ IAS 23 *Borrowing Costs*	Nov 2008	Early application permitted	1 Jan 2009
Minor Amendments to NZ IFRSs	July 2010	Immediate	Immediate

Table of Amended Paragraphs in NZ IAS 23		
Paragraph affected	**How affected**	**By … [date]**
Paragraph 6	Amended	*Improvements to NZ IFRSs* [June 2008]
Paragraph NZ 29.1	Inserted	Amendments to NZ IAS 23 [Nov 2008]
Paragraph 29A	Inserted	*Improvements to NZ IFRSs* [June 2008]
Appendix B	Inserted	Amendments to NZ IAS 23 [Nov 2008]

Introduction to NZ IAS 23 (Diff Rep)

NZ IAS 23 (Diff Rep) is identical to NZ IAS 23 applied by qualifying entities prior to the issuance of NZ IAS 23 (Diff Rep). That is, there is no change to the recognition, measurement, presentation and disclosure requirements of NZ IAS 23 on adoption of this Standard.

This Standard prescribes the accounting treatment for borrowing costs and requires the capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

Differential Reporting

Qualifying entities are given several concessions to the requirements of this Standard (as identified in the Standard).

NZ International Accounting Standard 23 (Diff Rep)

Borrowing Costs (NZ IAS 23 (Diff Rep))

Core principle

1 **Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognised as an expense.**

Scope

NZ 1.1 **This Standard applies only to Tier 3 for-profit entities.**

2 **An entity shall apply this Standard in accounting for borrowing costs.**

3 The Standard does not deal with the actual or imputed cost of equity, including preferred capital not classified as a liability.

4 An entity is not required to apply the Standard to borrowing costs directly attributable to the acquisition, construction or production of:

(a) a qualifying asset measured at fair value, for example a biological asset; or

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

NZ 4.1 **Entities which qualify for differential reporting concessions in accordance with XRB A1 *Accounting Standards Framework* are not required to account for borrowing costs in accordance with this Standard. A qualifying entity may elect to account for borrowing costs by recognising borrowing costs as an expense in the period in which they are incurred.**

NZ 4.2 **A qualifying entity shall disclose the accounting policy adopted for borrowing costs.**

NZ 4.3 **Qualifying entities are not required to comply with the disclosure requirements in this Standard denoted with an asterisk (*).**

Definitions

5 **This Standard uses the following terms with the meanings specified:**

Borrowing costs **are interest and other costs that an entity incurs in connection with 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.

6 Borrowing costs may include:

(a) interest expense calculated using the effective interest method as described in NZ IAS 39 (Diff Rep) *Financial Instruments: Recognition and Measurement*;

(b) [deleted by IASB]

(c) [deleted by IASB]

(d) finance charges in respect of finance leases recognised in accordance with NZ IAS 17 (Diff Rep) *Leases*; and

(e) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

7 Depending on the circumstances, any of the following may be qualifying assets:

(a) inventories

(b) manufacturing plants

(c) power generation facilities

(d) intangible assets

(e) investment properties.

Financial assets, and inventories that are manufactured, or otherwise produced, over a short period of time, are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

Recognition

8 An entity shall capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. An entity shall recognise other borrowing costs as an expense in the period in which it incurs them.

9 Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are included in the cost of that asset. Such borrowing costs are capitalised as part of the cost of the asset when it is probable that they will result in future economic benefits to the entity and the costs can be measured reliably. When an entity applies NZ IAS 29 (Diff Rep) *Financial Reporting in Hyperinflationary Economies*, it recognises as an expense the part of borrowing costs that compensates for inflation during the same period in accordance with paragraph 21 of that Standard.

Borrowing costs eligible for capitalisation

10 The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are those borrowing costs that would have been avoided if the expenditure on the qualifying asset had not been made. When an entity borrows 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.

11 It may be difficult to identify a direct relationship between particular borrowings and a qualifying asset and to determine the borrowings that could otherwise have been avoided. Such a difficulty occurs, for example, when the financing activity of an entity is co-ordinated centrally. Difficulties also arise when a group uses a range of debt instruments to borrow funds at varying rates of interest, and lends those funds on various bases to other entities in the group. Other complications arise through the use of loans denominated in or linked to foreign currencies, when the group operates in highly inflationary economies, and from fluctuations in exchange rates. As a result, the determination of the amount of borrowing costs that are directly attributable to the acquisition of a qualifying asset is difficult and the exercise of judgement is required.

