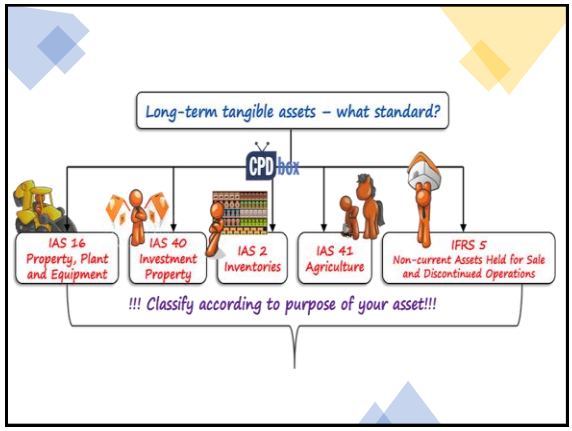
WEEK 3

- Chapter 1: Conceptual Framework
- Chapter 2: Regulatory Framework
- …….

This week:

- Chapter 3: Tangible non-current asset



TOPIC: NON-CURRENT ASSETS

IAS 16 Property, Plant & Equipment

IAS 40 Investment Property

IAS 23 Borrowing Costs

STRUCTURE OF A STANDARD

✓OBJECTIVES

✓SCOPE OF THE STANDARD

✓ACCOUNTING CONCEPTS

✓ACCOUNTING TREATMENT

✓PRESENTATION & DISCLOSURE

IAS 16

✓IAS 16

- PROBLEMS ADDRESSED
- SCOPE OF THE STANDARD
- ACCOUNTING CONCEPTS

PROBLEMS ADDRESSED

IAS 16 covers all aspects of accounting for PPE
+ This represents the bulk of items which are "tangible" NCA

SCOPE OF THE STANDARD

IAS 16 should be followed unless another IAS requires a different treatment

EXCLUDE:

- Biological assets *(IAS 41- Agriculture)*
- PPE held for sale *(IFRS 5 – NCA held for sale & Discontinued Operations)*
- Mineral rights and mineral reserves *(IFRS 6 - Exploration for & Evaluation of mineral resources*

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✓ **PPE are tangible assets &**

- 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 1 period**

IAS 16 - Definitions

✓ **COST**

Is the amount of cash or cash equivalents paid or the FV of the other consideration given to acquire an asset at the time of its acquisition or construction

✓ **RESIDUAL VALUE**

Is the net amount which the entity expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.

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IAS 16 - Definitions

✓ **CARRYING AMOUNT**

Is the amount at which an asset is recognized in the SOFP after deducting any accumulated depreciation & accumulated impairment loss

✓ **RECOVERABLE AMOUNT**

HIGHER VALUE of:
a. The asset's FV less costs of disposal
b. Its value in use (present value)

IAS 36

✓ **FAIR VALUE**

Is the price that would be received to sell an asset or paid to transfer a liability in an **ORDERLY TRANSACTION** between market participants at the measurement date (willing parties – arm's length transaction; IFRS 13)

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✓IAS 16

- ACCOUNTING TREATMENTS

✓RECOGNITION
✓INITIAL MEASUREMENT
✓SUBSEQUENT EXPENDITURE

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RECOGNITION

- It is probable that **future economic benefits** associated with the asset will flow to the entity
- The cost of the asset to the entity can be measured reliably

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INITIAL MEASUREMENT

COST OF PPE

- ✓ **Purchase price** *(less any trade discount or rebate)*
- ✓ **Import duties** and non-refundable purchase taxes
- ✓ **Directly attributable cost** *(Brings asset to working condition for Intended Use)*
- ✓ **Initial estimate:** Dismantling, Removing, Restoring

✓ May include
- borrowing costs (IAS 23)
- government grants (IAS 20)

✓ **NON - COST**

- Administration & other general overhead costs
- Start-up & similar pre-production costs
- Initial operating losses before asset reaches planned performance

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INITIAL MEASUREMENT

DIRECTLY ATTRIBUTABLE COST

- Purchase price
- Delivery costs
- Professional fees, such as legal and architects' fees
- Stamp duty and import duties (and irrecoverable VAT on cars)
- Costs of testing whether the asset is functioning

TYPE OF
SUBSEQUENT EXPENDITURE ???

