Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

PUBLIC BENEFIT ENTITY INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 5 BORROWING COSTS (PBE IPSAS 5)

Issued September 2014 and incorporates amendments to 31 December 2022

This Standard was issued on 11 September 2014 by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 9 October 2014.

Reporting entities that are subject to this Standard are required to apply it in accordance with the effective dates in paragraphs 43.1 to 43.5.

In finalising this Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Tier 1 and Tier 2 PBE Standard has been issued as part of a revised full set of PBE Standards that incorporate enhancements for not-for-profit public benefit entities.

This Standard, when applied, supersedes PBE IPSAS 5 *Borrowing Costs* issued in May 2013.

PBE IPSAS 5 BORROWING COSTS

ISBN 978-1-927292-27-3

PBE IPSAS 5 BORROWING COSTS

CONTENTS

Public Benefit Entity International Public Sector Accounting Standard 5 *Borrowing Costs* is set out in the objective and paragraphs 1–44. All the paragraphs have equal authority. PBE IPSAS 5 should be read in the context of its objective, the NZASB's Basis for Conclusions on PBE IPSAS 5, the *Public Benefit Entities' Conceptual Framework* and Standard XRB A1 *Application of the Accounting Standards Framework*. PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

This Standard prescribes the accounting treatment for borrowing costs. This Standard generally requires the immediate expensing of borrowing costs. However, the Standard permits, as an allowed alternative treatment, the capitalisation of borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset.

Scope

1. **This Standard shall be applied in accounting for borrowing costs.**

2. [Not used]

2.1 **This Standard applies to Tier 1 and Tier 2 public benefit entities.**

2.2 **A Tier 2 entity is not required to comply with the requirements in this Standard denoted with an asterisk (*). Where a Tier 2 entity elects to apply a disclosure concession it shall comply with any RDR paragraphs associated with that concession.**

3. [Not used]

4. This Standard does not deal with the actual or imputed cost of net assets/equity. Where jurisdictions apply a capital charge to individual entities, judgement will need to be exercised to determine whether the charge meets the definition of borrowing costs, or whether it should be treated as an actual or imputed cost of net assets/equity.

Definitions

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

   Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

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

   Terms defined in other PBE Standards are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

Borrowing Costs

6. Borrowing costs may include:

   (a) Interest expense calculated using the effective interest method as described in PBE IPSAS 41 *Financial Instruments*;

   (b)–(c) [Deleted by IPSASB]

   (d) Finance charges in respect of finance leases and service concession arrangements; and

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

Economic Entity

7. The term economic entity is used in this Standard to define, for financial reporting purposes, a group of entities comprising the controlling entity and any controlled entities.

8. Other terms sometimes used to refer to an economic entity include administrative entity, financial entity, consolidated entity, and group.

9. An economic entity may include entities with both social and commercial objectives. For example, an entity providing housing may be an economic entity that includes entities that provide housing for a nominal charge, as well as entities that provide accommodation on a commercial basis. An economic entity may establish a separate entity such as a trust or trading company, to carry out specific functions.

Future Economic Benefits or Service Potential

10. Assets provide a means for entities to achieve their objectives. Assets that are used to deliver goods and services in accordance with an entity's objectives, but which do not directly generate net cash inflows, are often described as embodying service potential. Assets that are used to generate net cash inflows are often described as embodying "future economic benefits." To encompass all the purposes to which assets may be put, this Standard uses the term "future economic benefits or service potential" to describe the essential characteristic of assets.

11. [Not used]

Net Assets/Equity

12. Net assets/equity is the term used in this Standard to refer to the residual measure in the statement of financial position (assets less liabilities). Net assets/equity may be positive or negative. Other terms may be used in place of net assets/equity, provided that their meaning is clear.

Qualifying Assets

13. Examples of qualifying assets are office buildings, schools, hospitals, infrastructure assets such as roads, bridges and power generation facilities, and inventories that require a substantial period of time to bring them to a condition ready for use or sale. Other investments, and those assets that are routinely produced over a short period of time, are not qualifying assets. Assets that are ready for their intended use or sale when acquired also are not qualifying assets.

