INTENSIVE REFRESHER COURSE ON PRACTICAL ASPECTS OF ACCOUNTING STANDARDS

Assets related – June 15, 2022

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Assets related standards

- AS 2 – Valuation of Inventories
- AS 10 – Property, Plant & Equipment
- AS 13 – Investments
- AS 26 – Intangible Assets
- AS 16 – Borrowing Costs

AS 2 – Valuation of Inventories

AS 2 – Valuation of Inventories

- Originally issued in 1981
- Revised in 2016 by MCA – relevant for companies
- Revised in 2016 by ICAI – relevant for other than companies

Practical Problems

- at what point of time should the items be included in inventories?
- what costs should be included in the valuation of inventories?
- what cost flow assumptions should be used?
- at what value should inventories be reported?

Definition of Inventories

- held for sale in the ordinary course of business;
- in the process of production for such sale; or
- in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories include

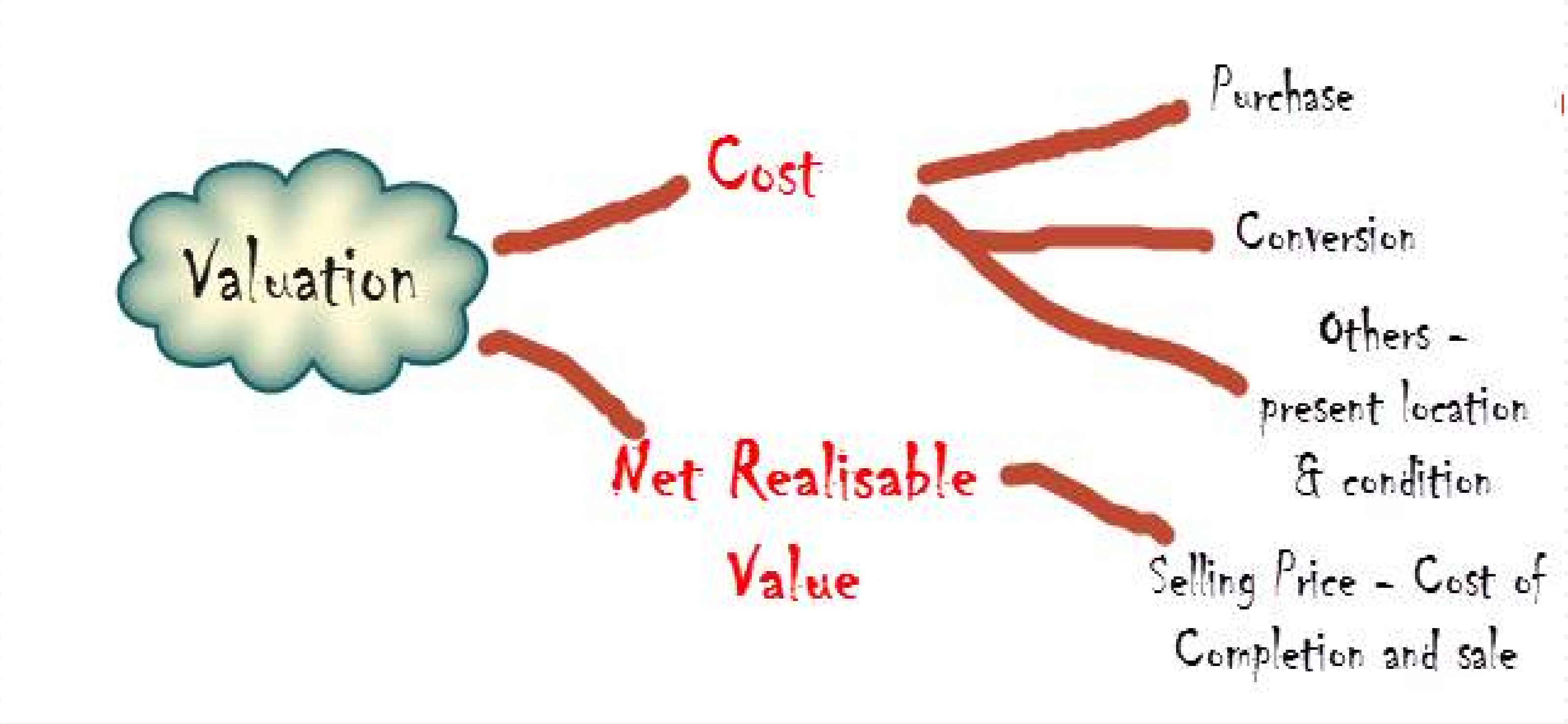
- merchandise purchased by a retailer and held for resale,
- computer software held for resale
- land and other property held for resale
- finished goods produced
- work in progress being produced
- materials, maintenance supplies, consumables and loose tools awaiting use in the production process

