

Statutory Issue Paper No. 44

Capitalization of Interest

STATUS

Finalized March 16, 1998

Original SSAP and Current Authoritative Guidance: SSAP No. 44

Type of Issue:

Common Area

SUMMARY OF ISSUE

1. Current statutory guidance does not address capitalization of interest cost.
2. GAAP guidance allows capitalization of interest as part of the historical cost of acquiring certain assets.
3. The purpose of this issue paper is to establish statutory accounting principles for capitalization of interest cost that are consistent with the Statutory Accounting Principles Statement of Concepts and Statutory Hierarchy (Statement of Concepts).

SUMMARY CONCLUSION

4. Under statutory accounting principles, the historical cost of acquiring an asset generally includes the necessary costs incurred to bring it to the condition and location necessary for its intended use. If an asset requires a period of time in which to carry out the activities necessary to bring it to that condition and location, the interest cost incurred during that period as a result of expenditures for the asset shall be included as a part of the historical cost of acquiring the asset.
5. Interest cost shall be capitalized for the following types of assets:
 - a. Assets constructed or otherwise produced for an enterprise's own use (including assets constructed or produced for the enterprise by others for which deposits or progress payments have been made);
 - b. Assets intended for sale or lease that are constructed or otherwise produced as discrete projects (e.g. real estate developments);
 - c. Investments (equity, loans, and advances) accounted for by the equity method while the investee has activities in progress necessary to commence its planned principal operations provided that the investee's activities include the use of funds to acquire qualifying assets for its operations. The equity method is defined in *Issue Paper No. 46—Accounting for Investments in Subsidiary, Controlled and Affiliated Entities* (Issue Paper No. 46).
6. Interest cost shall not be capitalized for the following types of assets:
 - a. Assets that are in use or ready for their intended use in the earning activities of the enterprise;
 - b. Assets that are not being used in the earning activities of the enterprise and that are not undergoing the activities necessary to get them ready for use;

- c. Investments accounted for by the equity method after the planned principal operations of the investee begin;
- d. Investments in regulated investees that are capitalizing both the cost of debt and equity capital;
- e. Assets acquired with gifts and grants that are restricted by the donor or grantor to acquisition of those assets to the extent that funds are available from such gifts and grants. Interest earned from temporary investment of those funds that is similarly restricted shall be considered an addition to the gift or grant for this purpose;
- f. Nonadmitted assets.

7. The amount of interest cost to be capitalized for qualifying assets shall be determined in accordance with subparagraphs 12-16 of paragraph 14 below and subparagraph 6 of paragraph 17 below.

8. The capitalization period shall be in accordance with subparagraphs 17-19 of paragraph 14 below and subparagraph 7 of paragraph 17 below.

9. Disclosures shall be made in the financial statements or related notes in accordance with subparagraph 21 of paragraph 14 below.

10. Capitalized interest meets the definition of an asset defined in *Issue Paper No. 4—Definition of Assets and Nonadmitted Assets* and is an admitted asset to the extent it conforms to the requirements of this issue paper. Capitalized interest shall be assessed for impairment in conjunction with the assessment of the related asset. As outlined in paragraph 4 above, the capitalized interest is included as a part of the historical cost of acquiring the asset. Interest capitalization shall not cease when such an assessment requires recognition of a lower value for the asset than acquisition cost; rather the provision required to reduce acquisition cost to such lower value shall be increased appropriately.

DISCUSSION

11. The statutory principles described in the conclusion above adopt the GAAP accounting principles for capitalization of interest cost set forth in *FASB Statement No. 34, Capitalization of Interest Cost* (FAS 34), *FASB Statement No. 42, Determining Materiality for Capitalization of Interest Cost* (FAS 42), *FASB Statement No. 58, Capitalization of Interest Cost in Financial Statements That Include Investments Accounted for by the Equity Method* (FAS 58), and *FASB Statement No. 62, Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants* (FAS 62), except that nonadmitted assets are ineligible for capitalization of interest.

