



IAS 23

BORROWING COST

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COMPARE IAS 23 AND VAS 16

1

OVERVIEW

- IAS 23 Borrowing Costs requires that borrowing costs directly attributable to the acquisition, construction or production of a 'qualifying asset' (one that necessarily takes a substantial period of time to get ready for its intended use or sale) are included in the cost of the asset. Other borrowing costs are recognised as an expense.
- IAS 23 was reissued in March 2007 and applies to annual periods beginning on or after 1 January 2009.

1

OVERVIEW (cont)

□ History of IAS 23 :

- March 1984 : IAS 23 Capitalisation of Borrowing Costs
- December 1993 : IAS 23 (1993) Borrowing Costs (revised as part of the 'Comparability of Financial Statements' project)
- 25 May 2006 : Exposure Draft of proposed amendments to IAS 23
- 29 March 2007 : IASB amends IAS 23 to require capitalisation of borrowing costs.
- 22 May 2008 : IAS 23 amended for 'Annual Improvements to IFRSs 2007 for components of borrowing costs
- 12 December 2017 : IAS 23 amended for 'Annual Improvements to IFRS Standards 2015–2017'.

2

SCOPE

□ Scope of IAS 23:

Two types of assets that would otherwise be qualifying assets are excluded from the scope of IAS 23:

- ✓ Qualifying assets measured at fair value, such as biological assets accounted for under IAS 41 Agriculture.
- ✓ Inventories that are manufactured, or otherwise produced, in large quantities on a repetitive basis and that take a substantial period to get ready for sale.



3

DEFINITIONS

Definition of Borrowing cost

- ❑ Borrowing costs are loan interest and other costs incurred related to the unit's loans.
- ❑ Borrowing cost may include:
 - ✓ Interest expense calculated by the effective interest method under IAS 39;
 - ✓ Finance charges in respect of finance leases recognised in accordance with IAS 17 Leases;
 - ✓ Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

3

DEFINITIONS (cont.)

- ❑ Borrowing costs that are directly attributable to **the acquisition, construction or production of a qualifying asset form part of the cost of that asset** and, therefore, should be capitalised. Other borrowing costs are recognised as an expense.

3 DEFINITIONS (cont.)

❑ Determine capitalized borrowing costs

❖ Case 1 : Separate loan amount

- ✓ Where funds are borrowed specifically, costs eligible for capitalisation are the actual costs incurred less any income earned on the temporary investment of such borrowings.

❖ Case 2 : Generating joint loans

- ✓ Where funds are part of a general pool, the eligible amount is determined by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate will be the weighted average of the borrowing costs applicable to the general pool.

3 DEFINITIONS (cont.)

- ❑ **Commencement of capitalization :**
Capitalization of borrowing costs into the value of assets in progress begins when :
 - ✓ Costs for investment in construction or production of unfinished assets begin to arise;
 - ✓ Borrowing costs arise;
 - ✓ Ongoing activities necessary to prepare the property for sale or use.

3 DEFINITIONS (cont.)

☐ **Suspension of capitalization of borrowing costs:**

- If construction and asset development activities are interrupted for a long period of time , capitalization of borrowing costs should be stopped during that period;
- A cessation of capitalization of borrowing costs is not necessary due to temporary deferrals or for periods when technical or administrative work is ongoing;

3

DEFINITIONS (cont.)

❑ Cessation of capitalization:

- Capitalization of borrowing costs will cease when the principal activities necessary to prepare the asset for use or for sale have been completed. Borrowing costs incurred will then be recorded as production costs and business expenses in the period in which they arise.
- When the process of investing in construction of unfinished assets is completed in each part and each part can be used while continuing the investment and construction process of other parts, capitalization of costs occurs. The loan will terminate when all substantial activities necessary to prepare each component for use or sale have been completed;

4 DISCLOSURE

- ☐ Amount of borrowing cost capitalised during the period
- ☐ Capitalisation rate used

5 COMPARE IAS 23 AND VAS 16

❑ Similarities:

- ✓ The similar of these two standards is that presents borrowing costs directly related to investment in construction and production of assets will be capitalized into the value of that asset. Borrowing costs include interest costs and costs directly related to the loan such as transaction costs.
- ✓ Chi phí đi vay cho các mục đích khác được tính vào chi phí sản xuất, kinh doanh trong kỳ.



5 COMPARE IAS 23 AND VAS 16 (cont)

□ Differences

Content	IAS 23	VAS 16
Record borrowing costs	<ul style="list-style-type: none"> - There are 2 recording methods: <ul style="list-style-type: none"> ✓ Standard method : Borrowing costs are recorded in production and business expenses in the period incurred; ✓ Acceptable alternative method : Interest expense directly attributable to the acquisition, construction or production of an asset in progress is capitalized against that asset. 	<ul style="list-style-type: none"> - Borrowing costs directly related to investment in construction or production of unfinished assets are included in the value of that asset (capitalized) when all the conditions specified in this standard are met.

5 COMPARE IAS 23 AND VAS 16 (cont)

❑ Differences

Content	IAS 23	VAS 16
Time to start capitalization	- No specified.	- Expenditure incurred on uncompleted assets is reduced by any planned progress payments received and grants received in respect of the asset (IAS 20, Accounting for Government Grants and explanation of government funding).
Temporarily suspend capitalization	- Capitalization should not be stopped during periods when important administrative and technical work is being performed.	- Capitalization of borrowing costs will be suspended during periods when construction or production of assets in progress is interrupted, unless such interruption is necessary.

5 COMPARE IAS 23 AND VAS 16 (cont)

❑ Differences


Content	IAS 23	VAS 16
Borrowing costs – alternative accounting allowed	<ul style="list-style-type: none"> - The share premium between the book value of the asset in progress and its recoverable value. - When the estimated ultimate value or cost of the asset is greater than the recoverable amount of the net realizable value, the remaining value is written down (written off) in accordance with other IAS requirements. 	<ul style="list-style-type: none"> - Not mention.

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