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IND AS 23 - BORROWING COSTS

Definition of Borrowing Cost (B.C.)

Incurred 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 deductedfrom B.C. to the Entent 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.

**Subsantial 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

$$\frac{\text{Total B.C. During the Year}}{\text{Total Borrowings O/s During the Period}}$$
(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.