Borrowing Costs—Benchmark Treatment

Recognition

14. **Borrowing costs shall be recognised as an expense in the period in which they are incurred.**

15. Under the benchmark treatment, borrowing costs are recognised as an expense in the period in which they are incurred, regardless of how the borrowings are applied.

Disclosure

16. **The financial statements shall disclose the accounting policy adopted for borrowing costs.**

Borrowing Costs—Allowed Alternative Treatment

Recognition

17. **Borrowing costs shall be recognised as an expense in the period in which they are incurred, except to the extent that they are capitalised in accordance with paragraph 18.**

18. **Borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset shall be capitalised as part of the cost of that asset. The amount of borrowing costs eligible for capitalisation shall be determined in accordance with this Standard.**

19. Under the allowed alternative treatment, borrowing costs that are directly attributable to the acquisition, construction, or production of an asset are included in the cost of that asset. Such borrowing costs are capitalised as part of the cost of the asset when (a) it is probable that they will result in future economic benefits or service potential to the entity, and (b) the costs can be measured reliably.[1] Other borrowing costs are recognised as an expense in the period in which they are incurred.

20. **Where an entity adopts the allowed alternative treatment, that treatment shall be applied consistently to all borrowing costs that are directly attributable to the acquisition, construction, or production of all qualifying assets of the entity.**

[1] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC10 of PBE IPSAS 1 *Presentation of Financial Reports* discusses the transitional approach to the explanation of reliability.

Borrowing Costs Eligible for Capitalisation

21. 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 outlays 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.

22. 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 coordinated centrally. Difficulties also arise when an economic entity uses a range of debt instruments to borrow funds at varying rates of interest, and transfers those funds on various bases to other entities in the economic entity. Funds that have been borrowed centrally may be transferred to other entities within the economic entity as a loan, a grant, or a capital injection. Such transfers may be interest-free, or require that only a portion of the actual interest cost be recovered. Other complications arise (a) through the use of loans denominated in or linked to foreign currencies, (b) when the economic entity operates in highly inflationary economies, and (c) 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 judgment is required.

23. **To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset shall be determined as the actual borrowing costs incurred on that borrowing during the period, less any investment income on the temporary investment of those borrowings.**

24. 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 outlays on the qualifying asset. In such circumstances, the funds are often temporarily invested pending their outlay 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.

25. **To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation shall be determined by applying a capitalisation rate to the outlays on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to all borrowings of the entity that are outstanding during the period. However, an entity shall exclude from this calculation borrowing costs applicable to borrowings made specifically for the purpose of obtaining a qualifying asset until substantially all the activities necessary to prepare that asset for its intended use or sale are complete. The amount of borrowing costs capitalised during a period shall not exceed the amount of borrowing costs incurred during that period.**

26. Only those borrowing costs applicable to the borrowings of the entity may be capitalised. When a controlling entity borrows funds that are passed on to a controlled entity with no, or only partial, allocation of borrowing costs, the controlled entity may capitalise only those borrowing costs which it itself has incurred. Where a controlled entity receives an interest-free capital contribution or capital grant, it will not incur any borrowing costs, and consequently will not capitalise any such costs.

27. When a controlling entity transfers funds at partial cost to a controlled entity, the controlled entity may capitalise that portion of borrowing costs which it itself has incurred. In the financial statements of the economic entity, the full amount of borrowing costs can be capitalised to the qualifying asset, provided that appropriate consolidation adjustments have been made to eliminate those costs capitalised by the controlled entity.

28. When a controlling entity has transferred funds at no cost to a controlled entity, neither the controlling entity nor the controlled entity would meet the criteria for capitalisation of borrowing costs. However, if the economic entity met the criteria for capitalisation of borrowing costs, it would be able to capitalise the borrowing costs to the qualifying asset in its financial statements.

