



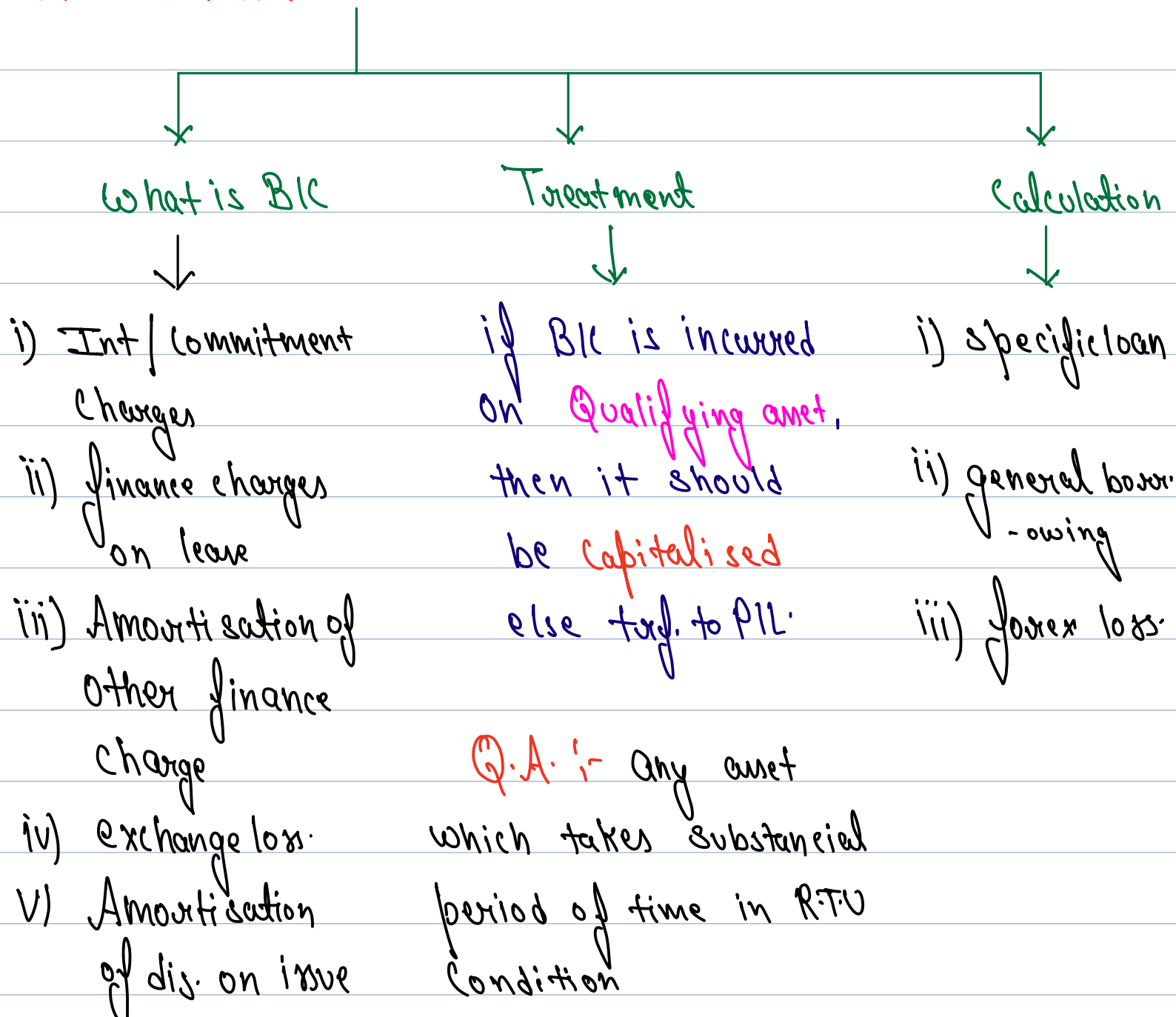
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AS-16

## Borrowing Cost

### #1 Introduction





of deb.

