

Expenditures on a qualifying asset (IAS 23 *Borrowing Costs*)—September 2018

The Committee received a request about the amount of borrowing costs eligible for capitalisation when an entity uses general borrowings to obtain a qualifying asset.

In the fact pattern described in the request:

- a. an entity constructs a qualifying asset;
- b. the entity has no borrowings at the start of the construction of the qualifying asset. Partway through construction, it borrows funds generally and uses them to finance the construction of the qualifying asset; and
- c. the entity incurs expenditures on the qualifying asset both before and after it incurs borrowing costs on the general borrowings.

The request asked whether an entity includes expenditures on a qualifying asset incurred before obtaining general borrowings in determining the amount of borrowing costs eligible for capitalisation.

The Committee observed that an entity applies paragraph 17 of IAS 23 to determine the commencement date for capitalising borrowing costs. The paragraph requires an entity to begin capitalising borrowing costs when it meets all 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.

Applying paragraph 17 of IAS 23 to the fact pattern described in the request, the entity would not begin capitalising borrowing costs until it incurs borrowing costs.

Once the entity incurs borrowing costs and therefore satisfies all three conditions in paragraph 17 of IAS 23, it then applies paragraph 14 of IAS 23 to determine the expenditures on the qualifying asset to which it applies the capitalisation rate. The Committee observed that in doing so the entity does not disregard expenditures on the qualifying asset incurred before it obtains the general borrowings.

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine the amount of borrowing costs eligible for capitalisation in the fact pattern described in the request. Consequently, the Committee decided not to add this matter to its standard-setting agenda.