national treasury
Department: National Treasury
REPUBLIC OF SOUTH AFRICA

GRAP 5 – Borrowing Costs

Effective 1 April 2021

DEFINITION

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

Borrowing costs may include:
- ✓ Interest on bank overdrafts and short-term and long-term borrowings
- ✓ Amortisation of discounts or premiums relating to borrowings
- ✓ Amortisation of ancillary costs incurred in connection with the arrangement of borrowings
- ✓ Finance charges in respect of finance leases (in accordance with GRAP 13) and service concession arrangements (in accordance with GRAP 32)
- ✓ Exchange differences arising from foreign currency borrowings to the extent that it is regarded as an adjustment to interest costs

DEFINITION

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

Examples include:
- ✓ Office buildings
- ✓ Infrastructure assets, such as roads, bridges and power generation facilities
- ✓ Investment properties measured at cost that are being redeveloped

Financial assets and inventories that are produced over a short period of time, are not qualifying assets. Assets that are ready for intended use or sale when acquired are also non-qualifying assets

RECOGNITION

BENCHMARK TREATMENT

Borrowing costs will be recognised as an expense in the period in which it is incurred, regardless of how the borrowings are applied

ALLOWED ALTERNATIVE TREATMENT

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

Such borrowing costs are capitalised to the cost of the asset when:
a) It is probable that they will result in future economic benefits or service potential to the entity; and
b) The costs can be measured reliably

Other borrowing costs are recognised as an expense in the period in which they are incurred.

Capitalisation **commences** 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

Capitalisation is **suspended** during extended periods in which active development of a qualifying asset is interrupted/suspended.

Capitalisation will **cease** when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete

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 ceases when substantially all the activities necessary to prepare that part for its intended use or sale are completed.