12. The statutory accounting principles described in the conclusion above are consistent with the recognition concept in the Statement of Concepts, because capitalized interest cost represents a component of the cost of the related asset which would be recoverable and available to fulfill policyholder obligations upon sale of the asset unless an impairment exists. Pertinent excerpts follow:

Recognition

The ability to meet policyholder obligations is predicated on the existence of readily marketable assets available when both current and future obligations are due. Assets having economic value other than those which can be used to fulfill policyholder obligations, or those assets which may be unavailable due to encumbrances or other third party interest should not be recognized on the balance sheet but rather should be charged against surplus when acquired or when availability otherwise becomes questionable.

Drafting Notes/Comments

- *Issue Paper No. 46—Accounting for Investments in Subsidiary, Controlled and Affiliated Entities*, addresses the equity method for accounting for investments in subsidiaries, controlled and affiliated companies.

RELEVANT STATUTORY ACCOUNTING AND GAAP GUIDANCE**Statutory Accounting**

13. Statutory accounting literature does not address capitalization of interest cost.

Generally Accepted Accounting Principles

14. FAS 34 provides the following guidance:

INTRODUCTION

1. This Statement establishes standards of financial accounting and reporting for capitalizing interest cost as a part of the historical cost of acquiring certain assets. For the purposes of this Statement, interest cost includes interest recognized on obligations having explicit interest rates,¹ interest imputed on certain types of payables in accordance with *APB Opinion No. 21, Interest on Receivables and Payables*, and interest related to a capital lease determined in accordance with *FASB Statement No. 13, Accounting for Leases*.

¹ Interest cost on these obligations includes amounts resulting from periodic amortization of discount or premium and issue costs on debt.

2. Paragraphs 15 and 16 of Opinion 21 provide that the discount or premium that results from imputing interest for certain types of payables should be amortized as interest expense over the life of the payable and reported as such in the statement of income. Paragraph 12 of Statement 13 provides that, during the term of a capital lease, a portion of each minimum lease payment shall be recorded as interest expense. This Statement modifies Opinion 21 and Statement 13 in that the amount chargeable to interest expense under the provisions of those paragraphs is eligible for inclusion in the amount of interest cost capitalizable in accordance with this Statement.

3. Some enterprises now charge all interest cost to expense when incurred; some enterprises capitalize interest cost in some circumstances; and some enterprises, primarily public utilities, also capitalize a cost for equity funds in some circumstances. This diversity of practice and an observation that an increasing number of nonutility registrants were adopting a policy of capitalizing interest led the Securities and Exchange Commission to impose, in November 1974, a moratorium on adoption or extension of such a policy by most nonutility registrants until such time as the FASB established standards in this area.²

² Securities and Exchange Commission, ASR No. 163, Capitalization of Interest by Companies Other Than Public Utilities (Washington: November 14, 1974).

4. Appendix A provides additional background information. Appendix B sets forth the basis for the Board's conclusions, including alternatives considered and reasons for accepting some and rejecting others.

5. The Addendum to *APB Opinion No. 2, Accounting for the 'Investment Credit'*, states that "differences may arise in the application of generally accepted accounting principles as between regulated and nonregulated businesses, because of the effect in regulated businesses of the

rate-making process,” and discusses the application of generally accepted accounting principles to regulated industries. Accordingly, the provisions of the Addendum shall govern the application of this Statement to those operations of an enterprise that are regulated for rate-making purposes on an individual-company-cost-of-service basis.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

6. The historical cost of acquiring an asset includes the costs necessarily incurred to bring it to the condition and location necessary for its intended use.³ If an asset requires a period of time in which to carry out the activities⁴ necessary to bring it to that condition and location, the interest cost incurred during that period as a result of expenditures for the asset is a part of the historical cost of acquiring the asset.

³ The term intended use embraces both readiness for use and readiness for sale, depending on the purpose of acquisition.

⁴ See paragraph 17 for a definition of those activities for purposes of this Statement.

