

AS 16 - Borrowing Costs

loan lena

loan ke upar
logne wala **Interest**

↓
Normally PIL (Exp)

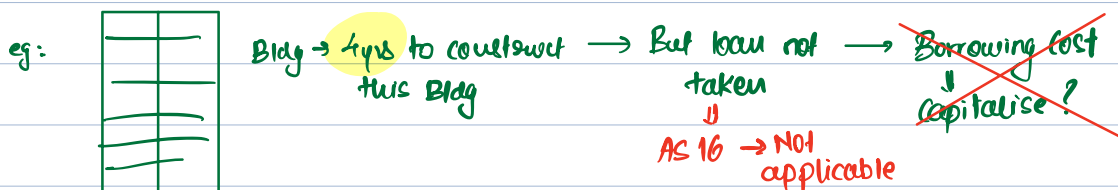
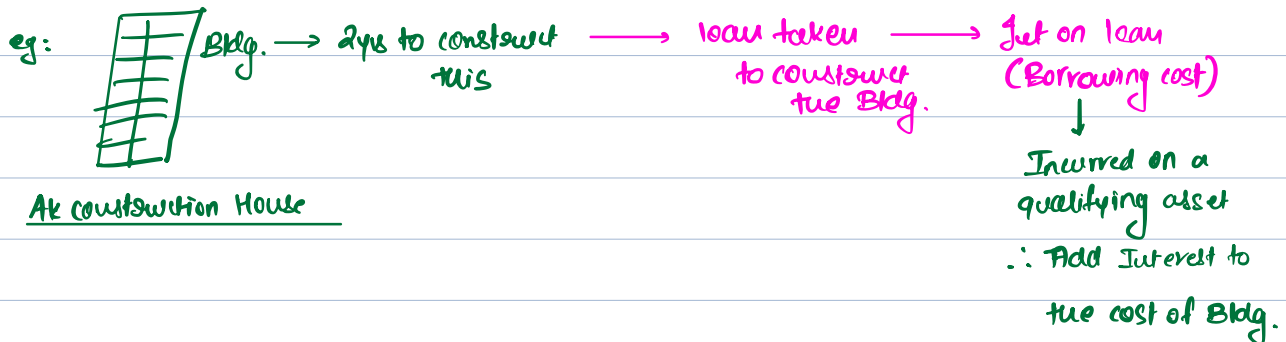
1) Definitions

① **Borrowing costs** → These are Interest & other costs incurred on Borrowing of funds.

Borrowing cost incurred on **Qualifying Assets** will be Capitalised (i.e. Add to the cost of Asset)

(generally 12 months or more)

② **Qualifying Asset** → Asset which takes substantial period of time to get ready for its intended use or sale.



2 things mandatory

① loan lena padega

② Qualifying asset pe kharecha karna padega.

→ AS 16 - Borrowing cost Applicable

Int Exp will be capitalised to cost of asset.

<u>J-E</u>
Bldg (Int Exp) xx
TO ClB xx

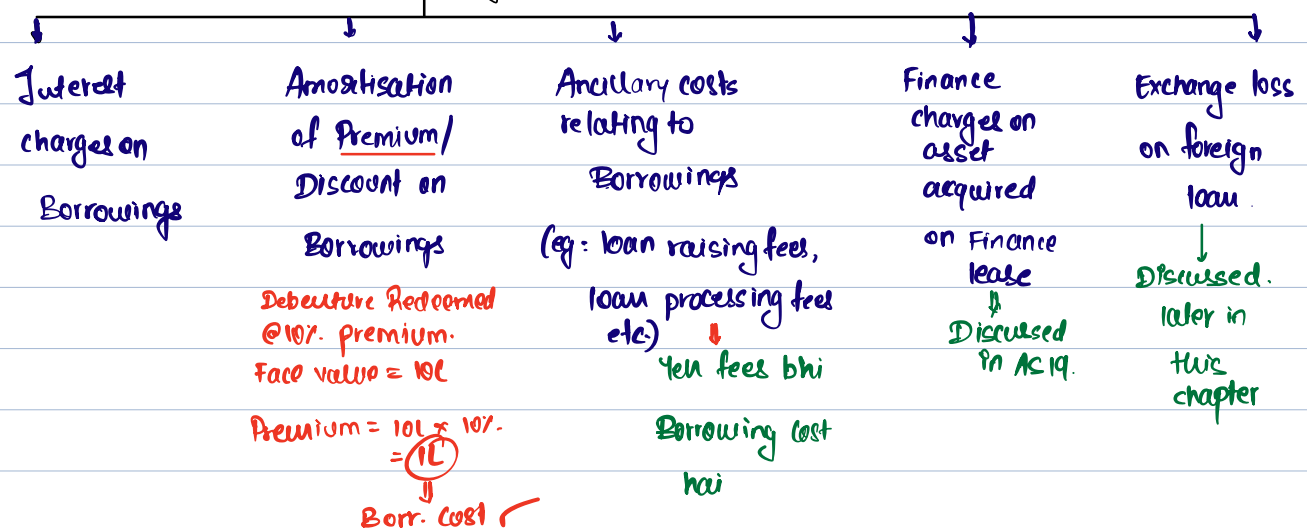
Note:

