

**TABLE 1: SOLUTION TO EXAMPLE 1**

<b>Solution</b>		
<b>Component</b>	<b>Amount \$000</b>	<b>Reason</b>
Purchase of the site	10,000	Cost includes cost of purchase
Dismantling costs	500	Site preparation costs represent a direct cost of getting the asset ready for use
Materials	6,000	All used in constructing the factory
Employment costs	1,600	Allowed to include employment costs in the construction period, so $\frac{8}{9} \times 1,800$ included
Production overheads	1,000	Production overheads a direct cost of getting the asset ready for use but must exclude abnormal element
Administrative overheads	Nil	Only direct costs allowed to be capitalised
Architects' fees	400	Architects' fees a direct cost of getting the asset ready for use
Relocation costs	Nil	Specifically disallowed by IAS 16 – not part of getting the asset ready for use
Costs of opening the factory	Nil	Specifically disallowed by IAS 16 – not part of getting the asset ready for use
Capitalised interest	800	As per IAS 23, can capitalise interest for the period of construction (ie $12,000 \times 10\% \times \frac{8}{12}$ )
Restoration costs	429	The present value of \$2m payable in 20 years at 8%
Total cost of factory	<u>20,729</u>	