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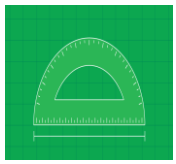
SUBSEQUENT EXPENDITURE

✓ Costs of **repairs - maintain** existing performance: *will be treated as expenses*



✓ The cost of **major** improvements/ major overhauls/ upgrading /extending useful life/ increasing capacity: *may be capitalized*

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Worked example: (P258)

DEPRECIATION SUBSEQUENT EXPENDITURE

Malcolm buys a building on 1.1.X0 for £200,000. On 1.1.X2 he adds an extension that cost £50,000.

Required:

Calculate the annual depreciation charge before and after the is built, on the basis of straight line depreciation over 10 years, with no residual value

Before extension = £ 200,000 / 10 = **£ 20,000 pa**

After extension = £ 200,000 / 10 + £ 50,000 / 8 = **£ 26,250 pa**

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✓IAS 16

- ACCOUNTING TREATMENTS

✓DEPRECIATION

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WHAT IS DEPRECIATION?

The systematic allocation of the cost of an asset, less its residual value, over its estimated useful life.

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DEPRECIATION METHODS

1. Straight line method
2. Reducing balance method
3. The units - of - production method
4. The sum - of - the digits method

The depreciation basis or method selected should be applied consistently from period to period

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STRAIGHT LINE METHOD

✓ The depreciable amount is charged in equal instalments to each reporting period over the useful life of the asset

✓Annual calculation is:

Cost of asset - Residual value
Useful Life of the Asset in years

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REDUCING BALANCE METHOD

✓This method reflects that some new NCAs tending to lose more value in the earlier years than the later years.

✓Calculates the depreciation charge as a fixed percentage of the carrying amount.

✓**Annual calculations are:**

Year One:

Cost of asset * XX%

Year Two onwards:

(Cost of asset - depreciation to date) * XX%

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✓IAS 16

- ACCOUNTING TREATMENTS

✓SUBSEQUENT MEASUREMENT

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MEASUREMENT AFTER RECOGNITION

Accounting policy

COST MODEL

COST

▬

(accumulated depreciation + impairment losses)

REVALUATION MODEL

REVALUED AMOUNT

(FV on revaluation date)

▬

(subsequent depreciation + impairment losses)

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REVALUATION MODEL

FAIR VALUE

(IFRS 13 — Fair Value Measurement)

✓ Must be measurable

✓ IFRS 13 hierarchy of inputs applies

– **Level 1 –** quoted price of same item

– **Level 2 –** quoted price of similar item - adjust

– **Level 3 –** unobservable inputs

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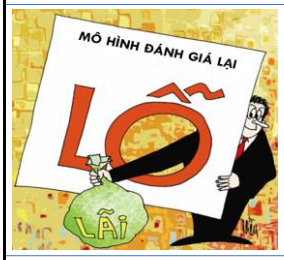
ACCOUNTING TREATMENT

Movement (increase/ decrease)



✓ INCREASE other comprehensive income (accumulated in equity as "revaluation surplus")

✓DECREASE

- expense in profit or loss, or
- other comprehensive income (if previous gain)

✓ **Subsequent accounting**

Transfer to retained earnings is *allowed* but not required
– Annually (depreciation difference)
– On disposal
Must **not** be "recycled" through profit or loss

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EXAMPLE 1

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EXAMPLE 1

On 1/1/2020, a building which cost 150,000; purchased 15 years ago, has been revalued to 180,000. Accumulated depreciation is eliminated upon revaluation. At the time of purchase it had an estimated useful life of 50 years.

What are the entries for the year- ended 31/12/2020?

