Accounting Standards for Enterprises No. 17 - Borrowing Costs

Cai Kuai [2006] No. 3

Chapter I General Provisions

Article 1With a view to regulating the recognition and measurement of borrowing costs, and the disclosure of relevant information, the present Standards are formulated according to the Accounting Standards for Enterprises - Basic Standard.

Article 2The term "borrowing costs" refers to the interest and other relevant costs, which are incurred by an enterprise in the borrowing of loans.

The borrowing costs shall include interest on borrowings, amortization of discounts or premiums on borrowings, ancillary expenses, and exchange balance on foreign currency borrowings.

Article 3The financing costs related to the financing leases shall be subject to the Accounting Standards for Enterprises No. 21 - Leases.

Chapter II Recognition and Measurement

Article 4Where the borrowing costs incurred to an enterprise can be directly attributable to the acquisition and construction or production of assets eligible for capitalization, it shall be capitalized and recorded into the costs of relevant assets.

Other borrowing costs shall be recognized as expenses on the basis of the actual amount incurred, and shall be recorded into the current profits and losses.

The term "assets eligible for capitalization" shall refer to the fixed assets, investment real estate, inventories and other assets, of which the acquisition and construction or production may take quite a long time to get ready for its intended use or for sale.

Article 5The borrowing costs shall not be capitalized unless they simultaneously meet the following requirements:

(1)The asset disbursements have already incurred, which shall include the cash, transferred non-cash assets or interest bearing debts paid for the acquisition and construction or production activities for preparing assets eligible for capitalization;

(2)The borrowing costs has already incurred; and

(3)The acquisition and construction or production activities which are necessary to prepare the asset for its intended use or sale have already started.

Article 6During the period of capitalization, the to-be-capitalized amount of interests (including the amortization of discounts or premiums) in each accounting period shall be determined according to the following provisions:

(1)As for specifically borrowed loans for the acquisition and construction or production of assets eligible for capitalization, the to-be-capitalized amount of interests shall be determined in light of the actual cost incurred of the specially borrowed loan at the present period minus the income of interests earned on the unused borrowing loans as a deposit in the bank or as a temporary investment.

The term "specifically borrowed loan" shall refer to a fund which is borrowed specifically for the acquisition and construction or production activities of assets eligible for capitalization.

The copyright and/or other intellectual property rights of China Business Engine including related text, images, charts, sound, animation, and videos, and their arrangement on the China Business Engine website, are protected by copyright and other protective laws.

(2)Where a general borrowing is used for the acquisition and construction or production of assets eligible for capitalization, the enterprise shall calculate and determine the to-be-capitalized amount of interests on the general borrowing by multiplying the weighted average asset disbursement of the part of the accumulative asset disbursements minus the general borrowing by the capitalization rate of the general borrowing used.

The capitalization rate shall be calculated and determined in light of the weighted average interest rate of the general borrowing.

The capitalization period shall refer to the period from the commencement to the cessation of capitalization of the borrowing costs, excluding the period of suspension of capitalization of the borrowing costs.

Article 7Where there is any discount or premium, the amount of discounts or premiums that shall be amortized during each accounting period shall be determined by the real interest rate method, and an adjustment shall be made to the amount of interests in each period.

Article 8During the period of capitalization, the amount of interest capitalized during each accounting period shall not exceed the amount of interest actually incurred to the relevant borrowings in the current period.

Article 9During the period of capitalization, the exchange balance on foreign currency borrowings shall be capitalized, and shall be recorded into the cost of assets eligible for capitalization.

Article 10For the ancillary expense incurred to a specifically borrowed loan, those incurred before a qualified asset under acquisition, construction or production is ready for the intended use or sale shall be capitalized at the incurred amount when they are incurred, and shall be recorded into the costs of the asset eligible for capitalization;

those incurred after a qualified asset under acquisition and construction or production is ready for the intended use or sale shall be recognized as expenses on the basis of the incurred amount when they are incurred, and shall be recorded into the profits and losses of the current period.

The ancillary expenses arising from a general borrowing shall be recognized as expenses at their incurred amount when they are incurred, and shall be recorded into the profits and losses of the current period.

Article 11Where the acquisition and construction or production of a qualified asset is interrupted abnormally and the interruption period lasts for more than 3 months, the capitalization of the borrowing costs shall be suspended.

The borrowing costs incurred during such period shall be recognized as expenses, and shall be recorded into the profits and losses of the current period, till the acquisition and construction or production of the asset restarts.

If the interruption is a necessary step for making the qualified asset under acquisition and construction or production ready for the intended use or sale, the capitalization of the borrowing costs shall continue.

Article 12When the qualified asset under acquisition and construction or production is ready for the intended use or sale, the capitalization of the borrowing costs shall be ceased.

The borrowing costs incurred after the qualified asset under acquisition and construction or production is ready for the intended use or sale shall be recognized as expenses at the incurred

The copyright and/or other intellectual property rights of China Business Engine including related text, images, charts, sound, animation, and videos, and their arrangement on the China Business Engine website, are protected by copyright and other protective laws.

amount when they are incurred, and shall be recorded into the profits and losses of the current period.

Article 13The qualified assets under acquisition and construction or production, which have been ready for the intended use or sale, shall be judged from the following aspects:

(1)The substantial construction (including installation), or the production of the qualified assets has been finished completely or substantially;

(2)The qualified assets under acquisition and construction or production meet or basically meet the design requirements, contractual provisions or production requirements, even if there is any specific discrepancy between it and the design, contractual or production requirements, its normal use or sale is not affected;

(3)The amount of continuing disbursements for the qualified assets under acquisition and construction or production is very small, or nearly no such disbursement incurs.

Where a qualified asset under acquisition and construction or production needs trial production or trial operation, it shall be deemed to be ready for the intended use or sale, when the result of the trial production indicates that the asset is able to normally produce qualified products, or when the trial operation result indicates that the asset is able to run or operate normally,.

Article 14Where each part of a qualified asset under acquisition and construction or production is completed separately and is ready for use or sale during the continuing construction of other parts, and if the acquisition and construction or production activities which are necessary to prepare this part of the asset for the intended use or sale have already been completed substantially, the capitalization of the borrowing costs in relation to this part of asset shall be ceased.

Where each part of a asset under acquisition and construction or production is completed separately and is ready for use or sale during the continuing construction of other parts, but it can not be used or sold until the asset is entirely completed, the capitalization of the borrowing costs shall be ceased when the asset is completed entirely.

Chapter III Disclosure

Article 15An enterprise shall, in its notes, disclose the following information related to the borrowing costs:

(1)the amount of the borrowing costs which is capitalized in the current period; and

(2)the capitalization rate, which is used for calculating and determining the amount of the borrowing costs to be capitalized in the current period.

The copyright and/or other intellectual property rights of China Business Engine including related text, images, charts, sound, animation, and videos, and their arrangement on the China Business Engine website, are protected by copyright and other protective laws.