7. The objectives of capitalizing interest are (a) to obtain a measure of acquisition cost that more closely reflects the enterprise’s total investment in the asset and (b) to charge a cost that relates to the acquisition of a resource that will benefit future periods against the revenues of the periods benefited.

8. In concept, interest cost is capitalizable for all assets that require a period of time to get them ready for their intended use (an “acquisition period”). However, in many cases, the benefit in terms of information about enterprise resources and earnings may not justify the additional accounting and administrative cost involved in providing the information. The benefit may be less than the cost because the effect of interest capitalization and its subsequent amortization or other disposition, compared with the effect of charging it to expense when incurred, would not be material. In that circumstance, interest capitalization is not required by this Statement.

Assets Qualifying for Interest Capitalization

9. Subject to the provisions of paragraph 8, interest shall be capitalized for the following types of assets (“qualifying assets”):

- a. Assets that are constructed or otherwise produced for an enterprise’s own use (including assets constructed or produced for the enterprise by others for which deposits or progress payments have been made)
- b. Assets intended for sale or lease that are constructed or otherwise produced as discrete projects (e.g., ships or real estate developments).

10. However, interest cost shall not be capitalized for inventories that are routinely manufactured or otherwise produced in large quantities on a repetitive basis because, in the Board’s judgment, the informational benefit does not justify the cost of so doing. In addition, interest shall not be capitalized for the following types of assets:

- a. Assets that are in use or ready for their intended use in the earning activities of the enterprise
- b. Assets that are not being used in the earning activities of the enterprise and that are not undergoing the activities necessary to get them ready for use.

11. Land that is not undergoing activities necessary to get it ready for its intended use is not a qualifying asset. If activities are undertaken for the purpose of developing land for a particular

use, the expenditures to acquire the land qualify for interest capitalization while those activities are in progress. The interest cost capitalized on those expenditures is a cost of acquiring the asset that results from those activities. If the resulting asset is a structure, such as a plant or a shopping center, interest capitalized on the land expenditures is part of the acquisition cost of the structure. If the resulting asset is developed land, such as land that is to be sold as developed lots, interest capitalized on the land expenditures is part of the acquisition cost of the developed land.

The Amount of Interest Cost to Be Capitalized

12. The amount of interest cost to be capitalized for qualifying assets is intended to be that portion of the interest cost incurred during the assets' acquisition periods that theoretically could have been avoided (for example, by avoiding additional borrowings or by using the funds expended for the assets to repay existing borrowings) if expenditures for the assets had not been made.

13. The amount capitalized in an accounting period shall be determined by applying an interest rate(s) ("the capitalization rate") to the average amount of accumulated expenditures for the asset during the period. The capitalization rates used in an accounting period shall be based on the rates applicable to borrowings outstanding during the period. If an enterprise's financing plans associate a specific new borrowing with a qualifying asset, the enterprise may use the rate on that borrowing as the capitalization rate to be applied to that portion of the average accumulated expenditures for the asset that does not exceed the amount of that borrowing. If average accumulated expenditures for the asset exceed the amounts of specific new borrowings associated with the asset, the capitalization rate to be applied to such excess shall be a weighted average of the rates applicable to other borrowings of the enterprise.

14. In identifying the borrowings to be included in the weighted average rate, the objective is a reasonable measure of the cost of financing acquisition of the asset in terms of the interest cost incurred that otherwise could have been avoided. Accordingly, judgment will be required to make a selection of borrowings that best accomplishes that objective in the circumstances. For example, in some circumstances, it will be appropriate to include all borrowings of the parent company and its consolidated subsidiaries; for some multinational enterprises, it may be appropriate for each foreign subsidiary to use an average of the rates applicable to its own borrowings. However, the use of judgment in determining capitalization rates shall not circumvent the requirement that a capitalization rate be applied to all capitalized expenditures for a qualifying asset to the extent that interest cost has been incurred during an accounting period.

