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**18. Borrowing costs**

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| **OVERVIEW** | * Borrowing costs that are directly attributable to the acquisition, construction, or production of a “qualifying asset” form part of the cost of that asset.
* There are several borrowing costs eligible for capitalization.
* Weighted average interest rate is applied.
* Amount of specific borrowing costs capitalized is net of investment income.
* Capitalization begins when: 1) expenditures for the asset are being incurred; 2) borrowing costs are being incurred; and 3) activities that are necessary to prepare the asset for its intended use or sale are in progress.
 |

18.1 Purpose and scope (IAS 23.2-4)

This policy provides guidance and rules on accounting for **Borrowing Costs** for the purpose of preparing the financial statements of the Group according to International Financial Reporting Standards.

18.2 Definitions (IAS 23.5-7)

**Borrowing costs**: interest and other costs that an entity incurs in connection with the borrowing of funds.

**Qualifying asset:** an asset that takes a significant amount of time to get ready for its intended use or sale.

**Capitalization rate**: is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

18.3 Recognition (IAS 23.8-25)

Borrowing costs that are directly attributable to the acquisition, construction, or production of a “qualifying asset” form part of the cost of that asset (IAS 12.8). These costs are defined as expenditures that result in payments of cash, transfer of other assets or the assumption of interest bearing liabilities. Such costs are capitalized when it is probable that they will result in future benefits, they arise for the sole purpose of obtaining the asset and can be easily identified.

The following are also considered to be components of borrowing costs that are also eligible for capitalization:

* interest cost calculated using the effective interest method under IAS 39
* finance charges in respect of finance leases to be recognized in accordance with IAS 17 *(see Leases)*
* exchange rate differences arising from borrowing in a foreign currency to the extent that it can be regarded as an adjustment to interest costs in accordance with IAS 23.6
	1. **Measurement (IAS 23.13-16, IAS 23.18-19)**

The extent to which a borrowing cost can be capitalized is determined and measured according to the following criteria:

* The amounts considered for capitalization must be net of any investment income earned that has occurred as a result of investing the borrowings and by any progress payments (IAS 23.12).
* When borrowing costs are part of a “general” pool used to acquire assets, a capitalization rate must be applied to determine what needs to be capitalized with each asset. This capitalization rate is the weighted average of the borrowing costs that are outstanding during the period other than those made specifically for obtaining the asset. The amount capitalized over a period cannot, however. exceed the amount of borrowing costs incurred during a period (IAS 23.14).
* If the carrying amount or the expected cost of the asset exceeds its recoverable amount or net realizable value, it must be written down in accordance with the IAS 23.16 and *Samsonite Policy 2 Property, Plant and Equipment.*
* Any grants associated with the acquisition of an asset must be used to reduce expenditures (IAS 23.18).

* + 1. Period of Capitalization (IAS 23.17-19)
			1. Commencement of Capitalization (IAS 23.17-19)

Capitalization begins when:

* expenditures for the asset are being incurred;
* borrowing costs are being incurred;
* activities that are necessary to prepare the asset for its intended use or sale are in progress.

Borrowing costs incurred while an asset is in the development stage are eligible to be capitalized, however, if the asset is “dormant” then any borrowing costs associated with such asset must be expensed. For example: The borrowing costs associated with land can be capitalized if the land is in its development stage, but if the land is not yet in the development stage and “nothing” is happening then these costs must be expensed in the period incurred. (IAS 23.19)

* + 1. **Suspension of Capitalization (IAS 23.20-21)**

The capitalization of borrowing costs is suspended during extended periods in which active development is interrupted. If the activity is suspended any incurred borrowing costs must be expensed.

* + 1. **Cessation of Capitalization (IAS 23.22-25)**

Capitalization ceases when the activities necessary to prepare the asset for its intended use or sale are complete. When the physical construction of the asset is complete even though there might be minor modifications or routine administrative work it is still considered to be complete. Simply stated, if a part of an asset is capable of being used, then the borrowing costs associated with that part can cease to be capitalized.

* 1. **Effective Date**

The effective date for the capitalization of borrowing costs is on or after January 1, 2009.

18.7 Disclosure

The Group is required to disclose the following items when capitalizing borrowing costs:

* the amount of borrowing costs capitalized during the period
* the capitalization rate used to determine the amount of borrowing costs
* if the capitalization of borrowing costs constitutes an accounting policy change