FORMATION OF A COMPANY
number of persons: [Sec 3(1)]:

Incorporation

AS-16

Borrowing Cost

1. Objective.

Accounting treatment : Recognition
Measurement
Presentation
Disclousre of BC

Recognition: Wheather BC is to be capitalised / charged
↓ Asset ↓ P&L AS Expense.

2. Scope

a) AS 16 - deals with BC ✓
- Owned capital ✗

Notional cost (or) Imputed cost (or) oppurtunity cost [Int on capital]

Actual cost (dividend)

b) Wheather Preference dividend is a BC ?

If preference share capital treated as liability →
Preference Dividend - BC - AS16 ✓

If preference share capital treated as equity
preference dividend - BC ✗ - AS 16 ✗.

Note: preference SC can be treated either as liability or equity as per discretion of management.
Framework
↓ Sec III

c) Reserves & surplus : not a borrowings → Its a equity.

3. Definitions:

a. Borrowing cost : It is intrest (or) other cost on Borrowings taken for

Acquisition
construction
Production. of Qualyfing asset.

Borrowing cost includes

1. Intrest
2. commitment charges.
3. Discount on issue of Debentures
4. loss on issue of Debentures /premium on Redemption of Deb
5) costs related to acquisition of borrowings (not relating to esettlement of borrowings)
6) Financial charge as per (AS 19) - - - AS 16.
7) Foreign exchange difference (AS11) - - - AS16

b) Qualyfying Asset

An asset which takes substantial period of time either for usage / for sale

$\text{usage} \downarrow$ PPE, $\text{sale} \downarrow$ Inventory.

Substantial period of time

Generally → 12 months

But it can be > 12m / < 12m

So decided by the management. by considaring factors lik

a) technical factors
b) commercial factors
c) marketing factors

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4. Recognition :

If PPE / Inventory → QA ✓ → Then BC- capitalise
↓
BC - Asset definition should satisfy [FEB measured Reliablely] Adding to the QA.

Asset = QA Def ✓
BC = Asset Def ✓

2) If PPE/inventory → QA ×
↓
Then BC charged
↓
to P&L A/C (as expense)

5. Commencement of capitalization

Borrowings
Borrowing cost
QA

Borrowing should be used for QA & BC is incurred for QA.

QA - activities - WIP
↓
- not only physical work
- But also admin work ground work Technical work

6. Cessation of capitalization.

After completion of construction / Development / production / manufacturing of QA.
↓
Stop capitalisation
↓
Charge P&L A/C.

If QA can be completed in parts

is ready for use/sale → charge.

• completed part

is not ready for use/sale is linked to other parts → capitalise.

7. Suspension of capitalisation (Temporary cessation)

If QA activities are temporarily stopped / suspended → then suspended capitalisation → charge to P&L.

Exemption: If such stoppage / suspension is necessary for part of production / construction / manufacturing

(or)

If such stoppage / suspension is very much needed for further production / construction manufacturing

→ continue to capitalize → No charge.

8. Quantum of BC (measured)

Actual / Gross BC	xxx
less: Incidental income (Interest from temporary inv)	(xxx)
Net Borrowing cost	xxx

capitalise → If asset is QA

charge. QA ×

ppe → book value ... subsequently

inventories → + cost price / cost of production

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...rmation of a company?
...THE FORMATION OF A COMPANY [SEC 3]:
...number of persons: [Sec 3(1)]:

Incorporation

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Recoverable Amt
↓
If BV > RA (Recoverable Amt)
↓
Provide Impairment loss.

NRV
↓
As per AS - 2
Valued at cost or NRV ↓

9) Rate of Borrowing cost.

Types of Borrowing

Spacific Borrowing
↓
Which are specifically borrowed for QA
↓
Spacific Rate

General Borrowings
↓
which are borrowed for General purpose but used for QA
↓
Weighted Average Rate or Borrowings is

$\frac{\text{Total BC}}{\text{Total Borrowings}} \times 100$.

CQ 12

a) Book value / carrying amt of inventory is
90000 + 12000 = 1,02,000

b) If NRV of inventory is 1,15,000 (Inventory is carried at cost ₹1,02,000 (or) NRV 115000 whichever is lower)
This diff will be ignored.
Inventory will be valued at cost only (being a lower value) is ₹1,02,000

c) If Nrv of the inventory is only 87,000 diff of 15000/- will be return of as per AS2
being a lower value Inventory is valued at NRV 87000/-

d) If after written down to ₹87,000 The NRV of the above inventory become 96000/- in subsequently. The earlier written down value will be reversed, to the extent it doesnt exceed the cost.
Hence, the inventory will be valued at 96000/- (after Writing back 9000/-) However such writing back amt. cannot exceed the cost i.e 102,000

Eg-2

$S_1 \rightarrow$ BC (India) = \$100,000 × 45 × 11% = 4,95,000
$S_2 \rightarrow$ BC (FCB) = \$100,000 × 48 × 5% = 2,40,000
$S_3 \rightarrow$ FEL = \$100,000 × (48-45) = 3,00,000

AS16. ↓BC 2,55,000 (495000 - 240000)
45,000 ↓ AS 11

10) Such Portion of Foreign Exchange differance treated as Borrowing cost as Per AS-16

This concept is applicable only when

① BC in india > BC in FCB
② when there is foreign exchange loss.
3) Diff b/w BC in india & BC in FCB > FEL

then such FEL is treated as BC.

Note if there is FEG in further year to the extent of FEL treated as BC in that year can be adjusted & reversed