Net Book value = Cost – Acc Depreciation
= 150,000 – 150,000/50* 15
= 150,000 – 45,000 = 105,000

REVALUATION:

FV today = 180,000
NBV today = 105,000
➔ Revaluation SURPLUS = 180,000 – 105,000 = 75,000

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EXAMPLE 1

Accounting entries: **Unrealized profit**

Dr. NCA-Building	30,000	
Dr. Acc Depreciation	45,000	
Cr. Revaluation surplus		75,000

Before 2020:
Depreciation = 150,000/50 = 3,000
From 2020:
Depreciation = 180,000/35 = 5,143

Dep' Expense ↑ **Profit** ↓ **SHAREHOLDERS**

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EXAMPLE 1

Accounting entries:

Dep' Expense ↑ **Profit** ↓ **SHAREHOLDERS**

Annual adjustment in the next 35 years:

Dr. Revaluation surplus	2,143	
Cr. Retained earnings		2,143

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EXAMPLE 2

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EXAMPLE 2

Lucky company bought an asset for 15,000 at the beginning of 20X6. It had an useful life of 5 years. On Jan, 20X8 the asset was revalued to 18,000. The expected useful life has remained unchanged. Account for the revaluation and state the treatment for depreciation from 20X8 onwards

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EXAMPLE 3

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EXAMPLE 3

1. Micky has an item of land carried in its books at 5,000. Two years ago a slump in land values led the company to reduce the carrying amount from 10,000. **This was taken as an expense in P/L.** There has been a surge in land prices in the current year, however, and the land is now worth 18,000
2. The original cost was 10,000, revalued upwards to 18,000 two years ago. The value has now fallen to 5,000

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ĐỌC THAM KHẢO (Nguồn: BISC)

MỘT SỐ NGUYÊN LÍ CỦA MÔ HÌNH NÀY

Hạch toán theo mô hình Đánh giá lại

Đánh giá thực hiện đều đặn đủ để đảm bảo rằng giá trị còn lại của tài sản không khác biệt trọng yếu với giá trị được xác định bằng cách sử dụng **giá trị hợp lý** vào cuối kỳ báo cáo.

Nếu một bất động sản, nhà xưởng và thiết bị được đánh giá lại, **toàn bộ nhóm bất động sản, nhà xưởng và thiết bị mà tài sản đó thuộc về** phải được đánh giá lại.

Khi TSCĐ hữu hình được đánh giá lại, khấu hao được tính **dựa vào giá trị tài sản được đánh giá lại**

Đánh giá lại → Tăng giá trị → ghi nhận vào **Thu nhập toàn diện khác (Other comprehensive income)** và lũy kế trong vốn chủ sở hữu dưới chỉ tiêu **"Thặng dư đánh giá lại tài sản" (Revaluation Surplus).**
Tuy nhiên, khoản tăng thêm này phải được **ghi nhận trong báo cáo lãi hoặc lỗ** nếu nó bù lại khoản giảm trước đó được ghi nhận trong báo cáo lãi hoặc lỗ do đánh giá lại chính tài sản này.

Đánh giá lại → Giảm giá trị → **Ghi nhận vào Báo cáo Lãi/Lỗ**
Tuy nhiên, khoản giảm này phải được ghi nhận trong thu nhập toàn diện khác nếu thặng dư đánh giá lại tài sản của tài sản đó tồn tại bất kỳ số dư bên có nào. Khoản giảm được ghi nhận trong thu nhập toàn diện khác này làm giảm khoản lũy kế trong vốn chủ sở hữu dưới chỉ tiêu thặng dư đánh giá lại tài sản.

Khoản thặng dư đánh giá lại tài sản được bao gồm trong vốn chủ sở hữu của một bất động sản, nhà xưởng và thiết bị có thể được **kết chuyển trực tiếp sang lợi nhuận sau thuế chưa phân phối** khi tài sản bị dừng ghi nhận. Việc chuyển thặng dư đánh giá lại tài sản sang lợi nhuận sau thuế chưa phân phối **không được thực hiện** thông qua báo cáo lãi hoặc lỗ.

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✓IAS 16

PRESENTATION & DISCLOSURE

✓DERECOGNITION

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NON-CURRENT ASSET DISPOSALS

• A disposal account is used to calculate the profit or loss on disposal of an asset, which is the amount by which the sales proceeds of the asset differs from its carrying amount at the date of disposal.

