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INSIGHTS

ACCOUNTING & TECHNOLOGY

IAS 23 borrowing costs in Cambodia: capitalising interest

When CIFRS IAS 23 requires a Cambodian company to capitalise borrowing costs on a qualifying asset, how to compute the capitalisation rate, and why CIFRS for SMEs expenses all borrowing costs.



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WHEN MUST A CAMBODIAN COMPANY CAPITALISE BORROWING COSTS UNDER IAS 23, AND HOW DOES CIFRS FOR SMES DIFFER?

Under CIFRS (IAS 23 Borrowing Costs) borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the asset's cost; other borrowing costs are expensed, and capitalisation starts when expenditure and borrowing costs are incurred and the asset is being prepared, and stops when the asset is ready for its intended use or sale. CIFRS for SMEs (Section 25) is different: all borrowing costs are recognised as an expense in the period incurred, with no capitalisation. In Cambodia, the accounting choice affects the asset's carrying amount, depreciation and the tax depreciation base, so the tax treatment of capitalised interest must be confirmed with the GDT.

IN SHORT

- A qualifying asset is an asset that necessarily takes a substantial period to get ready for its intended use or sale; a building under construction is the typical example.
- Under full CIFRS, capitalise the borrowing costs directly attributable to the qualifying asset; expense the rest.
- For general borrowings, apply a weighted average capitalisation rate to the expenditure on the asset; for specific borrowings, use the actual cost less any investment income on temporary investment.
- CIFRS for SMEs Section 25 expenses all borrowing costs; there is no capitalisation option.
- The tax treatment of capitalised interest and the tax depreciation base is separate from the accounting treatment; confirm it with the GDT.

What is a qualifying asset?

IAS 23 applies to borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period to get ready for its intended use or sale. The standard does not define a fixed number of months; the assessment depends on the asset, the construction process and the industry. A building, a plant, a power project or a large infrastructure asset usually qualifies; a laptop or a vehicle bought ready for use does not.

Some assets are not qualifying assets even if they take time to produce. Financial assets and inventories that are routinely manufactured or otherwise produced in large quantities on a repetitive basis over a short period are excluded. Assets that are already ready for their intended use or sale at the time of acquisition are also excluded. A property developer's land and units held for sale are inventories, but a development that takes a substantial period can still be a qualifying asset; the borrowing costs are then capitalised into the inventory cost under the inventory standard, not into property, plant and equipment.

The entity must apply the standard consistently to all qualifying assets. It cannot capitalise borrowing costs on one project and expense them on a similar project without a reasonable basis. The policy should identify which assets qualify and how the capitalisation rate

is determined.

- The asset is being prepared for its intended use or sale, not already in that condition.
- The preparation necessarily takes a substantial period.
- The asset is not a financial asset or a routinely manufactured inventory.
- For a property developer, inventory can still be a qualifying asset if the development takes a substantial period; capitalise into inventory cost, not PPE.

Specific borrowings and the capitalisation rate

Borrowing costs are interest and other costs incurred in connection with the borrowing of funds, including interest calculated using the effective interest method, finance charges on finance leases and exchange differences to the extent they are regarded as an adjustment to interest costs. The amount to capitalise depends on whether the borrowing is specific to the asset or part of the entity's general borrowings.

For a specific borrowing, the amount eligible for capitalisation is the actual borrowing cost incurred during the period, less any investment income on the temporary investment of those borrowings. For general borrowings, the entity applies a capitalisation rate to the expenditure on the qualifying asset. The rate is the weighted average of the borrowing costs applicable to the entity's borrowings that are outstanding during the period, excluding borrowings made specifically for the qualifying asset. The expenditure is the amount incurred on the asset, including cash, fair value of other consideration and assumed liabilities.

The capitalisation rate is not the interest rate on the largest loan or the rate the bank quotes for the project. It is a weighted average of the general borrowings, and it must be recalculated when the borrowings change. A company with several loans, overdrafts and shareholder loans needs a schedule that shows each borrowing, its outstanding balance and its cost.

CAPITALISING SPECIFIC AND GENERAL BORROWINGS

Borrowing	Amount to capitalise	Evidence
Specific to the asset	Actual borrowing cost less investment income on temporary investment	Loan agreement, interest statement, investment income
General borrowings	Weighted average capitalisation rate × expenditure on the asset	Loan schedule, weighted average calculation, expenditure ledger

Borrowing	Amount to capitalise	Evidence
Finance lease	Finance charge on the lease for the qualifying asset	Lease schedule, IFRS 16 / Section 20 calculation
Foreign-currency loan	Interest plus exchange differences treated as an interest adjustment	Loan statement, exchange rate, hedge documentation

Start, suspend and stop

Capitalisation starts when three conditions are met: the entity incurs expenditure on the asset, it incurs borrowing costs, and it is carrying out activities necessary to prepare the asset for its intended use or sale. The date is not the loan drawdown date or the payment date alone; all three conditions must be present.