Inventories do not include

- spare parts
- servicing equipment
- standby equipment
- AS 10 is applicable for these items

Measurement of Inventories

- Valued at lower of Cost or NRV



Cost of Inventories

- Costs incurred in bringing the inventories to the present location and condition
  - Costs of purchase
  - Costs of conversion
  - Other costs
    - overheads other than production overheads
    - costs of designing products for specific customers

Cost of Purchase

- Purchase price
- Duties & taxes (not refundable)
- Freight inwards
- Other directly attributable expenses

Cost of Conversion

- Direct labour
- Allocation of overheads
  - Fixed overheads – Normal capacity
    - production expected to be reached on an average over a number of periods
  - Variable overheads – Actual use of production facilities

Normal Capacity

- **EAC opinion**
- Average production of last few years or Budgeted production?
  - average production can be considered if it approximates the production expected to be achieved in the future periods
  - budgeted production should also be considered if there are significant changes in circumstances

Other Costs

- Costs incurred in bringing the inventories to the present location and condition
  - overheads other than production overheads
  - costs of designing products for specific customers

Costs exclusion

- abnormal amounts of wasted materials, labour, or other production costs
- storage costs, unless those costs are necessary in the production process prior to a further production stage
- administrative overheads that do not contribute to bringing the inventories to their present location and condition; and
- selling and distribution costs.

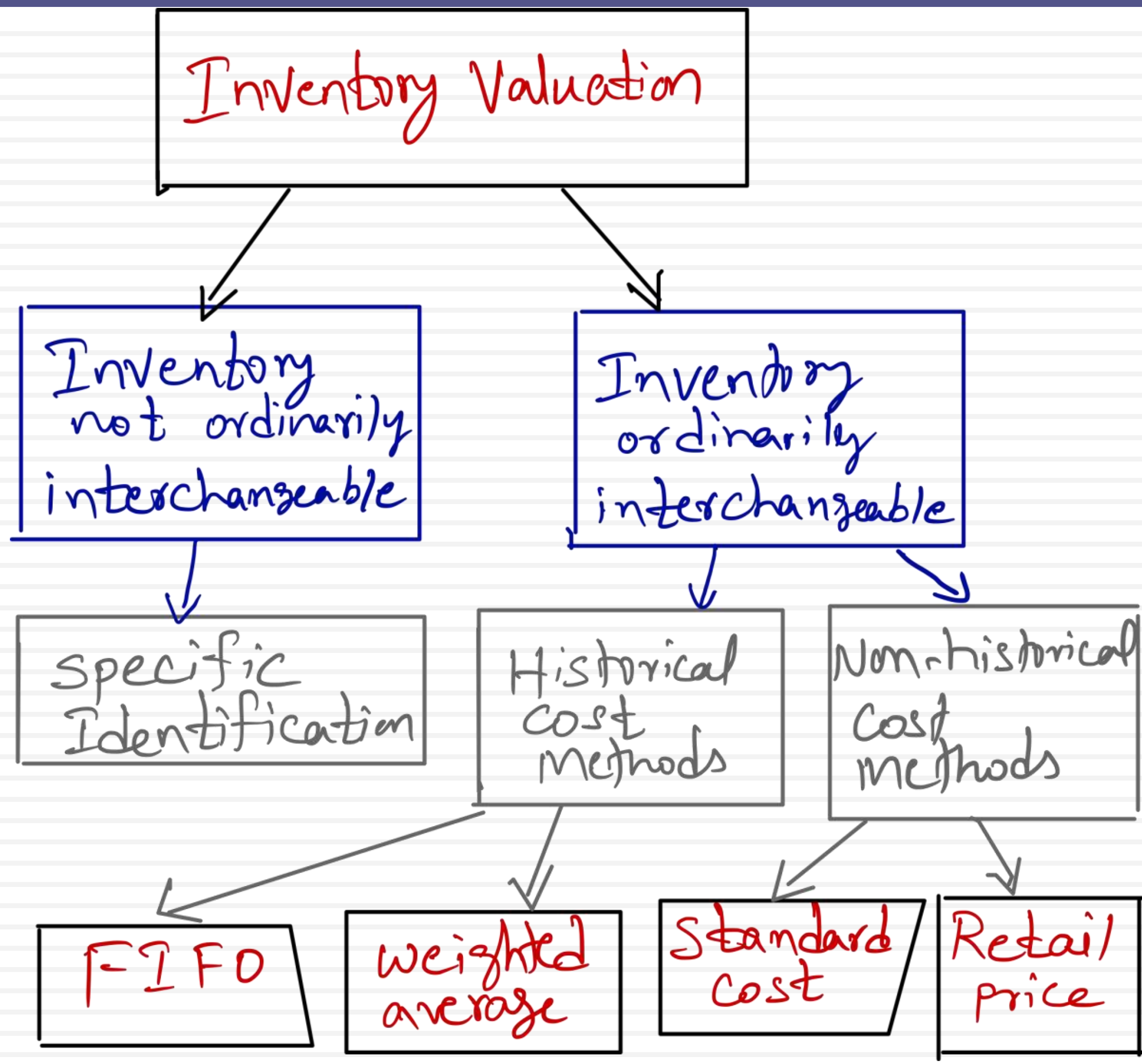
Application of AS 2 to specific industries