15. The total amount of interest cost capitalized in an accounting period shall not exceed the total amount of interest cost incurred by the enterprise in that period. In consolidated financial statements, that limitation shall be applied by reference to the total amount of interest cost incurred by the parent company and consolidated subsidiaries on a consolidated basis. In any separately issued financial statements of a parent company or a consolidated subsidiary and in the financial statements (whether separately issued or not) of unconsolidated subsidiaries and other investees accounted for by the equity method, the limitation shall be applied by reference to the total amount of interest cost (including interest on intercompany borrowings) incurred by the separate entity.

16. For the purposes of this Statement, expenditures to which capitalization rates are to be applied are capitalized expenditures (net of progress payment collections) for the qualifying asset that have required the payment of cash, the transfer of other assets, or the incurring of a liability on which interest is recognized (in contrast to liabilities, such as trade payables, accruals, and retainages on which interest is not recognized). However, reasonable approximations of net capitalized expenditures may be used. For example, capitalized costs for an asset may be used as a reasonable approximation of capitalized expenditures unless the difference is material.

The Capitalization Period

17. The capitalization period shall begin when three conditions are present:
- a. Expenditures (as defined in paragraph 16) for the asset have been made.
 - b. Activities that are necessary to get the asset ready for its intended use are in progress.
 - c. Interest cost is being incurred.

Interest capitalization shall continue as long as those three conditions are present. The term activities is to be construed broadly. It encompasses more than physical construction; it includes all the steps required to prepare the asset for its intended use. For example, it includes administrative and technical activities during the preconstruction stage, such as the development of plans or the process of obtaining permits from governmental authorities; it includes activities undertaken after construction has begun in order to overcome unforeseen obstacles, such as technical problems, labor disputes, or litigation. If the enterprise suspends substantially all activities related to acquisition of the asset, interest capitalization shall cease until activities are resumed. However, brief interruptions in activities, interruptions that are externally imposed, and delays that are inherent in the asset acquisition process shall not require cessation of interest capitalization.

18. The capitalization period shall end when the asset is substantially complete and ready for its intended use. Some assets are completed in parts, and each part is capable of being used independently while work is continuing on other parts. An example is a condominium. For such assets, interest capitalization shall stop on each part when it is substantially complete and ready for use. Some assets must be completed in their entirety before any part of the asset can be used. An example is a facility designed to manufacture products by sequential processes. For such assets, interest capitalization shall continue until the entire asset is substantially complete and ready for use. Some assets cannot be used effectively until a separate facility has been completed. Examples are the oil wells drilled in Alaska before completion of the pipeline. For such assets, interest capitalization shall continue until the separate facility is substantially complete and ready for use.

19. Interest capitalization shall not cease when present accounting principles require recognition of a lower value for the asset than acquisition cost; the provision required to reduce acquisition cost to such lower value shall be increased appropriately.

Disposition of the Amount Capitalized

20. Because interest cost is an integral part of the total cost of acquiring a qualifying asset, its disposition shall be the same as that of other components of asset cost.

Disclosures

21. The following information with respect to interest cost shall be disclosed in the financial statements or related notes:
- a. For an accounting period in which no interest cost is capitalized, the amount of interest cost incurred and charged to expense during the period
 - b. For an accounting period in which some interest cost is capitalized, the total amount of interest cost incurred during the period and the amount thereof that has been capitalized.

Effective Date and Transition

22. This Statement shall be applied prospectively in fiscal years beginning after December 15, 1979. Earlier application is permitted, but not required, in financial statements for fiscal years beginning before December 16, 1979 that have not been previously issued. With respect to qualifying assets in existence at the beginning of the fiscal year in which this Statement is first applied for which interest cost has not been previously capitalized, interest capitalization shall begin at that time. With respect to qualifying assets for which interest cost has been capitalized according to a method that differs from the provisions of this Statement, no adjustment shall be made to the amounts of interest cost previously capitalized, but interest cost capitalized after this Statement is first applied shall be determined according to the provisions of this Statement. With respect to assets in existence when this Statement is first applied for which interest cost has been capitalized but which do not qualify for interest capitalization according to the provisions of this Statement, no adjustments shall be made, but no additional amounts of interest cost shall be capitalized.

