

IFRS Briefing Sheet

Revised standard *IAS 23 Borrowing Costs*

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This IFRS Briefing Sheet summarises the International Accounting Standards Board's (IASB) revised standard *IAS 23 Borrowing Costs*, which was published on 29 March 2007. The revised standard supersedes the 1993 version of *IAS 23 Borrowing Costs*.

Main Change – Removes Option of Immediately Expensing All Borrowing Costs

The main change is the removal of the option of immediately recognising all borrowing costs as an expense, which was the benchmark treatment in *IAS 23* (1993). The revised standard requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset; this was a permitted alternative treatment under *IAS 23* (1993).

The revised standard does not change the definition of a qualifying asset, which is an asset that necessarily takes substantial time to get ready for use.

An entity is not required to apply the revised standard to qualifying assets measured at fair value, e.g., biological assets, or to inventories that are manufactured or produced in large quantities on a repetitive basis.

Background

The revised standard results from the IASB's joint short-term convergence project with the U.S. Financial Accounting Standards Board (FASB) to reduce differences between IFRSs and U.S. GAAP (see *IFRS in Brief*, Issue 22). The revised standard removes a major difference with U.S. standard SFAS 34 *Capitalization of Interest Cost* (SFAS 34).

Differences from SFAS 34

Although requiring the capitalisation of borrowing costs broadly is consistent with U.S. GAAP, several differences from SFAS 34 remain, including differences in the:

- types of costs that are eligible for capitalisation
- types of assets that are considered to be qualifying assets

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- requirement in the revised standard to offset interest income, from the temporary investment of borrowed funds, against interest expense; this is permitted under U.S. GAAP only for certain tax-exempt borrowing schemes.

Effective Date and Transitional Provisions

The revised standard is effective for annual periods beginning on or after 1 January 2009. The transitional provisions state that if removing the option to immediately expense borrowing costs means a change in accounting policy, then the revised standard should be applied

prospectively on or after the effective date. However, an entity may choose to apply the requirements from any date prior to the effective date.

Change from the Exposure Draft (ED) of Proposed Amendments to IAS 23

In response to comments received on the proposals included in the ED (published by the IASB on 25 May 2006; see *IFRS Briefing Sheet*, Issue 50), an entity is not required to apply the revised standard to inventories that are manufactured or produced in large quantities on a repetitive basis, even if they take substantial time to produce.

If you would like further information on any of the matters discussed in this issue of *IFRS Briefing Sheet*, please talk to your usual local KPMG contact or call any of KPMG firms' offices.

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