12 To the extent that an entity borrows funds specifically for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

13 The financing arrangements for a qualifying asset may result in an entity obtaining borrowed funds and incurring associated borrowing costs before some or all of the funds are used for expenditures on the qualifying asset. In such circumstances, the funds are often temporarily invested pending their expenditure on the qualifying asset. In determining the amount of borrowing costs eligible for capitalisation during a period, any investment income earned on such funds is deducted from the borrowing costs incurred.

14 To the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation 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. The amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.

15 In some circumstances, it is appropriate to include all borrowings of the parent and its subsidiaries when computing a weighted average of the borrowing costs; in other circumstances, it is appropriate for each subsidiary to use a weighted average of the borrowing costs applicable to its own borrowings.

Excess of the carrying amount of the qualifying asset over recoverable amount

16 When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or net realisable value, the carrying amount is written down or written off in accordance with the requirements of other Standards. In certain circumstances, the amount of the write-down or write-off is written back in accordance with those other Standards.

Commencement of capitalisation

17 An entity shall begin capitalising borrowing costs as part of the cost of a qualifying asset on the commencement date. The commencement date for capitalisation is the date when the entity first meets all of the following conditions:

(a) it incurs expenditures for the asset;

(b) it incurs borrowing costs; and

(c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

18 Expenditures on a qualifying asset include only those expenditures that have resulted in payments of cash, transfers of other assets or the assumption of interest-bearing liabilities. Expenditures are reduced by any progress payments received and grants received in connection with the asset (see NZ IAS 20 (Diff Rep) *Accounting for Government Grants and Disclosure of Government Assistance*). The average carrying amount of the asset during a period, including borrowing costs previously capitalised, is normally a reasonable approximation of the expenditures to which the capitalisation rate is applied in that period.

19 The activities necessary to prepare the asset for its intended use or sale encompass more than the physical construction of the asset. They include technical and administrative work prior to the commencement of physical construction, such as the activities associated with obtaining permits prior to the commencement of the physical construction. However, such activities exclude the holding of an asset when no production or development that changes the asset's condition is taking place. For example, borrowing costs incurred while land is under development are capitalised during the period in which activities related to the development are being undertaken. However, borrowing costs incurred while land acquired for building purposes is held without any associated development activity do not qualify for capitalisation.

Suspension of capitalisation

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

21 An entity may incur borrowing costs during an extended period in which it suspends the activities necessary to prepare an asset for its intended use or sale. Such costs are costs of holding partially completed assets and do not qualify for capitalisation. However, an entity does not normally suspend capitalising borrowing costs during a period when it carries out substantial technical and administrative work. An entity also does not suspend capitalising borrowing costs when a temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale. For example, capitalisation continues during the extended period that high water levels delay construction of a bridge, if such high water levels are common during the construction period in the geographical region involved.

Cessation of capitalisation

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

23 An asset is normally ready for its intended use or sale when the physical construction of the asset is complete even though routine administrative work might still continue. If minor modifications, such as the decoration of a property to the purchaser's or user's specification, are all that are outstanding, this indicates that substantially all the activities are complete.

24 When an entity completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity shall cease capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

25 A business park comprising several buildings, each of which can be used individually, is an example of a qualifying asset for which each part is capable of being usable while construction continues on other parts. An example of a qualifying asset that needs to be complete before any part can be used is an industrial plant involving several processes which are carried out in sequence at different parts of the plant within the same site, such as a steel mill.

Disclosure

***26** **An entity shall disclose:**

- **(a)** **the amount of borrowing costs capitalised during the period; and**
- **(b)** **the capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation.**

Transitional provisions

27–28 [Deleted]

Effective date

29–29A [Deleted]

NZ 29A.1 This Standard applies to annual periods beginning on or after 1 December 2012. Early application is permitted. This Standard replaces NZ IAS 23 as applied by qualifying entities prior to the issuance of this Standard. There are no changes to the requirements of NZ IAS 23 as it applied to qualifying entities.

Withdrawal of NZ IAS 23 (issued 2004)

30 [Deleted]