23. If early application is adopted in financial reports for interim periods of a fiscal year beginning before December 16, 1979, previously issued financial information for any interim periods of that fiscal year that precede the period of adoption shall be restated to give effect to the provisions of this Statement, and any subsequent presentation of that information shall be on the restated basis. This Statement shall not be applied retroactively for previously issued annual financial statements.

15. FAS 42 provides the following guidance:

INTRODUCTION

1. Paragraph 8 of *FASB Statement No. 34, Capitalization of Interest Cost*, states that:

In concept, interest cost is capitalizable for all assets that require a period of time to get them ready for their intended use (an "acquisition period"). However, in many cases, the benefit in terms of information about enterprise resources and earnings may not justify the additional accounting and administrative cost involved in providing the information. The benefit may be less than the cost because the effect of interest capitalization and its subsequent amortization or other disposition, compared with the effect of charging it to expense when incurred, would not be material. In that circumstance, interest capitalization is not required by this Statement.

Paragraph 9 of FAS 34 begins as follows:

Subject to the provisions of paragraph 8, interest shall be capitalized for the following types of assets ("qualifying assets"). . . .

2. The Board has received a number of questions concerning how paragraph 8 should be construed in deciding whether capitalization of interest is required. Some have stated that paragraph 8 appears to establish new tests of materiality that allow an enterprise to measure the effect of interest capitalization on income by a pro forma prospective or retroactive computation without also considering the effect on current year income. The Board has concluded that new tests of materiality should not be established for interest capitalization and has, accordingly, decided to amend paragraph 8 of Statement 34 to delete the language that gave rise to those questions.

3. The Board has concluded that it can reach an informed decision on the basis of existing information without a public hearing and that the effective date and transition specified in paragraph 5 are advisable in the circumstances.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Amendment to FASB Statement No. 34

4. The last two sentences of paragraph 8 of Statement 34 are superseded and replaced by the following sentence:

Accordingly, interest shall not be capitalized in the situations described in paragraph 10.

The introduction of paragraph 9 of Statement 34 is amended to read as follows:

Interest shall be capitalized for the following types of assets ("qualifying assets"):

Effective Date and Transition

5. This Statement shall be effective for fiscal years beginning after December 15, 1979. The provisions of this Statement shall be applied at the same time as the provisions of Statement 34 are first applied. Enterprises that already have adopted the provisions of Statement 34 shall apply the provisions of this Statement in their next fiscal year beginning after October 15, 1980 and may, but are not required to, restate their financial statements for the year of initial adoption to reflect the provisions of this Statement.

16. FAS 58 provides the following guidance:

INTRODUCTION

1. The FASB has received several inquiries concerning (a) the limitations of FASB Statement No. 34, Capitalization of Interest Cost, relating to capitalization of interest cost in situations involving investees accounted for by the equity method and (b) the inconsistent requirements between (i) the limitations of Statement 34 on the capitalization of interest cost in situations involving investees accounted for by the equity method and (ii) the requirement of APB Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock, that income and owners' equity amounts should be the same whether a subsidiary is consolidated or accounted for by the equity method.

2. The basic issue is whether Statement 34 distinguishes qualifying assets owned by the parent and consolidated subsidiaries from those owned by unconsolidated subsidiaries, joint ventures, and other investees accounted for by the equity method for purposes of determining the amount of interest cost to be capitalized in the investor's financial statements. Although paragraph 15 of Statement 34 clearly limits the amount of interest available for capitalization in consolidated financial statements to that shown in those statements, neither paragraph 9 nor paragraph 15 of Statement 34 is explicit regarding any similar limitations on qualifying assets.

3. The Board has concluded that qualifying assets as described in Statement 34 are limited to those of the parent company and consolidated subsidiaries. The Board has also concluded that certain investments (equity, loans, and advances) accounted for by the equity method are qualifying assets of the investor (including parent company and consolidated subsidiaries). For the investment to be a qualifying asset, the investee must be undergoing activities in preparation for its planned principal operations provided that the investee's activities include the use of funds to acquire qualifying assets for its operations. The investment ceases to be a qualifying asset when those operations begin. Subsequent accounting for interest capitalized on the investment is specified by paragraph 19.b. of Opinion 18.

