



## Solution 122.6

<b>Component</b>	Telecommunication entities
<b>Index</b>	Property, plant and equipment
<b>Short title</b>	Capitalisation of rental expenses

**Attention:** This guidance is based on the revised standards and interpretations that are mandatory for accounting periods commencing 1 January 2005. A company may early adopt an individual revised standard, but only in its entirety. Guidance based on the previous version of the standards is included in the “Applying IFRS 2004” guidance.

### Issue

The cost of an item of PP&E comprises, inter alia, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner that management intends [IAS16R.16].

Should an operator capitalise rental expenses?

### Background

Operator A is constructing a section of its mobile network. A has entered into cell site rental agreements with various landowners to locate the cell site equipment. A pays 1,000 a month for the rental of the cell sites. A will pay the same level of rental expense after the network is launched.

### Solution

Operator A should expense the rental of 1,000 as incurred throughout the network’s construction stage.

Site rental costs will be incurred before and during the network operating stage. The costs are not incremental and they are not directly attributable to the process of bringing network assets to their working condition. Therefore, they should be expensed as incurred.

The rentals are part of the start-up costs, which should be expensed as incurred [IAS38R.69].

Lease payments under an operating lease should be recognised on a straight-line basis over the lease term unless another systematic basis is representative of the time pattern of the user’s benefit [IAS17R.33]. A derives benefit from the lease from day one, because it has access to the site in order to install its equipment. Therefore, the straight-line basis of recognising the lease payments is appropriate. Rentals incurred before the network is operational should not be capitalised.