1) Generally a period of 12 months or more is considered to be substantial for qualifying asset, but in some cases a shorter period of less than 12 months can also be considered substantial, if justified.

2) The following types of Borrowings will **Not** be covered under AS 16.

- Ⓐ Borrowing funds by issuing equity share capital
- Ⓑ Borrowing funds by issuing preference share capital.

3) Various types of Borrowing costs covered in AS 16.



4] Examples of Qualifying Assets

- PPE, Intangible Assets, Investment property, Inventories
(AS 10) (AS 26) (AS 13)
- Contract to its taking 12 months or more to get ready → **Qualifying Asset**
- If purchased in ready made condition → **Not a qualifying Asset**
- Readymade investment purchased like investment in eq. share → **Not a Qualifying Asset.**

② Borrowing cost eligible for capitalisation

If Directly related

to Acquisition, construction,
production of Qualifying
Assets



Capitalised

If incurred for other than

Qualifying Assets



Trf to P/L

③ Type of Borrowings

① Specific Borrowings

② General Borrowings

④ Specific Borrowings

→ These are Borrowings specifically taken for qualifying assets

→ Borrowing cost eligible for capitalised

= Actual Borrowing cost during construction period

xxx

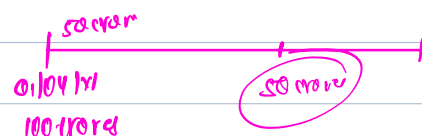
less: Income on Temporary Investments of idle funds of these Borrowings (xx)

Eg ① Specific Borrowings

Loan taken on 01/04/11 of ₹ 100 crores @ 12% for 12 months for construction of a Bldg which was completed on 31/3/12.

The company invested idle funds of loan & earns ₹ 0.5 crores.

Calculate Borrowing cost to be capitalised.



Solⁿ:

$$\text{Total Borrowing cost incurred } 100\text{cr} \times 12\% \times \frac{12\text{m}}{12\text{m}} = 12\text{crores}$$

$$\text{Less: Income from Temporary Invst of idle funds} = \underline{0.5\text{ crores}}$$

$$\text{Borrowing cost to be cap} = \underline{11.5\text{ crores}}$$

② General Borrowings

- All Borrowings that are not specific are general Borrowings.
- In this case, Qualifying Asset is funded from a pool of general Borrowings.
- Borrowing cost eligible for capitalisation in case of general Borrowings is calculated as follows:

CR/WACC/WACR

Step ① Calculate Capitalisation Rate (weighted Average Cost of Capital / weighted Avg Capitalisation Rate)

$$= \frac{\text{Total Interest (weighted Avg)}}{\text{Total Borrowings (weighted Avg)}}$$

Step ② Calculate Borrowing cost to be capitalised.

$$= \text{Expenditure Amt} \times \text{Capitalisation Rate} \times \text{No. of months that expenditure was outstanding}$$

Eg ① Generally Borrowings

₹

01/04/21 → ICICI Bank @ 12% → 100 crores

→ HDFC Bank @ 14% → 75 crores.

175 crores

Funds utilized for construction of Bldg → (construction started on 01/04/21 & completed on 31/3/22)

01/04/21 → 50 crores

01/07/21 → 75 crores

01/01/22 → 25 crores

Calculate Borrowing Cost to be capitalised.