29. In some circumstances, it is appropriate to include all borrowings of the controlling entity and its controlled entities when computing a weighted average of the borrowing costs; in other circumstances, it is appropriate for each controlled entity 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

30. 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 PBE IPSAS 21 *Impairment of Non-Cash-Generating Assets* or PBE IPSAS 26 *Impairment of Cash-Generating-Assets* as appropriate. In certain circumstances, the amount of the write-down or write-off is written back in accordance with those other standards.

Commencement of Capitalisation

31. **The capitalisation of borrowing costs as part of the cost of a qualifying asset shall commence when:**

    (a) **Outlays for the asset are being incurred;**

    (b) **Borrowing costs are being incurred; and**

    (c) **Activities that are necessary to prepare the asset for its intended use or sale are in progress.**

32. Outlays on a qualifying asset include only those outlays that have resulted in payments of cash, transfers of other assets, or the assumption of interest-bearing liabilities. The average carrying amount of the asset during a period, including borrowing costs previously capitalised, is normally a reasonable approximation of the outlays to which the capitalisation rate is applied in that period.

33. 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. 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

34. **Capitalisation of borrowing costs shall be suspended during extended periods in which active development is interrupted, and expensed.**

35. Borrowing costs may be incurred during an extended period in which the activities necessary to prepare an asset for its intended use or sale are interrupted. Such costs are costs of holding partially completed assets, and do not qualify for capitalisation. However, capitalisation of borrowing costs is not normally suspended during a period when substantial technical and administrative work is being carried out. Capitalisation of borrowing costs is also not suspended 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 an extended period needed for inventories to mature or an extended period during which high water levels delay construction of a bridge, if such high water levels are common during the construction period in the geographic region involved.

Cessation of Capitalisation

36. **Capitalisation of borrowing costs shall cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.**

37. 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 is outstanding, this indicates that substantially all the activities are complete.

38. **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, capitalisation of borrowing costs shall cease when substantially all the activities necessary to prepare that part for its intended use or sale are completed.**

39. An office development 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 used while construction continues on other parts. Examples of qualifying assets that need to be complete before any part can be used include (a) an operating theatre in a hospital when all construction must be complete before the theatre may be used, (b) a

sewage treatment plant where several processes are carried out in sequence at different parts of the plant, and (c) a bridge forming part of a highway.

Disclosure

40. **An entity shall disclose:**

(a) **The accounting policy adopted for borrowing costs;**

(b) **The amount of borrowing costs capitalised during the period; and**

*(c) **The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation (when it was necessary to apply a capitalisation rate to funds borrowed generally).**

Transitional Provisions

41. [Not used]

41A. *2018 Omnibus Amendments PBE Standards*, issued in November 2018, amended paragraph 25. An entity shall apply those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments.

Effective Date

42–43. [Not used]

43.1 **A public benefit entity shall apply this Standard for annual financial statements covering periods beginning on or after 1 April 2015. Earlier application is permitted for not-for-profit public benefit entities as long as the full suite of PBE Standards is applied at the same time.**

43.2 ***2016 Omnibus Amendments to PBE Standards*, issued in January 2017, added a footnote to paragraph 19. An entity shall apply that amendment for annual financial statements covering periods beginning on or after 1 January 2017.**

43.3 **PBE IFRS 9 *Financial Instruments*, issued in January 2017, amended paragraph 6. An entity shall apply that amendment when it applies PBE IFRS 9.**[2]

43.4 ***2018 Omnibus Amendments to PBE Standards*, issued in November 2018, amended paragraph 25 and added paragraph 41A. An entity shall apply those amendments for annual financial statements covering periods beginning on or after 1 January 2019. Earlier application is permitted. If an entity applies those amendments for a period beginning before 1 January 2019 it shall disclose that fact.**

43.5 **PBE IPSAS 41, issued in March 2019, amended paragraphs 6 and 43.3. An entity shall apply those amendments when it applies PBE IPSAS 41.**

Withdrawal and Replacement of PBE IPSAS 5 (May 2013)

44. This Standard, when applied, supersedes PBE IPSAS 5 *Borrowing Costs* issued in May 2013.

[2] PBE IFRS 9 was subsequently withdrawn by PBE IPSAS 41. The amendments in Appendix D of PBE IFRS 9 were not compiled.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, PBE IPSAS 5.