• When an old asset has been attributed an NRV when given in part-exchange for a new one, the part-exchange value is accounted for as the old asset's disposal proceeds.

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NON-CURRENT ASSET DISPOSALS

- ✓ The following items appear in the disposals account:
- ✓ The value of the asset (at cost)
- ✓ The accumulated depreciation up to the date of sale
- ✓ The disposal proceeds, if any The profit or loss on disposal is the difference between:
  - The disposal proceeds and
  - The carrying amount of the asset at the time of disposal.

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Sales of Non-Current Asset

Cost = 10.000
Acc' Dep = 7.000

Sales of Car:
- BLUE: pay 4,000
- RED pay 2,800

1. Carrying amount (CA) of asset at time of sale
2. Net Sale price (sale price – costs to make sale)

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SALES OF AN ASSET

Proforma	£	£
Net Sale Price		X
Cost of Asset	X	
Less Acc Depreciation to date	(x)	
CA at date of disposal		(X)
Profit/(Loss) On Disposal		X

= Positive therefore a profit i.e. Sale price > CA
= Negative therefore a loss i.e. Sale price < CA

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ACCOUNTING ENTRIES

(1) DEBIT Disposal account £X
CREDIT NCA cost account £X
with the cost of the asset disposed of (the cost of the asset is removed from the SOFP).
(2) DEBIT Accumulated depreciation account £X
CREDIT Disposal account £X
with the accumulated depreciation on the asset as at the date of sale (the accumulated depreciation on the asset is removed from the SOFP).
(3) DEBIT Cash at bank (or receivables) £X
CREDIT Disposal account £X
with the disposal proceeds of the asset.

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Non-current asset disposals

WORKED EXAMPLE – page 267, 268, 269

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EXAMPLE

A business purchased two rivet-making machines on 1 January 20X5 at a cost of $15,000 each. Each had an estimated life of five years and a nil residual value. The straight line method of depreciation issued.

Owing to an unforeseen slump in market demand for rivets, the business decided to reduce its output of rivets, and switch to making other products instead. On 31 March 20X7, one rivet-making machine was sold (on credit) to a buyer for $8,000.

Later in the year, however, it was decided to abandon production of rivets altogether, and the second machine was sold on 1 December 20X7 for $2,500 cash.

Required:

Prepare the machinery account, depreciation of machinery account and disposal of machinery account for the accounting year to 31 December 20X7.

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ACCOUNTING FOR PART- EXCHANGE DISPOSAL

WORKED EXAMPLE (P271):

PART-EXCHANGE PART II

A business trades in an asset that cost £30,000 two years ago for a new asset that costs £60,000. A cheque for £41,000 was also handed over in full settlement.

Assets are depreciated on the straight line basis over 5 years

Requirement:

What are the relevant ledger account entries?

IAS 16 states that the cost of an item obtained through (part) exchange is the fair value of the asset received (unless this cannot be measured reliably).

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✓IAS 16

PRESENTATION & DISCLOSURE

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DISCLOSURES

✓**Each class**
- Measurement bases
- Depreciation methods
- Useful lives or depreciation rates
- Reconciliation of carrying amounts

✓**Other disclosures**
- Restrictions on title/assets pledged as security
- Expenses on assets in the course of construction
- Contractual commitments
- Compensation from third parties

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DISCLOSURES

Revalued items
- Effective date of revaluation
- Whether independent valuer involved
- Capital commitments
- Revaluation surplus – movements

and restrictions on distribution

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IAS 16 - PRACTICES

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QB 24 –p9

Foster has built a new factory incurring the following costs:

	$'000
Land	1,200
Materials	2,400
Labour	3,000
Architect's fees	25
Surveyor's fees	15
Site overheads	300
Apportioned administrative overheads	150
Testing of fire alarms	10
Business rates for first year	12
	7,112

What will be the total amount capitalised in respect of the factory?