- Royalty payable by Oil companies to Govt on production of Oil – Cost of Inventories

Special Costs

- Borrowing costs – Not included in valuation unless inventories are qualified assets (AS 16)
- Depreciation of PPE – included in valuation if used in production process
- Joint Products – cost of conversion to be allocated on a reasonable basis (relative stand alone selling prices)
- By Product – measured at NRV and value deducted from the cost of main product

Techniques of Valuation



Net Realisable Value

- AS 2 follows prudence principle
- Inventories are valued at lower of Cost or NRV
- Cost of inventories are not recoverable if
  - inventories are damaged
  - become wholly or partially obsolete
  - selling prices have declined
  - estimated costs of completion or the estimated costs necessary to make the sale have increased

Net Realisable Value

- Net realizable value =
  - Estimated selling price in the ordinary course of business
  - less: estimated costs of completion
  - less: estimated costs necessary to make the sale
- Estimates are based on the most reliable evidence available
- Consider after balance sheet events
- Estimates are based on the purpose of holding inventory
  - Firm sales – NRV based on contract price

NRV of Raw Materials (RM)

- If FGs are sold at above cost – RMs to be valued at cost
- If FGs are sold below cost – RMs are measured at lower of Cost or NRV
  - Replacement cost is best estimate for NRV of RM

Scope – Exclusion from AS 2

- work in progress arising under construction contracts
- work in progress arising in the ordinary course of business of service providers
- shares, debentures and other financial instruments held as stock-in-trade
- producers' inventories of livestock, agricultural and forest products, and mineral oils, ores and gases to the extent that they are measured at NRV as per industry practice

Disclosures as per AS 2

- The financial statements should disclose:
  - the accounting policies adopted in measuring inventories, including the cost formula used
  - the total carrying amount of inventories and its classification appropriate to the enterprise

Disclosures as per AS 2

- Common classification of inventories
  - Raw materials and components
  - Work-in-progress
  - Finished goods
  - Stock-in-trade (in respect of goods acquired for trading)
  - Stores and spares
  - Loose tools
  - Others (specify nature)

Schedule III of Companies Act 2013

- Classification is same as given in AS 2
- Goods-in-transit shall be disclosed under the relevant sub-head of inventories
- Mode of valuation shall be stated.

AS 10 – Property, Plant & Equipment

Property, Plant & Equipment (PPE)

- AS 6 – Depreciation Accounting – Issued 1982
- AS 10 – Accounting for Fixed Assets – Issued 1985
- Revised in 2016 by MCA – relevant for companies
- Revised in 2016 by ICAI – relevant for other than companies
- AS 10 – Property, Plant & Equipment

Practical issues

- Recognition of assets
- Determination of carrying amounts
- Depreciation

Scope – Not applicable

- Biological assets other than bearer plants
- Wasting assets such as mineral rights, expenditure on the exploration for and extraction of minerals, oil, natural gas and similar non-regenerative resources

PPE Definition

- PPE are tangible items that
  - are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes
  - are expected to be used during more than one period

PPE Examples

- land and buildings
- machinery
- ships
- aircraft
- motor vehicles
- furniture and fixtures
- office equipment and
- bearer plants

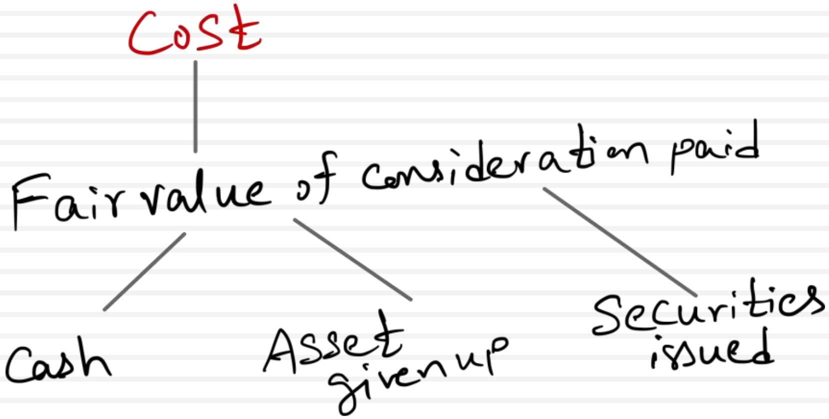
Spare parts etc

- spare parts
- servicing equipment
- standby equipment
- AS 10 is applicable for these items

