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LKAS 23 – Borrowing Costs

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07th August 2012

LKAS 23 Borrowing Costs – out line to the presentation

Core Principle
Scope
Definitions
Recognition
Disclosure
Transitional provisions
Application of IFRIC

Core principle

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LKAS 23 Borrowing Costs

BORROWING COSTS

Qualifying Assets

Form part of the cost of the asset

Other Borrowing Costs

Recognize as an expense

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LKAS 23 Borrowing Costs

Scope

- Accounting for borrowing costs
- It does not deal with
  - actual or imputed cost of equity
  - qualifying assets measured at fair value Eg: biological assets
  - inventories manufactured in large quantities on repetitive basis

Definitions

LKAS 23 Borrowing Costs

- Borrowing costs: are interest and other costs incurred for the borrowing of funds.
- A qualifying asset: is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

LKAS 23 Borrowing Costs

Borrowing costs may include:

- Interest expense calculated using effective interest method as per LKAS 39
- Finance charges for finance leases as per LKAS 17
- Exchange differences arising on interest of foreign currency borrowings

LKAS 23 Borrowing Costs

Qualifying assets may be:

- Inventories
- Manufacturing plants
- Power generation facilities
- Intangible assets
- Investment properties

LKAS 23 Borrowing Costs

Examples of what is Not a qualifying asset:

- Inventories that are normally manufactured or produced in large quantities on a repetitive basis and over a short period of time
- Assets which are ready for use or sale, when acquired

LKAS 23 Borrowing Costs

Recognition

LKAS 23 Borrowing Costs

A. General Conditions
B. Excess of the Carrying Amount of the Qualifying Asset Over the Recoverable Amount
C. Commencement of Capitalization
D. Suspension of Capitalization
E. Cessation of Capitalization

LKAS 23 Borrowing Costs

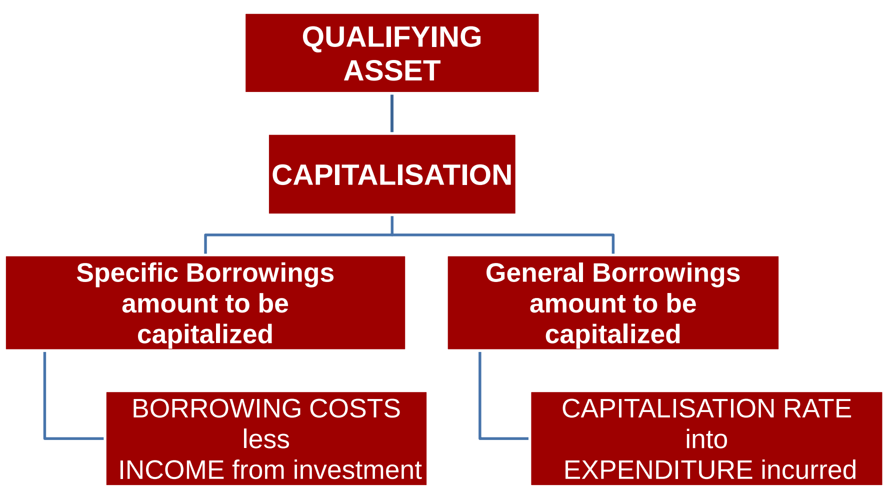
A. General conditions:

- **Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalized as part of the cost of the asset**

- **Such borrowing costs can be capitalized when:**
  - **It is probable that they will result in future economic benefits to the entity; and**
  - **These costs can be measured reliably**

LKAS 23 Borrowing Costs

Borrowing Cost Eligible for Capitalization



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LKAS 23 Borrowing Costs

B. Excess of the Carrying amount over Recoverable Amounts

Qualifying Asset

Carrying amount > Recoverable amount

To be written down to the recoverable amount

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LKAS 23 Borrowing Costs

C. Commencement of Capitalization

The capitalization process shall begin when:

- **Expenditures for that asset are being incurred**
- **Borrowing costs are being incurred**
- **Activities that are necessary to prepare the asset for its intended use or sale are in progress**

LKAS 23 Borrowing Costs

D. Suspension of Capitalization

- Capitalization of borrowing costs shall be suspended during extended periods in which active development is suspended

LKAS 23 Borrowing Costs

E. Cessation of Capitalization

- When substantially all the activities are complete

- When the construction of a qualifying asset is completed in parts and each part is capable of being used while construction continues on other parts

LKAS 23 Borrowing Costs

Disclosure

LKAS 23 Borrowing Costs

- The amount of borrowing costs capitalised during the period
- The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation.

LKAS 23 Borrowing Costs

Transitional provisions

LKAS 23 Borrowing Costs

- When the adoption of this Standard constitutes a change in accounting policy, an entity is encouraged to adjust its financial statements in accordance with LKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

LKAS 23 Borrowing Costs

Application of IFRIC

LKAS 23 Borrowing Costs

IFRIC 1 - Changes in Existing Decommissioning, Restoration and Similar Liabilities

IFRIC concluded that the unwinding of the discount is not a borrowing cost as defined in IAS 23

LKAS 23 Borrowing Costs

IFRIC Interpretation 12 - Service Concession Arrangements

- Borrowing costs attributable to the arrangement shall be recognized as an expense unless the operator has a contractual right to receive an intangible asset (a right to charge users of the public service).

- In this case borrowing costs attributable to the arrangement shall be capitalized during the construction phase.

Thank you.