835 - Interest

835-**10** - Overall

835-10-**00** - Status

General Note: The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

835-10-00-**1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
835-10-05-3	Amended	Accounting Standards Update No. 2012-04	10/01/2012
835-10-60-2	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
835-10-60-3	Superseded	Accounting Standards Update No. 2016-13	06/16/2016
835-10-60-5	Amended	Accounting Standards Update No. 2016-01	01/05/2016
835-10-60-6A	Added	Accounting Standards Update No. 2016-01	01/05/2016
835-10-60-7	Amended	Accounting Standards Update No. 2009-16	12/23/2009

835-10-**05** - Overview and Background

General Note: The Overview and Background Section provides overview and background material for the guidance contained in the Subtopic. It does not provide the historical background or due process. It may contain certain material that users generally consider useful to understand the typical situations addressed by the standards. The Section does not summarize the accounting and reporting requirements.

General

835-10-05-**1** The Interest Topic contains the following Subtopics:

a. Overall
b. Capitalization of Interest
c. Imputation of Interest.

835-10-05-**2** This Topic provides guidance for interest income or expense recognition in two instances. Subtopic 835-20 provides guidance for capitalization of interest costs in connection with an investment in an asset. Subtopic 835-30 provides guidance for situations in which imputation of interest is required.

835-10-05-**3** The recognition of interest income and interest expense for specific transactions and specific instrument types is also addressed in various other Topics.

835-10-**60** - Relationships

General Note: The Relationships Section contains links to guidance that may be helpful to, but not required by, a user of the Subtopic. This Section may not be all-inclusive. The relationship items are organized according to the Topic structure in the Codification.

General

Presentation of Financial Statements

835-10-60-**1** For guidance on the allocation of interest to discontinued operations, see paragraphs 205-20-45-6 through 45-8.

Receivables

835-10-60-**2** Paragraph superseded by Accounting Standards Update No. 2016-13.

835-10-60-**3** Paragraph superseded by Accounting Standards Update No. 2016-13.

835-10-60-**4** For guidance on the recognition of loan origination fees and costs and commitment fees and costs and the effect on the yield of the related loan, see Section 310-20-35.

Investments-Debt Securities

835-10-60-**5** For guidance on recognition of interest income on investments in debt securities, see paragraph 320-10-35-4.

835-10-60-**6** For guidance on recognition of interest income on structured notes, see paragraph 320-10-35-38.

Investments-Equity Securities

835-10-60-**6A** For guidance on recognition of dividend income on investments in equity securities, see paragraph 321-10-35-6.

Investments-Other

835-10-60-**7** For guidance on accounting for a transferor's interests in securitized transactions accounted for as sales (see Topic 860) and purchased beneficial interests, see Subtopic 325-40.

Other Assets and Deferred Costs

835-10-60-**8** For guidance on the recognition of changes in the carrying amount of a deposit as interest income or interest expense when an insurance contract is accounted for as a deposit, see paragraph 340-30-45-2.

Debt

835-10-60-**9** For guidance on the method of determining interest expense to be recognized for increasing-rate debt, see paragraphs 470-10-35-1 through 35-2.

835-10-60-**10** For guidance on whether interest should be accrued or imputed to the date of conversion of a debt instrument to an equity instrument where the terms provide that accrued but unpaid interest at the date of the conversion is forfeited by the debt holder, see paragraph 470-20-35-11.

835-10-60-**11** For guidance on a debtor's accounting for a modification or exchange of debt instruments, see Section 470-50-40.

835-10-60-**12** For guidance on the recognition of interest expense on a payable restructured in a troubled debt restructuring, see paragraphs 470-60-35-5 through 35-6.

Distinguishing Liabilities from Equity

835-10-60-**13** For guidance on the recognition of interest cost on forward contracts that require physical settlement by repurchase of a fixed number of the issuer's equity shares in exchange for cash, see paragraph 480-10-35-3.

Income Taxes

835-10-60-**14** For recognition and measurement requirements for the accrual of interest on unrecognized tax benefits and for guidance on the recognition of interest expense when the tax law requires interest to be paid on an underpayment of income taxes, see paragraph 740-10-25-56.

Derivatives and Hedging

835-10-60-**15** For guidance on the accounting for embedded features that alter net interest payments on an interest-bearing host contract, see paragraphs 815-15-25-26 through 25-27.

Not-for-Profit Entities

835-10-60-**16** For guidance on the presentation of accruals of the interest element related to unconditional promises to give by donees and by donors, see paragraph 958-310-45-2.

835-**20 - Capitalization of Interest**

835-20-**00 - Status**

> **General Note:** The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

835-20-00-**1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Contract	Added	Accounting Standards Update No. 2016-02	02/25/2016
Finance Lease	Added	Accounting Standards Update No. 2016-02	02/25/2016
Interest Cost	Amended	Accounting Standards Update No. 2016-02	02/25/2016
Lease	Added	Accounting Standards Update No. 2016-02	02/25/2016
Lessee	Added	Accounting Standards Update No. 2016-02	02/25/2016
Underlying Asset	Added	Accounting Standards Update No. 2016-02	02/25/2016
835-20-55-2	Amended	Accounting Standards Update No. 2014-10	06/10/2014

835-20-**05 - Overview and Background**

General Note: The Overview and Background Section provides overview and background material for the guidance contained in the Subtopic. It does not provide the historical background or due process. It may contain certain material that users generally consider useful to understand the typical situations addressed by the standards. The Section does not summarize the accounting and reporting requirements.

General

835-20-05-**1** This Subtopic establishes standards of financial accounting and reporting for capitalizing interest cost as a part of the historical cost of acquiring certain assets. 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. 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 is a part of the historical cost of acquiring the asset.

835-20-**10 - Objectives**

General Note: The Objectives Section provides the high-level objectives that the Subtopic is intended to accomplish or attain. The Section does not summarize or discuss the main principles of accounting and reporting requirements.

General

835-20-10-**1** The objectives of capitalizing interest are to obtain a measure of acquisition cost that more closely reflects an entity's total investment in the asset and to charge a cost that relates to the acquisition of a resource that will benefit future periods against the revenues of the periods benefited.

835-20-10-**2** On the premise that the historical cost of acquiring an asset should include all costs necessarily incurred to bring it to the condition and location necessary for its intended use, in principle, the cost incurred in financing expenditures for an asset during a required construction or development period is itself a part of the asset's historical acquisition cost. The cause-and-effect relationship between acquiring an asset and the incurrence of interest cost makes interest cost analogous to a direct cost that is readily and objectively assignable to the acquired asset. Failure to capitalize the interest cost associated with the acquisition of qualifying assets improperly reduces reported earnings during the period of acquisition and increases reported earnings in later periods.

