

# ACCOUNTING STANDARD FOR ENTERPRISES

## BORROWING COSTS

---

### INTRODUCTION

1. This Standard prescribes the accounting treatment for borrowing costs and the disclosure of related information.
2. This Standard does not deal with:
  - (1) finance charges in respect of finance leases; and
  - (2) borrowing costs incurred during the development of properties for sale.

### DEFINITION

3. The following terms are used in this Standard with the meanings specified:
  - (1) **Borrowing costs** are interest incurred by an enterprise in connection with the borrowing of funds, amortisation of discounts or premiums relating to borrowings, ancillary costs incurred in connection with the arrangement of borrowings, and exchange differences arising from foreign currency borrowings.
  - (2) A **specific borrowing** is funds borrowed specifically for the acquisition or construction of a fixed asset.

### RECOGNITION

4. Interests incurred in connection with specific borrowings, and amortisation of discounts or premiums relating to and exchange differences arising from those specific borrowings, should be capitalised as part of the cost of the related asset if the conditions for capitalisation stipulated in this Standard are fulfilled. Interests incurred in connection with, amortisation of discounts or premiums relating to, and exchange differences arising from other borrowings should be recognised as an expense in the period in which they are incurred.
5. Ancillary costs incurred in connection with the arrangement of specific borrowings before the relevant fixed asset being acquired or constructed is ready for its intended use should be capitalised in the period in which they are incurred. Ancillary costs incurred thereafter should be recognised as an expense in the period in which they are incurred. If the amount of ancillary costs is insignificant, they may be recognised as an expense in the period in which they are incurred.

Ancillary costs incurred in connection with the arrangement of other borrowings should be recognised as an expense in the period in which they are incurred.

### COMMENCEMENT OF CAPITALISATION

6. The capitalisation of interest incurred in connection with specific borrowings, and amortisation of discounts or premiums relating to and exchange differences arising from those specific borrowings, should commence when the following three conditions are fulfilled:
  - (1) expenditures for the asset are being incurred;
  - (2) borrowing costs are being incurred; and

## ACCOUNTING STANDARD FOR ENTERPRISES BORROWING COSTS

---

- (3) activities that are necessary to prepare the asset for its intended use have been commenced.
7. Expenditures incurred for the acquisition or construction of a fixed asset include only those expenditures that have resulted in payments of cash, transfer of non-cash assets, or the assumption of interest bearing liabilities.

### DETERMINATION OF THE CAPITALISATION AMOUNT

8. In each accounting period, the amount of interest costs to be capitalised should be determined in accordance with the following formula:

The capitalisation amount of interest for each accounting period  
= The weighted average amount of accumulated expenditures incurred for the acquisition or construction of a fixed asset up to the end of the current period x the capitalisation rate

9. The weighted average amount of the accumulated expenditure is determined in accordance with the following formula:

$$\text{Weighted average amount of the accumulated expenditure} = \sum \frac{\text{Amount of expenditure on asset} \times \text{Number of days the expenditure was outstanding during the accounting period}}{\text{Number of days covered by the accounting period}}$$

For simplicity, the number of months may be used as the factor to calculate the weighted average amount.

10. The capitalisation rate should be determined in accordance with the following rules:
- (1) if only one specific borrowing was used for the acquisition or construction of a fixed asset, the capitalisation rate should be the rate on that borrowing.
- (2) if more than one specific borrowing was used for the acquisition or construction of a fixed asset, the capitalisation rate should be the weighted average interest rate of those specific borrowings. The weighted average interest rate should be determined in accordance with the following formula:

Weighted average interest rate  
= (Summation of the actual amounts of interest in connection with specific borrowings incurred during the period/The weighted average of carrying amount of the principal of specific borrowings) x 100%

The weighted average of carrying amount of the principal of specific borrowings should be determined in accordance with the following formula:

Weighted average of carrying amount of principals of specific borrowings  
=  $\sum$  [Principal of each specific borrowing x (Number of days of each borrowing was outstanding during the accounting period/Number of days covered by the accounting period)]

For simplicity, the number of months may be used as the factor to calculate the weighted average amount.

## **ACCOUNTING STANDARD FOR ENTERPRISES BORROWING COSTS**

---

11. If there is discount or premium on a specific borrowing, adjustment should be made to the interest cost by take into account the amount of amortisation of such discount or premium and adjust the capitalisation rate accordingly. Discount or premium may be amortised by the use of effective interest method or straightline method.
12. The amount of interest and amortisation of discount or premium capitalised for each accounting period shall not exceed the actual amount of interest incurred and the actual amount of discount or premium amortised during that period.
13. If the specific borrowing is denominated in foreign currency, the amount of exchange differences to be capitalised for each accounting period should be the amount of exchange differences arising from the principal of the foreign currency specific borrowing and the corresponding interest payable.

### **SUSPENSION OF CAPITALISATION**

14. Capitalisation of borrowing costs should be suspended during periods in which the acquisition or construction of a fixed asset is interrupted abnormally, and the interruption period is more than 3 months. These costs should be recognised as expenses for the current period until the acquisition or construction is resumed. However, capitalisation of borrowing costs should continue when the interruption is a necessary part of the process of preparing that asset to its intended use.

### **CESSATION OF CAPITALISATION**

15. Capitalisation of borrowing costs should cease when the fixed asset being acquired or constructed has reached its expected usable condition. Borrowing costs incurred thereafter should be recognised as an expense in the period in which they are incurred.
16. A fixed asset being acquired or constructed has reached its expected usable condition when the asset has reached the expected usable condition of the acquirer or the constructor. Judgement may be made in accordance with the following:
  - (1) the physical construction (including installation) of the fixed asset is complete or is substantially complete;
  - (2) the fixed asset being acquired or constructed meets or basically meets the design requirements or the contract requirements; or there is an individual part that does not meet the design requirements or the contract requirement, but this will not affect the normal usage of the fixed asset.
  - (3) expenditure incurred thereafter for the acquisition or construction of the fixed asset is minimal or nearly zero.

If the fixed asset being acquired or constructed requires trial-production or trial-operation, the fixed asset should be regarded as having reached the expected usable condition when the trial-production process proves that the fixed asset can produce qualified products in a normal way or the trial-operation process proves that the fixed asset can operate normally.

## **ACCOUNTING STANDARD FOR ENTERPRISES BORROWING COSTS**

---

17. If the individual parts of a fixed asset being acquired or constructed are completed separately, and each part is capable of being used while construction continues on other parts and the activities necessary to prepare that part for its intended use are substantially complete, capitalisation of borrowing costs for that part of asset should cease. However, if those parts of the fixed asset being acquired or constructed can only be used on the completion of the whole asset, capitalisation of borrowing costs should cease when the whole asset is completed.

### **DISCLOSURES**

18. An enterprise should disclose the following information relating to borrowing costs:
- (1) the amount of borrowing costs capitalised during the period;
  - (2) the capitalisation rate used to determine the amount to be capitalised.

### **TRANSITIONAL PROVISION**

19. If the accounting treatment of borrowing costs incurred prior to the effective date of this Standard was different from the treatment stipulated in this Standard, the resulting difference will not be adjusted retrospectively. Borrowing costs incurred subsequent to the effective date of this Standard should be accounted for in accordance with this Standard.

### **SUPPLEMENTARY PROVISION**

20. This Standard becomes operative as from 1 January 2001.