

New Zealand Equivalent to International Accounting Standard 23

Borrowing Costs (NZ IAS 23)

Issued July 2007 and incorporates amendments up to October 2010

This Standard was issued by the Financial Reporting Standards Board of the New Zealand Institute of Chartered Accountants and approved by the Accounting Standards Review Board in July 2007 under the Financial Reporting Act 1993. This Standard is a regulation for the purpose of the Regulations (Disallowance) Act 1989.

This Standard, on adoption, supersedes NZ IAS 23 *Borrowing Costs* issued in November 2004.

The following New Zealand Interpretations refer to NZ IAS 23:

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

NZ IAS 23

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ACCOUNTING STANDARD 23
BORROWING COSTS (NZ IAS 23)**

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**AMENDMENTS TO GUIDANCE ON OTHER
PRONOUNCEMENTS
TABLE OF CONCORDANCE**

New Zealand Equivalent to International Accounting Standard 23 *Borrowing Costs* (NZ IAS 23) is set out in paragraphs 1–30 and the Appendix. NZ IAS 23 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 should be read in the context of its objective, the New Zealand *Preface* and the New Zealand Equivalent to the IASB *Framework for the Preparation and Presentation of Financial Statements* (NZ *Framework*). NZ IAS 8 *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. The paragraphs are denoted with “NZ” and identify the types of entities to which the paragraphs apply.

This Standard uses the terminology adopted in International Financial Reporting Standards (IFRSs) to describe the financial statements and other elements. NZ IAS 1 *Presentation of Financial Statements* (as revised in 2007) paragraph 5 explains that entities other than profit-oriented entities seeking to apply the Standard may need to amend the descriptions used for particular line items in the financial statements and for the financial statements themselves. For example, profit/loss may be referred to as surplus/deficit and capital or share capital may be referred to as equity.

HISTORY OF AMENDMENTS

Table of Pronouncements – NZ IAS 23 *Borrowing Costs*

This table lists the pronouncements establishing and amending NZ IAS 23. The table is based on amendments approved as at 31 October 2010.

Pronouncements	Date approved (ASRB approval)	Early operative date	Effective date (annual reporting periods... on or after ...)
NZ IAS 23 <i>Borrowing Costs</i> (revised 2007)	July 2007 (Approval 90)	Early adoption encouraged	1 Jan 2009
<i>Improvements to NZ IFRSs</i>	June 2008 (Approval 102)	Early application permitted	1 July 2009
Amendments to NZ IAS 23 <i>Borrowing Costs</i>	Nov 2008 (Approval 110)	Early application permitted	1 Jan 2009
Minor Amendments to NZ IFRSs	July 2010 (Approval 132)	Immediate	Immediate

Table of Amended Paragraphs in NZ IAS 23		
Paragraph affected	How affected	By ... [date]
Introduction	Amended	Minor Amendments [July 2010]
Paragraph 6	Amended	<i>Improvements to NZ IFRSs</i> [June 2008]
Paragraph NZ 29.1	Inserted	Amendments to NZ IAS 23 [Nov 2008]
Paragraph 29A	Inserted	<i>Improvements to NZ IFRSs</i> [June 2008]
Appendix B	Inserted	Amendments to NZ IAS 23 [Nov 2008]

Introduction to NZ IAS 23

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.

In adopting IAS 23 for application as NZ IAS 23, in November 2008, the mandatory adoption of NZ IAS 23 (revised 2007) by public benefit entities was deferred pending the completion of the FRSB's research project into the application of NZ IAS 23 (revised 2007) by public benefit entities.

Profit-oriented entities, other than qualifying entities applying any differential reporting concessions, that comply with NZ IAS 23 will simultaneously be in compliance with IAS 23. Public benefit entities using the "NZ" paragraphs in the Standard that specifically apply to public benefit entities may not simultaneously be in compliance with IAS 23. Whether a public benefit entity will be in compliance with IAS 23 will depend on whether the "NZ" paragraphs provide additional guidance for public benefit entities or contain requirements that are inconsistent with the corresponding IASB Standard and will be applied by the public benefit entity.

Differential Reporting

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

New Zealand Equivalent to International Accounting Standard 23

Borrowing Costs (NZ IAS 23)

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

- 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.