835-20-**15 - Scope and Scope Exceptions**

General Note: The Scope and Scope Exceptions Section outlines the items (for example, the entities, transactions, instruments, or events) to which the guidance in the Subtopic does or does not apply. In some cases, the Section may contain definitional or other text to frame the scope.

General

Entities

835-20-15-**1** The guidance in this Subtopic applies to all entities.

Other Considerations

General Concepts

835-20-15-**2** 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 the entity's resources and earnings may not justify the additional accounting and administrative cost involved in providing the information. The significance of the effect of interest capitalization in relation to the entity's resources and earnings is the most important consideration in assessing its benefit. The ease with which qualifying assets and related expenditures can be separately identified and the number of assets subject to interest capitalization are important factors in assessing the cost of implementation.

835-20-15-**3** Interest capitalization is required only when the balance of the informational benefit and the cost of implementation is favorable. A favorable balance is most likely to be achieved where an asset is constructed or produced as a discrete project for which costs are separately accumulated and where construction of the asset takes considerable time, entails substantial expenditures, and is likely to involve a significant amount of interest cost. A favorable balance is unlikely in the case of inventory items that are routinely manufactured or otherwise produced in large quantities on a repetitive basis. Accordingly, this Subtopic proscribes interest capitalization on those types of inventories (that is, inventory items that are routinely manufactured or produced in large quantities on a repetitive basis) and provides for interest capitalization on assets that are constructed or produced as discrete projects.

835-20-15-**4** Minimum threshold levels are common in inventory and property, plant, and equipment accounting. Many entities do not include the costs of minor items in inventory, and many entities do not capitalize individual items of property, plant, and equipment, the costs of which are less than a specified threshold. Such thresholds are designed to minimize the burden of capitalizing large numbers of assets and accounting for those costs as the assets are used. Those thresholds are justified on the grounds that the assets whose costs are charged to expense as purchased are immaterial both individually and in the aggregate. This Subtopic does not affect the use of threshold levels established in conformity with such materiality tests.

Assets for Which Interest Shall Be Capitalized

835-20-15-**5** Interest shall be capitalized for the following types of assets (qualifying assets):

a. Assets that are constructed or otherwise produced for an entity's own use, including assets constructed or produced for the entity 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 (for example, ships or 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 investor's investment in the investee, not the individual assets or projects of the investee, is the qualifying asset for purposes of interest capitalization.

Assets for Which Interest Shall Not Be Capitalized

835-20-15-**6** 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 entity

b. Assets that are not being used in the earning activities of the entity and that are not undergoing the activities necessary to get them ready for use

c. Assets that are not included in the consolidated balance sheet of the parent entity and consolidated subsidiaries

d. Investments accounted for by the equity method after the planned principal operations of the investee begin (see paragraph 835-20-55-2 for clarification of the phrase after planned principal operations begin)

e. Investments in regulated investees that are capitalizing both the cost of debt and equity capital (see paragraph 835-20-55-3 for guidance on capitalization of costs by a regulated investee)

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.

g. Inventories that are routinely manufactured or otherwise produced in large quantities on a repetitive basis.

835-20-15-**7** Accretion expense related to exit costs and asset retirement obligations shall not be considered to be interest cost for purposes of applying this Subtopic. See Topic 420 or Subtopic 410-20 for guidance on those areas. The interest cost component of net periodic pension cost shall not be considered to be interest for purposes of applying this Subtopic. See Subtopic 715-30 for guidance.

Capitalization of Land Expenditures

835-20-15-**8** 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.

835-20-**20 - Glossary**

> **General Note:** The Master Glossary contains all terms identified as glossary terms throughout the Codification. Clicking on any term in the Master Glossary will display where the term is used. The Master Glossary may contain identical terms with different definitions, some of which may not be appropriate for a particular Subtopic. For any particular Subtopic, users should only use the glossary terms included in the particular Subtopic Glossary Section (Section 20).

Activities

The term activities is to be construed broadly. It encompasses physical construction of the asset. In addition, 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 also includes activities undertaken after construction has begun in order to overcome unforeseen obstacles, such as technical problems, labor disputes, or litigation.

Capitalization Rate

Rate used to determine amount of interest to be capitalized in an accounting period.

Contract

An agreement between two or more parties that creates enforceable rights and obligations.

Expenditures

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).

Finance Lease

From the perspective of a lease that meets one or more of the criteria in paragraph 842-10-25-2.

Intended Use

Intended use of an asset embraces both readiness for use and readiness for sale, depending on the purpose of acquisition.

Interest Cost

Interest cost includes interest recognized on obligations having explicit interest rates, interest imputed on certain types of payables in accordance with Subtopic 835-30, and interest related to a 842. With respect to obligations having explicit interest rates, interest cost includes amounts resulting from periodic amortization of discount or premium and issue costs on debt.

Lease

A contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration.

Lessee

An entity that enters into a contract to obtain the right to use an underlying asset for a period of time in exchange for consideration.

Underlying Asset

An asset that is the subject of a lease for which a right to use that asset has been conveyed to a lessee. The underlying asset could be a physically distinct portion of a single asset.

835-20-**25 - Recognition**

> **General Note:** The Recognition Section provides guidance on the required criteria, timing, and location (within the financial statements) for recording a particular item in the financial statements. Disclosure is not recognition.

General

835-20-25-**1** This Section provides guidance on the capitalization period over which capitalizable interest costs are required to be recognized. See Section 835-20-30 for guidance on the amount of interest costs that is capitalizable as part of the initial investment in an asset.

The Capitalization Period

835-20-25-**2** The capitalization period is determined by the definition of the circumstances in which interest is capitalizable. Essentially, the capitalization period covers the duration of the activities required to get the asset ready for its intended use, provided that expenditures for the asset have been made and interest cost is being incurred. Interest capitalization continues as long as those activities and the incurrence of interest cost continue.

835-20-25-**3** The capitalization period shall begin when the following three conditions are present:

a. Expenditures 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.

835-20-25-**4** If the entity 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.

835-20-25-**5** The capitalization period shall end when the asset is substantially complete and ready for its intended use. Consider the capitalization period that is appropriate in each of the following examples:

a. 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.

b. 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.

c. 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.

835-20-25-**6** With respect to the requirement that the capitalization period ends when the asset is substantially complete and ready for its intended use, the words substantially complete prohibit continuation of interest capitalization in situations in which completion of the asset is intentionally delayed. For example, it is customary for a condominium developer to defer installation of certain fixtures and fittings until units are sold, so that buyers may choose the types and colors they want. An intentional delay of that kind is related more to marketing of the asset than to the exigencies of the asset acquisition process. Similarly, interest is not to be capitalized during periods when the entity intentionally defers or suspends activities related to the asset. Interest cost incurred during such periods is a holding cost, not an acquisition cost. However, delays that are inherent in the asset acquisition process and interruptions in activities that are imposed by external forces are unavoidable in acquiring the asset and as such do not call for a cessation of interest capitalization.