4. This Statement does not affect the accounting for and reporting of capitalized interest cost in the separate financial statements of investees.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Amendments to FASB Statement No. 34

5. The following subparagraph is added to paragraph 9 of Statement 34, which specifies the qualifying assets for which interest is to be capitalized:

- c. Investments (equity, loans, and advances) accounted for by the equity method while the investee has activities in progress necessary to commence its planned principal operations provided that the investee's activities include the use of funds to acquire qualifying assets for its operations.

6. The following subparagraphs are added to paragraph 10 of Statement 34, which specifies the types of assets for which interest is not capitalized:

- c. Assets that are not included in the consolidated balance sheet of the parent company and consolidated subsidiaries
- d. Investments accounted for by the equity method after the planned principal operations of the investee begin
- e. Investments in regulated investees that are capitalizing both the cost of debt and equity capital

7. The following sentence is added to paragraph 20 of Statement 34, which specifies the accounting for interest after it is capitalized:

Interest capitalized on an investment accounted for by the equity method shall be accounted for in accordance with paragraph 19.b. of Opinion 18 which states: "A difference between the cost of an investment and the amount of underlying equity in net assets of an investee should be accounted for as if the investee were a consolidated subsidiary."

Amendments to Other Pronouncements

8. Paragraph 10 of *ARB No. 51, Consolidated Financial Statements*, requires accounting for a subsidiary on a step-by-step basis if control is obtained through purchase of two or more blocks of stock. Paragraph 19.m. of Opinion 18 requires retroactive adjustment for an investee that was previously accounted for on other than the equity method when that investee becomes qualified for use of the equity method. Paragraph 34 of *APB Opinion No. 20, Accounting Changes*, requires restatement of prior financial statements for changes in reporting entities. The following footnote is added to each of those paragraphs:

The amount of interest cost capitalized through application of *FASB Statement No. 58, Capitalization of Interest Cost in Financial Statements That Include Investments Accounted for by the Equity Method*, shall not be changed when restating financial statements of prior periods.

Effective Date and Transition

9. This Statement shall be effective for investments made after June 30, 1982 except that investments contracted for but not yet made may be accounted for as specified in the next sentence. Investments existing at the effective date or date of earlier adoption of this Statement (a) may be accounted for according to the provisions of this Statement or (b) may continue to be accounted for by the method of interest capitalization previously used even though not in accordance with the provisions of this Statement. Earlier application is encouraged. This Statement may be applied retroactively for annual financial statements that have not been issued but shall not be applied retroactively for previously issued annual financial statements.

17. FAS 62 provides the following guidance:

INTRODUCTION

1. The FASB has received a number of requests to reconsider the issue of offsetting interest income against interest cost in the application of *FASB Statement No. 34, Capitalization of Interest Cost*, for purposes of determining either capitalization rates or limitations on the amount of interest to be capitalized. *FASB Technical Bulletin No. 81-5, Offsetting Interest Cost to Be Capitalized with Interest Income*, states that Statement 34 does not permit such offsetting. Other requests have been received to consider the issue of capitalization of interest cost in situations in which qualifying assets are acquired using gifts and grants restricted to the purchase of the specified assets.