Qualifying Entities

NZ 4.1 Entities which qualify for differential reporting concessions in accordance with the *Framework for Differential Reporting for Entities Applying the New Zealand Equivalents to International Financial Reporting Standards Reporting Regime* (2005) 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 *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 *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 *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 *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 When application of this Standard constitutes a change in accounting policy, an entity shall apply the Standard to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after the effective date.
- 28 However, an entity may designate any date before the effective date and apply the Standard to borrowing costs relating to all qualifying assets for which the commencement date for capitalisation is on or after that date.

Effective date

- 29 An entity shall apply the Standard for annual periods beginning on or after 1 January 2009. Earlier application is permitted only when an entity complies, or has complied, with New Zealand Equivalent to IFRS 1 *First-time Adoption of*

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New Zealand Equivalents to International Financial Reporting Standards for an annual period beginning on or after 1 January 2005. If an entity applies the Standard for an annual period beginning before 1 January 2009, it shall disclose that fact.

Public Benefit Entities

NZ 29.1 Notwithstanding paragraph 29 of this Standard, public benefit entities are permitted, but not required, to apply this Standard for annual periods beginning on or after 1 January 2009*. Earlier application is permitted in accordance with paragraph 29 of this Standard. A public benefit entity that elects to defer the application of NZ IAS 23 (revised 2008) shall expense borrowing costs in accordance with NZ IAS 23 (2004), shall disclose that fact and shall apply the related consequential amendments to NZ IAS 16 *Property, Plant and Equipment* and NZ IAS 11 *Construction Contracts*.

29A Paragraph 6 was amended by *Improvements to NZ IFRSs* issued in June 2008. An entity shall apply that amendment for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

Withdrawal of NZ IAS 23 (issued 2004)

30 This Standard supersedes NZ IAS 23 *Borrowing Costs* issued in 2004.

* In October 2008, the FRSB agreed to defer the application of NZ IAS 23 by public benefit entities. The FRSB currently has a project on the application of NZ IAS 23 to public benefit entities.

Appendix A

Amendments to other pronouncements

The amendments in this appendix shall be applied for annual periods beginning on or after 1 January 2009. If an entity applies this Standard for an earlier period, the amendments in this appendix shall be applied for that earlier period. In the amended paragraphs, new text is underlined and deleted text is struck through.

The amendments contained in this appendix when this Standard was issued in 2007 have been incorporated into the relevant pronouncements published in this volume.

Appendix B

Basis for Conclusions – New Zealand amendments for public benefit entities

This Basis for Conclusions accompanies, but is not part of, NZ IAS 23.

Introduction

- NZBC1 This Basis for Conclusions summarises the Financial Reporting Standards Board's (FRSB) considerations in reaching its conclusions on the amendments to the application of NZ IAS 23 *Borrowing Costs* (revised 2007) to public benefit entities in 2008. Individual FRSB members gave greater weight to some factors than to others.
- NZBC2 The FRSB was advised of concerns raised by public benefit entities about the requirements in NZ IAS 23 (revised 2007) to capitalise borrowing costs to qualifying assets. In particular, some constituents are arguing that the costs imposed on public benefit entities outweigh the benefits to users of their financial statements. The FRSB is currently undertaking a high priority project on the application of NZ IAS 23 (revised 2007) by public benefit entities. Also, the FRSB is considering appropriate guidelines on modifying IFRSs for public benefit entities. Accordingly, the FRSB resolved that the mandatory application of revised NZ IAS 23 (revised 2007) should be deferred until the FRSB could consider these concerns appropriately. The FRSB considered that such deferral is appropriate because if amendments to NZ IAS 23 are adopted for public benefit entities, those public benefit entities may be required to amend their accounting policies unnecessarily.
- NZBC3 In considering the appropriate treatment of borrowing costs by public benefit entities, the FRSB will be reviewing the consequential amendments to NZ IAS 11 *Construction Contracts* and NZ IAS 16 *Property, Plant and Equipment*. The consequential amendments (paragraph NZ 18A in NZ IAS 11 and paragraph NZ 33.14 in NZ IAS 16) were added to ensure that public benefit entities were not required to capitalise borrowing costs until the FRSB has completed its project.
- NZBC4 Once the FRSB has determined its view of the appropriate treatment of borrowing costs by public benefit entities, appropriate steps will be taken, which may include development of an Exposure Draft to amend both the Standard and the consequential amendments to NZ IAS 11 and NZ IAS 23.

NZ IAS 23