A. $6,112,000
B. $6,950,000
C. $7,112,000
D. $7,100,000

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QB 30 –P10

- Wetherby purchased a machine on 1 July 20X7 for $500,000.
- It is being depreciated on a straight line basis over its expected life of 10 years. Residual value is estimated at $20,000.
- On 1 January 20X8, following a change in legislation, Wetherby fitted a safety guard to the machine. The safety guard cost $25,000 and has a useful life of 5 years with no residual value.
- What amount will be charged to profit or loss for the year ended 31 March 20X8 in respect of depreciation on this machine?

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QB 30 –P10

- Ngày 1/7/X7, Wetherby mua 1 máy móc với giá $500,000.
- Tính khấu hao theo đường thẳng trong 10 năm, giá trị thu hồi ước tính là $20,000.
- Ngày 1/1/X8, theo yêu cầu, Wetherby gắn thiết bị bảo vệ cho máy móc trên. Thiết bị này có giá $25,000 với thời gian SD là 5 năm, giá trị thu hồi ước tính = 0
- Hãy tính chi phí khấu hao trong năm tài chính kết thúc vào ngày 31/3/X8 đối với máy móc này?

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QB 31 –P11

- Auckland Co. purchased a machine for 60,000 on 1, Jan, 20X7 and assigned it a useful life of 15 years
- On 31, Mar 20X9 it was revalued to 64,000 with no change in useful life
- What will be depreciation charge in relation to this machine in the financial statements of Auckland Co for the year ending 31, Dec 20X9?

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IAS 40

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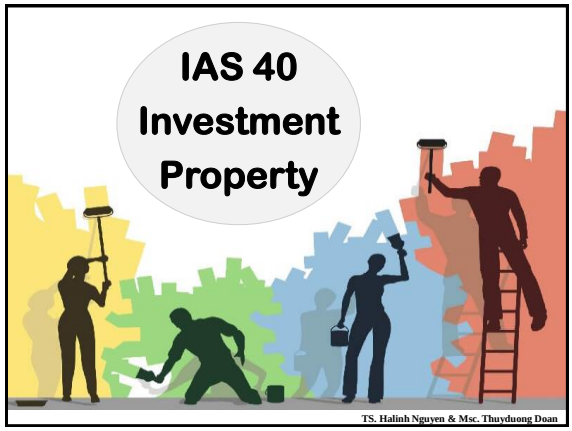

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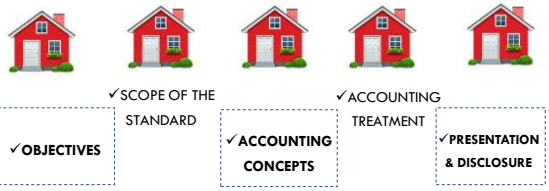
STRUCTURE OF A STANDARD



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✓IAS 40

- **PROBLEMS ADDRESSED**
- **SCOPE OF THE STANDARD**
- **ACCOUNTING CONCEPTS**

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PROBLEMS ADDRESSED

+ IAS 40 Investment Property applies to the accounting for property (land and/or buildings) held to earn **rentals** or for capital appreciation (or both)
+ measured using a cost model or fair value model,

SCOPE OF THE STANDARD

IAS 40 applies to investment properties

EXCLUDE:

IAS 40

- Owner-occupied property under IAS 16
- NCA held for sale in IFRS 5; Inventories in IAS 2
- Leases within IFRS 16
- Property being constructed or developed (IFRS15)
- Biological assets *(IAS 41- Agriculture)*
- Mineral rights and mineral reserves *(IFRS 6 - Exploration for & Evaluation of mineral resources)*

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DEFINITIONS

INVESTMENT PROPERTY

is property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to ***earn rentals*** or for ***capital appreciation*** or both, rather than for:

(a) Use in the production or supply of goods or services or for administrative purposes, or

(b) Sale in the ordinary course of business.