Solⁿ: Step ① Capitalization Rate / WACC / WACR

$$= \frac{\text{Total Interest (Weighted Avg)}}{\text{Total Borrowings (Weighted Avg)}} \times 100$$

$$= \frac{100 \text{ cr} \times 12\% + 75 \text{ cr} \times 14\%}{175 \text{ cr}} \times 100$$

$$= 12.86\% \text{ approx}$$

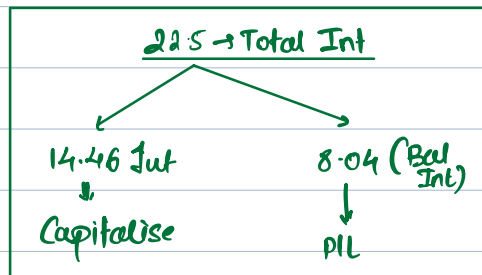
Step ② Borrowing Cost to be capitalised

$$01/04/21 \rightarrow 50 \text{ crores} \times 12.86\% \times 12\text{m}/12\text{m} = 6.43$$

$$01/07/21 \rightarrow 75 \text{ crores} \times 12.86\% \times 9\text{m}/12\text{m} = 7.23$$

$$01/01/22 \rightarrow 25 \text{ crores} \times 12.86\% \times 3\text{m}/12\text{m} = 0.80$$

Borrowing Cost eligible for Capitalisation 14.46 crores



Eg: General Borrowing

01/04/21 General Borrowings

ICSI Bank loan @ 10% → 100 cr

HDFC Bank loan @ 12% → 75 cr.

Term loan @ 14% → 50 cr.

Expenditure incurred on qualifying Asset

01/04/21 → 50 crores

01/07/21 → 100 crores

01/11/21 → 25 crores.

Construction period is 12 months. Calculate Borrowing cost to be capitalised.

Solⁿ: Step ① Cap. Rate / WACC / WACR

$$= \frac{\text{Total Interest (weighted Avg)}}{\text{Total Borrowings (weighted Avg)}} \times 100$$

$$= \frac{(100 \times 10\%) + (75 \times 12\%) + (50 \times 14\%)}{225 \text{ cr}} \times 100 = \frac{26}{225} \times 100$$

$$= 11.56\% \text{ p.a.}$$

Step 2 Borrowing cost to be capitalised

$$01/04/21 \rightarrow 50 \text{ cr} \times 11.56\% \times \frac{12}{12} = 5.78$$

$$01/07/21 \rightarrow 100 \text{ cr} \times 11.56\% \times \frac{9}{12} = 8.67$$

$$01/11/21 \rightarrow 25 \text{ cr} \times 11.56\% \times \frac{5}{12} = 1.20$$

$$\text{Total B.C to be Cap} = \underline{15.65}$$

WB

Eg 3: Specific Borrowing (+) General Borrowing

01/04/21 \rightarrow Specific Borrowing \rightarrow 10% loan \rightarrow 30 crores

01/04/21 \rightarrow General Borrowings \rightarrow ICICI Bank loan @ 12% \rightarrow 100 crores
 \rightarrow HDFC Bank loan @ 14% \rightarrow 75 crores

01/07/21 \rightarrow General Borrowings \rightarrow Kotak Bank loan @ 8% \rightarrow 125 crores

Expenditure incurred on Qualifying Asset

01/04/21 \rightarrow 50 crores $\left\{ \begin{array}{l} 30 \text{ crores} \rightarrow \text{S.B.} \\ 20 \text{ crores} \rightarrow \text{G.B.} \end{array} \right.$

01/07/21 \rightarrow 75 crores

01/01/22 \rightarrow 25 crores.

Construction started on 01/04/21 & completed on 31/3/22. Calculate BC to be capitalised.

Soln: Step 1 Capitalization Rate/WACC = Total Int (weighted Avg)

(Exclude Specific Borrowing)
only for general Borrowing.

Total Borrowings (weighted Avg)

$$\begin{aligned} &= \frac{12 \text{ cr} + 10.5 \text{ cr} + 7.5 \text{ cr}}{100 \text{ cr} + 75 \text{ cr} + 93.75} \times 100 \\ &= \boxed{11.16\% \text{ p.a.}} \end{aligned}$$

$125 \text{ cr} \times 8\% \times \frac{9}{12}$
 $125 \text{ cr} \times 9\% \times \frac{9}{12}$

Step 2 Borrowing cost to be capitalised

(a) Specific Borrowing (Int Capitalised) 3 crores → (A)
 $(30 \text{ cr} \times 10\% \times 12/12)$

(b) General Borrowing (Int Capitalised)

01.04.21 ~~30 cr~~ 20 cr $\times 11.16\% \times 12/12 = 2.23 \text{ cr}$
 [30 crore funded from Sp. Borr.]