835-20-25-**7** 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. See Subtopic 360-10 for guidance on recognizing impairment of long-lived assets held for use.

The Capitalization Period for Assets Financed with Tax-Exempt Borrowings

835-20-25-**8** In situations involving qualifying assets financed with the proceeds of tax-exempt borrowings that are externally restricted as specified in this Subtopic, the capitalization period begins at the date of the borrowing.

835-20-**30 - Initial Measurement**

> **General Note:** The Initial Measurement Section provides guidance on the criteria and amounts used to measure a particular item at the date of initial recognition.

General

835-20-30-**1** This Section addresses the amount of interest cost to be capitalized as part of the initial investment in an asset.

The Amount of Interest Cost to Be Capitalized

835-20-30-**2** 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. The notion of interest on borrowings as an avoidable cost does not require that the practicability of repaying individual borrowings be considered.

835-20-30-**3** The amount capitalized in an accounting period shall be determined by applying 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 entity's financing plans associate a specific new borrowing with a qualifying asset, the entity 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 entity.

835-20-30-**4** 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, depending on the facts and circumstances, it may be appropriate to include all borrowings of the parent entity and its consolidated subsidiaries or to include only the borrowings of the corporate entity constructing the qualifying asset. For some multinational entities, 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.

835-20-30-**5** 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. Capitalized asset retirement costs do not qualify as expenditures. See Subtopic 410-20 for guidance on asset retirement obligations.

835-20-30-**6** The total amount of interest cost capitalized in an accounting period shall not exceed the total amount of interest cost incurred by the entity 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 entity and consolidated subsidiaries on a consolidated basis. In any separately issued financial statements of a parent entity 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 intra-entity borrowings) incurred by the separate entity.

835-20-30-**7** Subtopic 815-25 addresses the effect of derivative gains and losses on the capitalization of interest under this Subtopic. See paragraphs 815-25-35-14 and 815-25-55-52 for guidance on the appropriate interest rate to be used in capitalizing interest related to fixed-rate debt designated as the hedged item in a fair value hedge. See paragraph 815-30-35-45 for guidance on reclassifying amounts in accumulated comprehensive income related to a cash flow hedge of the variability of interest when the variable-rate interest on a specific borrowing is associated with an asset under construction and capitalized as a cost of that asset.

The Amount of Interest Cost to Be Capitalized in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants

835-20-30-**8** 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 paragraphs 835-20-30-10 through 30-12.

835-20-30-**9** The timing and use of tax-exempt borrowings are generally an integral part of the decision to acquire the related asset, and the net interest cost from the date of borrowing to the time the acquired asset is substantially complete and ready for its intended use is an essential part of the cost of acquiring that asset.

835-20-30-**10** 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. 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. 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. In all other situations, offsetting of interest income against interest cost is not appropriate.

835-20-30-**11** The amount of interest cost capitalized on qualifying assets acquired with proceeds of tax-exempt borrowings that are externally restricted as specified in the preceding paragraph 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 borrowings from the date of the borrowing until the assets are ready for their intended use. 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.

835-20-30-**12** 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. 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.
See Example 1 (paragraph 835-20-55-4) for an illustration of this guidance.

835-20-**35 - Subsequent Measurement**

> **General Note:** The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, credit losses, fair value adjustments, depreciation and amortization, and so forth.

General

835-20-35-**1** This Section addresses the accounting for capitalized interest subsequent to the initial measurement of the related asset.

Amortization of Capitalized Interest on an Equity Method Investment

835-20-35-**2** This Subtopic requires capitalization of interest cost on an investment accounted for by the equity method that has not begun its planned principal operations 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. Under those circumstances, capitalized interest cost may be associated with the estimated useful lives of the investee's assets and amortized over the same period as those assets. Interest capitalized on the investments accounted for by the equity method is amortized consistent with paragraph 323-10-35-13.

Compounding of Interest

835-20-35-**3** This paragraph addresses whether capitalized interest should be compounded. The compounding of capitalized interest is conceptually consistent with the conclusion that interest on expenditures for the asset is a cost of acquiring the asset. While some portion of the interest incurred during an accounting period may be unpaid at the end of the period, that complication usually may be ignored to simplify practical application.

835-20-**40 - Derecognition**

> **General Note:** The Derecognition Section provides guidance on determining whether and when an entity should remove an item from the financial statements. For example, the entity would derecognize an asset because it no longer has rights to the asset or it would derecognize a liability because it no longer has any obligation.

General

835-20-40-**1** Interest cost is an integral part of the total cost of acquiring a qualifying asset. Therefore, its disposition shall be the same as the disposition of other components of asset cost.

835-20-40-**2** Interest capitalized on an investment accounted for by the equity method shall be accounted for in accordance with paragraph 323-10-35-13.

835-20-**50 - Disclosure**

> **General Note:** The Disclosure Section provides guidance regarding the disclosure in the notes to financial statements. In some cases, disclosure may relate to disclosure on the face of the financial statements.

General

835-20-50-**1** An entity shall disclose the following information with respect to interest cost 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.

835-20-**55 - Implementation Guidance and Illustrations**

> **General Note:** The Implementation Guidance and Illustrations Section contains implementation guidance and illustrations that are an integral part of the Subtopic. The implementation guidance and illustrations do not address all possible variations. Users must consider carefully the actual facts and circumstances in relation to the requirements of the Subtopic.

General

Implementation Guidance

835-20-55-**1** The following provides implementation guidance related to the application of the scope guidance in paragraph 835-20-15-6(d) through (e).

Clarification of the Phrase When Planned Principal Operations Begin

835-20-55-**2** This paragraph provides clarification of the phrase when planned principal operations begin (in paragraph 835-20-15-6(d)) to be able to determine when the investment in the investee that is the qualifying asset is ready for its intended use and interest capitalization ceases. Planned principal operations may not have commenced if the entity is devoting substantially all of its efforts to establishing a new business through activities such as the following:

a. Financial planning

b. Raising capital

c. Exploring for natural resources

d. Developing natural resources

e. Research and development

f. Establishing sources of supply

g. Acquiring property, plant, and equipment or other operating assets, such as mineral rights

h. Recruiting and training personnel

i. Developing markets

j. Starting up production.

Capitalization of Interest Cost by a Regulated Investee

835-20-55-**3** This paragraph elaborates on the guidance in paragraph 835-20-15-6(e) regarding an investment by an investor in a regulated investee that is accounted for by the equity method while the investee is constructing qualifying assets. Paragraphs 980-835-25-1, 980-835-30-1, and 980-835-35-1 address how a regulated investee capitalizes both a cost of debt and a cost of equity capital during its construction period rather than the amount of interest that it would capitalize in accordance with this Subtopic. That method imputes a cost to the investee's equity capital and recognizes that cost as part of the carrying amount of the asset under construction and as current earnings of the investee. Since the investor, by recognizing its equity in the investee's current earnings, includes its prorated share of that imputed cost in the carrying amount of its investment and in its current earnings, the investor should not capitalize an additional cost.

