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IND AS 23
Borrowing Cost

#1 Background.

loan → Invt.

loan
↓
10L.
↓
P/L (Dr)

Invt.
↓
Return.
↓
P/L (Cr)

P/L (Dr) ← P/L (Cr)
matching concept.

Imagine.

loan → (3 years) → F.A. (Construct)

loan
↓
10L.

F.A. (Construct)
↓

PIL (Dr)

↓

Std. says.

Add this to cost of Asset for 3 years.

Return.

↓

PIL (Cr)

After 3 years.

PIL

IOL (Dr)

Dep. Dr.

↓

extra. bcoz of old. Int on loan. will come back to PIL Dr.

Return.

Cr.

matching !

Std says. → BIC. —else→ PIL.

↓

Capitalise

↓

R.T.U. ← S.P. ← Q.A.

mgmt.

#2 Overview

- what is BIC → #3
- Treatment of BIC → #4
- Calculation of BIC → #5

#3 what is BIC

it includes 3 things

- Int on Borrowed funds @ EIR. as per Ind AS 109
  - includes
  - Borrowed funds
- Forex loss upto a specified Limit
- lease charges on leased asset.
  - Covered in IND AS 116

a) loan

b) Bank O.D.

c) Debenture

d) Red^{n} pref. sh.

e) in case of CFI.
↳ if principal portion is FL

It does not include F.I. classified as Equity

Should be used for
↳ Construction
↳ acquisition
↳ production
of Qualifying Asset (Q.A.)

Asset which normally takes Substancial period of time to be in a ready to use condition for their intended use/sale.

To be determined by management

{ generally or 12 m 1 operating cycle whichever is lower }

Pronouncements (not std)

Suppose
mgmt decides 12 m as S.P.

& Asset takes normally 10 m to get in R.T.U. Condition

↓

not a Q.A.

Note :- Q.A. does not include.

a) Assets which are measured @ F.V.
eg. BIA.

b) inventories which get mfg in large quantities eg → wine is not Q.A. ∵ bcoz prodⁿ in mass.
But.
Aircraft is Q.A.

c) Financial Assets. ∵ always in R.T.U. Condition)

#4 Treat ment of BIC

if BIC is incurred on Q.A., then
Capitalise BIC till asset becomes RTU/sale

otherwise
↓
expensed to P/L

Journal

i) Int. Dr
To Bank

ii) Asset Dr
To int.

Journal

i) Int. Dr
To Bank

ii) P/L Dr
To int.

Period of Capitalisation

Commencement date

later of

a) loan taken
b) exps incurred on Asset
c) Development activities on asset started.

Suspension of B/C

if Construction was stopped due to

- Avoidable Reasons
- Unavoidable Reasons

Cessation date

earlier of

a) loan repaid
b) date when asset gets ready for its intended use / sale

Note :—

if Construction

then BIC should not be Capitalised by that period

eg→ Construction stopped for 2m due to marriage of Chairman sons.

then BIC Should Conti-nue to be Capitalised

eg→ high level of water during Construction of bridge.

of Q.A. is Comple-ted in parts & each part is capable of being used while Construction continous on other parts

Then BIC on Completed parts should stop from date when it is in R-T.U. Condition

eg→ Completion of Hotel by floor & hospital by wings.

#5 How to Calculate BIC

There are 3 Scenarios.

a) Foreign Borrowings.

b) Indian Borrowings.

C) group Borrowings.

a) Foreign Borrowings :-

Exchange loss arising on F.C. borrowings upto Savings in interest cost.
(if loan was borrowed in INDIA) is treated as B/C to be Capitalised as per IND AS 23 & remaining loss will be recognised in P/L as per IND AS 21

Step 1 Cal^{n} of forex loss.

loan in F.C. X (Cl. Rate − R.R. as on date of loan i.e. Spot Rate) ××

Step 2 Savings in int.

~~Int~~ on loan (if taken in INDIA) ××
(loan in F.C. X Spot Rate X RoI. in India)

—

Actual int. on foreign loan. ××

(loan in F.C. x RoI % of abroad xcl. Rate) xxx

Savings. xxx

Step 3 Amount of forex loss to be Capitalised

lower of

i) forex loss

ii) Savings in int.

Step 4 Treatment of forex loss.

Total forex loss (step 1)	xxx
– Forex loss Capitalised	(xx)
forex loss as per INDAS21	xxx

ref. to P12

Step 5 BIC to be capitalised

Int. on F.C. loan	xxx
+ forex loss Capitalised	xxx

Step 6 Journals

i) E.D. Dr xxx → This loss is like a prov.

To F.C. loan xxx (for loss ∵ it is expected loss.)

ii)

PPE	Dr	xxx	
PIL	Dr	xxx	
To F.D.			xxx

iii)

Int.	Dr	xx	
To Bank			xx

iv)

PPE	Dr	xx	
To int.			xx

if there is forex gain in first year → trf to PIL (∵ IND AS 21)

if there is forex gain in subsequent years then ↓

Step 7 Treatment of forex gain

amt of forex gain on F.C. loan

xxx (a) ↓

Reversal of Forex loss capitalised maximum upto forex limit (a)

Balance.

