AS 16 : Borrowing Costs

Meaning

Interest & other costs incurred in connection with borrowing of funds

* Interest & related charges
* Amortisation of discount or premium related to borrowing
* Amortisation of Ancillary costs
* Exchanges Differences

Recognition

Qualifying Asset

Substantial period of time to get ready for use/sale
(> 12 M may be considered)

Capitalise

Others

Ready for intended use when acquired
(w/off in period in which incurred)

P&L A/c

Commencement of Capitalisation

* Expenditure incurred
(Acquisition, construction or Production of Qualifying Asset)

+

* Borrowing costs Incurred

+

* Activities in Progress

Borrowing costs eligible for capitalisation

Specific Borrowing

Actual Borrowing costs incurred
(-) Income on Temporary Investment

General Borrowing

$$\text{Capitalisation Rate} = \frac{\text{Borrowing costs on General Borr.}}{\text{Weighted Avg. General Borr. o/s}} \times 100$$

Amount Capitalised :

$$\text{Expenditure incurred on Qualifying Asset} \times \text{Cap. Rate} \times \frac{\text{Months}}{12}$$

(After utilising Specific Borrowing)

Note : Amount capitalised cannot exceed Borrowing costs

Suspension of Capitalisation

Suspension when active development is interrupted
(ie. No capitalisation)

Exception:

* Substantial technical/admin. work carried out
* Temporary delay part of process, unavoidable reasons, etc.

Cessation of Capitalisation

When substantially all the activities are complete

Construction in parts & each part capable of being used separately, cease capitalisation when part completed

Exchange Difference on Foreign Currency Borrowings

Exchange Gain

Credited to P&L A/c

Exchange Loss

Lower of following is treated as part of borrowing costs

* Actual exchange loss
* Interest on Local Borrowings - Interest on Foreign Borrowings

Note: Excess exchange difference charged to P&L A/c.