Illustrations

Example 1: Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants

835-20-55-**4** This Example illustrates the application of the guidance in this Subtopic related to capitalization of interest cost in situations involving certain tax-exempt borrowings and certain gifts and grants (see paragraphs 835-20-30-10 through 30-12).

a. Entity A is committed to construct a project at a cost of $10 million. The project is to be financed from three sources:

   1. $4 million government grant restricted to use for the specified construction project, payable $1 million per year

   2. $4 million tax-exempt borrowing at an interest rate of 8 percent ($320,000 per year)

   3. $2 million from operations.

b. Entity A has $10 million in other borrowings that are outstanding throughout the construction of the project. The interest rate on those borrowings is 6 percent. Other qualifying assets of the entity never exceed $5 million during the construction of the project.

c. The proceeds from the borrowing and the initial phase of the grant are received 1 year in advance of starting construction on the project and are temporarily invested in interest-bearing investments yielding 12 percent. Interest income earned from temporary investments is not reinvested.

d. The project will take four years after start of construction to complete.

e. The following table sets forth the amount of interest to be capitalized as part of the entity's investment in the project.

	Year				
	19X1	19X2	19X3	19X4	19X5
	(amounts in thousands)				
(1) Assumed average qualifying assets	$ -	$ 2,000	$ 5,000	$ 8,000	$ 9,000
(2) Average funding received					
Borrowing	4,000	4,000	4,000	4,000	4,000
Grant	1,000	2,000	3,000	4,000	4,000
(3) Average temporary investments [(2) – (1), not less than zero] [(a)]					
Borrowing	4,000	3,000	1,000	-	-
Grant	1,000	1,000	1,000	-	-
(4) Interest earned [(3) x 12 percent]					
(a) Borrowing	480	360	120	-	-
(b) Grant	120	120	120	-	-
(5) Average qualifying assets in excess of borrowing, grant,and interest earned on grant [(b)]	-	-	-	-	640
(6) Interest cost capitalized—other borrowings [(5) x 6 percent]	-	-	-	-	38
(7) Interest cost—tax-exempt borrowings	320	320	320	320	320
(8) Interest capitalized [(6) + (7) – (4)(a)] [(c)]	(160)	(40)	200	320	358

(a) Balances of unexpended borrowings and unexpended grants can vary depending on the source from which the entity elects to disburse funds.

(b) That is, (1) average qualifying assets minus the sum of [(2) average funding received plus (4)(b) cumulative interest earned on grant], not less than zero.

(c) Note that amounts in parentheses are reductions in the cost of the asset.

f. Over the course of construction, the net cost of financing is $678,000, the sum of the interest capitalized for the five years. Accordingly, Entity A's total net investment in the project will be $10,678,000.

835-20-**60 - Relationships**

> **General Note:** The Relationships Section contains links to guidance that may be helpful to, but not required by, a user of the Subtopic. This Section may not be all-inclusive. The relationship items are organized according to the Topic structure in the Codification.

General

Accounting Changes and Error Corrections

835-20-60-**1** For guidance on reporting for previously capitalized interest cost when an accounting change results in financial statements that are, in effect, the statements of a different reporting entity, see Subtopic 250-10.

Debt

835-20-60-**2** For guidance on the capitalization of interest recognized for a participating mortgage loan, see Subtopic 470-30.

Extractive Activities-Oil and Gas

835-20-60-**3** For guidance for when capitalization of interest cost is permitted in oil- and gas-producing operations, see Subtopic 932-835.

835-**30 - Imputation of Interest**

835-30-**00 - Status**

> **General Note:** The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

835-30-00-**1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Contract	Superseded	Accounting Standards Update No. 2020-10	10/29/2020
Contract	Added	Accounting Standards Update No.	05/28/2014

		2014-09	
Contract Asset	Added	Accounting Standards Update No. 2014-09	05/28/2014
Contract Liability	Added	Accounting Standards Update No. 2014-09	05/28/2014
Customer(1st def.)	Superseded	Accounting Standards Update No. 2020-10	10/29/2020
Customer	Added	Accounting Standards Update No. 2014-09	05/28/2014
Fair Value (3rd def.)	Added	Accounting Standards Update No. 2012-04	10/01/2012
Public Business Entity	Amended	Maintenance Update 2017-06	04/07/2017
Public Business Entity	Amended	Maintenance Update 2016-11	06/27/2016
Public Business Entity	Added	Accounting Standards Update No. 2015-03	04/07/2015
835-30-05-2	Amended	Accounting Standards Update No. 2012-04	10/01/2012
835-30-15-3	Amended	Accounting Standards Update No. 2020-10	10/29/2020
835-30-15-3	Amended	Accounting Standards Update No. 2014-09	05/28/2014
835-30-15-4	Amended	Accounting Standards Update No. 2020-06	08/05/2020
835-30-25-2	Amended	Accounting Standards Update No. 2012-04	10/01/2012
835-30-25-5	Amended	Accounting Standards Update No. 2012-04	10/01/2012
835-30-25-10	Amended	Accounting Standards Update No. 2012-04	10/01/2012
835-30-25-11	Amended	Accounting Standards Update No. 2012-04	10/01/2012
835-30-45-1	Amended	Accounting Standards Update No. 2015-03	04/07/2015
835-30-45-1A	Amended	Accounting Standards Update No. 2015-03	04/07/2015
835-30-45-2	Amended	Accounting Standards Update No. 2020-10	10/29/2020
835-30-45-3	Amended	Accounting Standards Update No. 2015-03	04/07/2015
835-30-45-4	Amended	Accounting Standards Update No. 2015-03	04/07/2015
835-30-50-1	Added	Accounting Standards Update No. 2020-10	10/29/2020
835-30-55-8	Amended	Accounting Standards Update No. 2015-03	04/07/2015
835-30-65-1	Added	Accounting Standards Update No. 2015-03	04/07/2015

835-30-**05 - Overview and Background**

> **General Note:** The Overview and Background Section provides overview and background material for the guidance contained in the Subtopic. It does not provide the historical background or due process. It may contain certain material that users generally consider useful to understand the typical situations addressed by the standards. The Section does not summarize the accounting and reporting requirements.

General

835-30-05-**1** This Subtopic addresses the imputation of interest.