(> 12m)

OR

Mgmt can decide.

(less than 12m)



## #2 General loan / Borrowings.

$$\text{BIC to be capitalised} = \text{Amount} \times \text{R.O.I.} \times \frac{\text{Period}}{12}$$

Exp. on Q.A.

Rate of capitalization

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

⇒ ----- %

Op. Bal. of exp. on Q.A.    xx  
 (incl. P.Y. BIC)

+ Cash exps    xx

+ R.M used from store    xx

- progress payment recd    (xx)

- Subsidy    (xx)

xxxx

Start  
 ↓  
 Commencement  
 ↓  
 Date when loan amount is utilised on Q.A.

↳ Exp. on Q.A. is incurred  
 ↳ BIC incurred

end.  
 ↓  
 cessation  
 ↓  
 Date from when

↳ Q.A is R.T.U.  
 ↳ BIC is



↳ Active Development started.

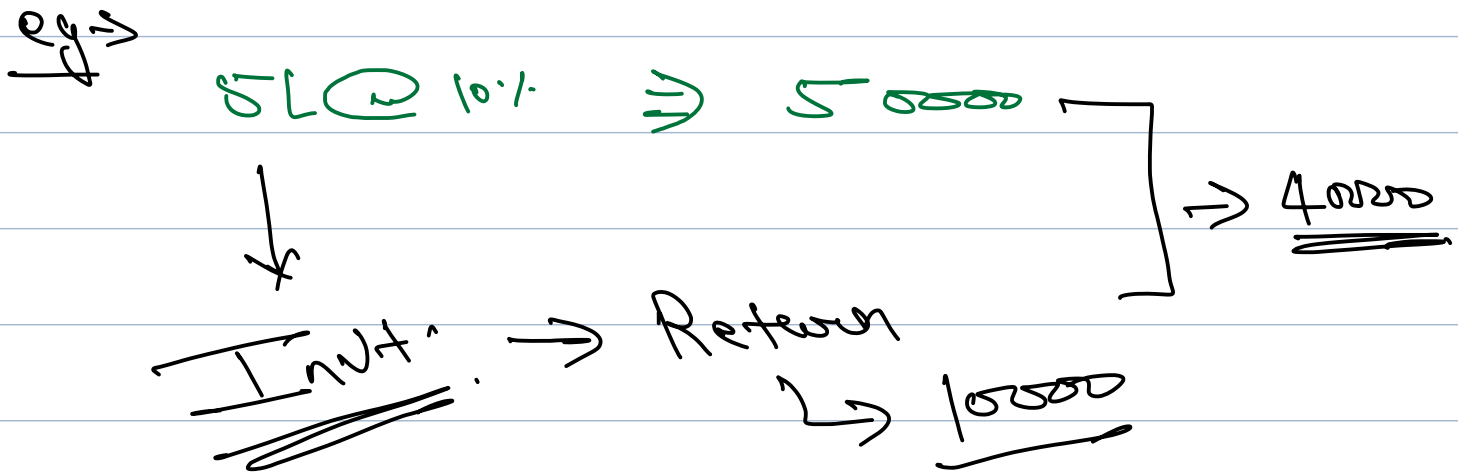
not incurred  
↳ whichever is less

Stops  
↓  
Suspension  
↓

BIC should not be capitalised if Cons. on Q.A. stopped due to abnormal Reason.

### # 3 specific loan / Borrowings.

BIC to be capitalised = Total BIC of c.y. - Earnings from idle funds.



eg-1 :- HD Ltd obtained a loan of ₹ 500 lacs for renovation of its PIM whose installation was completed on 31-3-25 amounting



to ₹ 320 lacs.

Advance paid to supplier for additional Assets = ₹ 50 lac & 130 lacs was utilised for working capital in overall for this renovation purpose. Total interest = ₹ 65 lacs. Do treatment as per AS-16.