↓

trf to P/L

Step 8 Journal

Loan Dr ××

To Exchange gain ××

Exchange gain ×× (a)

To PPE ×× Reversal

To P/L ×× (Balance)

Capsule – 1 / eg-1

B. Loan taken on 1.4.2018, €5,000 (exchange rate 1€ = ₹ 70) at 6% per annum interest. On 31.3.2019 interest was paid for full year & ER 1€ = ₹ 78. Similar loan in India could be raised at 10%

On 31.3.2020 interest was paid for full year & ER 1€ = ₹ 72

Soln:-

2018-19 2019-20

Step 1 Forex loss

5000 (78 − 70) = ₹ 40000

Step 2 Saving in int.

Int on loan in India 3500

(5000 × 70) × 10%.

Int on loan from F.C. (2340)

(5000 × 6%) × 78)

Savings. 1160

Step 3 Forex loss to be capit.

lower of

a) forex loss 4000

b) Savings 1160

∴ Capitalisation = 1160

Step 4 Treatment of forex loss.

Total loss = 40000

Capitalised (1160)

loss (IND AS 21) 2840

Step 5 Blk Amt to be capitalised

Step 7 Forex gain

⇒ 5000 × (78 − 72)

⇒ 30000

Reversal	Balance
11600	18400

Step 8 Journal

a) Loan 30000

To E.D. 30000

b) E.D 30000

To PPE 11600

To P/L 18400

Forex loss 1160

I.O.L. 2340

4000

Step 6 Journals.

a) CIB 35000

To loan 35000

b) E.D. Dr 4000

To loan 4000

c) PPE Dr 1160

PIL Dr 2840

To E.D. 4000

d) Int Dr 2340

To CIB. 2340

e) PPE Dr 2340

To int. 2340

Question # 1 **ILL 1 SM ICAI**

ABC Ltd. has taken a loan of USD 20,000 on April 1, 20X1 for constructing a plant at an interest rate of 5% per annum payable on annual basis.

On April 1, 20X1, the exchange rate between the currencies i.e USD Vs INR was ₹ 45 per USD.

The exchange rate on the reporting date i.e March 31,20X2 is ₹ 48 per USD.

The corresponding amount could have been borrowed by ABC Ltd from State bank of India in local currency at an interest rate of 11 % per annum as on April 1, 20X1.

Compute the borrowing cost to be capitalized for the construction of plant by ABC

{MTP – SERIES II - MAY – 2019}

Soln :- Step 1 Forex loss.

20000 $ (48 - 45) = 60000

Step 2 Savings in int.

Int. on loan in India (20000 $ x 45) x 11%.	99000
Int. on loan in FIC (USA) (2000 $ x 48) x 5%.	48000
Savings.	51000

Step 3 Forex loss Capitalised

a) Forex loss	99000
b) Savings	51000

W.I.L. i.e. ⇒ 51000

Step 4 Forex loss as per IND AS 21

F/Loss	60000.
– Capitalised	51000
	9000

Step 5 B/C to be capitalised

Forex loss as per IND AS 21	9000
I.O.L.	51000
	60000

b) Indian Borrowings

i) They can be of 2 types.

Specific

Amount borrowed Specifically for purchase/ Construction / production of Q.A.

General

All general borrowings of entity can be used for any purpose. which may have been borrowed after or before exp. on

Q.A. is incurred

loan taken & exhausted & after Q.A. Cons. is started so profit earned by co.

utilised

bcoz if not Q.A. then profit will go to Repayment

ii) it is always assumed that:

Specific Borrowings are used 1st to incur expenses on Q.A. & then general Borrowings are used for remaining exp. on Q.A.

Note:- Exp. incurred on Q.A. should be considered on payment basis & not on accrual basis.

iii) How to calculate BIC to be utilised.

Step 1 :- Specific BIC. (S.B.)

Actual interest cost incurred on Specific Borrowings irrespective of Exp. xxx

⇒ Amount × ROI × months

- Amount → Specific Borrowings
- ROI → ROI % on S.B.
- months → Commencement date or yr. starting (W.I.L.) to cessation date or yr ends. (W.I.E.)

less: Invt income on Temporary invt of S.B. ⇒ idle amount × idle period × ROI % (xxx)

xxx

Note :- if S.B. are taken for more than one asset then allocate BIC to all asset in ratio of Expense incurred on asset.

Eg-2. On 1-4-23 loan was taken of ₹ 100000 @ 12.5 % p.a. after construction of asset.

for Construction of a Building

Case 1 → Const. of Building was started from 1-4-23.

Case-2 Expense incurred on Building from 1-7-23, company invested idle funds & earned ₹ 500

Case-3 Expense incurred on Building as under

on 1-4-23 → ₹ 60000

on 1-7-23 → ₹ 40000 (idle for April, May & June)

Case-4 Expense incurred on Building

on 1-6-23 ⇒ ₹ 60000 (idle for April & May

on 1-1-24 ⇒ ₹ 30000 (idle for 9m & may.