835-30-05-**2** Business transactions often involve the exchange of cash or property, goods, or service for a note or similar instrument. When a note is exchanged for property, goods, or service in a bargained transaction entered into at arm's length, there should be a general presumption that the rate of interest stipulated by the parties to the transaction represents fair and adequate compensation to the supplier for the use of the related funds. That presumption, however, must not permit the form of the transaction to prevail over its economic substance and thus would not apply if interest is not stated, the stated interest rate is unreasonable, or the stated face amount of the note is materially different from the current cash sales price for the same or similar items or from the fair value of the note at the date of the transaction. The use of an interest rate that varies from prevailing interest rates warrants evaluation of whether the face amount and the stated interest rate of a note or obligation provide reliable evidence for properly recording the exchange and subsequent related interest.

835-30-05-**3** This Subtopic provides guidance for the appropriate accounting when the face amount of a note does not reasonably represent the present value of the consideration given or received in the exchange. This circumstance may arise if the note is non-interest-bearing or has a stated interest rate that is different from the rate of interest appropriate for the debt at the date of the transaction. Unless the note is recorded at its present value in this circumstance, the sales price and profit to a seller in the year of the transaction and the purchase price and cost to the buyer are misstated, and interest income and interest expense in subsequent periods are also misstated.

835-30-**10 - Objectives**

> **General Note:** The Objectives Section provides the high-level objectives that the Subtopic is intended to accomplish or attain. The Section does not summarize or discuss the main principles of accounting and reporting requirements.

General

835-30-10-**1** The objective of the guidance in this Subtopic is to approximate the rate for a note that would have resulted if an independent borrower and an independent lender had negotiated a similar transaction under comparable terms and conditions with the option to pay the cash price upon purchase or to give a note for the amount of the purchase that bears the prevailing rate of interest to maturity.

835-30-**15 - Scope and Scope Exceptions**

> **General Note:** The Scope and Scope Exceptions Section outlines the items (for example, the entities, transactions, instruments, or events) to which the guidance in the Subtopic does or does not apply. In some cases, the Section may contain definitional or other text to frame the scope.

General

Entities

835-30-15-**1** The guidance in this Subtopic applies to all entities. Specific guidance applies to finance companies, including finance company subsidiaries, and other entities that engage in transactions that involve lending to or financing the activities of others. For such entities, transactions in which captive finance companies offer favorable financing to increase sales of related entities are included in the scope of this Subtopic.

Instruments

835-30-15-**2** The guidance in this Subtopic applies to receivables and payables that represent contractual rights to receive money or contractual obligations to pay money on fixed or determinable dates, whether or not there is any stated provision for interest, with certain exceptions noted below. Such receivables and payables are collectively referred to in this Subtopic as notes. Some examples are the following:

a. Secured and unsecured notes

b. Debentures

c. Bonds

d. Mortgage notes

e. Equipment obligations

f. Some accounts receivable and payable.

835-30-15-**3** With the exception of guidance in paragraphs 835-30-45-1A through 45-3 addressing the presentation of discount and premium in the financial statements, which is applicable in all circumstances, and the guidance in paragraphs 835-30-55-2 through 55-3 regarding the application of the interest method, the guidance in this Subtopic does not apply to the following:

a. Payables arising from transactions with suppliers in the normal course of business that are due in customary trade terms not exceeding approximately one year

b. Amounts that do not require repayment in the future, but rather will be applied to the purchase price of the property, goods, or service involved; for example, deposits or progress payments on construction contracts, advance payments for acquisition of resources and raw materials, advances to encourage exploration in the extractive industries (see paragraph 932-835-25-2)

c. Amounts intended to provide security for one party to an agreement (for example, security deposits, retainages on contracts)

d. The customary cash lending activities and demand or savings deposit activities of financial institutions whose primary business is lending money

e. Transactions where interest rates are affected by the tax attributes or legal restrictions prescribed by a governmental agency (for example, industrial revenue bonds, tax exempt obligations, government guaranteed obligations, income tax settlements)

f. Transactions between parent and subsidiary entities and between subsidiaries of a common parent

g. The application of the present value measurement (valuation) technique to estimates of contractual or other obligations assumed in connection with sales of property, goods, or service, for example, a warranty for product performance

h. Receivables, contract assets, and contract liabilities in contracts with customers, see paragraphs 606-10-32-15 through 32-20 for guidance on identifying a significant financing component in a contract with a customer.

Other Considerations

835-30-15-**4** This Subtopic does not modify the following accounting guidance addressed in other Topics:

a. The accounting for convertible debt securities described in Subtopic 470-20

b. The guidance that deferred income taxes should not be accounted for on a discounted (present value) basis in Subtopic 740-10.

PENDING CONTENT

Transition Date: (P) December 16, 2021; (N) December 16, 2023 **- Transition Guidance :** 815-40-65-1This Subtopic does not modify the following accounting guidance addressed in other Topics:

a. Subparagraph superseded by Accounting Standards Update No. 2020-06.

b. The guidance that deferred income taxes should not be accounted for on a discounted (present value) basis in Subtopic 740-10.

835-30-**20 - Glossary**

General Note: The Master Glossary contains all terms identified as glossary terms throughout the Codification. Clicking on any term in the Master Glossary will display where the term is used. The Master Glossary may contain identical terms with different definitions, some of which may not be appropriate for a particular Subtopic. For any particular Subtopic, users should only use the glossary terms included in the particular Subtopic Glossary Section (Section 20).

Contract

An agreement between two or more parties that creates enforceable rights and obligations.

Contract Asset

An entity's right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the entity's future performance).

Contract Liability

An entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or the amount is due) from the customer.

Customer

A party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.

Discount

The difference between the net proceeds, after expense, received upon issuance of debt and the amount repayable at its maturity. See Premium.

Fair Value

The price that would be received to sell an asset or paid to transfer a liability in an market participants at the measurement date.

Imputed Interest Rate

The interest rate that results from a process of approximation (or imputation) required when the present value of a note must be estimated because an established exchange price is not determinable and the note has no ready market.

Interest Method

The method used to arrive at a periodic interest cost (including amortization) that will represent a level effective rate on the sum of the face amount of the debt and (plus or minus) the unamortized premium or discount and expense at the beginning of each period.

Market Participants

Buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics:

a. They are independent of each other, that is, they are not related parties, although the price in a related-party transaction may be used as an input to a fair value measurement if the reporting entity has evidence that the transaction was entered into at market terms

b. They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary

c. They are able to enter into a transaction for the asset or liability

d. They are willing to enter into a transaction for the asset or liability, that is, they are motivated but not forced or otherwise compelled to do so.

Not-for-Profit Entity

An entity that possesses the following characteristics, in varying degrees, that distinguish it from a business entity:

a. Contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return

b. Operating purposes other than to provide goods or services at a profit

c. Absence of ownership interests like those of business entities.

Entities that clearly fall outside this definition include the following:

a. All investor-owned entities

b. Entities that provide dividends, lower costs, or other economic benefits directly and proportionately to their owners, members, or participants, such as mutual insurance entities, credit unions, farm and rural electric cooperatives, and employee benefit plans.