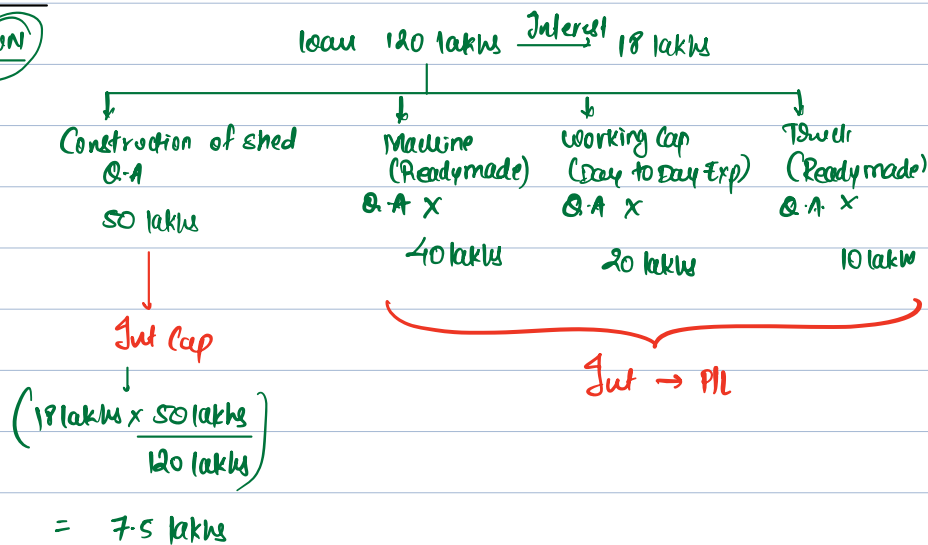
01.07.21 7.5 cr $\times 11.16\% \times 9/12 = 0.28 \text{ cr}$

01.01.22 2.5 cr $\times 11.16\% \times 3/12 = 0.70 \text{ cr}$ 9.21 crores → (B)

Total B.C Cap
(A + B) 12.21 crores.

Illus 1

(W.N)



As per AS 16, Borr. cost, Borrowing cost incurred on acquisition, construction or production of Q.A is capitalised to the cost of asset.

Other Borr. cost should be trf to P/L.

Q.A is an asset that takes substantial period of time to get ready for its intended use or sale.

Purpose	Q.A or NOT	Interest to be Cap.	Interest charged to P/L
1. Construction of shed	Q.A	7.5 lakhs $(18L \times \frac{50}{120})$	-
2. Purchase of machinery	Not a Q.A	-	6 lakhs $(18L \times \frac{40}{120})$
3. Working Cap	Not a Q.A	-	3 lakhs $(18L \times \frac{20}{120})$
4. Purchase of Truck	Not a Q.A	-	1.5 lakhs $(18L \times \frac{10}{120})$
	<u>Total</u>	7.5 lakhs	10.5 lakhs

Ques 3

As per AS 16, Borr. cost, Borrowing cost incurred on acquisition, construction or production of Q.A is capitalised to the cost of asset.

Other Borr. cost should be trf to P/L.

Q.A is an asset that takes substantial period of time to get ready for its intended use or sale.

Total Jul Exp = 11,00,000

(-) Income from idle funds (2,00,000)

Borrowing cost **9,00,000**

Purpose	Q.A or Not	Interest to be Cap.	Interest charged to P/L
1. Construction of shed	Q.A	360000 (900000 × 40/100)	-
2. Purchase of machinery	Not a Q.A	-	315000 (900000 × 35/100)
3. Working Cap	Not a Q.A	-	225000 (900000 × 25/100)
<u>Total</u>		360000	540000

Ques 8 → H.W (self)

illus 2 (W.R)