BC1. The New Zealand Accounting Standards Board (NZASB) has modified IPSAS 5 *Borrowing Costs* for application by Tier 1 and Tier 2 public benefit entities. Where applicable, disclosure concessions have been identified for Tier 2 entities and the language generalised for use by public benefit entities. The NZASB considered that the requirements of IPSAS 5 are generally appropriate for application by public benefit entities.

2018 Omnibus Amendments to PBE Standards

BC2. In December 2017 the IASB issued *Annual Improvements to IFRS® Standards 2015–2017 Cycle* which amended IAS 23 *Borrowing Costs*. The amendments clarified that that an entity includes borrowings made specifically to obtain a qualifying asset in general borrowings when that qualifying asset is ready for its intended use or sale. The IPSASB subsequently issued *Improvements to IPSAS, 2018* which incorporated equivalent amendments in IPSAS 5 *Borrowing Costs.* The NZASB amended PBE IPSAS 5 in *2018 Omnibus Amendments to PBE Standards*.

2022 Omnibus Amendments to PBE Standards

BC3. In November 2021 the IPSASB issued *Amendments to IPSAS 5, Borrowing Costs – Non-Authoritative Guidance*, which added non-authoritative guidance material to IPSAS 5. The guidance material includes implementation guidance and illustrative examples, to illustrate the extent to which borrowing costs can be capitalised. The NZASB amended PBE IPSAS 5 in *2022 Omnibus Amendments to PBE Standards*.

Implementation Guidance

This guidance accompanies, but is not part of, PBE IPSAS 5.

A.1 Period of Borrowing Cost Capitalisation

When applying the allowed alternative treatment, as described in paragraphs 17–18, when can an entity begin to include borrowing costs in the cost of the qualifying asset?

Where outlays and borrowings have been incurred specifically to fund a qualifying asset's acquisition, construction, or production, the costs of those borrowings should be capitalised when the activities necessary to prepare the asset for its intended use or sale begin. The activities necessary to get the asset ready for use encompass more than the asset's physical acquisition, construction, or production. The activities include technical and administrative work prior to the commencement of physical acquisition, construction, or production, but exclude holding the asset when no development that changes the asset's condition is being undertaken.

The activities (i.e., technical and administrative work) undertaken prior to commencement of the physical acquisition, construction, or production of a qualifying asset should contribute to the actual development or construction of that asset.

A.2 Limit on Capitalisation

When applying the allowed alternative treatment, as described in paragraphs 17–18, to specific borrowings, are borrowing costs included in the cost of the qualifying asset in that period limited to the borrowing costs incurred in that period?

Yes. If a borrowing can be specifically associated with outlays on acquisition, construction, or production of a qualifying asset, the amount of borrowing costs capitalised during that period is limited to the borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

A.3 Asset Funded through Transfers

In many jurisdictions, the acquisition, construction, or production of a qualifying asset is funded through a transfer from another public benefit entity. Does the entity acquiring, constructing, or producing the qualifying asset consider the transferor's underlying source of the funds, i.e., whether the funds are generated by tax revenues, general cash holdings or borrowings, when it determines the amount that can be included in the cost of the qualifying asset when applying the allowed alternative treatment, as described in paragraphs 17–18?

No. When the acquisition, construction, or production of a qualifying asset is fully funded through a transfer, there will be no directly attributable borrowing costs to capitalise. The entity may include in the cost of the qualifying asset only those borrowing costs which it has incurred.

A.4 Asset Funded through a Centralised Lending Programme – Interest Rates

A centralised lending agency may fund its activities by borrowings through several separate loan instruments. Each instrument may have a different interest rate. An entity may borrow funds from the centralised lending agency and use these funds for the acquisition, construction, or production of a qualifying asset. If the entity is using the allowed alternative treatment, as described in paragraphs 17–18, does the entity apply the weighted average interest rate incurred by the centralised lending agency when including borrowing costs in the cost of the qualifying asset?