Orderly Transaction

A transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (for example, a forced liquidation or distress sale).

Premium

The excess of the net proceeds, after expense, received upon issuance of debt over the amount repayable at its maturity. See Discount.

Public Business Entity

A public business entity is a business entity meeting any one of the criteria below. Neither a not-for-profit entity nor an employee benefit plan is a business entity.

a. It is required by the U.S. Securities and Exchange Commission (SEC) to file or furnish financial statements, or does file or furnish financial statements (including voluntary filers), with the SEC (including other entities whose financial statements or financial information are required to be or are included in a filing).

b. It is required by the Securities Exchange Act of 1934 (the Act), as amended, or rules or regulations promulgated under the Act, to file or furnish financial statements with a regulatory agency other than the SEC.

c. It is required to file or furnish financial statements with a foreign or domestic regulatory agency in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer.

d. It has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market.

e. It has one or more securities that are not subject to contractual restrictions on transfer, and it is required by law, contract, or regulation to prepare U.S. GAAP financial statements (including notes) and make them publicly available on a periodic basis (for example, interim or annual periods). An entity must meet both of these conditions to meet this criterion.

An entity may meet the definition of a public business entity solely because its financial statements or financial information is included in another entity's filing with the SEC. In that case, the entity is only a public business entity for purposes of financial statements that are filed or furnished with the SEC.

Related Parties

Related parties include:

a. Affiliates of the entity

b. Entities for which investments in their equity securities would be required, absent the election of the fair value option under the Fair Value Option Subsection of Section 825-10-15, to be accounted for by the equity method by the investing entity

c. Trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management

d. Principal owners of the entity and members of their immediate families

e. Management of the entity and members of their immediate families

f. Other parties with which the entity may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests

g. Other parties that can significantly influence the management or operating policies of the transacting parties or that have an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

Security

A share, participation, or other interest in property or in an entity of the issuer or an obligation of the issuer that has all of the following characteristics:

a. It is either represented by an instrument issued in bearer or registered form or, if not represented by an instrument, is registered in books maintained to record transfers by or on behalf of the issuer.

b. It is of a type commonly dealt in on securities exchanges or markets or, when represented by an instrument, is commonly recognized in any area in which it is issued or dealt in as a medium for investment.

c. It either is one of a class or series or by its terms is divisible into a class or series of shares, participations, interests, or obligations.

835-30-**25** - Recognition

> **General Note:** The Recognition Section provides guidance on the required criteria, timing, and location (within the financial statements) for recording a particular item in the financial statements. Disclosure is not recognition.

General

835-30-25-**1** This Section provides guidance on the imputation of interest.

Imputation of Interest

835-30-25-**2** If determinable, the established exchange price (which, presumably, is the same as the price for a cash sale) of property, goods, or service acquired or sold in consideration for a note may be used to establish the present value of the note. When notes are traded in an open market, the market rate of interest and quoted prices of the notes provide the evidence of the present value. These methods are preferable means of establishing the present value of the note.

835-30-25-**3** If an established exchange price is not determinable and if the note has no ready market, the problem of determining present value is more difficult. To estimate the present value of a note under such circumstances, an applicable interest rate is approximated that may differ from the stated or coupon rate. This process of approximation is called imputation, and the resulting rate is called an imputed interest rate. Nonrecognition of an apparently small difference between the stated rate of interest and the applicable current rate may have a material effect on the financial statements if the face amount of the note is large and its term is relatively long.

Notes Exchanged for Cash or for Cash and Rights or Privileges

835-30-25-**4** When a note is received or issued solely for cash and no other right or privilege is exchanged, it is presumed to have a present value at issuance measured by the cash proceeds exchanged. If cash and some other rights or privileges are exchanged for a note, the value of the rights or privileges shall be given accounting recognition as described in paragraph 835-30-25-6.

835-30-25-**5** The total amount of interest during the entire period of a cash loan is generally measured by the difference between the actual amount of cash received by the borrower and the total amount agreed to be repaid to the lender. The difference between the face amount and the proceeds upon issuance is shown as either discount or premium. For example, if a bond is issued at a discount or premium, such discount or premium is recognized in accounting for the original issue. The coupon or stated interest rate is not regarded as the effective yield or market rate. Moreover, if a long-term non-interest-bearing note or bond is issued, its net proceeds are less than face amount and an effective interest rate is based on its fair value upon issuance.

835-30-25-**6** A note issued solely for cash equal to its face amount is presumed to earn the stated rate of interest. However, in some cases the parties may also exchange unstated (or stated) rights or privileges, which are given accounting recognition by establishing a note discount or premium account. In such instances, the effective interest rate differs from the stated rate. For example, an entity may lend a supplier cash that is to be repaid five years hence with no stated interest. Such a non-interest-bearing loan may be partial consideration under a purchase contract for supplier products at lower than the prevailing market prices. In this circumstance, the difference between the present value of the receivable and the cash loaned to the supplier is appropriately regarded as an addition to the cost of products purchased during the contract term. The note discount shall be amortized as interest income over the five-year life of the note, as required by Section 835-30-35.

Note Exchanged for Property, Goods, or Services

835-30-25-**7** A note exchanged for property, goods, or service represents the following two elements, which may or may not be stipulated in the note:

a. The principal amount, equivalent to the bargained exchange price of the property, goods, or service as established between the supplier and the purchaser

b. An interest factor to compensate the supplier over the life of the note for the use of funds that would have been received in a cash transaction at the time of the exchange.

835-30-25-**8** Notes exchanged for property, goods, or services are valued and accounted for at the present value of the consideration exchanged between the contracting parties at the date of the transaction in a manner similar to that followed for a cash transaction.

835-30-25-**9** The difference between the face amount and the present value upon issuance is shown as either discount or premium.

835-30-25-**10** In circumstances where interest is not stated, the stated amount is unreasonable, or the stated face amount of the note is materially different from the current cash sales price for the same or similar items or from the fair value of the note at the date of the transaction, the note, the sales price, and the cost of the property, goods, or service exchanged for the note shall be recorded at the fair value of the property, goods, or service or at an amount that reasonably approximates the fair value of the note, whichever is the more clearly determinable. That amount may or may not be the same as its face amount, and any resulting discount or premium shall be accounted for as an element of interest over the life of the note.

835-30-25-**11** In the absence of established exchange prices for the related property, goods, or service or evidence of the fair value of the note (as described in paragraph 835-30-25-2), the present value of a note that stipulates either no interest or a rate of interest that is clearly unreasonable shall be determined by discounting all future payments on the notes using an imputed rate of interest. This determination shall be made at the time the note is issued, assumed, or acquired; any subsequent changes in prevailing interest rates shall be ignored.

