Accounting Standards for Business Enterprises No. 17 – Borrowing Costs

Chapter 1: General Provisions

Article 1

This Standard is formulated in accordance with the *Basic Standards for Enterprise Accounting* to regulate the recognition, measurement, and disclosure of borrowing costs.

Article 2

Borrowing costs refer to interest and other expenses incurred by an enterprise in connection with borrowing funds. Borrowing costs include:

- Interest on borrowings;
- Amortization of discounts or premiums;
- Ancillary costs; and
- Exchange differences arising from foreign currency borrowings.

Article 3

Financing costs related to finance leases are governed by *ASBE No. 21 – Leases*.

Chapter 2: Recognition and Measurement

Article 4

Borrowing costs directly attributable to the acquisition, construction, or production of a qualifying asset shall be capitalized as part of the cost of that asset. Other borrowing costs shall be recognized as expenses in the period incurred.

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, including fixed assets, investment properties, and inventories.

Article 5

Capitalization of borrowing costs begins only when all the following conditions are met:

1. Expenditures for the asset have been incurred (e.g., cash payments, transfers of non-cash assets, or interest-bearing liabilities);
2. Borrowing costs have been incurred;
3. Activities to prepare the asset for its intended use or sale have commenced.

Article 6

The amount of borrowing costs to be capitalized during a period is determined as follows:

1. For specific borrowings (obtained specifically for the qualifying asset):
   - Capitalized amount = Interest incurred – Interest income on unused funds.
2. For general borrowings (used for the qualifying asset):
   - Capitalized amount = Weighted-average excess expenditures × Capitalization rate (based on weighted-average interest rate of general borrowings).
     The capitalization period excludes periods where capitalization is suspended.

Article 7

Discounts or premiums on borrowings are amortized using the effective interest method, adjusting interest expense.

Article 8

Capitalized interest for a period shall not exceed actual interest incurred on relevant borrowings.

Article 9

Exchange differences on principal/interest of foreign currency specific borrowings are capitalized during the capitalization period.

Article 10

Ancillary costs of specific borrowings:

- Capitalized if incurred before the asset is ready for use/sale;
- Expensed if incurred thereafter.

  Ancillary costs of general borrowings are always expensed when incurred.

Article 11

Capitalization is suspended during interruptions of ≥ 3 months, unless the interruption is necessary for the asset's preparation.

Article 12

Capitalization ceases when the qualifying asset is ready for its intended use or sale. Subsequent borrowing costs are expensed.

Article 13

An asset is ready for use/sale when:

1. Physical construction/production is substantially complete;
2. It meets design/contract requirements (minor deviations permitted);
3. Further expenditures are negligible.

   For trial production/operation, readiness is confirmed if tests demonstrate normal functionality.

Article 14

For parts completed separately:

- Capitalization stops for a part if it is usable/saleable while other parts continue construction;
- For parts usable/saleable only upon overall completion, capitalization stops for all parts at that time.

Chapter 3: Disclosure

Article 15

Disclose in notes:

1. Amount of borrowing costs capitalized during the period;
2. Capitalization rate(s) used.

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