PBE IPSAS 5: BORROWING COSTS

Version 1: 2014

Effective Periods Beginning
1 April 2015

DEFINITIONS

BORROWING COSTS

- Borrowing costs are interest and other costs incurred by an entity in connection with the borrowing of funds.
- Borrowing costs may include:
  - Interest on bank overdrafts and short-term and long-term borrowings (including intercompany borrowings).
  - Amortisation of discounts or premiums relating to borrowings.
  - Amortisation of ancillary costs incurred in connection with the arrangement of borrowings.
  - Finance charges in respect of finance leases and service concession arrangements.
  - Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

QUALIFYING ASSET

- A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.
- Examples include:
  - Office buildings;
  - Schools;
  - Hospitals;
  - Infrastructure assets such as roads, bridges and power generation facilities; and
  - Inventories that require a substantial period of time to get ready for sale.

RECOGNITION

BENCHMARK TREATMENT

- Borrowing costs are recognised as an expense when incurred.

ALLOWED ALTERNATIVE TREATMENT

- Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.
- Other borrowing costs are recognised as an expense when incurred.
- If funds are borrowed specifically, the amount of borrowing costs eligible for capitalisation are the actual borrowing costs incurred on that borrowing less any investment income on the temporary investment of those borrowings.
- If the funds are borrowed generally, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate (weighted average of borrowing costs applicable to the general borrowings) to the outlays on that asset.
  - The amount of borrowing costs capitalised during the period cannot exceed the amount of borrowing costs incurred during the period.

If the allowed alternative treatment is adopted, it must be applied consistently to all qualifying assets.

Capitalisation commences when:

- Outlays 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.

Capitalisation is suspended during extended periods in which active development is interrupted.

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

DISCLOSURE

- Accounting policy adopted.
- Amount of borrowing cost capitalised during the period.
- Capitalisation rate used.

TIER 2 RDR REPORTERS

- Tier 2 RDR Reporters are granted certain disclosure exemptions under PBE IPSAS 5.