Determining an Appropriate Interest Rate

835-30-25-**12** Paragraph 835-30-10-1 identifies the objective of the guidance in this Subtopic for approximating an interest rate. The variety of transactions encountered precludes any specific interest rate from being applicable in all circumstances. However, this paragraph provides the following general guidelines:

a. The choice of a rate may be affected by the credit standing of the issuer, restrictive covenants, the collateral, payment and other terms pertaining to the debt, and, if appropriate, the tax consequences to the buyer and seller.

b. The prevailing rates for similar instruments of issuers with similar credit ratings will normally help determine the appropriate interest rate for determining the present value of a specific note at its date of issuance.

c. In any event, the rate used for valuation purposes shall be the rate at which the debtor can obtain financing of a similar nature from other sources at the date of the transaction.

835-30-25-**13** The selection of a rate may be affected by many considerations. For instance, where applicable, the choice of a rate may be influenced by the following:

a. An approximation of the prevailing market rates for the source of credit that would provide a market for sale or assignment of the note

b. The prime or higher rate for notes that are discounted with banks, giving due weight to the credit standing of the maker

c. Published market rates for similar-quality bonds

d. Current rates for debentures with substantially identical terms and risks that are traded in open markets

e. The current rate charged by investors for first or second mortgage loans on similar property.

835-30-**35 - Subsequent Measurement**

> **General Note:** The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, credit losses, fair value adjustments, depreciation and amortization, and so forth.

General

835-30-35-**1** This Section provides guidance for the measurement of interest income or expense over the term of a note.

The Interest Method

835-30-35-**2** With respect to a note for which the imputation of interest is required, the difference between the present value and the face amount shall be treated as discount or premium and amortized as interest expense or income over the life of the note in such a way as to result in a constant rate of interest when applied to the amount outstanding at the beginning of any given period. This is the interest method.

835-30-35-**3** The difference between the periodic interest cost so calculated using the interest method and the nominal interest on the outstanding amount of the debt is the amount of periodic amortization.

Other Methods of Amortization

835-30-35-**4** Other methods of amortization may be used if the results obtained are not materially different from those that would result from the interest method.

Eligibility for Interest Capitalization

835-30-35-**5** The amount chargeable to interest expense under the guidance in this Subtopic is eligible for inclusion in the amount of interest cost capitalized in accordance with Subtopic 835-20.

835-30-**45 - Other Presentation Matters**

> **General Note:** The Other Presentation Matters Section provides guidance on other presentation matters not addressed in the Recognition, Initial Measurement, Subsequent Measurement, and Derecognition Sections. Other presentation matters may include items such as current or long-term balance sheet classification, cash flow presentation, earnings per share matters, and so forth. The FASB Codification also contains Presentation Topics, which provide guidance for general presentation and display items. See those Topics for general guidance.

General

835-30-45-**1** The guidance in this Section does not apply to the amortization of premium and discount of assets and liabilities that are reported at fair value and the debt issuance costs of liabilities that are reported at fair value.

835-30-45-**1A** The discount or premium resulting from the determination of present value in cash or noncash transactions is not an asset or liability separable from the note that gives rise to it. Therefore, the discount or premium shall be reported in the balance sheet as a direct deduction from or addition to the face amount of the note. Similarly, debt issuance costs related to a note shall be reported in the balance sheet as a direct deduction from the face amount of that note. The discount, premium, or debt issuance costs shall not be classified as a deferred charge or deferred credit.

835-30-45-**2** Paragraph 835-30-45-1A provides requirements for the balance sheet presentation for the discount or premium and debt issuance costs of a note. The description of the note shall include the effective interest rate. The face amount of the note also shall be presented in the financial statements or disclosed in the notes to financial statements. (See paragraph 835-30-50-1.)

835-30-45-**3** Amortization of discount or premium shall be reported as interest expense in the case of liabilities or as interest income in the case of assets. Amortization of debt issuance costs also shall be reported as interest expense.

835-30-45-**4** See Example 2 (paragraph 835-30-55-8) for illustrations of balance sheet presentation of a discount and debt issuance costs on a note.

835-30-**50 - Disclosure**

> **General Note:** The Disclosure Section provides guidance regarding the disclosure in the notes to financial statements. In some cases, disclosure may relate to disclosure on the face of the financial statements.

General

835-30-50-**1** Paragraph 835-30-45-1A provides requirements for the balance sheet presentation for the discount or premium and debt issuance costs of a note. The description of the note shall include the effective interest rate. The face amount of the note also shall be presented in the financial statements or disclosed in the notes to financial statements. (See paragraph 835-30-45-2.)

835-30-**55 - Implementation Guidance and Illustrations**

> **General Note:** The Implementation Guidance and Illustrations Section contains implementation guidance and illustrations that are an integral part of the Subtopic. The implementation guidance and illustrations do not address all possible variations. Users must consider carefully the actual facts and circumstances in relation to the requirements of the Subtopic.

General

Implementation Guidance

Application of the Interest Method

835-30-55-**1** The guidance in the following paragraphs is not subject to the scope limitation in paragraph 835-30-15-3(b).

835-30-55-**2** Generally accepted accounting principles (GAAP) require use of the interest method. There is no basis for using an alternative to the interest method except if the results of alternative methods do not differ materially from those obtained by using the interest method. Therefore, methods other than the interest method, such as the rule of 78s, sum of the years' digits, and straight-line methods shall not be used if their results materially differ from the interest method.

835-30-55-**3** The interest method produces periodic interest income at a constant effective yield on a loan; therefore, in a lending arrangement in which interest collected in earlier periods will be greater than that computed using the interest method, the excess interest collected shall be deferred and recognized as interest income in later periods so as to produce a constant yield. For example, the interest method would be applied in this way to loans for which interest is collected by the sum of the years' digits method.

Illustrations

Example 1: Illustration of Present Value Concepts

835-30-55-**4** This Example illustrates the guidance in paragraphs 835-30-05-2, 835-30-25-3 through 25-4, and 835-30-25-10 through 25-11 that the coupon or stated rate of interest and the face amount of a note or bond may not be the appropriate bases for valuation. The presumption that market values provide the evidence for valuation must be overcome before using coupon or stated rates and face or maturity amounts as the bases for accounting.

835-30-55-**5** Upon issuance of a note or bond, the issuer customarily records as a liability the face or principal amount of the obligation. Ordinarily, the recorded liability also represents the amount that is to be repaid upon maturity of the obligation. The value recorded in the liability account, however, may be different from the proceeds received or the present value of the obligation at issuance if the market rate of interest differs from the coupon rate of interest. For example, consider the issuance of a $1,000, 20-year bond that bears interest at 10% annually. If we assume that 10% is an appropriate market rate of interest for such a bond, the proceeds at issuance will be $1,000. The bond payable would be recorded at $1,000, which represents the amount repayable at maturity and also the present value at issuance, which is equal to the proceeds. However, under similar circumstances, if the prevailing market rate were more (less) than 10%, a 20-year 10% bond with a face amount of $1,000 would usually have a value at issuance and provide cash proceeds of less (more) than $1,000. The significant point is that, upon issuance, a bond is valued at the present value of the future coupon interest payments plus the present value of the future principal payments (face amount). These two sets of future cash payments are discounted at the prevailing market rate of interest (for an equivalent security) at the date of issuance of the debt. As the 8% and 12% columns show, premium or discount arises when the prevailing market rate of interest differs from the coupon rate.