Step ① Calculation of Cap. Rate/WACC (for gen. borrowings)

$$\begin{aligned}
 &= \frac{\text{Total Int (weighted Avg)}}{\text{Total Borrowings (weighted Avg)}} \times 100 \\
 &= \frac{(5,00,000 \times 11\%) + (9,00,000 \times 13\%)}{5,00,000 + 9,00,000} \times 100 \\
 &= \frac{172000}{14,00,000} \times 100 \\
 &= 12.285\% \text{ approx } \textcircled{OR} 12.29\%
 \end{aligned}$$

Step 2: B.C to be Cap

Ⓐ Specific Borrowing
 $(1L \times 10\% \times 12/12)$

10000 → Ⓐ

Ⓑ General Borrowing

1/1/x1 ~~₹~~ $1,00,000 \times 12.285\% \times 12/12 = 12285$

01/04/x1 $250000 \times 12.285\% \times 9/12 = 23034$

01/07/x1 $450000 \times 12.285\% \times 6/12 = 27641$

01/12/x1 $120000 \times 12.285\% \times 1/12 = 1229$ → 64189 → Ⓑ

Total Borrowing cost to ₹74189 approx
 be capitalised

J-E for capitalising cost & Borr. cost



31/12/x1 PPE (Bldg) 10,94,189
 TO CLB 10,94,189

(10,20,000 + 74189)
 ↓ ↓
 Cost of Borrowing
 construction cost



eg: loan 544 10cr @ 10%
 Q.A cost → 24th

④ Period of Capitalisation

A. Commencement	B. Suspension	C. Cessation
<p>Commencement of capitalisation begins when All conditions are satisfied:</p> <ol style="list-style-type: none"> Expenditure on Q&A has been incurred. Activities that are necessary have been started (such activities not only include physical work, but also include technical work, registration work, site preparation planning etc.) Borrowing cost is incurred 	<p>Capitalisation should be suspended during extended period if active development is NOT taking place.</p> <p><u>Note:</u> Capitalisation is NOT suspended if temporary delay is a necessary part of construction.</p> <p>Eg ① Const start 01/04/11 01/11/11 to 30/11/11 → strike Const End 31/3/13</p>	<p>• Cease capitalisation when substantially all the activities necessary to prepare Q&A are complete.</p> <p>(If minor modifications such as decoration are pending, it will still indicate that substantially the activities are complete)</p> <p>• when construction of Q&A is completed in parts, cease capitalisation of each part which is completed, provided such part can be used separately</p>
<p>eg: 01.04.11 → Expenditure incurred 01.05.11 → B.C incurred 01.06.11 → Registration work Begins 01.07.11 → Physical work. (Not relevant)</p>	<p>Total months = 24 months</p> <div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;"> <p>1m ↓ Cap.</p> <p>Suspend ↓ Int PLL</p> </div> <div style="text-align: center;"> <p>23m ↓ Int Cap.</p> </div> </div>	<p>Eg: <u>AK House</u></p> <div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;">  <p>Tower A</p> </div> <div style="text-align: center;">  <p>Tower B</p> </div> <div style="text-align: center;">  <p>Tower C</p> </div> <div style="text-align: center;">  <p>Tower D</p> </div> </div>
<p>Cap of Int → start → 01/06/11 (commence)</p>	<p>Eg 2 Const start Bridge 01/04/11 01/11/11 to 30/11/11 → High tide/Bridge sukhn rakha tha (part of process) Const completed on 31/3/13</p> <p>In above case as work stopped is a normal part of process, No suspension.</p>	<p>Ready on 31/3/13 (Tower A & B can be used even if C & D are not ready)</p> <p>not yet ready ↓ Continue Capitalisation</p> <p>Stop capitalisation</p>

Illus 10 (LOR)

Normally 12m is considered to be substantial period. But in many ques even if construction is of 6m/7m/9m/10m etc. → it is considered as qualifying asset in ICAI ques.
If ques specifically says 6m/7m is not substantial → Then it wont be a Q.A.

Total Expense incurred (All 4 phases) = 221 lakhs

loan taken @ 15% = 200 lakhs

Total Interest Incurred = 30,00,000 (full year)
(200 lakhs × 15%)

Phase I & II (6m cap period)

Cost incurred = 34L + 64L
= 98L

Phase III & IV

Cost incurred = 55L + 68L
= 123L

Int for phase I & II = 1330317

$(30,00,000 \times \frac{98L}{221L})$ (full 12 months)

Int for phase III & IV = 1669683

$(30,00,000 \times \frac{123L}{221L})$ (full 12 months)

Ready in 6m
(cap period)

6,65,158.5

Interest
Capitalise

Balance 6m

6,65,158.5

Interest
(PIL)

Full Int Cap
as work is not yet
completed.