Recognition

- The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:
  - it is probable that future economic benefits associated with the item will flow to the entity and
  - the cost of the item can be measured reliably

Cost



- Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or the amount attributed to that asset when initially recognised in accordance with the specific requirements of other AS

Elements of Cost

- purchase price
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located

Directly attributable costs

- costs of employee benefits arising directly from the construction or acquisition of the item of PPE
- costs of site preparation
- initial delivery and handling costs
- installation and assembly costs
- costs of testing
- professional fees

Costs – exclusion

- costs of opening a new facility
- costs of introducing a new product or service (including costs of advertising and promotional activities)
- costs of conducting business in a new location or with a new class of customer (including costs of staff training)
- administration and other general overhead costs

Costs – exclusion

- costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity
- initial operating losses, such as those incurred while demand for the item's output builds up and
- costs of relocating or reorganising part or all of an entity's operations

Subsequent Costs

- Costs of the day- to-day servicing of the item - Repairs & Maintenance - Expense
- Replacement Costs - Capitalized if the recognition criteria are met. Carrying amount of those parts that are replaced is derecognised.
- Inspection Costs - Treat major inspection costs as replacement costs (see next slide)

Inspection Costs

- A condition of continuing to operate an item of PPE (for example, an aircraft) may be performing regular major inspections for faults regardless of whether parts of the item are replaced
- When each major inspection is performed, its cost is recognised in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied
- Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognised.

Elements of Costs

- Self constructed (including bearer plants)
  - Cost of Material +
  - Cost of Labour +
  - Allocation of overheads
- Exchange of Assets (if commercial substance is present)
  - Fair value of asset given up or
  - Fair value of asset acquired - if clearly evident or
  - Book value of asset given up - if fair value is not reliably measurable

Costs – special items

- Incidental operations -
  - Incidental operations related to construction but not necessary to bring the item to the location and condition necessary for it to be capable of operating in the manner intended by management.
  - Income or expense transfer to P&L
- Deferred Credit
  - Payment is deferred beyond normal credit terms
  - difference between the cash price equivalent and the total payment is recognised as interest over the period of credit unless such interest is capitalised in accordance with AS 16

Measurement of PPE

- Initial measurement
  - At Cost
- Subsequent measurement
  - Cost Model = Cost - accumulated depreciation - accumulated impairment
  - Revaluation model = Fair value - accumulated depreciation - accumulated impairment

Cost Model

- Cost Model = Cost - accumulated depreciation - accumulated Impairment
- Cost - Cost as determined on initial recognition
- Depreciation - the systematic allocation of the depreciable amount of an asset over its useful life
  - Useful life
  - Residual value
- Impairment – AS 28

Useful Life

- **Useful life** - the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity
- Life to be estimated based on the expected usage of assets
- Reference can be made to Sch II of Companies Act
- To be reviewed every financial year

Residual Value

- **Residual value** - the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life
- Estimated initially
- Reference can be made to Sch II of Companies Act
- To be reviewed every financial year

Depreciation method

- Method should reflect the pattern in which future economic benefits are expected to be consumed by the enterprise
  - Straight line
  - WDV method
  - Units method
- To be reviewed every financial year
- Change in method to be considered as accounting estimated and to be applied prospectively

