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Ministry of Finance of the Republic of Azerbaijan

**NATIONAL ACCOUNTING STANDARD
FOR COMMERCIAL ORGANISATIONS №13
“BORROWING COSTS”**

National Accounting Standard for Commercial Organizations No 13

Borrowing Costs

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Purpose of the Standard

1. This Standard has been prepared in accordance with the Accounting Law of the Azerbaijan republic and is based on International Accounting Standard 23 "Borrowing Costs".

Objective

2. The objective of this Standard is to prescribe the accounting treatment for borrowing costs. This Standard requires the capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.

Scope

3. This Standard will be applied by all types of commercial enterprise that prepare financial statements in accordance with Article 10 of the Accounting Law of the Azerbaijan Republic, taking into account the additional provisions contained in the Explanations and Recommendations on its Application
4. In the case of contradictions between effective normative-legal Acts on accounting regulation and this National Accounting Standard, the National Accounting Standard should be applied.
5. This Standard shall be applied in accounting for borrowing costs.
6. This Standard does not deal with the actual or imputed cost of equity, including preferred capital not classified as a liability.

Definitions

7. The following terms are used in this Standard with the meanings specified:

Borrowing costs are interest and other costs incurred by an entity in connection with the borrowing of funds.

A *qualifying asset* is an asset that must take a substantial period of time to get ready for its intended use or sale

8. Borrowing costs may include, but is not restricted to:
 - (a) interest on bank overdrafts and short-term and long-term borrowings;
 - (b) amortisation of discounts or premiums relating to borrowings;
 - (c) amortisation of ancillary costs incurred in connection with the arrangement of borrowings;

- (d) finance charges in respect of finance leases recognised in accordance with NASCO 14 - Leases; and
 - (e) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.
9. Investments, and those inventories that are routinely manufactured or otherwise produced in large quantities on a repetitive basis over a short period of time, are not qualifying assets. Assets that are ready for their intended use or sale when acquired also are not qualifying assets.

Recognition

10. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalised as part of the cost of that asset. The amount of borrowing costs eligible for capitalisation shall be determined in accordance with this Standard.
11. Borrowing costs may only be capitalised as part of the cost of the asset when it is probable that they will result in future economic benefits to the entity and the costs can be measured reliably. Other borrowing costs are recognised as an expense in the period in which they are incurred.

Borrowing costs eligible for capitalisation

12. The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are those borrowing costs that would have been avoided if the expenditure on the qualifying asset had not been made. When an entity borrows funds specifically for the purpose of obtaining a particular qualifying asset, the borrowing costs that directly relate to that qualifying asset can be readily identified.
13. When funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset shall be the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.
14. When funds are borrowed generally and are used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation shall be determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate shall be 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. The amount of borrowing costs capitalised during

a period shall not exceed the amount of borrowing costs incurred during that period.

Excess of the carrying amount of the qualifying asset over recoverable amount

15. When the carrying amount or the expected final cost of a qualifying asset exceeds its recoverable amount or net realisable value, the carrying amount is to be written down or written off in accordance with the requirements of other Standards. When required by those other Standards, the amount of the write-down or write-off may be written back

Commencement of capitalisation

16. The capitalisation of borrowing costs as part of the cost of a qualifying asset shall commence when:
 - (a) expenditures for the asset are being incurred;
 - (b) borrowing costs are being incurred; and
 - (c) activities that are necessary to prepare the asset for its intended use or sale are in progress.
17. Expenditures on a qualifying asset include only those expenditures that have resulted in payments of cash, transfers of other assets or the assumption of interest-bearing liabilities. Expenditures are reduced by any progress payments received and grants received in connection with the asset (see NASCO 17 *Accounting for Government Grants and Disclosure of Government Assistance*). The average carrying amount of the asset during a period, including borrowing costs previously capitalised, is normally a reasonable approximation of the expenditures to which the capitalisation rate is applied in that period.
18. The activities necessary to prepare the asset for its intended use or sale include technical and administrative work prior to the commencement of physical construction. However, such activities exclude the holding of an asset when no production or development that changes the asset's condition is taking place.

Suspension of capitalisation

19. Capitalisation of borrowing costs shall be suspended during extended periods in which active development is interrupted.
20. If borrowing costs are incurred during an extended period in which the activities necessary to prepare an asset for its intended use or sale are interrupted then such costs do not qualify for capitalisation. Capitalisation of borrowing costs is not normally suspended during a period when substantial technical and administrative work is being carried out. Capitalisation of

borrowing costs is also not suspended when a temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale.

Cessation of capitalisation

21. Capitalisation of borrowing costs shall cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.
22. An asset is normally ready for its intended use or sale when the physical construction of the asset is complete even though routine administrative work might still continue. If minor modifications are all that are outstanding, this indicates that substantially all the activities are complete
23. When the construction of a qualifying asset is completed in parts and each part is capable of being used while construction continues on other parts, capitalisation of borrowing costs shall cease when substantially all the activities necessary to prepare that part for its intended use or sale are completed.

Disclosure

24. The financial statements shall disclose:
 - (a) the accounting policy adopted for borrowing costs;
 - (b) the amount of borrowing costs capitalised during the period; and
 - (c) the capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation.

Effective date

25. This National Standard for Commercial Organisations becomes operative after the date determined by the Minister of Finance of the Azerbaijan Republic

Appendix 1 – Comparison with IAS 23 Borrowing Costs

This National Accounting Standard for Commercial Organisations (NASCO) 13 – Borrowing Costs is drawn primarily from the draft International Accounting Standard (IAS) 23 (2007) – Borrowing Costs. The main differences between NASCO 13 and the draft IAS 23 are as follows:

- The general provisions set out in paragraph 1 of the NASCO has been added and relates the Standard to the Accounting Law of the Republic of Azerbaijan
- Paragraphs 3 and 4 of the NASCO defines the scope of the organisations required to apply the Standard as set out in the Accounting Law of the Republic of Azerbaijan

- Paragraph 14 in IAS 23 is simply a discussion on the difficulty that may be encountered in identifying costs that may be capitalised. It contains no new regulation or requirement and has been omitted in the NASCO
- There are no significant differences between NASCO 13 and the draft IAS 23 (2007)
- There is one significant difference between NASCO 13 and the currently extant IAS 23 (2006). IAS 23 currently permits entities to either expense borrowing costs or capitalise them. The draft 2007 version of IAS 23, which will not become mandatory until 2009, requires borrowing costs to be capitalised and does not permit them to be expensed.