Total Interest Capitalised = 665158.5 + 1669683 = 2334841.5

Total Interest trf to PIL = 665158.5

Illus 3 (LOR)

Rough work

580 lakhs (loan) → Jul 52.20

Plant & Mach
406 lakhs

Advance for
additional
assets

working capital purpose
116 lakhs

start date - ?

complete → 31/03/22

58 lakhs

1) ICAI Q.A Q.A Not a B.A

2) Alternative Not Q.A Not Q.A Not Q.A

3) Alternative Q.A Not Q.A Not Q.A

** It is assumed in the above solution that the modernisation and renovation of plant and machinery will take substantial period of time (i.e. more than twelve months). Regarding purchase of additional assets, the nature of additional assets has also been considered as qualifying assets. Alternatively, the plant and machinery and additional assets may be assumed to be non-qualifying assets on the basis that the renovation and installation of additional assets will not take substantial period of time. In that case, the entire amount of interest, ₹ 52.20 lakhs will be recognised as expense in the profit and loss account for year ended 31st March, 20X2.

ICAI Solⁿ

Purpose	Q.A or Not	Interest to be Cap.	Interest charged to P/L
1) Contribution of P&M	Q.A	36.54 $(52.20 \times 406/580)$	
2) Advance for additional assets	Q.A	5.22 $(52.20 \times 58/580)$	
3) working Cap	Not a Q.A		10.44 $(52.20 \times 116/580)$
Total		41.76 ↓ Int Cap	10.44 ↓ Int P/L

Illus 4 to Illus 7 → Refer Q.B.

Illus 8 (CDR) → Self Practice

Ques 9 → Refer Q.B

Ques 1, 5, 6 → Refer Q.B.

Ques 7 (LDR)

As per AS 16, Borr. cost, Borrowing cost incurred on acquisition, construction or production of Q.A is capitalised to the cost of asset.

Other Borr. cost should be trf to P/L.

Q.A is an asset that takes substantial period of time to get ready for its intended use or sale.

In case of specific borrowing, income from idle funds is to be deducted from actual Borrowing costs.

Loan taken on 01-06-21

Calculation of Interest

$$\text{Total Interest } (100L \times 12\% \times \frac{10m}{12m}) = 10,00,000$$

$$(-) \text{ Income on Temp. Invd (Inveu)} \quad \underline{(50,000)}$$

Net Borrowing Cost 950,000

Purpose	Q.A or NOT	Interest to be Cap.	Interest charged to P/L
1) Construction of Bldg	Q.A	380000 (950000 × 40/100)	
2) Working Cap.	Not a Q.A		285000 (950000 × 30/100)
3) Purchase of Mach ^y	Not a Q.A		142500 (950000 × 15/100)
4) Purch of Furn.	Not a Q.A		19000 (950000 × 2/100)
5) Purchase of Truck	Not a Q.A		123500 (950000 × 13/100)
	Total	380000 (Cap)	570000 (P/L)

Ques 9

Step ① Calcⁿ of Cap. Rate (Gen. Borr)

$$\begin{aligned} &= \frac{\text{Total Int (weighted Avg)}}{\text{Total Borr. (weighted Avg)}} \times 100 \\ &= \frac{36000 (+) 60000 (+) 42000}{400000 (+) 500000 (+) 300000} \times 100 \\ &= 11.5\% \text{ p.a.} \end{aligned}$$

Step ② Borrowing cost to be capitalised

① Specific Borrowing

$$200000 \times 8\% \times \frac{12}{12} = 16000$$

② General Borrowing (31/12 - 21 → used from C-B)
= 11

$$01/04/17 \rightarrow 100000 \times 11.5\% \times \frac{12}{12} = 11500$$

$$31/05/17 \rightarrow 240000 \times 11.5\% \times \frac{10}{12} = 23000$$

$$1/08/17 \rightarrow 400000 \times 11.5\% \times \frac{8}{12} = 30667$$

$$31/12/17 \rightarrow 360000 \times 11.5\% \times \frac{3}{12} = 10350$$

75517

91517

J-E.

Bldg 1391517

TO CIB 1391517

(13L + 91517)

↓ ↓
Cost Int cap

Ques 10 (LOR)

Step ① Cap. Rate \rightarrow 12% (as there is only 1 General Borrowing)

Step ② Borrowing Cost to be capitalised

(a) Specific Borrowing

* $200000 \times 10\% \times \frac{12}{12}$

200000 \rightarrow (A)

(b) General Borrowing

1st April 21 -

1st Aug 21 - ~~2%~~ $1400000 \times 12\% \times \frac{8}{12} = 112000$

1st Jan 22 - $400000 \times 12\% \times \frac{3}{12} = 12000$ 12000, 124000 \rightarrow (B)

Total Int. Cap. 324000

* Note: Capitalise full Interest on specific Borrowing during capitalisation period.
Date of expenditure in case of specific Borrowing is NOT relevant.

J-E

31/3/22 Plant A/c Dr 4124000
TO CIB A/c 4124000
(38,00,000 + 324000)
↓ ↓
cost incurred B-c incurred

Ques 11 (LDR)

AK sis. Note: If expenditure incurred is suppose 100 lakhs, But loan is only taken of ₹ 70 lakhs, then interest will be capitalised on the amount of Borrowing i.e. 70 lakhs.

(A) Interest to Capitalised on Specific Borrowing
 (taken for Bldg → Q.A) → $25,00,000 \times 12\% \times \frac{12}{12}$

300000 → (A)

(B) Interest to be capitalised for general Borrowing

- Borrowing Amt = 63,00,000
- Total expenditure = 100,00,000
 (excl Building Sp. Borr)

Extra Note: we did not calculate Cap. Rate in this case as expenditure is more than Borrowings & normally we apply the Cap. Rate on Expenditure But here since Borrowing is less ∴ we did directly.

Total Interest on General Borrowing = 750000

(120000 + 450000 + 180000)

Purpose	Q.A or Not	Interest to be Capitalised	Interest charged to P/L
① Building	Q.A	168750 (750000 × 45% / 200L)	
② Furniture	Not a Q.A		82500 (750000 × 22% / 200L)
③ Plant & Machin ^y	Q.A	337500 (750000 × 90% / 200L)	
④ Factory	Q.A	161250 (750000 × 43% / 200L)	
		667500 → (B)	82500

Total B-c cap (Specific + General) (A + B)

$$200000 + 667500$$

$$= 967500$$

Ques 12 (CR)

i) Data Bank loan (fully utilized for qualifying Asset)

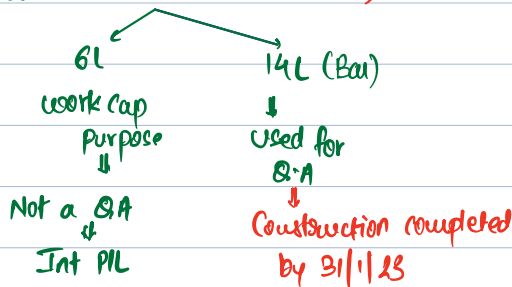
$$\text{Interest to be Capitalised} = 480000 - 400000 (-) 30000 = 370000$$

$$(600000 \times 8\% \times \cancel{12/12})^{10/12}$$

↓
Temporary
Invest Income
(Given)

ii) Satya Bank Ltd loan

Rough work → 20L Int (192000)



Alternate working

$$600000 \times 8\% \times \frac{2m}{12m} = \boxed{80000}$$

∴ 10 months Int Cap.

Total Int (480000 (-) Cap)

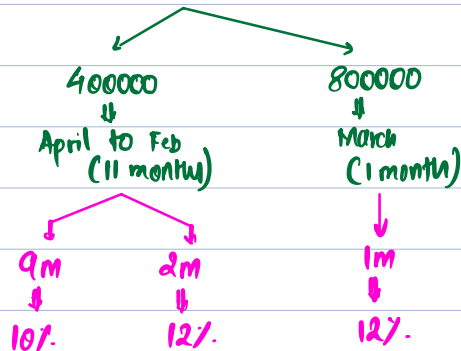
Loan	Purpose	QA or not	Interest cap	Int Trf to PIL
1) Data Bank loan	Const of New Bldg	QA (10 months)	370000 (Refer working above)	110000 → Exp 30000 → Income Net → 80,000
2) Satya Bank loan	Const of New Bldg	QA (10 months)	112000 $(192000 \times \frac{14L}{20L} \times \frac{10m}{12m})$	22400 $(192000 \times \frac{14L}{20L} \times \frac{2m}{12m})$
	working cap	Not a QA	-	57600 $(192000 \times \frac{6L}{20L} \times \frac{12m}{12m})$
			482000	160000

Ques 4 (WDR) → As annual cap rate is asked ∴ Count start date of 1st Dec is not relevant

Rough work

① Corporate Deposit
20 lakhs @ 9%

② Overdraft loan
12 months



Step ① Calculation of Annual Capitalisation Rate

$$\frac{\text{Total Interest (Weighted Avg)}^{WN1}}{\text{Total Borrowings (Weighted Avg)}^{WN2}} \times 100$$

$$= \frac{226000}{24,33,334} \times 100$$

$$= 9.29\% \text{ p.a approx}$$

WN ① Total Interest (Weighted Avg)

① $20,00,000 \times 9\% \times 12/12 = 180000$

② Overdraft

$400000 \times 10\% \times 9/12 = 30000$

$400000 \times 12\% \times 2/12 = 8000$

$800000 \times 12\% \times 1/12 = 8000$

226000

WN ② Total Borrowings (Weighted Avg)

① $20,00,000 \times 12/12 = 20,00,000$

② Overdraft

$400000 \times 9/12 = 300000$

$400000 \times 2/12 = 66667$

$800000 \times 1/12 = 66667$

24,33,334

Ques 13 (10R)³

Special points for this ques

- ① If in ques planned expenditure & actual expenditure both are given, then calculate Borrowing cost as per actual expenditure.
- ② If in any month we have surplus funds & there is no overdraft, that means we have not taken loan \therefore Ignore Int for that month/period.
- ③ If any month our expenditure is suppose ₹ 100 lakhs, but loan is taken only of 70 lakhs, then interest will be capitalised only on 70 lakhs
- ④ If Int is calculated on monthly basis, then compounding will be applicable (i.e. Int on Int)

Month	Opening	Actual Exp for the month	Interest per month	Total expenditure outstanding (including Interest)
Oct 2023	-	4,00,000	5000 $(4L \times 15\% \times \frac{1}{12})$	405000
Nov 2023	405000	795000	15000 $(405000 + 795000) \times 15\% \times \frac{1}{12}$	1215000
Dec 2023 <i>→ No Suspension</i>	1215000	-	15188 $(1215000 \times 15\% \times \frac{1}{12})$	1230188
Jan 2024	1230188	50000	NIL (Refer Note ② above)	1280188
Feb 2024	1280188	200000	17500 $(1280188 + 200000) \times 15\% \times \frac{1}{12}$ 14,00,000 (Refer Note ③ above)	1497688
March 2024	1497688	1200000	33721 $(1497688 + 1200000) \times 15\% \times \frac{1}{12}$	2731409
		Total B.C	86409	

Note: If in above case, there is exchange gain, then above concept is not applicable.
Directly treat that gain to P/L

Ques 2 (LOR)

$$\textcircled{a} \text{ Int on foreign loan} = ₹ 24.8 \text{ lakhs}$$
$$\$ 10L \times 4\% \times \cancel{\$} ₹ 62/\$$$

\textcircled{b} Ex loss

$$\$ 10L \times (62 - 56) = ₹ 60 \text{ lakhs}$$

\textcircled{c} Int on Indian loan

$$\$ 10L \times ₹ 56/\$ \times 10.50\% = ₹ 58.8 \text{ lakhs}$$

\textcircled{d} Diff Btw India & foreign Int

$$₹ 58.8 (-) 24.8 \text{ lakhs} = 34 \text{ lakhs} \rightarrow \text{MAX Ex loss that can be cap.}$$

Ex loss \rightarrow 60 lakhs

34 lakhs \rightarrow Capitalise

Bal 26 lakhs \rightarrow P/L

$$\begin{aligned} \text{Total Capitalise} &= \text{Int on foreign loan} (+) \text{ Ex loss} \\ &= ₹ 24.8 \text{ lakhs} (+) 34 \text{ lakhs} \\ &= ₹ 58.8 \text{ lakhs} \end{aligned}$$