No. The weighted average interest rate incurred by the centralised lending agency is not relevant in the preparation of the financial statements of the entity acquiring, constructing, or producing the qualifying asset. The entity can include in the cost of the qualifying asset only those borrowing costs which it itself has incurred.

The entity must consider all facts and circumstances when determining the borrowing costs incurred in its arrangement with the centralised lending agency. In some cases, the interest rate stated in the terms of the arrangement may not reflect the true borrowing costs associated with the funds received. When the entity identifies concessionary terms, the entity should apply the requirements in PBE IPSAS 41 *Financial Instruments* paragraphs

AG118–AG127[3] and capitalise borrowing costs based on a market related interest rate that the entity would have incurred on a similar loan (see PBE IPSAS 41 paragraphs IE153–IE172 for examples illustrating how to determine the interest rate in a concessionary loan). Interest expense calculated using the effective interest rate method is eligible for inclusion in the cost of the qualifying asset in accordance with this Standard.

If the centralised lending agency and the entity to which it lends funds are part of the same economic entity, in the financial statements of the consolidated entity, the borrowing costs incurred by the centralised lending agency can be capitalised to the qualifying asset, provided that appropriate consolidation adjustments have been made to eliminate those costs capitalised by the controlled entity.

A.5 Asset Funded through an Entity's Own General Borrowing – Borrowings are not Specific to Qualifying Asset

When an entity acquiring, constructing, or producing a qualifying asset manages its own borrowing programme, but borrowings are not specific to the qualifying asset, how does the entity determine the borrowing costs directly attributable to the qualifying asset? This may occur when an entity uses cash on hand to fund the cost of a qualifying asset. This cash on hand is funded from general borrowings, tax revenue and other fees and transfers.

The amount of borrowing costs eligible for inclusion in the cost of the qualifying asset is determined using the weighted average of the borrowing costs applicable to all borrowings of the entity outstanding during the period. The weighted average of borrowing costs is then applied to the outlays on the qualifying asset incurred during the period in determining the amount eligible for capitalisation.

The entity shall exclude from the weighted average calculation those borrowings that are made specifically for the purpose of obtaining another qualifying asset until substantially all the activities necessary to prepare that asset for its intended use are complete. The amount of borrowing costs capitalised during a period shall not exceed the amount of borrowing costs incurred during that period.

A.6 Asset Funded through General Borrowings – Range of Debt Instruments

Does an entity apply a weighted average of borrowing costs when multiple debt instruments are used to fund the cost of a qualifying asset?

Yes. An entity may not be able to fund the cost of a qualifying asset with a single debt instrument. When multiple debt instruments are used (and the funds are general borrowings), the cost of borrowing is determined by calculating the weighted average of the borrowing costs applicable to all the debt instruments outstanding during the period, excluding borrowings that are made specifically for the purpose of obtaining another qualifying asset (until substantially all the activities necessary to prepare that asset for its intended use are complete).

[3] Where an entity has not yet adopted PBE IPSAS 41, the requirements in either PBE IPSAS 29 *Financial Instruments: Recognition and Measurement* paragraphs AG84-AG90 or, if early adopted, PBE IFRS 9 *Financial Instruments* paragraphs B5.1.2A–B5.1.2G, are applied. Similar to the PBE IPSAS 41 requirements, an entity should capitalise borrowing costs based on a market related interest rate that the constructing entity would have incurred on a similar loan.

Illustrative Examples

These examples accompany, but are not part of, PBE IPSAS 5.

The examples are not based on actual fact patterns and are provided to illustrate how the requirements of the Standard might be met.

Qualifying Asset Constructed Over a Period of Time

IE1. On 31 March 20X1, City Council A begins construction of a tunnel to accommodate transit between two commercial hubs. The construction period is 5 years and the project is budgeted to cost CU100 million (CU20 million is paid to the construction company on the date the construction begins and on 31 March of each subsequent year during the construction period). City Council A issues a 25-year CU100 million bond on 31 March 20X1 that yields a fixed coupon of 5 per cent per annum. This bond was issued specifically to finance the construction of this project. City Council A has a 31 December year-end and earns a rate of interest of 3 per cent on the temporary investment of any excess borrowings.