OWNER-OCCUPIED PROPERTY

is property held by the owner (or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes

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EXAMPLE: YES/NO for Investment Property

	YES	NO	Ref
1. Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of business	X		
2. Land has been decided to keep and sell when its value has risen	X		
3. A building owned by the reporting entity (or held by the entity under a finance lease) and leased out under an operating lease	X		
4.Property intended for sale in ordinary course of business		X	
5. A building held by a parent and leased to a subsidiary.	X		
6.Owner-occupied properties		X	
7.Property being constructed or developed on behalf of third parties		X	
8. Property that is being constructed or developed for future use as an investment property	X		

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RECOGNITION

a) It is probable that **future economic benefits** associated with the INVESTMENT PROPERTY will flow to the entity
b) The cost of the INVESTMENT PROPERTY to the entity can be **measured reliably**

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INITIAL MEASUREMENT

- ✓ **An investment property should be measured initially at its cost, including transaction costs**
- ✓ A right-of-use asset classified as an investment property should be measured in accordance with IFRS 16

SUBSEQUENT MEASUREMENT

IAS 40 requires an entity to choose between two models:

- ✓ Cost model
- ✓ Fair value model

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FAIR VALUE MODEL

A. After initial recognition, an entity that chooses the FV model should measure all of its investment property at FV, except in the extremely rare cases where this cannot be measured reliably. In such cases it should apply the IAS 16 cost model.
B. A gain or loss arising from a change in the FV of an investment property should be recognised in net profit or loss for the period in which it arises.
C. The FV of investment property should reflect market conditions at the end of the reporting period.

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QB 27-p10: Investment Property

Which one of the following would be recognised as an investment property under IAS 40 in the consolidated financial statements of Buildco?

A. A property intended for sale in the ordinary course of business

B. A property being constructed for a customer

C. A property held by Buildco under a finance lease and leased out under an operating lease

D. A property owned by Buildco and leased out to a subsidiary

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QB 28-p10: Investment Property

Identify whether the following statements are T/F in accordance with IAS 40?

A. Following initial recognition, investment property can be held at either cost or fair value.

B. If an investment property is held at fair value, this must be applied to all of the entity's investment property.

C. An investment property is initially measured at cost, including transaction costs.

D A gain or loss arising from a change in the fair value of an investment property should be recognized in the revaluation surplus

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QB 32-p11: Investment Property

- Carter vacated an office building and let it out to a third party on 30 June 20X8.
- The building had an original cost of $900,000 on 1 Jan 20X0 and was being depreciated over 50 years.
- It was judged to have a fair value on 30 June 20X8 of $950,000. At the year end date of 31 December 20X8 the fair value of the building was estimated at $1.2 million.
- Carter uses the fair value model for investment property.
- ***What amount will be shown in revaluation surplus at 31 December 20X8 in respect of this building?***

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✓IAS 40

TRANSFER

DERECOGNISION

ACCOUNTING TREATMENTS

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TRANSFERS

- ✓ Transfers to or from investment property should only be made when there is a change in use.
- ✓ For example, owner occupation commences so the investment property will be treated under IAS 16 as an owner-occupied property.
- ✓ When there is a transfer from investment property carried at fair value to owner-occupied property or inventories, the property's cost for subsequent accounting under IAS 16 or IAS 2 should be its fair value at the date of change of use.
- ✓ Conversely, an owner-occupied property may become an investment property and need to be carried at fair value. An entity should apply IAS 16 up to the date of change of use. It should treat any difference at that date between the carrying amount of the property under IAS 16 and its fair value as a revaluation under IAS 16

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DERECOGNISE

- Derecognise (eliminate from the statement of financial position) an investment property on disposal or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal.
- Any gain or loss on disposal is the difference between the net disposal proceeds and the carrying amount of the asset. It should generally be recognised as income or expense in profit or loss.
- Compensation from third parties for investment property that was impaired, lost or given up shall be recognised in profit or loss when the compensation becomes receivable

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***EXAMPLE*: Transfer to Investment Property**

- A business owns a building which it has been using as a head office.
- In order to reduce costs, on 30 June 20X9 it moved its head office functions to one of its production centres and is now letting out its head office.
- Company policy is to use the fair value model for investment property.
- The building had an original cost on 1 January 20X0 of $250,000 and was being depreciated over 50 years.
- At 31 December 20X9 its fair value was judged to be $350,000.
- How will this appear in the financial statements at 31 December 20X9?