Depreciation

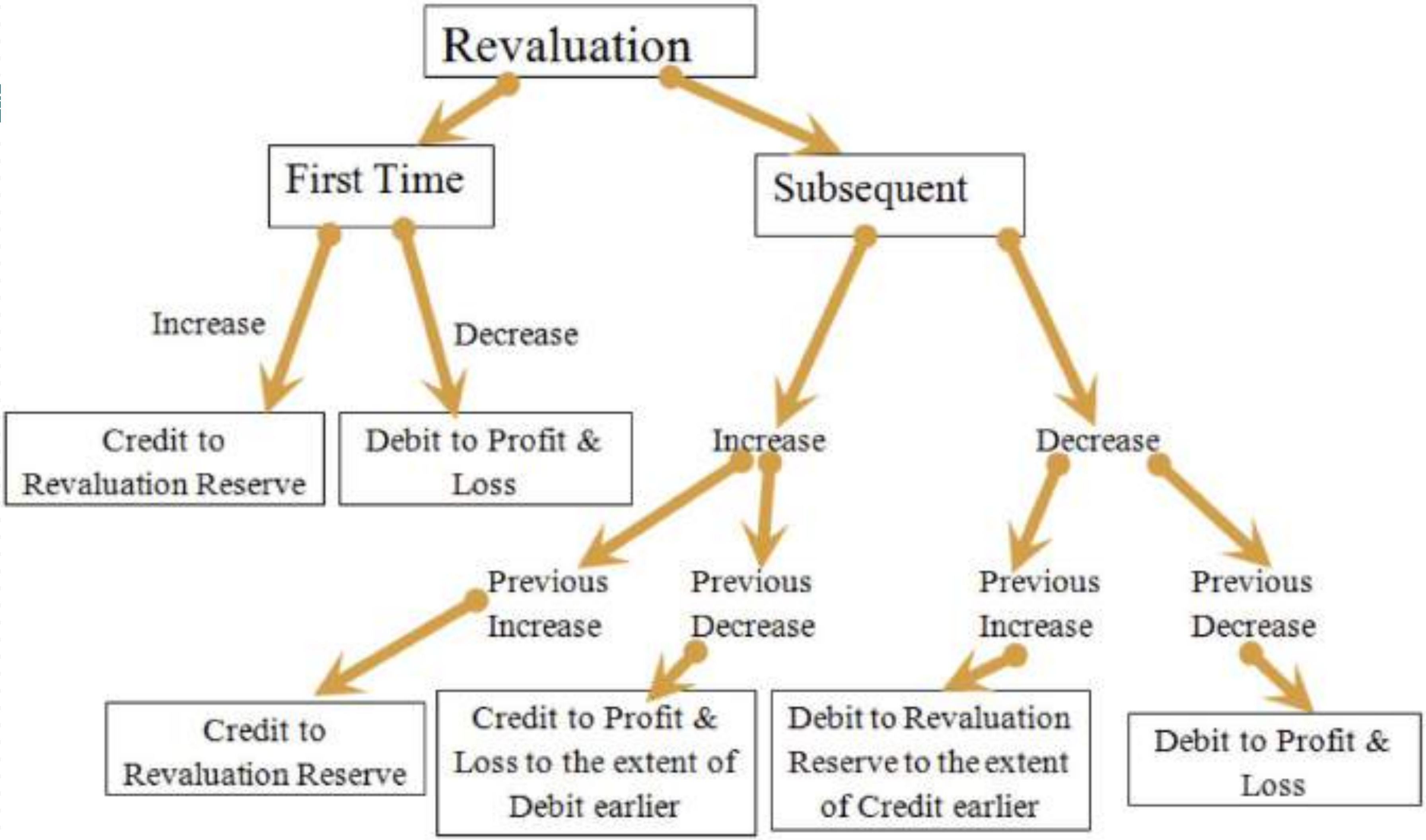
- Depreciation
  - Begins when the asset is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.
  - Ceases at the earlier of the date
    - that the asset is retired from active use and held for disposal
    - the asset is derecognised
- Depreciation charge for each period shall be recognised in profit or loss unless it is included in the carrying amount of another asset

Schedule II of Companies Act 2013

- The useful life of an asset shall not ordinarily be different from the useful life specified in Part C and the residual value of an asset shall not be more than five per cent. of the original cost of the asset:
- Provided that where a company adopts a useful life different from what is specified in Part C or uses a residual value different from the limit specified above, the financial statements shall disclose such difference and provide justification in this behalf duly supported by technical advice

Revaluation Model

- Applicable in case of assets when fair value can be measured reliably
- If an item of PPE is revalued, the entire class of PPE to which that asset belongs shall be revalued
- Revaluation model = Fair value less depreciation less impairment
- Revaluation to be made regularly


Revaluation
First Time
Subsequent
Increase
Decrease
Credit to Revaluation Reserve
Debit to Profit & Loss
Increase
Decrease
Previous Increase
Previous Decrease
Previous Increase
Previous Decrease
Credit to Revaluation Reserve
Credit to Profit & Loss to the extent of Debit earlier
Debit to Revaluation Reserve to the extent of Credit earlier
Debit to Profit & Loss

Transfer from Revaluation reserve

- Transfer directly to retained earnings
  - when asset is sold or
  - when asset is used - based on depreciation amount
- Transfers from revaluation surplus to retained earnings are not made through profit or loss

Cost Model vs Revaluation Model

- To what extent do the revaluation model and the cost model provide users with useful financial information
- Does the existence of the accounting policy choice (between the cost model and the revaluation model) affect the ability of a investor to choose between investment alternatives?