IE2. On 31 December 20X1, City Council A has accrued borrowing costs of CU3.75 million (CU100 million x 5 percent x 9/12 months).

IE3. In determining the borrowing costs that can be included in the cost of the tunnel, City Council A is limited to capitalising the borrowing costs incurred during the period less any investment income on the temporary investment of those borrowings.

IE4. On 31 December 20X1, City Council A recognises its tunnel asset as a work in progress. The amount capitalised is CU21.95 million (CU20 million + [CU100 million x 5 percent x 9/12 months] – [CU80 million x 3 percent x 9/12 months]). This represents the funds transferred to the construction company and the borrowing costs incurred during the period less the investment income earned on the CU80 million invested.

Centralised Borrowing Programme – Eligible Borrowing Costs

IE5. The Department of Social Housing begins construction of a new social housing complex on 15 June 20X1. The project costs are budgeted to be CU500 million. All financing required by the Department of Social Housing, and certain other central government entities, is secured centrally by the Government Treasury.

IE6. The Government Treasury estimates its cash flow needs on an annual basis in order to determine the most appropriate source of funding to meet its internal lending needs. These sources include tax revenue, fee revenue, bonds issuances and loans.

IE7. The Department of Social Housing negotiates a 10-year loan from the Government Treasury. The Government Treasury requires the Department of Social Housing to pay borrowing costs of 3 per cent per annum. This is consistent with the market rate of interest the Department of Social Housing would incur if the arrangement was negotiated at arm's length.

IE8. When the Department of Social Housing secures financing from the Government Treasury, the Department of Social Housing is aware that the borrowings comprise various sources, but has no visibility of how the Government Treasury sources the funds, nor of the weighted average borrowing costs the Government Treasury incurs.

IE9. In determining the borrowing costs eligible for inclusion in the cost of the social housing complex, the Department of Social Housing includes only those borrowing costs which it itself has incurred. Because the loan is at market terms, the Department of Social Housing concludes there are no concessionary elements and determines borrowing costs eligible for inclusion in the cost of the social housing complex are based on the interest rate of 3 percent stated in the contract.

General Borrowing – Weighted Average Cost of Borrowing

IE10. Government T has begun construction of a new airport. The cost of this airport is budgeted to be CU500 million. When Government T borrows funds, it does not borrow for specific projects. In determining its borrowing needs, Government T budgets its cash shortfall over a given period and ensures borrowings will cover its liquidity needs.

IE11. Over the construction period, Government T held three instruments that were open for the entire construction period:

- Government Bonds – CU1 billion, yielding an annual rate of 5 per cent;
- Loan with Financial Institution A – CU300 million, with an annual interest rate of 7 per cent; and
- Loan with Financial Institution B – CU600 million, with an annual interest rate of 9 per cent.

IE12. In determining the amount of borrowing costs eligible for inclusion in the cost of the airport, Government T calculates the weighted average of the borrowing costs applicable to all borrowings of the entity outstanding during the period.

	A **Principal**	**B** **Interest Rate**	**C** **Proportion of Debt**	**D = B x C** **Weighted Average**
Government Bonds	CU1,000 million	5 percent	1,000 / 1,900	2.63
Loan A	CU300 million	7 percent	300 / 1,900	1.11
Loan B	CU600 million	9 percent	600 / 1,900	2.84
Weighted Average Interest Rate				**6.58 percent**

IE13. Government T calculates the weighted average of the borrowing costs applicable to all borrowings of the entity outstanding during the period to be 6.58 per cent.

Specific Borrowing – Borrowing for Part of Qualifying Asset's Amount

IE14. A public sector transport authority ('the Authority') began construction of a new road network on 1 January 20X1. The cost of this road network is budgeted to be CU750 million. The Authority funds this project with amounts received on 1 January 20X1 from two sources:

- Government funding in the amount of CU500 million; and
- Loan from a financial institution of CU250 million, with an annual interest rate of 5 percent.

