

4. Recognition:

If PPE / Inventory → QA ✓ → Then BC - capitalise



BC - Asset definition should satisfy
[P&B measured Reliably]
↓
Adding to the QA.

Asset = QA DCF ✓
BC = Asset DCF ✓

2) If PPE / Inventory → QA ✗



Then BC charged



to P&L A/c (as expense)

5. Commencement of capitalization

Borrowings

Borrowing cost

QA

QA - activities - WIP

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

- not only physical work
- But also admin work ground work technical

6. Cessation of capitalization.

After completion of construction / development /
production / manufacturing of QA.

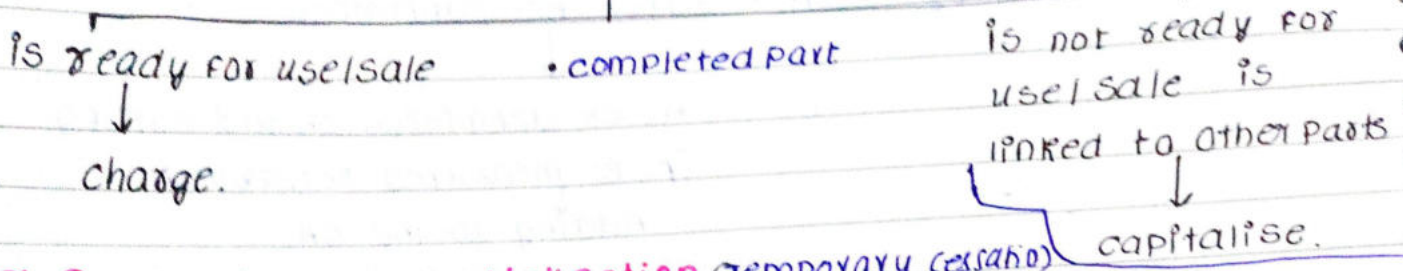


Stop capitalisation

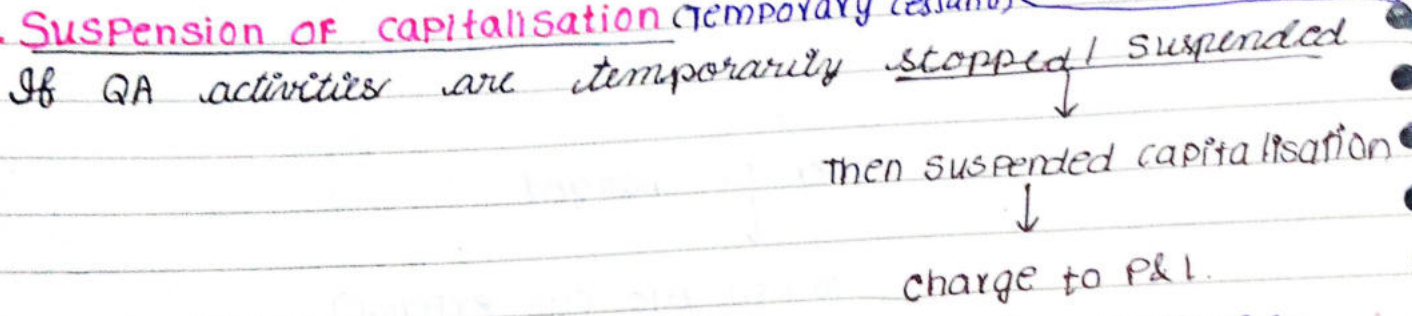


charge P&L A/c.

If QA can be completed in parts



7. Suspension of capitalisation (temporary cessation)



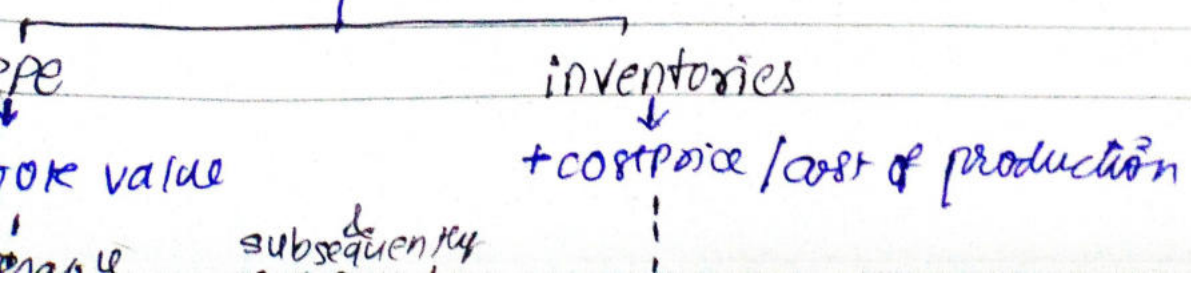
Exemption: If such stoppage / suspension is necessary for part of production / construction / manufacturing (or)

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	(xxx)
(Interest from temporary inv)	_____
Net Borrowing cost	xxx



Recoverable Amt

If $BV > RA$ (Recoverable Amt)

Provide Impairment loss.

9) Rate of Borrowing cost.

Types of Borrowing

Specific Borrowing

Which are specifically borrowed for QA

Specific Rate

General Borrowings

which are borrowed for General purpose but used for QA

Weighted Average Rate or Borrowings is

$$\frac{\text{Total Bc}}{\text{Total Borrowings}} \times 100$$

NRV

AS PER AS-2

valued at cost or NRV

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 1,15,000 which is lower) This diff will be ignored.

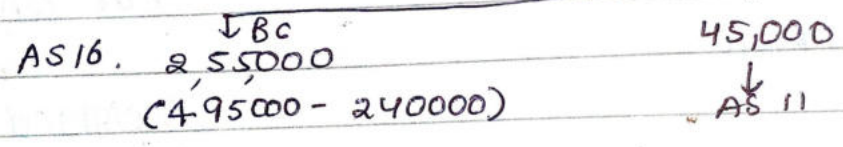
Inventory will be valued at cost only (being a lower value) is ₹1,02,000

c) If NRV of the inventory is only 87,000 diff of 15,000 (-) will be return of as per AS2 Inventory is valued at NRV 87,000/- being a lower value

Q If after written down to 281,000 the NRV of the above inventory become 96000/- in subsequently. The earlier written down value will be reversed, to the extent it doesn't 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

$S_1 \rightarrow BC(\text{India}) = \$100,000 \times 45 \times 11\% = 4,95,000$
 $S_2 \rightarrow BC(\text{FCB}) = \$100,000 \times 48 \times 5\% = 2,40,000$
 $S_3 \rightarrow FEL = \$100,000 \times (48 - 45) = 30,000$



10) Such Portion of Foreign Exchange difference 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 DFF b/w BC in India > FEL & BC in FCB

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