Retirement

- Items of PPE retired from active use and held for disposal should be stated at the lower of their carrying amount and net realisable value.
- Any write-down in this regard should be recognised immediately in the statement of profit and loss

Derecognition

- The carrying amount of an item of PPE shall be derecognised:
  - on disposal or
  - when no future economic benefits are expected from its use or disposal
- The gain or loss shall be included in profit or loss when the item is derecognised
- The revaluation surplus in respect of an item of PPE may be transferred directly to retained earnings when the asset is derecognised

Disclosures

- the measurement bases used for determining the gross carrying amount
- the depreciation methods used
- the useful lives or the depreciation rates used;
- the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period
- a reconciliation of the carrying amount at the beginning and end of the period

Schedule III Disclosures

- Property, Plant and Equipment
  - Land
  - Buildings
  - Plant and Equipment
  - Furniture and Fixtures
  - Vehicles
  - Office Equipment
  - Bearer Plants
  - Others (specify nature)
- Assets under lease shall be separately specified under each class of assets

Agriculture related

- Agricultural Activity - management by an enterprise of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets.
- Agricultural Produce - harvested product of biological assets of the enterprise
- Biological Asset - Living Animal or Plant

Bearer Plant

- Bearer Plant - plant that
  - is used in the production or supply of agricultural produce;
  - is expected to bear produce for more than a period of twelve months; and
  - has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales
- AS 10 is applicable for only Bearer plants

AS 13 – Accounting for Investments

AS 13

- Scope
- Definition
- Classification
- Cost
- Fair Value
- Investment Properties
- Disposal
- Reclassification
- Disclosure

Scope - Exclusion

- Bases of recognition of interest, dividends and rentals earned on investments which are covered by AS 9
- Operating or Finance Leases
- Investments of Retirement Benefit Plans and Life Insurance Enterprises; and
- Mutual Funds and / or the related asset management companies, banks and public financial institutions formed under a Central or State Government Act or so declared under the Companies Act

Investments

- Investments are assets held by an enterprise
  - for earning income by way of dividends, interest, and rentals,
  - for capital appreciation, or
  - for other benefits to the investing enterprise.
- Assets held as stock-in-trade are not ‘investments’
- Shares, debentures and other securities held as stock-in-trade are accounted for and disclosed in the financial statements similar to current investments

Investments - Examples

- Investment property (Land, Building etc)
- Equity Shares
- Preference shares
- Government or trust securities
- Debentures or bonds
- Mutual Funds

Classification

- Current Investment - an investment that is by its nature readily realisable and is intended to be held for not more than one year from the date on which such investment is made
  - Equity/Preference Shares
  - Bonds/Debentures
- Long Term Investment - an investment other than a current investment
  - Equity/Preference Shares
  - Bonds/Debentures
  - Investment Property

Measurement

- Current Investments - Lower of Cost or Fair Value. Market Value is the best evidence of Fair Value
  - Reduction is transferred to P&L
  - Reversals if Fair Value exceeds Cost
- Long Term Investments - At Cost. However, when there is a decline, other than temporary, in the value of a long term investment, the carrying amount is reduced to recognise the decline
  - Reduction is transferred to P&L
  - Reversals if increase in value

Cost

- If Investments are acquired for Cash
  - Purchase Price
  - Non refundable taxes
  - Transportation
  - Brokerage Costs & Fees
  - Pre acquisition Accrued Interest & dividend
- If Investments are exchanged for another asset
  - Fair value of the asset given up or asset acquired
- If Investments are acquired for securities
  - Fair value of Securities

Fair Value

- **Fair Value** – The amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.
- Under appropriate circumstances, market value or net realisable value provides an evidence of fair value
  - Market Value - the amount obtainable from the sale of an investment in an open market, net of expenses necessarily to be incurred on or before disposal.

Investment Property

- An investment property is an investment in land or buildings that are not intended to be occupied substantially for use by, or in the operations of, the investing enterprise
- Held for earning rentals or capital appreciation
- Not to be classified as PPE
- Measured as per Cost model in AS 10

Disposal of Investments

- The difference between the carrying amount and the disposal proceeds, net of expenses, is recognised in the profit and loss statement.
- Carrying amount to be allocated to that part is disposed to be determined on the basis of the average carrying amount of the total holding of the investment

Reclassification

- Long Term to Current - Lower of Cost and Carrying Amount
- Current to Long Term - Lower of Cost and Fair Value

Disclosures

- accounting policies for the determination of carrying amount of investments
- amounts included in Profit & Loss
  - interests, dividends, rentals
  - profits & losses on disposal
- significant restrictions on the right of ownership, realisability of investments or the remittance of income and proceeds of disposal
- aggregate amount of quoted and unquoted investments, giving the aggregate market value of quoted investments

Stock-in-trade

- Shares, debentures and other securities held as stock-in-trade (i.e., for sale in the ordinary course of business) are not 'investments' as defined in this Standard.
- Accounted for and disclosed in the financial statements similar to current investments
- Cost of stocks disposed of is determined by applying an appropriate cost formula (e.g. first-in, first-out; average cost, etc.).

