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MINISTRY OF FINANCE AND PLANNING

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எனது இல. } SA/MA/DO/Circular-2013
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Your No. }

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திகதி } 2013.11. 29
Date }

State Accounts Circular No: 230/2013

All Secretaries to Ministries

Head of Departments

District Secretaries

Dear Sir/Madam,

Capitalization of Borrowing Cost

It is hereby instructed to capitalize borrowing cost which is incurred in connection with the acquisition, construction or production of qualifying assets mentioned in Paragraph 1 of the Circular, under local and foreign borrowing, from the year 2013, in line with the Sri Lanka Public Sector Accounting Standards No.4 outlined in Department of Public Enterprises Circular No.03/2013 of 02.10.2013.

1. Qualifying assets

Qualifying assets are office buildings, hospitals, and infrastructure assets such as roads, bridges, power generation facilities and assets that require a substantial period of time to bring them to the condition ready for its intended use or sale.

2. Types of borrowing costs which could be capitalized.

- i. Interest on bank overdraft and short term and long term borrowings
- ii. Amortization of discounts or premiums relating to borrowings
- iii. Amortization of ancilliary costs incurred in connection with the arrangement of borrowings
- iv. Finance charges in respect of finance leases
- v. Exchange differences arising from the foreign currency borrowings to the extent that they are regarded as an adjustment to the interest cost.

3. Capitalization of borrowing costs as part of the cost of qualifying assets should commence only when following instances are completed.
 - i. Outlays for the assets are being incurred
 - ii. Borrowing cost are being incurred and,
 - iii. Activities that are necessary to prepare the asset for its intended use or sale are in progress.

4. Accordingly, the respective ministries and departments should take action as stated below, to capitalize the borrowing cost, that is interest and exchange differences as part of the cost of the qualifying asset.
 - i. Interest paid during the year for local and foreign loans obtained on behalf of the Qualifying assets and adjustment relating to the changes in foreign exchange would be surcharged at the end of the year to relevant recurrent vote and capitalized to respective project accounts by the Department of Treasury Operations. Hence Ministry/Department which acquire or construct such qualifying assets should get adequate provisions under the relevant vote for the capitalization of borrowing cost.
 - ii. Capitalization of borrowing costs should be done only during the period that the relevant development project is in progress and borrowing cost which is incurred when project is not in operation or after completion of the project should not be capitalized.

5. In all matters regarding capitalization of borrowing costs included in the above instructions, "Sri Lanka Public Sector Accounting Standard No.4" should be adhered to and any further clarifications regarding this circular should be addressed to 011-2484753 of Director Macro and Accrual Accounts- Department of State Accounts.

Yours Faithfully,



P.B.Jayasundera

Secretary

Copies:

1. Auditor General
2. Director General - Department of National Budget
3. Director General - Department of Treasury Operations