2. The Board has concluded that Statement 34 should be amended to require offsetting of interest income against interest cost in certain circumstances involving tax-exempt borrowings that are externally restricted as specified in paragraph 3. Those situations include many governmental borrowings and most governmentally sponsored borrowings (such as industrial revenue bonds and pollution control bonds). In such situations, interest earned generally is considered in and is significant to the initial decision to acquire the asset, and the capitalization of net interest cost provides a better measure of the entity's net investment in the qualifying assets. The Board believes that in those circumstances the association is direct and the funds flows from borrowing, temporary investment, and construction expenditures are so intertwined and restricted as to require accounting for the total net cost of financing as a cost of the qualifying assets. The Board also concluded that in all other situations offsetting of interest income against interest cost is not appropriate. The Board further concluded that qualifying assets acquired with externally restricted gifts or grants should not be subject to capitalization of interest cost under Statement 34.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

3. Interest earned shall not be offset against interest cost in determining either capitalization rates or limitations on the amount of interest cost to be capitalized except in situations involving acquisition of qualifying assets financed with the proceeds of tax-exempt borrowings if those funds are externally restricted to finance acquisition of specified qualifying assets or to service the related debt.

4. The amount of interest cost capitalized on qualifying assets acquired with proceeds of tax-exempt borrowings that are externally restricted as specified in paragraph 3 shall be all interest cost of the borrowing less any interest earned on related interest-bearing investments acquired with proceeds of the related tax-exempt borrowings¹ from the date of the borrowing until the assets are ready for their intended use. Interest cost of a tax-exempt borrowing shall be eligible for capitalization on other qualifying assets of the entity when the specified qualifying assets are no longer eligible for interest capitalization.

¹ The interest cost and interest earned on any portion of the proceeds of the tax-exempt borrowings that are not designated for the acquisition of specified qualifying assets and servicing the related debt are excluded. The entire interest cost on that portion of the proceeds that is available for other uses (such as refunding of an existing debt issue other than a construction loan related to those assets) is eligible for capitalization on other qualifying assets.

Amendments to FASB Statement No. 34

5. The following subparagraph is added to paragraph 10 of Statement 34, which specifies the types of assets for which interest is not capitalized:

f. Assets acquired with gifts and grants that are restricted by the donor or grantor to acquisition of those assets to the extent that funds are available from such gifts and grants. Interest earned from temporary investment of those funds that is similarly restricted shall be considered an addition to the gift or grant for this purpose.

6. The following footnote is added at the end of the first sentence of paragraph 13 of Statement 34, which deals with determining the amount of interest cost to be capitalized:

*If qualifying assets are financed with the proceeds of tax-exempt borrowings and those funds are externally restricted to the acquisition of specified qualifying assets or to service the related debt, the amount of interest cost capitalized shall be determined in accordance with *FASB Statement No. 62, Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants*.

7. The following footnote is added to paragraph 17 of Statement 34, which specifies the period for interest capitalization:

*In situations involving qualifying assets financed with the proceeds of tax-exempt borrowings that are externally restricted as specified in Statement 62, the capitalization period begins at the date of the borrowing.

Rescission of Technical Bulletin

8. *FASB Technical Bulletin No. 81-5, Offsetting Interest Cost to Be Capitalized with Interest Income*, is rescinded upon issuance of this Statement.

Effective Date and Transition

9. This Statement shall be effective for tax-exempt borrowing arrangements entered into and gifts or grants received after August 31, 1982, with earlier application encouraged in financial statements that have not been previously issued. This Statement may be, but is not required to be, applied retroactively to previously issued financial statements for fiscal years beginning after December 15, 1979. If previously issued financial statements are restated, the financial statements shall, in the year that this Statement is first applied, disclose the nature of any restatement and its effects on income before extraordinary items, net income, and related per share amounts for each restated year presented.

RELEVANT LITERATURE

Statutory Accounting

- Statutory Accounting Principles Statement of Concepts and Statutory Hierarchy
- *Issue Paper No. 4—Definition of Assets and Nonadmitted Assets*
- *Issue Paper No. 46—Accounting for Investments in Subsidiary, Controlled and Affiliated Entities*

Generally Accepted Accounting Principles

- *FASB Statement No. 34, Capitalization of Interest Cost*
- *FASB Statement No. 42, Determining Materiality for Capitalization of Interest Cost*
- *FASB Statement No. 58, Capitalization of Interest Cost in Financial Statements That Include Investments Accounted for by the Equity Method*
- *FASB Statement No. 62, Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants*

State Regulations

- No additional guidance obtained from state statutes and regulations.

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