Schedule III Disclosures

- Investments to be classified as
  - Non-current Investments
  - Current Investments
- AS 13 requires classification based on the date of investments and the intention of management
- Schedule III requires classification of investments based on the realization from balance sheet date
- All Current Investments as per AS 13 are disclosed as Current Investments as per Schedule III

Schedule III Disclosures

- The portion of long-term investment which is expected to be realized within twelve months from the Balance Sheet date needs to be classified as Current investment under the Schedule III.
  - For eg. Investment in a bond for Rs 1,000 maturing in 3 years.
    - Initial classification as per AS 13 – Long term investment
    - Presentation in Balance sheet –
      - Non-current – amount not expected to be realized in 12 months
      - Current – amount expected to be realized in 12 months

Schedule III Disclosures

- Non-current investments shall be classified as trade investments and other investments
- Trade investments is not defined
- Normally understood as investment made by a company in shares or debentures of another company to promote the trade or business of the first company

AS 26 – Intangible Assets

Primary issues

- Recognition of assets – acquired vs internally generated
- Determination of carrying amounts
- Amortisation

Scope - Exclusion

- intangible assets that are covered by another AS
- financial assets
- mineral rights and expenditure on the exploration for, or development and extraction of, minerals, oil, natural gas and similar non-regenerative resources
- intangible assets arising in insurance enterprises from contracts with policyholders
- expenditure in respect of termination benefits

Intangible Asset

- An identifiable non-monetary asset, without physical substance, held for use
  - in the production or supply of goods or services,
  - for rental to others
  - for administrative purposes
- Identifiable – distinguished from Goodwill
- Distinguished – if separable
- Separable – capable of generating revenue on its own without disposing of the entire business

Control

- An enterprise controls an asset if the enterprise has the power to obtain the future economic benefits flowing from the underlying resource and also can restrict the access of others to those benefits.
- The capacity of an enterprise to control the future economic benefits from an intangible asset would normally stem from legal rights that are enforceable in a court of law.
- In the absence of legal rights, it is more difficult to demonstrate control

Intial Recognition

- An intangible asset should be recognised if, and only if:
  - it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise and
  - the cost of the asset can be measured reliably
- An intangible asset is measured initially at cost

Acquired separately

- Cost
  - purchase price, including import duties and other non-refundable taxes or levies (any trade discounts and rebates are deducted in arriving at the purchase price) and
  - any directly attributable expenditure on making the asset ready for its intended use
    - cost of employee benefits
    - professional fees
    - costs of testing

Cost - Exchange

- If an intangible asset is exchanged
  - with another asset - cost is the
    - fair value of asset given up or
    - fair value of asset received or
    - carrying amount of asset given up
  - with shares - cost is the
    - fair value of shares issued or
    - fair value of asset received

Acquired during Amalgamation

- AS 14 is applicable
- A transferee recognises an intangible asset that meets the recognition criteria mentioned above, even if that intangible asset had not been recognised in the financial statements of the transferor

Internally generated

- To assess whether an internally generated intangible asset meets the criteria for recognition, an enterprise classifies the generation of the asset into:
  - a research phase and
  - a development phase

Research Phase

- Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.
- Examples of research activities are:
  - activities aimed at obtaining new knowledge
  - the search for, evaluation and final selection of, applications of research findings or other knowledge
  - the search for alternatives for materials, devices, products, processes, systems or services; and
  - the formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes, systems or services

Research Phase

- No intangible asset arising from research (or from the research phase of an internal project) should be recognised.
- Expenditure on research (or on the research phase of an internal project) should be recognised as an expense when it is incurred

Development Phase

- Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services prior to the commencement of commercial production or use
- Examples
  - the design, construction and testing of pre-production or pre-use prototypes and models
  - the design of tools, jigs, moulds and dies involving new technology

Development Phase

- Cost from Development phase can be capitalised as intangible asset if it satisfies the following conditions
  - technical feasibility to complete
  - intention to complete
  - ability to use or sell the asset
  - generating probable future economic benefits
  - availability of technical financial and other resources to complete the development and to use or sell the asset
  - measuring the expenditure attributable to the asset reliably

Internally Generated IA - Costs

- expenditure on materials and services used
- salaries, wages and other employment related costs of personnel directly engaged in generating the asset
- expenditure that is directly attributable to generating the asset, such as fees to register a legal right
- overheads that are necessary to generate the asset can be allocated on a reasonable and consistent basis to the asset
- Borrowing Costs - if the asset satisfies the definition of qualifying asset