Sol<sup>n</sup> :-

Particulars	Amount	Int.	Treatment: (₹ in lacs)
P1M.	320	41.6 $\left(\frac{320}{500} \times 65\right)$	Capitalize
Advance	50	6.5 $\left(\frac{50}{500} \times 65\right)$	PIL
W/C	130	16.9	Capitalize
	<u>500</u>	<u>65</u>	(other than Ren. purpose than PIL)

QUESTION: 2

MAY 15 (5 M) (Nov 17 similar)

CA Final F.R. MAY 2008 (10 M)

X Ltd. began construction of a new building on 1<sup>st</sup> January, 20X1. It obtained ₹ 1 lakh special loan to finance the construction of the building on 1<sup>st</sup> January, 20X1 at an interest rate of 10%. The company's other outstanding two non-specific loans were:

Amount	Rate of Interest
₹ 5,00,000 ✓	11% ✓
₹ 9,00,000 ✓	13% ✓

The expenditures that were made on the building project were as follows:

		₹
January ✓	20X1	2,00,000 ✓
April -	20X1	2,50,000 ✓
July ✓	20X1	4,50,000 ✓
December ✓	20X1	1,20,000 ✓

Building was completed by 31<sup>st</sup> December 20X1. Following the principles prescribed in AS 16 'Borrowing Cost,' calculate the amount of interest to be capitalised and pass one Journal Entry for capitalising the cost and borrowing cost in respect of the building.

Sol<sup>n</sup> :- i) Cal<sup>n</sup> of capitalization rate on Gr. Borrow.

$$\Rightarrow \frac{50000 \times 11\% + 90000 \times 13\%}{50000 + 90000} \times 100$$

$$\Rightarrow 12.29\%$$

ii) Cal<sup>n</sup> of Int. cost. to be capitalised

1-1-01	specific loan	=	100000	×	10%	=	10000
	general Borrowings	=	100000	×	12.29%	=	12290
							<u>22290</u>

$$1-4-01 \Rightarrow 250000 \times 12.29\% \times \frac{3}{12} = 23044$$

$$1-7-01 \Rightarrow 450000 \times 12.29\% \times \frac{6}{12} = 27652$$

1-12-01

⇒

$$120000 \times 12.25\% \times \frac{1}{12} =$$

Total BIC =

$$\begin{array}{r} 1229 \\ \hline 74215 \\ \hline \end{array}$$



### iii) Cost of Building

$$\Rightarrow 200000 + 250000 + 450000 + 120000 + 74215$$

$$\Rightarrow 1094215$$

### iv) Journal

Building	Dr	1094215	
	To	Bank	1094215

### #4 Forex loss on BIC.

eg-2 HD Ltd has taken a loan from US of \$ 1000 on 1-4-12 for specific project @ int. rate @ 5%.  
on 1-4-12 1\$ = 45 ₹.

on 31-3-13 1\$ = 40 ₹. ∴ if same amount borrowed in India then

Int will be charged @ 11%.

Calculate forex loss. and Int to be capitalised / charged as per relevant A.S.

Soln :- step 1 forex loss.

$$\text{\$ } 10000 \times (\text{\text{₹}} 48 - \text{\text{₹}} 45) \Rightarrow \text{\text{₹}} 30000$$



## Step 2 Savings in Int.

Int. on Loan in India ( $\text{\$ } 10000 \times 45 \times 11\%$ )	49500
Int. on loan on foreign country. ( $\text{\$ } 10000 \times 48 \times 5\%$ )	24000
Savings in Int.	<u>25500</u>

## Step 3 forex loss to be capitalised. Step 4 forex loss as per AS-11

i) forex loss.	30000
ii) Saving in int.	<u>25500</u>
lower of i) & ii)	<u>25500</u>

Total forex loss	30000
- Capitalised	<u>(25500)</u>
forex loss (AS-11) Charged to P/L.	<u>4500</u>

## Step 5 B/C to be capitalised

i) Savings in Int.	25500
ii) Actual Int. on loan from US	<u>24000</u>
B/C as per AS-16.	<u>49500</u>