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Solution

- The building will be depreciated up to 30 June 20X9.

Original cost 250,000	
Depreciation 1.1.X0 – 1.1.X9 (250/50 * 9) = (45,000)	
Depreciation to 30.6.X9 (250/50 * 6/12) =	(2,500)
Carrying amount at 30.6.X9	202,500
Revaluation surplus	147,500
Fair value at 30.6.X9	350,000

✓The difference between the CA and FV is taken to a revaluation surplus in accordance with IAS 16.

✓ However the building will be subjected to a fair value exercise at each year end and these gains or losses will go to profit or loss.

✓If at the end of the following year the fair value of the building is found to be $380,000, $30,000 will be credited to profit or loss.

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IAS 23

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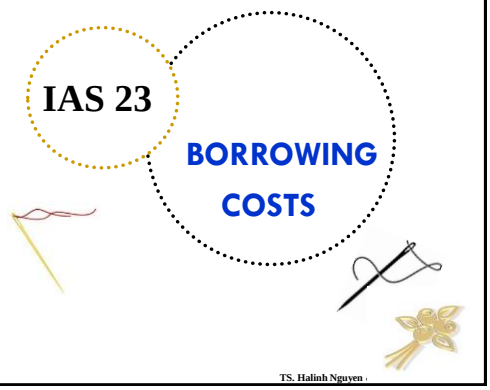

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✓IAS 23

- OBJECTIVES
- SCOPE OF THE STANDARD
- ACCOUNTING CONCEPTS

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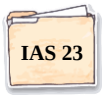
OBJECTIVES The objective of IAS 23: prescribe the accounting treatment for borrowing costs. Borrowing costs include

- ✓ interest on bank overdrafts and borrowings – effective interest – IFRS 9
- ✓ finance charges on finance leases – IFRS 16
- ✓ and exchange differences on foreign currency borrowings – IAS21 (where they are regarded as an adjustment to interest costs)

SCOPE OF THE STANDARD

EXCLUDE: Two qualifying assets are excluded: qualifying assets measured at fair value:



- ✓ biological assets accounted for under IAS 41 Agriculture
- ✓ inventories that are manufactured, or otherwise produced, in large quantities on a repetitive basis and that take a substantial period to get ready for sale (for example, maturing whisky)

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Key terms

Borrowing costs. Interest and other costs incurred by an entity in connection with the borrowing of funds.

Qualifying asset. An asset that necessarily takes a substantial period of time to get ready for its intended use or sale. *(IAS 23)*

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IAS 23 BORROWING COSTS

- ✓ **Borrowing costs** will be capitalised where the impact is material
- ✓ **Capitalisation**

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (actual borrowing costs incurred on those borrowings during the period, less any investment income on the temporary investment of those borrowings)

- ✓ **Capitalisation rate**

The weighted average of the borrowing costs applicable to the entity's borrowings that are outstanding during the period, excluding borrowings made specifically to obtain a qualifying asset. It must not exceed actual borrowing costs incurred.

- ✓ Carrying amount exceeds recoverable amount: written down or written off

Q24P10

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QUESTION – p52

- ✓ On 1 Jan 20X6 Stremans Co borrowed $1.5m to finance the production of two assets, both of which were expected to take a year to build.
- ✓ Work started during 20X6.
- ✓ The loan facility was drawn down and incurred on 1 January 20X6,
- ✓ and was utilised as follows, with the remaining funds invested temporarily.

	Asset Alpha	Asset Beta
	$'000	$'000
1 Jan 20X6	250	500
1 July 20X6	250	500

The loan rate was 9% and Stremans Co can invest surplus funds at 7%.

Required

Ignoring compound interest, calculate the borrowing costs which may be capitalised for each of the assets and consequently the cost of each asset as at 31 December 20X6.

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QUESTION – p53

Acruni Co had the following loans in place at the beginning and end of 20X6.

