Companies (Accounting Standards) (Amendment No. 2) Regulations 2007

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No. S 375

COMPANIES ACT
(CHAPTER 50)

COMPANIES (ACCOUNTING STANDARDS) (AMENDMENT NO. 2)
REGULATIONS 2007

In exercise of the powers conferred by section 200A(1) of the Companies Act, the Accounting Standards Committee (known as the Council on Corporate Disclosure and Governance), with the approval of the Minister for Finance, hereby makes the following Regulations:

Citation and commencement

1. These Regulations may be cited as the Companies (Accounting Standards) (Amendment No. 2) Regulations 2007 and shall come into operation on 31st July 2007.

Amendment of Third Schedule

2. The Third Schedule to the Companies (Accounting Standards) Regulations (Rg 6) is amended by deleting paragraphs (i) and (ii) in the third column of the item relating to FRS 23 and substituting the following paragraph:

"Delete paragraphs 1 to 31 of IAS 23 and substitute the following paragraphs:

Core Principle

1. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset formed part of the cost of that asset. Other borrowing costs are recognised as an expense.

Scope

2. An entity shall apply this Standard in accounting for borrowing costs.

3. The Standard does not deal with the actual or imputed cost of equity, including preferred capital not classified as a liability.

4. An entity is not required to apply the Standard to borrowing costs directly attributable to the acquisition, construction or production of:

(*a*) a qualifying asset measured at fair value, for example a biological asset; or

(*b*) inventories that are manufactured, or otherwise produced, in large quantities on a repetitive basis.

Definition

5. This Standard uses the following terms with the meanings specified:

[Borrowing costs are interest and other costs that an entity incurs in connection with 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.]

6. Borrowing Costs may include:

(*a*) interest on bank overdrafts and short-term and long-term borrowings;

(*b*) amortisation of discounts or premiums relating to borrowings;

(*c*) amortisation of ancillary costs incurred in connection with the arrangement of borrowings;

(*d*) finance charges in respect of finance leases recognised in accordance with FRS 17 Leases; and

(*e*) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

7. Depending on the circumstances, any of the following may be qualifying assets:

(*a*) inventories

(*b*) manufacturing plants

(*c*) power generation facilities

(*d*) intangible assets

(*e*) investment properties.

Financial assets, and inventories that are manufactured, or otherwise produced, over a short period of time, are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

Recognition

8. An entity shall capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. An entity shall recognise other borrowing costs as an expense in the period in which it incurs them.

9. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are included in the cost of that asset. Such borrowing costs are capitalised as part of the cost of the asset when it is probable that they will result in future economic benefits to the entity and the costs can be measured reliably. When an entity applies FRS 29 Financial Reporting in Hyperinflationary Economies, it recognises as an expense the part of borrowing costs that compensates for inflation during the same period in accordance with paragraph 21 of that Standard.

Borrowing costs eligible for capitalisation

10. The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are those borrowing costs that would have been avoided if the expenditure on the qualifying asset had not been made. When an entity borrows funds specifically for the purpose of obtaining a particular qualifying asset, the borrowing costs that directly relate to that qualifying asset can be readily identified.

11. It may be difficult to identify a direct relationship between particular borrowings and a qualifying asset and to determine the borrowings that could otherwise have been avoided. Such a difficulty occurs, for example, when the financing activity of an entity is co-ordinated centrally. Difficulties also arise when a group uses a range of debt instruments to borrow funds at varying rates of interest, and lends those funds on various bases to other entities in the group. Other complications arise through the use of loans denominated in or linked to foreign currencies, when the group operates in highly inflationary economies, and from fluctuations in exchange rates. As a result, the determination of the amount of borrowing costs that are directly attributable to the acquisition of a qualifying asset is difficult and the exercise of judgement is required.

12. To the extent that an entity borrows funds specifically for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

13. The financing arrangements for a qualifying asset may result in an entity obtaining borrowed funds and incurring associated borrowing costs before some or all of the funds are used for expenditures on the qualifying asset. In such circumstances, the funds are often temporarily invested pending their expenditure on the qualifying asset. In determining the amount of