Cost exclusion

- selling, administrative and other general overhead expenditure unless this expenditure can be directly attributed to making the asset ready for use
- clearly identified inefficiencies and initial operating losses incurred before an asset achieves planned performance
- expenditure on training the staff to operate the asset

Not Intangible Assets

- Internally Generated
  - Brands
  - Mastheads
  - Publishing Titles
  - Customer Lists

Recognise as expense

- expenditure on start-up activities (start-up costs)
- expenditure on training activities
- expenditure on advertising and promotional activities
- expenditure on relocating or re-organising part or all of an enterprise

Past Costs - written off

- Expenditure on an intangible item that was initially recognised as an expense by a reporting enterprise in previous annual financial statements or interim financial reports should not be recognised as part of the cost of an intangible asset at a later date

Subsequent Expenditure on IA

- Recognise as expense unless
  - it is probable that the expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and
  - the expenditure can be measured and attributed to the asset reliably

Measurement of IA

- Cost Model = Cost less Accumulated Amortisation less Accumulated Impairment

Amortisation

- Useful life – Maximum 10 years unless longer life can be justified
- Method – Usually SLM
- Residual value assumed to be zero unless
  - there is a commitment by a third party to purchase the asset at the end of its useful life; or
  - there is an active market for the asset and
    - residual value can be determined by reference to that market
    - it is probable that such a market will exist at the end of the asset's useful life

Annual Review

- The amortisation period and the amortisation method should be reviewed at least at each financial year end
- If the expected useful life of the asset is significantly different from previous estimates, the amortisation period should be changed accordingly
- If there has been a significant change in the expected pattern of economic benefits from the asset, the amortisation method should be changed to reflect the changed pattern

Derecognsition

- Derecognise
  - On disposal or
  - No future economic benefits on use or sale
- Retirement
  - measure at carrying amount on the date of retirement till it is disposed off

Disclosures

- the useful lives or the amortisation rates used
- the amortisation methods used
- the gross carrying amount and the accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the period
- a reconciliation of the carrying amount at the beginning and end of the period

Schedule III Disclosures

- Classification shall be given as:
  - Goodwill
  - Brands /trademarks;
  - Computer software;
  - Mastheads and publishing titles;
  - Mining rights;
  - Copyrights, and patents and other intellectual property rights, services and operating rights;
  - Recipes, formulae, models, designs and prototypes;
  - Licences and franchise;
  - Others (specify nature).

AS 16 – Borrowing Costs

Objective & Scope

- **Objective** - to prescribe the accounting treatment for borrowing costs
- **Scope** - This Standard does not deal with the actual or imputed cost of owners' equity, including preference share capital not classified as a liability

Principle

- Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset.
- Other borrowing costs should be recognised as an expense in the period in which they are incurred.

Borrowing Costs

- interest and other costs incurred by an enterprise in connection with the borrowing of funds.
  - interest and commitment charges on bank borrowings and other short-term and long-term borrowings;
  - amortisation of discounts or premiums relating to borrowings;
  - amortisation of ancillary costs incurred in connection with the arrangement of borrowings;
  - finance charges in respect of assets acquired under finance leases or under other similar arrangements; and
  - exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs

Qualifying Asset

- A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale
  - manufacturing plants,
  - power generation facilities,
  - inventories that require a substantial period of time to bring them to a saleable condition, and
  - investment properties

Substantial period of time

- What constitutes a substantial period of time primarily depends on the facts and circumstances of each case
- Ordinarily, a period of twelve months is considered as substantial period of time unless a shorter or longer period can be justified on the basis of facts and circumstances of the case
- In estimating the period, time which an asset takes, technologically and commercially, to get it ready for its intended use or sale is considered

Not Qualifying Assets

- Inventories that are routinely manufactured or otherwise produced in large quantities on a repetitive basis over a short period of time
- Assets that are ready for their intended use or sale when acquired also are not qualifying assets

Borrowing Costs to be capilised

- Specific Borrowings
  - actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings
- General Borrowing
  - determined by applying a capitalisation rate to the expenditure on that asset
  - rate should be the weighted average of the borrowing costs applicable to the borrowings other than specific
  - BC to be capitalised on General Borrowings = Expenditure incurred on the asset X Capitalisation Rate

Commencement, Suspension and Cessation

- Commencement
  - expenditure on the qualifying asset is being incurred;
  - borrowing costs are being incurred; and
  - activities that are necessary to prepare the asset for its intended use or sale are in progress.
- Suspension
  - during extended periods in which active development is interrupted
- Cessation
  - substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete

Disclosures

- accounting policy adopted for borrowing costs
- the amount of borrowing costs capitalised during the period