	1 Jan	31 Dec
	$m	$m
10% Bank loan repayable 20X8	120	120
9.5% Bank loan repayable 20X9	80	80
8.9% debenture repayable 20X7	–	150

The 8.9% debenture was issued to fund the construction of a **qualifying asset** (a piece of mining equipment), construction of which began on ***1 July 20X6.***

On 1 Jan 20X6, Acruni Co began construction of a qualifying asset, ***a piece of machinery for a hydroelectric plant***, using existing borrowings. Expenditure drawn down for the construction was: $30m on 1 Jan 20X6, $20m on 1 Oct 20X6.

Required

Calculate the borrowing costs that can be capitalised for the hydro-electric plant machine.

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Question 24

(in Revision Kit 2016)

Rather than take out a loan specifically for the new store Apex could have funded the store from existing borrowings which are:

(i) 10% bank loan $50 million

(ii) 8% bank loan $30 million

In this case it would have applied a 'capitalisation rate' to the expenditure on the asset. **What would that rate have been?**

A. 10%

B. 8.75%.

C. 9%

D 9.25%

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QUESTION 25 – P9
Revision Kit 2020

- ✓ Carriageways Co had the following bank loan outstanding during the whole of 20X8 which form the company's general borrowings for the year:

	$ m
9% loan repayable 20X9	15
11% loan repayable 20Y2	24

- ✓ Carriageways Co began construction of a qualifying asset on 1 April 20X8 and withdrew funds of $ 6 million on that date to fund construction. On 1 August 20X8, an additional $ 2 million was withdrawn for the same purpose
- ✓ Calculate the borrowing costs which can be capitalized in respect off this project for the year ended 31 Dec 20X8

A. $ 549,333

B. $ 411,999

C. $ 750,000

D. $ 350,000

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QUESTION 26 – p10
Revision Kit 2020

- ✓ Leclerc has borrowed $2.4 million to finance the building of a factory.
- ✓ Construction is expected to take two years.
- ✓ The loan was drawn down and incurred on 1 Jan 20X9 and work began on 1 Mar 20X9.
- ✓ $1 million of the loan was not utilised until 1 July 20X9 so Leclerc was able to invest it until needed.
- ✓ Leclerc is paying 8% on the loan and can invest surplus funds at 6%.

Calculate the borrowing costs to be capitalised for the year ended 31 December 20X9 in respect of this project.

A. $140,000
B. $192,000
C. $100,000
D. $162,000

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QUESTION 29 – p10
Revision Kit 2020

FIDO FEED Ltd company has the following loans in place throughout the year ended 31 Dec 20X8.

	$m
10% bank loan	140
8% bank loan	200

On 1 July 20X8 $50 million was drawn down for construction of a qualifying asset which was completed during 20X9.

What amount should be capitalised as borrowing costs at 31 December 20X8 in respect of this asset?

A. $5.6 million
B. $2.8 million
C. $4.4 million
D. $2.2 million (2 marks)

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✓IAS 23

- COMMENCEMENT OF CAPITALISATION
- SUSPENSION OF CAPITALISATION
- CESSATION OF CAPITALISATION

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✓ COMMENCEMENT OF CAPITALIZATION

- Expenditure on the asset is being incurred
- Borrowing costs are being incurred
- Activities are in progress that are necessary to prepare the asset for its intended use or saie

✓ SUSPENSION OF CAPITALISATION

- If active deveiopment is interrupted for any extended periods
- Not necessary for temporary delays or for periods when substantiai technicai or administrative work is taking piace

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CESSATION OF CAPITALISATION:

- ✓ The activities necessary to prepare the qualifying asset for its intended use or sale are completed,
- ✓ The asset may be completed in parts or stages, where each part can be used while construction is still taking place on the other parts. Capitalisation of borrowing costs should cease for each part as it is completed. The example given by the standard is a business park consisting of several buildings.

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✓IAS 23

ACCOUNTING TREATMENT

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✓ **RECOGNITION**

- All borrowing costs that relate to a qualifying asset must be capitalised
- All other borrowing costs will be expensed when incurred

✓ **DISCLOSURE**

The following should be disclosed in the financial statements in relation to borrowing costs.

(a) Amount of borrowing costs capitalised during the period

(b) Capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation

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