In order to receive the Government funding, the Authority was required to show it was able to secure financing. It is the Authority's policy to allocate borrowed funds to the construction of the qualifying asset first. The Authority earns a rate of interest of 3 per cent on the temporary investment of any excess borrowings.

IE15. As at 31 December 20X1, the Authority has incurred outlays of CU200 million as part of the construction of the asset. These outlays were transferred in one lump sum payment to the construction company at the commencement of construction on 1 January 20X1. In addition to the outlays of CU200 million, the Authority capitalises CU11 million ([CU250 million x 5 per cent] – [CU50 million x 3 per cent]) in borrowing costs, against the qualifying asset.

IE16. Because the Authority borrowed CU250 million for the purposes of obtaining the road network, but has only incurred outlays related to that qualifying asset in the amount of CU200 million, the Authority was able to earn interest revenue on the excess funds borrowed. The Authority capitalised borrowing costs incurred during the period of CU12.5 million less the investment income of CU1.5 million on the temporary investment of those borrowings.

Comparison with IPSAS 5

PBE IPSAS 5 *Borrowing Costs* is drawn from IPSAS 5 *Borrowing Costs.* There are no significant differences between PBE IPSAS 5 and IPSAS 5.

History of Amendments

PBE IPSAS 5 *Borrowing Costs* was issued in September 2014.

This table lists the pronouncements establishing and substantially amending PBE IPSAS 5. The table is based on amendments issued as at 31 December 2022.

Pronouncements	**Date issued**	**Early operative date**	**Effective date (annual financial statements … on or after …)**
PBE IPSAS 5 *Borrowing Costs*	Sept 2014	Early application is permitted for not-for-profit public benefit entities	1 April 2015
2016 Omnibus Amendments to PBE Standards	Jan 2017	–	1 Jan 2017
PBE IFRS 9 *Financial Instruments*	Jan 2017	Early application is permitted	1 Jan 2022[4]
PBE FRS 48 *Service Performance Reporting*	Nov 2017	Early application is permitted	1 Jan 2022[5]
2018 Omnibus Amendments to PBE Standards	Nov 2018	Early application is permitted	1 Jan 2019
PBE IPSAS 41 *Financial Instruments*	Mar 2019	Early application is permitted	1 Jan 2022
2022 Omnibus Amendments to PBE Standards	Jun 2022	Early application is permitted	1 Jan 2023[6]

Table of Amended Paragraphs in PBE IPSAS 5		
Paragraph affected	**How affected**	**By … [date]**
Paragraph 6	Amended	PBE IPSAS 41 [Mar 2019]
Paragraph 19	Amended	*2016 Omnibus Amendments to PBE Standards* [Jan 2017]
Paragraph 19	Amended	PBE FRS 48 [Nov 2017]
Paragraph 25	Amended	*2018 Omnibus Amendments to PBE Standards* [Nov 2018]
Paragraph 41A	Added	*2018 Omnibus Amendments to PBE Standards* [Nov 2018]
Paragraph 43.2	Added	*2016 Omnibus Amendments to PBE Standards* [Jan 2017]
Paragraph 43.3	Added	PBE IFRS 9 [Jan 2017]
Paragraph 43.3	Amended	PBE IPSAS 41 [Mar 2019]

4 PBE IFRS 9 was subsequently withdrawn by PBE IPSAS 41. The amendments in Appendix D of PBE IFRS 9 were not compiled. *Effective Date of PBE IFRS 9*, issued in March 2019, deferred the effective date of PBE IFRS 9 from 1 January 2021 to 1 January 2022.

5 *2020 Amendments to PBE FRS 48*, issued in August 2020, deferred the effective date of PBE FRS 48 from 1 January 2021 to 1 January 2022.

6 *2022 Omnibus Amendments to PBE Standards* added implementation guidance and illustrative examples that accompany, but are not part of, PBE IPSAS 5.

Table of Amended Paragraphs in PBE IPSAS 5		
Paragraph affected	**How affected**	**By … [date]**
Paragraph 43.4	Added	*2018 Omnibus Amendments to PBE Standards* [Nov 2018]
Paragraph 43.5	Added	PBE IPSAS 41 [Mar 2019]