

IND AS 23 - BORROWING COSTS



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Definition of Borrowing Cost (B.C.)

Incurring in Relation to Arrangement of Funds, it includes -
(a) Interest Cost
(b) Other Costs

B.C. Covers Exclusively

1) Interest Calculated as Per **ERI** (IndAS 109)
2) Interest in case of Lease Liabilities under **IndAS116**
3) **Ex. Diff.** to the extent of Saving in Interest on F.C. Loan*

***Lower of :-**
(a) Ex. Loss
OR
(b) Saving in Interest

Treatment of Ex. Gain in Subsequent Years

Ex Gain shall be **deducted from B.C.** to the Extent of Earlier Ex. Loss Included in B.C.

Qualifying Assets (Q.A.) Any Asset

That takes Substantial Period** of Time
To get Ready For Intended Use or Sale
Eg:- IP/PPE/Intangible Asset (Software)

Is Inventory a Q.A.?

If Yes → **When ?**

Inventory must not be Produced in Larger Quantities

Not Produced & on Repetitive Basis

and takes Substantial Period
Eg:- Aircrafts or Ships Manufactured on Special Orders
but Liquor is not Q.A.

****Substantial Period :-** Generally 12months or more but a Lower period can also be Substantial based on Facts & Circumstances

Recognition of B.C.

If B.C. is incurred in relation to:-
Acquisition (A)
Construction (C)
Production (P)
of Q.A., then Capitalised otherwise P&L

Commencement of Capitalization

Expenditure must be incurred on ACP
B.C. must be incurred
Necessary Activities Should be in Progress.

Suspension

Active Development is **Interrupted** During Extended Period. But When such Interruption is Necessary for active Development then No Suspension of Capitalization

Cessation

A/C/P is **Substantially Completed** If Completion takes place in Parts, then Cessation for Such Part of QA only when the Part is Capable of being Used/Sold Separately

Types of Borrowing Cost

Specific B.C.

One to One Relation of Q.A. & Borrowing

Capitalise B.C. to a Specific Q.A. only

General B.C.

One to Many (or) Many to Many

To Capitalise B.C. Calculate W. Avg Capitalisation Rate

Total B.C. During the Year
Total Borrowings O/s During the Period
(Take months as Weight)

What to do now when W.A.C.R. is Calculated?

Expenditure on Q.A. X W.A.C.R. X Months Weight

Expenditure Incurred till last year (Including BC Capitalised)	xxx
+ Cash Payment on Material & Lab.	xxx
+ Non - Cash Exp.	xxx
(-) Grant / Subsidy	xxx
(-) Progress Payments Received if any	xxx
	xxxx

Misc Provisions

1) Interest on Temp. Investment of Borrowed Funds

Deduction From Total Borrowing Cost before Capitalization & before Calculating W.A.C.R.