IFRS 1 and IAS 23: Capitalization of Borrowing Costs

Excerpt, IFRS Discussion Group Report on Meeting – March 4, 2010

Some Canadian entities have capitalized borrowing costs, but using a method that is inconsistent with the capitalization method required under IAS 23 Borrowing Costs. The issues raised were as follows:

• Is the entity required to restate its borrowing costs retroactively on adopting IFRSs, or does IFRS 1 permit prospective application?

• If prospective application is permitted does the entity apply capitalization for on-going projects, in accordance with IAS 23 to all costs incurred after the date of transition to IFRSs or to costs relating to projects commenced after the date of transition to IFRS?

• If prospective application is permitted are costs previously capitalized for completed projects in accordance with local GAAP eliminated or “grandfathered”?

On the first issue, the members discussed whether the change from one method of capitalization to another method is a change in accounting policy or a change in estimate. In the case of the former view, the members noted that the combination of paragraph D23 of IFRS 1 and paragraph 27 of IAS 23 allows for prospective application of the new accounting policy. Further, the members noted that an entity has the choice of applying the new method of capitalization retroactively.

On the second issue, the members noted that paragraph 27 of IAS 23 allows an entity to apply the standard to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after the date of the transition to IFRSs. Therefore, borrowing costs relating to qualifying assets for which the commencement date for capitalization was before the date of transition would not be capitalized. Paragraph 28 of IAS 23 allows an entity to choose to apply the standard from a date earlier than the date of transition. This allows the same accounting policy for capitalization of borrowing costs to be applied consistently to all projects that are still in progress at the date of transition.

On the third issue, some of the members supported each view. Some of the members thought that if the entity elects prospective application of IAS 23, then eliminating capitalized costs under previous GAAP is in accordance with the specific requirements of IFRS 1. Others noted that doing so would be contrary to the intent of IFRS 1 and the transition provisions of IAS 23, to provide relief from burdensome retrospective restatement. However, the members did not consider the issue of sufficient significance to bring to the attention of the IFRIC.

Source: www.frascanada.ca/ifrs-discussion-group