	Assume prevailing market rate of		
	10%	8%	12%
1. Present value of annual interest payments of $100 (the coupon rate of 10% of $1,000) for 20 years	$ 851	$ 982	$ 747
2. Present value of payment of the face amount of $1,000 at the end of Year 20	149	215	104
Present value and proceeds at date of issuance	$ 1,000	$ 1,197	$ 851

835-30-55-**6** In the case of a $1,000 non-interest-bearing 20-year note, where the prevailing market rate for comparable credit risks is 10%, the following valuation should be made.

1. Present value of no annual interest payments	$ -
2. Present value of payment of the face amount of $1,000 at the end of Year 20	149
Present value and proceeds at date of issuance	$ 149

835-30-55-**7** Comparison of the two tables shows the significant impact of interest.

Example 2: Balance Sheet Presentation of Discounted Notes

835-30-55-**8** This Example is an illustration of the guidance in paragraphs 835-30-45-1 through 45-3 related to the balance sheet presentation of notes that are discounted.

	December 31 20X2	December 31 20X1
Presentation 1—Discount presented in caption		
NOTE RECEIVABLE FROM SALE OF PROPERTY:		
$1,000,000 face amount, noninterest bearing, due December 31, 20X9 (less unamortized discount based on imputed interest rate of 8%—20X2, $320,000; 20X1, $370,000)	$ 680,000	$ 630,000
Presentation 2—Discount presented separately		
NOTE RECEIVABLE FROM SALE OF PROPERTY:		
Noninterest bearing note due December 31, 20X9	$ 1,000,000	$ 1,000,000
Less unamortized discount based on imputed interest rate of 8%	320,000	370,000
Note receivable less unamortized discount	$ 680,000	$ 630,000
Presentation 3—Several notes involved		
LONG-TERM DEBT (Note 1):		
Principal amount	$ 24,200,000	$ 24,200,000
Less unamortized discount and debt issuance costs	2,680,000	2,792,000
Long-term debt less unamortized discount and debt issuance costs	$ 21,520,000	$ 21,408,000

Note 1—Long-Term Debt
Long-term debt at December 31, 20X2, consisted of the following:

	Principal	Unamortized Discount and Debt Issuance Costs
6% subordinated debentures, due 20X9 (discount is based on imputed interest rate of 7%)	$ 20,000,000	$ 2,150,000
6 1/2% bank loan, due 20X7	3,000,000	120,000
Noninterest bearing note issued in connection with acquisition of property, due 20X9 (discount is based on imputed interest rate of 8%)	1,200,000	410,000
Total	$ 24,200,000	$ 2,680,000

835-30-**60 - Relationships**

> **General Note:** The Relationships Section contains links to guidance that may be helpful to, but not required by, a user of the Subtopic. This Section may not be all-inclusive. The relationship items are organized according to the Topic structure in the Codification.

General

Income Taxes

835-30-60-**1** For guidance on accounting for differences between the recognition for financial accounting purposes and income tax purposes of discount or premium resulting from determination of the present value of a note, see Topic 740.

835-30-**65 - Transition and Open Effective Date Information**

> **General Note:** The Transition Section contains a description of the required transition provisions and a list of the related paragraphs that have been modified. This Section will retain the transition content during the transition period. After the transition period, the transition content will be removed yet will be available in archived versions of the Section.

General

835-30-65-**1** Paragraph superseded on 10/26/2017 after the end of the transition period stated in Accounting Standards Update No. 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs.

835-30-**S00 - Status**

> **General Note:** The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

835-30-S00-**1** The following table identifies the changes made to this Subtopic.

Paragraph	**Action**	**Accounting Standards Update**	**Date**
Line-of-Credit Arrangement	Added	Accounting Standards Update No. 2015-15	08/18/2015
835-30-S35-1	Added	Accounting Standards Update No. 2015-15	08/18/2015
835-30-S45-1	Added	Accounting Standards Update No.	08/18/2015

2015-15

835-30-**S20 - Glossary**

> **General Note:** The Master Glossary contains all terms identified as glossary terms throughout the Codification. Clicking on any term in the Master Glossary will display where the term is used. The Master Glossary may contain identical terms with different definitions, some of which may not be appropriate for a particular Subtopic. For any particular Subtopic, users should only use the glossary terms included in the particular Subtopic Glossary Section (Section 20).

Line-of-Credit Arrangement

A line-of-credit or revolving-debt arrangement is an agreement that provides the borrower with the option to make multiple borrowings up to a specified maximum amount, to repay portions of previous borrowings, and to then reborrow under the same contract. Line-of-credit and revolving-debt arrangements may include both amounts drawn by the debtor (a debt instrument) and a commitment by the creditor to make additional amounts available to the debtor under predefined terms (a loan commitment).

835-30-**S35 - Subsequent Measurement**

> **General Note:** The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, credit losses, fair value adjustments, depreciation and amortization, and so forth.

General

SEC Staff Guidance

SEC Staff Announcement at Emerging Issues Task Force (EITF) Meetings

SEC Staff Announcement: Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements

835-30-S35-**1** See paragraph 835-30-S45-1, SEC Staff Announcement: Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements, for SEC Staff views on the presentation and subsequent measurement of debt issuance costs related to line-of-credit arrangements.

835-30-**S45 - Other Presentation Matters**

> **General Note:** The Other Presentation Matters Section provides guidance on other presentation matters not addressed in the Recognition, Initial Measurement, Subsequent Measurement, and Derecognition Sections. Other presentation matters may include items such as current or long-term balance sheet classification, cash flow presentation, earnings per share matters, and so forth. The FASB Codification also contains Presentation Topics, which provide guidance for general presentation and display items. See those Topics for general guidance.

General

SEC Staff Guidance

SEC Staff Announcement at Emerging Issues Task Force (EITF) Meetings

SEC Staff Announcement: Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements

835-30-S45-**1** On April 7, 2015, the FASB issued Accounting Standards Update 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, which requires entities to present debt issuance costs related to a recognized debt liability as a direct deduction from the carrying amount of that debt liability. The guidance in Update 2015-03 (see paragraph 835-30-45-1A) does not address presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements.

Given the absence of authoritative guidance within Update 2015-03 for debt issuance costs related to line-of-credit arrangements, the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement.