

AS 10 → PPE self constructed Asset → QA → AS 16 Int capitalise ✓
 AS 26 → ITA internally generated → QA → -1-

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AS 2 → Inventory → QA → -1-
 AS 19 → Lease → QA → -1-



AS-16: BORROWING COSTS

Loan

P&L but in some case capitalise

BORROWING COST

Meaning: These are the Interest and other costs incurred by an enterprise in connection with the borrowing of Funds.

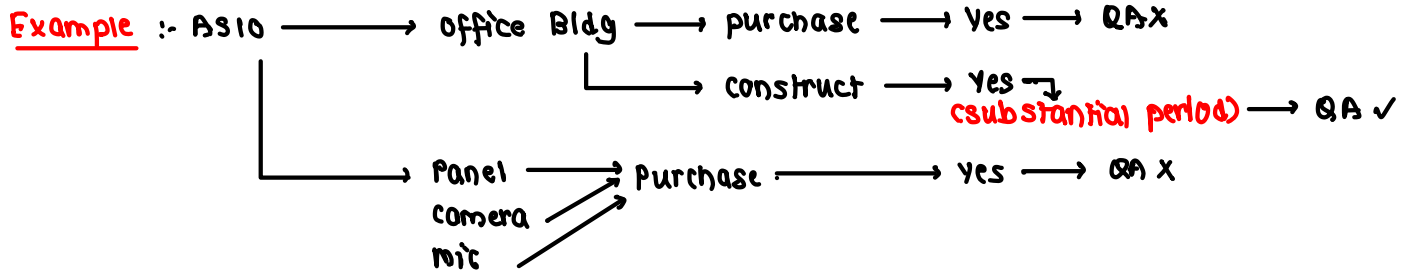
It includes the following:

- ✓ **Interest & other related Bank costs** → Processing Fees
- ✓ Amortisation of premium or discount related to borrowing
- ✓ Amortisation of Ancillary costs incurred underwriter, Investment Banker fee
- AS 11 ✓ Exchange Differences (Interest on Local borrowings – Interest on Foreign Borrowings) due to ₹ and foreign currency fluctuation

Debn issue		
FV 100	IP 95	Disc. ₹5
Debn Redeem		
FV 100	Redeem ₹102	Prem. ₹2
Loss on TTD		₹7

RECOGNITION CRITERIA

Qualifying Asset	Takes substantial period of time to get ready for use or sale [<u>> 12 months</u>]	Borrowing cost Capitalise
Others QA X	Ready for intended use when acquired	P&L A/c



AS 26 → Patent Research → P&L A/c ✓
 Development → substantial period → QA ✓

AS 2 → Inventory → Ready to sale → substantial period Ex:- wine → QA

purchase → for sale

produce → for sale

purchase → for consumption in process of production

Loan → Reliance ES / Debt
 Invest → QA x
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Investment → Property
 AS 13
 ↳ cost → AS 10

↳ AS 16 Borrowing cost capitalisation → If QA



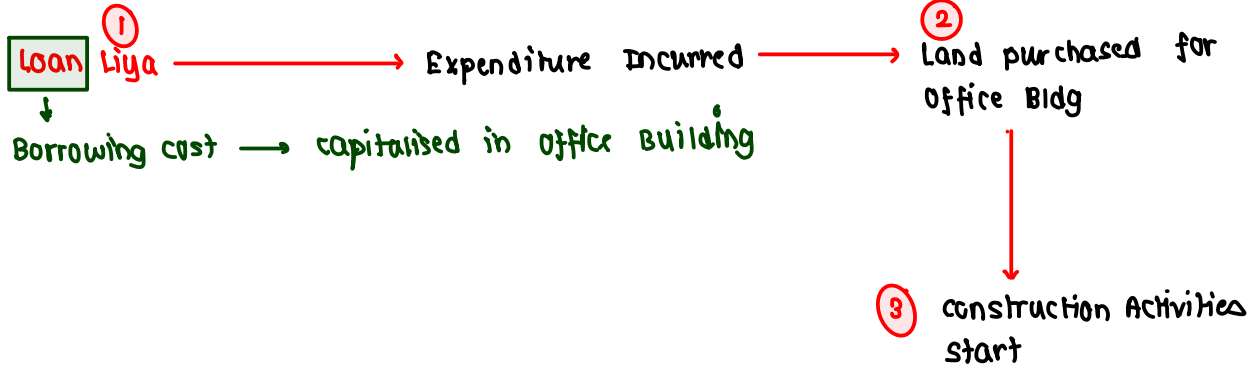
Borrowing cost ka

COMMENCEMENT OF CAPITALISATION

kab start honga i.e kab mein use asset + kono start karunga

When **all these** conditions are satisfied:

- ② a) Expenditure incurred on Acquisition, construction or Production of Qualifying Asset
- ① b) Borrowing costs incurred
- ③ c) Activities are in Progress Related to



RRG Edtech Pvt. Ltd ——— Invest ———> GRR Infra Pvt. Ltd
 Loan Liya ₹50 cr I utilise

Bank Dr. 50 cr
 To Loan 50 cr

Int. Acc Dr. 5 cr
 To Bank Acc 5 cr

Pal Acc Dr. 5 cr
 To Int Acc 5 cr

↳ Construction of Office Bldg
 QA ✓

RRG Loan ✓
 Invest ✓
 Expenditure x
 ∴ cannot capitalise



TYPES OF ELIGIBLE BORROWING COSTS

Borrowing Costs eligible for Capitalisation:

- 8.5cr a) Specific Borrowing Costs [Actual Borrowing Cost – Interest from Temporary Investment]
- b) General Borrowing Costs 8.75 cr (-) 0.25 cr

STEPS FOR CAPITALISATION

capitalisation Rate / WACC

Step 1: Compute Weighted Average Expenditure [Expenditure x Period]

Step 2: Compute Average Interest rate (capitalization Rate) for other than Specific Borrowings [In case of more than one General Borrowings]

Step 3: Compute amount to be capitalized

- a) Use Specific borrowing first [Expenditure on specific borrowings x Interest rate]
- b) Use General Borrowings for balance [Balance Expenditure x Capitalization rate]

Notes:

- ✓ Amount capitalized cannot exceed Borrowing Costs
- ✓ Apply Different rates for all specific borrowings
- ✓ Apply Single rate for General Borrowing

Computation of Total Cost of Asset

Cost of Asset	-
Add: Interest to be capitalized as per AS 16	-
Total cost of Asset	-

Example :- specific Borrowing

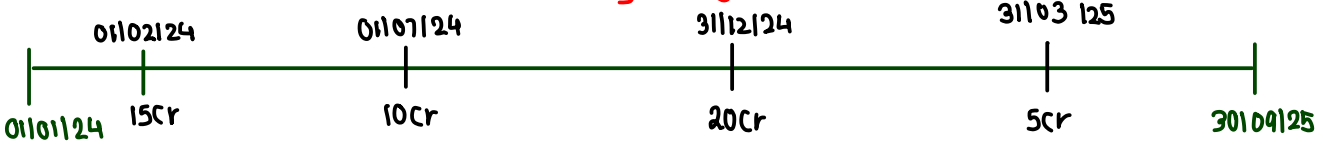
Vcgurukul Office Bldg construct → QA ✓ FD → 6% p.a. ∴ Int Recd. for 1m 0.25 cr

↳ Loan ₹50cr @10% p.a. taken on 01/01/24

↳ full amount was Repaid on 30/09/25

Date	Amt. of Expenditure		
01/02/24	15 cr	01/02/24 → 30/06/25	= 17 month
01/07/24	10 cr	01/07/24 → 30/06/25	= 12 month
31/12/24	20 cr	31/12/24 → 30/06/25	= 6 month
31/03/25	5 cr	31/03/25 → 30/06/25	= 3 month

30/06/25 → Bldg Ready to use



Tot Interest = $50 \text{ cr} \times \frac{10\%}{12} \times 21$ i.e. 8.75 cr

(-) Income on Temporary investment 0.25 cr

8.50 cr

(-) Capitalise [Office Bldg cost +] 4.25 cr

P&L (Bldg) 4.25 cr

$15 \text{ cr} \times \frac{10\%}{12} \times 17 \rightarrow 2.125$

$10 \text{ cr} \times \frac{10\%}{12} \times 12 \rightarrow 1$

$20 \text{ cr} \times \frac{10\%}{12} \times 6 \rightarrow 1$

$5 \text{ cr} \times \frac{10\%}{12} \times 3 \rightarrow 0.125$ 4.250



Example 2 :- general Borrowing

Took Total 150cr Loan on 01/01/24
 Repay x

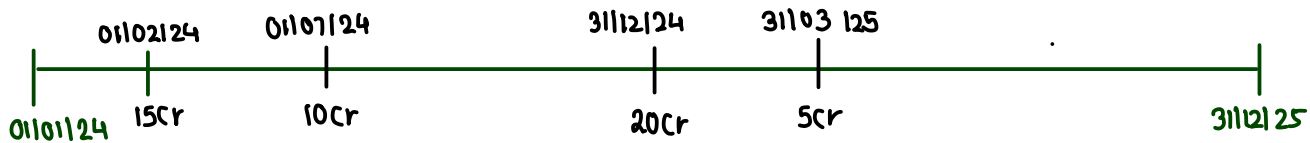
→ HDFC 75cr @ 10% p.a.
 → Axis 25cr @ 11% p.a.
 → ICICI 50cr @ 12% p.a.

Bank A/c Dr. 150
 TO Loan from HDFC 75
 TO -11- Axis 25
 TO -11- ICICI 50

Construction of office Bldg 50cr

Date	Amt. of Expenditure	Period	Duration
01/02/24	15cr	01/02/24 → 30/06/25	= 17 month
01/07/24	10cr	01/07/24 → 30/06/25	= 12 month
31/12/24	20cr	31/12/24 → 30/06/25	= 6 month
31/03/25	5cr	31/03/25 → 30/06/25	= 3 month

30/06/25 → Bldg Ready to use



Total Interest → 75cr x 10% / 12 x 24 → 15cr
 25cr x 11% / 12 x 24 → 5.5cr
 50cr x 12% / 12 x 24 → 12cr
32.5cr

WACR = $\frac{32.5 \text{ cr}}{2}$ i.e. $\frac{16.25 \text{ cr} \times 100}{150 \text{ cr}}$
 i.e. 10.83% p.a.

(E) Borrowing cost to be capitalised → 4.6
 P&L A/c 27.9cr

$15 \text{ cr} \times 10.83\% / 12 \times 17 \rightarrow 2.301375$
 $10 \text{ cr} \times 10.83\% / 12 \times 12 \rightarrow 1.083$
 $20 \text{ cr} \times 10.83\% / 12 \times 6 \rightarrow 1.083$
 $5 \text{ cr} \times 10.83\% / 12 \times 3 \rightarrow 0.135375$
4.60275
 ≈ 4.60

Example 3 :- general Borrowing

Took Total 150cr Loan on 01/01/24
 Repay x

→ HDFC 75cr @ 10% p.a.
 → Axis 25cr @ 11% p.a.
 → ICICI 50cr @ 12% p.a. [30/09/24]

Bank A/c Dr. 150
 TO Loan from HDFC 75
 TO -11- Axis 25
 TO -11- ICICI 50

Construction of office Bldg 45cr

Date	Amt. of Expenditure	Period	Duration
01/02/24	15cr	01/02/24 → 31/12/24	11m
01/07/24	10cr	01/07/24 → 31/12/24	6m
30/09/24	20cr	30/09/24 → 31/12/24	3m

→ 31/12/24 Ready to use

Total Interest 75cr x 10% / 12 x 12 → 7.5cr
 25cr x 11% / 12 x 12 → 2.75cr
 50cr x 12% / 12 x 3 → 1.5cr
11.75cr

WACR = $\frac{11.75}{75 + 25 + (50 \times 3/12)} = \frac{11.75}{112.5} \times 100$ i.e. 10.44%

(F) Borrowing cost capitalised 2.48cr
 P&L A/c 9.27

KAISE HOH RAJA ! ALL WELL & SET

$15 \text{ cr} \times 10.44\% / 12 \times 11 \rightarrow 1.4355$
 $10 \text{ cr} \times 10.44\% / 12 \times 6 \rightarrow 0.522$
 $20 \text{ cr} \times 10.44\% / 12 \times 3 \rightarrow 0.522$
2.4795



Illustration 2

New Building construction 01/01/21 → start

specific Loan	₹ 1,00,000	01/01/21	at interest Rate 10%.
general Loan 1	₹ 5,00,000	Op. 01s	→ 11%
2	₹ 9,00,000	Op. 01s	→ 13%

Date of Expenditure	Date of completion	month	Amount	specific Loan	general Loan
01/01/21	31/12/21	12m	2,00,000	1,00,000	1,00,000
01/04/21	31/12/21	9m	2,50,000	-	2,50,000
01/07/21	31/12/21	6m	4,50,000	-	4,50,000
01/12/21	31/12/21	1m	1,20,000	-	1,20,000
			10,20,000		

Cal. of Amount to be capitalised

specific Loan	general Loan	₹
$1,00,000 \times 10\% \times 12/12 \rightarrow$ $100000 \times 12/12 = 100000$	$1,00,000 \times 12.29\% / 12 \times 12 \text{ i.e } 12,290$ $2,50,000 \times 12.29\% / 12 \times 9 \text{ i.e } 23,043.75$ $2,50,000 \times 9/12 = 187500$ $4,50,000 \times 12.29\% / 12 \times 6 \text{ i.e } 27,652.50$ $4,50,000 \times 6/12 = 225000$ $1,20,000 \times 12.29\% / 12 \times 1 \text{ i.e } 1,229$	10,000
	$522500 \times 12.29\%$	64,215.25
		74,215.25

Building A/c	Dr. 10,20,000	Building A/c	Dr. 74,215.25
Borrowing cost A/c	Dr. 182,000	P&L A/c	Dr. 1,07,784.75
↓ To Bank A/c	12,02,000	↑ Borrowing cost A/c	1,82,000
(1L x 10% + 5L x 11% + 9L x 13%)			

$$\begin{aligned}
 \text{WNI:- Cal. of weighted avg. capitalisation Rate} &= \frac{5,00,000 \times 11\% \times 12/12 + 9,00,000 \times 13\% \times 12/12}{14,00,000} \times 100 \\
 &= \frac{55,000 + 1,17,000}{14,00,000} \times 100 \\
 &= 12.286\% \text{ or } 12.29\%
 \end{aligned}$$

For some temporary capitalisation
has stopped and will resume in future



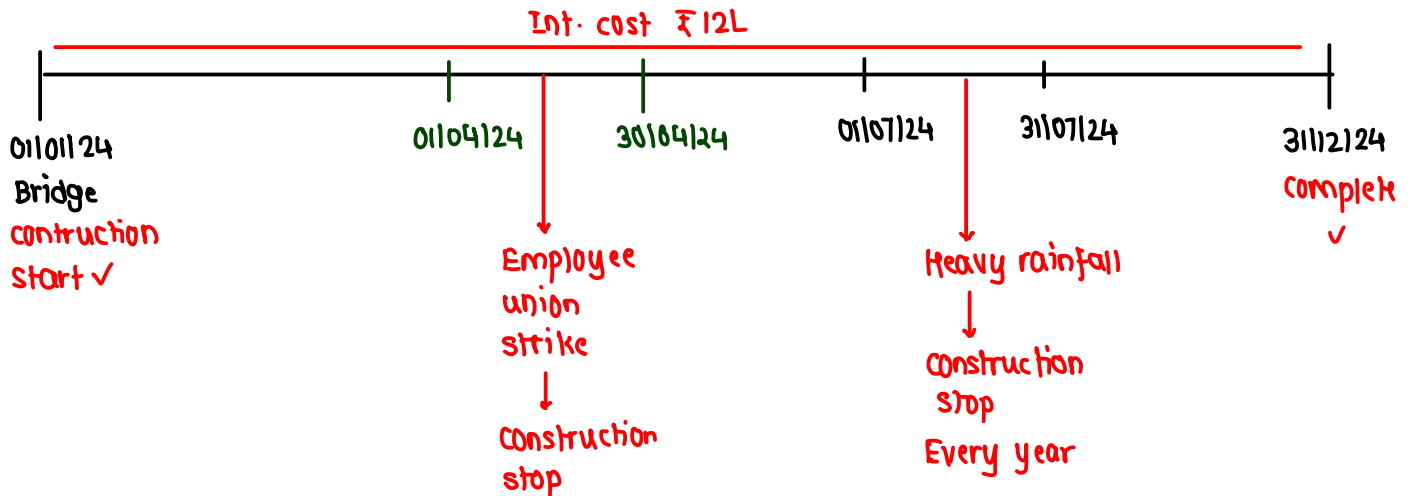
SUSPENSION OF CAPITALISATION

Suspend capitalization when **active development interrupted**

↳ Reason → something abnormally

Exceptions:

- a) Substantial technical or admin work carried out
- b) Temporary delay on part of progress
- c) Unavoidable reasons, etc.



∴ capitalise → 01/10/24 to 31/03/24 9m ✓
 suspend → 01/04/24 to 30/04/24 1m
 capitalise → 01/05/24 to 31/12/24 8m ✓

