

EXPOSURE DRAFT (ED)

National Accounting Standard for Commercial Organisations (NASCO) No 13

Borrowing Costs

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General Provisions

1. This standard has been prepared in accordance with article 6 of the Accounting Law of Azerbaijan Republic and is based on International Accounting Standard 23 Borrowing Costs.
2. This standard should be used, taking into account the additional provisions contained in Rules of Bookkeeping and also in the Explanations and Recommendations on its Application.
3. In the case of conflict between previous legislation and this standard this standard will prevail.

Objective

4. The objective of this Standard is to define the accounting treatment for the costs incurred in borrowing.

Scope

5. This Standard should be applied in the presentation of all financial statements that are declared consistent with National Accounting Standards for Commercial Organisations.
6. This Standard applies to both the financial statements of an individual enterprise and to the consolidated financial statements of a group of companies.
7. This Standard applies to all types of commercial enterprises that prepare financial statements in accordance with Article 10 of the Accounting Law of the Azerbaijan Republic.
8. This Standard shall be applied in accounting for borrowing costs incurred in respect of credit balances that have been classified as a liability.

Definitions

9. The following terms are used in this Standard with the meanings specified:
Borrowing costs are interest and other associated costs incurred by a subject of accounting in connection with the borrowing of funds.
10. Borrowing costs may include:
 - (a) interest on bank overdrafts and short-term and long-term borrowings;
 - (b) amortisation of discounts or premiums relating to borrowings;
 - (c) amortisation of associated costs incurred in connection with the arrangement of borrowings;
 - (d) finance charges in respect of finance leases recognised in accordance with NASCO 9 - Leases; and

- (e) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Recognition

- 11. Borrowing costs are to be recognised as an expense in the period in which they are incurred regardless of how the borrowings to which they refer are applied.

Disclosure

- 12. The financial statements have to disclose the accounting policy adopted by the enterprise for borrowing costs and the total amount of borrowing costs expensed in the accounting period. These will be shown by Notes to Financial Statements.

Effective Date

- 13. This National Accounting Standard for Commercial Organizations becomes operative for financial statements covering periods beginning on or after 1 January 200X.

Appendix 1 – Comparison with IAS 23 Borrowing Costs

This National Accounting Standard for Commercial Organisations (NASCO) 11 – Borrowing Costs is drawn primarily from International Accounting Standard (IAS) 23 (revised 1993) – Borrowing Costs. The main differences between NASCO 11 and IAS 23 are as follows:

- The General Provisions set out in paragraphs 1 to 3 are added to NASCO 11 and relate the standard to the Accounting Law of the Republic of Azerbaijan, the Rules of Bookkeeping and also in the Explanations and Recommendations on its Application. As distinct from IAS 23 NASCO 11 should be used taking into account the additional provisions contained in Rules of Bookkeeping and also in the Explanations and Recommendations on its Application.
- Paragraphs 5 to 7 of NASCO 11 define the scope of the organisations required to apply the standard as set out in the Accounting Law of the Republic of Azerbaijan.
- NASCO 11 permits the application of only one accounting treatment for borrowing costs. According to NASCO 11 the borrowing costs are to be recognised as an expense in the period in which they are incurred regardless of how the borrowings to which they refer are applied. IAS 23, in addition to this benchmark treatment also permits an allowed alternative approach. The allowed alternative approach is to capitalize those borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The allowed alternative approach has been excluded from NASCO 11 by the following reasons:
 - a) this approach is contradictory to the prudence qualitative characteristic of financial statements (see Conceptual Framework of NASCOs and IAS). The removal of the allowed alternative approach permitted in IAS 23 makes NASCO 11 consistent with both Frameworks.
 - b) the benchmark treatment is preferred and recommended by IAS 23, and
 - c) the benchmark treatment is easy to apply both in accounting and financial analysis whereas the allowed alternative treatment can be difficult to apply in practice.