Capitalisation is suspended during extended periods in which active development of the asset is interrupted. A temporary delay that is a necessary part of the process does not cause suspension, but a prolonged stoppage caused by a dispute, a funding problem or a legal issue does. Capitalisation resumes when active development resumes.

Capitalisation stops when the asset is substantially ready for its intended use or sale. The fact that routine administrative work remains, or that the asset is not yet occupied, does not justify continuing to capitalise. For an asset completed in stages, each part that is ready for use is treated separately; capitalisation stops for that part even if other parts continue.

> ⚠ **The completion date drives the depreciation and the tax base**
>
> The date capitalisation stops is the date the asset is ready for its intended use. That date starts depreciation under IAS 16 and usually determines the tax depreciation base. A project that keeps capitalising after practical completion overstates the asset and understates the current-year expense.

CIFRS for SMEs Section 25: expense everything

CIFRS for SMEs Section 25 is deliberately different. It requires an entity to recognise all borrowing costs as an expense in profit or loss in the period in which they are incurred. There is no capitalisation of borrowing costs on a qualifying asset, no capitalisation rate and no start-suspend-stop test. The section also refers to the disclosure of finance costs and interest expense under the financial instruments and presentation sections.

The difference is material for a Cambodian property developer or manufacturer preparing financial statements under CIFRS for SMEs. The same project can show a higher asset and lower current-year expense under full CIFRS than under the SME standard. A company that changes framework, or that prepares a second set of accounts for a lender under full CIFRS, must reconcile the two treatments.

The National Accounting Council's adoption of CIFRS for SMEs is the operative framework in Cambodia. Confirm the edition your auditor applies before relying on a section number, and apply the chosen framework consistently to all borrowing costs.

Cambodian tax: interest, depreciation and the tax base

The accounting capitalisation of interest does not automatically change the tax deduction. Under the Law on Taxation (2023) and the GDT's rules, interest deductibility and the tax depreciation of the asset are determined separately. A company that capitalises interest under IAS 23 may find that the GDT treats the interest as a current-year expense, or that the tax depreciation base excludes the capitalised amount; either way, the book-to-tax reconciliation must show the difference.

The tax depreciation base is usually the cost of the asset for tax purposes, which may not equal the accounting cost. If the accounting cost includes capitalised interest and the tax base does not, the accounting depreciation and the tax depreciation will diverge for the life of the asset. That creates a temporary difference under IAS 12 / Section 29, not a permanent difference, and it should be tracked asset by asset.

The same discipline applies to a finance lease: the accounting finance charge and the tax deduction may follow different schedules. Keep the loan agreement, the interest statement, the capitalisation schedule, the fixed-asset register and the tax depreciation schedule in one file so the auditor and the GDT see the same story.

01 Identify the qualifying asset and the capitalisation period.

02 Calculate the specific and general borrowing costs and the amount capitalised.

03 Record the capitalised amount in the accounting cost of the asset.

04 Check the tax treatment of the interest and the tax depreciation base with the GDT.

05 Reconcile accounting depreciation, tax depreciation and deferred tax asset by asset.

Key facts

How this article is checked

Figures were verified against the sources listed below in November 2026 and are re-checked each January or when the rule changes. Written by Liv Bonito, Co-founder & Managing Director. General information, not advice on your situation: for that, talk to a partner.

QUESTIONS

Questions people ask

Is a building under construction a qualifying asset?

Usually yes, if it necessarily takes a substantial period to get ready for its intended use or sale. The assessment depends on the project, not on a fixed number of months. A building bought ready for use is not a qualifying asset.

How is the capitalisation rate calculated for general borrowings?

It is the weighted average of the borrowing costs applicable to the entity's general borrowings outstanding during the period, excluding borrowings made specifically for the qualifying asset. The rate is applied to the expenditure on the asset. It must be recalculated when the borrowings change.

Can capitalisation be suspended?

Yes, during extended periods in which active development of the asset is interrupted. A temporary delay that is a necessary part of the process does not cause suspension. Capitalisation resumes when active development resumes.

Does CIFRS for SMEs allow capitalisation of borrowing costs?

No. Section 25 requires all borrowing costs to be recognised as an expense in the period incurred. There is no capitalisation of borrowing costs on a qualifying asset under the SME standard.

SOURCES

Where the rules come from

01 IAS 23 Borrowing Costs (https://www.ifrs.org/issued-standards/list-of-standards/ias-23-borrowing-costs/) — IFRS Foundation

02 IFRS for SMEs Accounting Standard, Section 25 Borrowing Costs (https://www.ifrs.org/issued-standards/ifrs-for-smes/) — IFRS Foundation

03 Cambodian International Financial Reporting Standards (CIFRS and CIFRS for SMEs) — National Accounting Council / ACAR, Ministry of Economy and Finance

04 Law on Taxation (Royal Kram NS/RKM/0523/004, 16 May 2023) and GDT prakas (https://www.tax.gov.kh) — Kingdom of Cambodia / General Department of Taxation