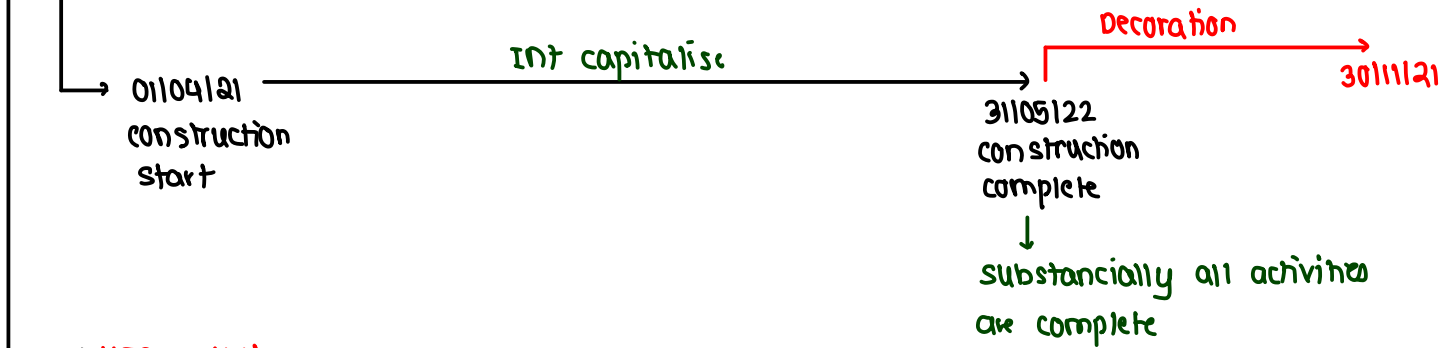
∴ out of 12m
 ↳ 11m → ₹11L
 ↳ 1m → IL PALACE



capitalisation will stop
permanently

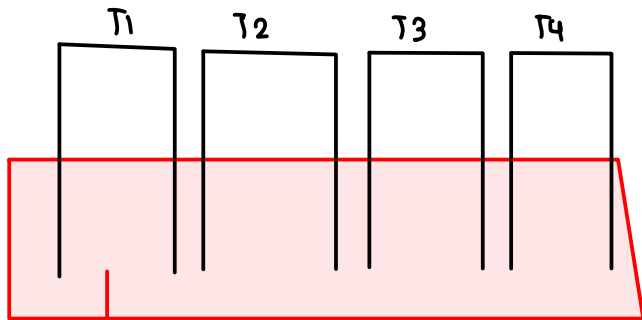
CESSATION OF CAPITALISATION

- ✓ **Normal Case:** Cease capitalization when substantially all the activities are complete
- ✓ **Construction in Parts:** Cease Capitalization when complete part is capable of being used while construction continues for the other parts.



VCGURUKUL

Land purchase
construct 4 Bldg } for office use



Each tower can be used after its completion and is not dependent on other tower

DISCLOSURE REQUIREMENTS

Kya राजा ! Ab Disclose कर ले ?

- ✓ Accounting Policies adopted for borrowing costs
- ✓ Amount of borrowing costs capitalized during the period



Q11

Loan amt \longrightarrow ₹ 200L

Int on Loan \longrightarrow ₹ 30L [200L x 15%]

	Phase 1	Phase 2	Phase 3	Phase 4	Total
Tot. Expenditure	34L	64L	55L	68L	221L
Allocated Int.	4.62L	8.69L	7.47L	9.22L	30L
	$\left[\frac{30L \times 34}{221} \right]$	$\left[\frac{30L \times 64}{221} \right]$	$\left[\frac{30L \times 55}{221} \right]$	$\left[\frac{30L \times 68}{221} \right]$	

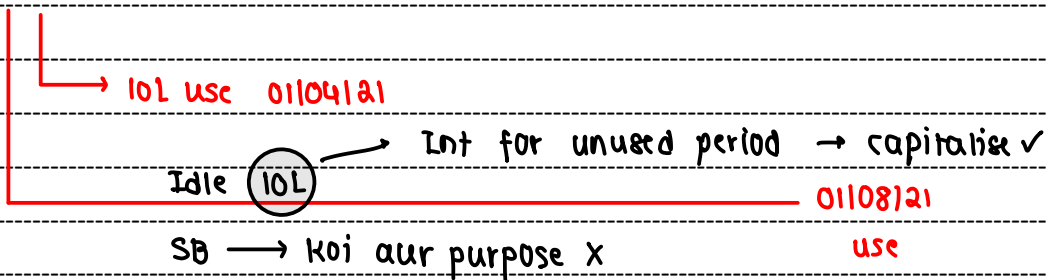
Int \rightarrow capitalise	2.31L	4.345L	7.47L	9.22L	23.345L
\downarrow P&L A/c	2.31L	4.345L	-	-	6.655L



Q15

Date of Expenditure	Expenditure	20L		Period	
		SB	GB	SB	GB
01104121	10,00,000	10L	-	12m	-
01108121	24,00,000	10L	14L	12m	8m
01101122	4,00,000	-	4L	-	3m

SB → 20L → 01104121



20L x 10%	→	2L
14L x 12% x 8/12	→	1.12L
4L x 12% x 3/12	→	0.12L
		<u>3.24L</u>