

Amendments to IPSAS 5, Borrowing Costs – Non-Authoritative Guidance

This summary provides an overview of the IPSASB's non-authoritative guidance added to IPSAS 5, *Borrowing Costs*

Project Objective: This pronouncement adds non-authoritative material to IPSAS 5, *Borrowing Costs*, to illustrate the extent to which borrowing costs can be capitalized.

Approved: The International Public Sector Accounting Standards Board® (IPSASB®) approved Amendments to IPSAS 5, *Borrowing Costs* – Non-Authoritative Guidance in June 2021. This pronouncement was issued in November 2021.

Project History: In April 2019, the IPSASB issued Consultation Paper, *Measurement* which included proposals as to whether it should remove the option to capitalize borrowing costs in IPSAS 5.

Feedback on this issue was split between those supporting the proposal to remove the option to capitalize borrowing costs, and those supporting retention of the option. This informed the IPSASB's decision to retain the option to allow entities an accounting policy choice that best reflects the entity's objectives. In addition to retaining the accounting policy choice, the IPSASB has decided to illustrate existing principles through additional implementation guidance and examples to help illustrate the extent to which borrowing costs can be capitalized.

Scope and Output

The IPSASB included additional non-authoritative guidance in IPSAS 5 to help with the application of the standards in the public sector

IPSAS 5 Guidance Clarified

This pronouncement adds non-authoritative guidance that illustrates how existing guidance for determining the extent to which borrowing costs can be capitalized. The guidance addresses public sector specific issues by focusing on transactions associated with capitalizing borrowing costs when funds are borrowed by a related entity or centralized lending program.

Adding guidance in IPSAS 5 illustrating the extent to which borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset can be capitalized facilitates the preparation of financial reporting information that is relevant, faithfully representative, and comparable for these important public sector transactions.

Figure 1: Non-Authoritative Guidance Added to IPSAS 5

<i>Implementation Guidance</i>	
A.1	Period of Borrowing Cost Capitalization
A.2	Limit on Capitalization
A.3	Asset Funded through Transfers
A.4	Asset Funded through a Centralized Lending Program – Interest Rates
A.5	Asset Funded through an Entity's Own General Borrowing – Borrowings are not Specific to Qualifying Asset
A.6	Asset Funded through General Borrowings – Range of Debt Instruments
<i>Illustrative Examples</i>	
1	Qualifying Asset Constructed Over a Period of Time
2	Centralized Borrowing Program – Eligible Borrowing Costs
3	General Borrowing – Weighted Average Cost of Borrowing
4	Specific Borrowing – Borrowing for Part of Qualifying Asset's Amount

Effective Date and Project History

Amendments to IPSAS 5, *Borrowing Costs* – Non-Authoritative Guidance illustrates the application of existing principles in IPSAS 5

Effective Date

This pronouncement adds non-authoritative material to IPSAS 5, *Borrowing Costs*, illustrating the application of existing principles when determining the extent to which borrowing costs can be capitalized.

Since this pronouncement clarifies existing principles, no effective date was set as its application is consistent with the current practice when applying IPSAS 5.

Project History

To learn more about the project history, and to view the consultation documents and responses, please visit:

<https://www.ipsasb.org/consultations-projects/measurement>