Invested idle funds @ 6% p.a.

= ₹ 1000

↳ idle for 12m

- April & may.

Calculate BIC.

Soln:- i) BIC = $12 \times \frac{12\,m}{12\,m} \times 12\%$ = ₹ 12000

ii) BIC = 100000 × 12% × $\frac{9}{12}$ = ₹9000 − 500
= 8500

iii) BIC = 100000 × 12% × $\frac{12}{12}$ = 12000
4000 × 6% × $\frac{3}{12}$ = (60)
₹11400

iv) BIC = 1L × 12% × $\frac{10}{12}$ = 10000
− 30K × 6% × $\frac{7}{12}$ = (1050)
− 10K × 6% × $\frac{10}{12}$ = (500)
₹ 8450

eg-3 on 1-1-25 HD Ltd obtained planning permission to build a new office Building. Construction commenced on 1-3-25. To held fund the cost of Building, a loan of ₹ 5L was taken from the bank on 1-4-25, int. rate on such loan was 12% p.a.
Construction of Building ceased during the month of July due to an

unexpected shortage of labours materials. Unavoidable

By 31-12-25 year end, the Bilding was not complete.
Cost incurred to date was ₹ 12 L.
Calculate BIC

$$BIC = 5\,L \times 12\% \times \frac{1\text{-}4\text{-}25 \text{ to } 31\text{-}12\text{-}25}{12\ m}$$

$$= ₹\ 45000$$

Step 2: General BIC (G.B)

Eligible General Borrowing Cost.

⇒ Amount × Rate of I % × months / 12

Amount:
- Exp. inc. on Q.A. after using S.B.
  - Amount of loan spent on Q.A. (incl. BIC capitalised during P.Y.) xxx

Rate of I %:
- Capitalisation Rate. i.e.
  - W.A.B.R. (weighted Average Borrowing Rate.)
    - Amt of int. on all ⇒ G.B. in C.Y.

months / 12:
- Commencement date.
- Exp. incurred on Q.A. out of G.B.
- Year starting (W.I.L.)

To
- Cessation date
- year end. (W.I.E.)

+ Cash exps xxx

+ M used from store xxx

− progress payments recd. (xxx)

− Subsidy/grant recieved. (xxx)

xxx

Total Amt. of G.B. for months used ÷ 12.

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TE Steps to calculate Total B/C.

Step 1 → Calculate WABR

Step 2 → Cal of B/C to be capitalised

Starting date	type of loan	Amt used (A)	ROI% (B)	period (C)	B/C. AxB xC
	Ist use S.B. then G.B.				

Notes :- Total B/C capitalised Cannot exceed actual B/C incurred.

eg-4 Details of C.B. for the year ended 2024.

1-1-24 Termloan ₹5L @12.1.

1-4-24 G.1. Deb. ₹8L

1-8-24 Bank loan ₹12L @15.1.

Calculate WABR.

Soln :-

$$WABR = \frac{5L \times 12\% \times \frac{12}{12} + 9\% \times \frac{9}{12} \times 8L + 12L \times 15.1\% \times \frac{5}{12}}{5L \times \frac{12}{12} + 8L \times \frac{9}{12} + 12L \times \frac{5}{12}} \times 100$$

$$= \frac{60000 + 54000 + 75000}{5L + 6L + 5000} \times 100$$

$$= 11.8125\%$$

eg-5. HD Ltd started Construction of Building 1-4-24 for which it has obtained a specific loan of ₹ 2L @ 9% p.a. HD Ltd has other loans as follows ₹8L @ 10% p.a. & 12L @ 13% p.a. Expense incurred on construction of Building

	Date.	amount.
9m	1-4-	15000 spe..

5m 1-8 140000 → 50K S.P. / Bal 90K G.B.

3m 1-10 300000

Building Constructed on 31st Dec. Calculate B/C to be capitalised.

Sol^n :-

Step 1 WABR.

$$\frac{8L \times 10\% \times \frac{12}{12} + 12L \times 13\% \times \frac{12}{12}}{8L \times \frac{12}{12} + 12 \times \frac{12}{12}}$$

⇒ 11.80%

Step 2. Cal^n of B/C to be capitalised.

Date	Ty of Loan	Amt used. (A)	RoI% (B)	Period (C)	B/C (AxBxC)
1-4	S.B	150000	9%	9/12	10125
1-8	S.B.	50000	9%	~~5~~ 9/12	3375
1-8	G.B	90000	11.8%	5/12	4425
1-10	G.B.	300000	11.8%	3/12.	8850

B/C. 26775

GrB cost to be cap. = 236000 or 13375
(44257885)

W.A.L.

i.e. 13375

Total BC cost = S.B + Gr.B.

⇒ 13500 + 13375

⇒ 26775.

H.W.

Question # 2

Sun Co-operative Society Ltd. has borrowed a sum of US$12.50 million at the commencement of the financial year 2016-2017 for its solar energy project at LIBOR (London Interbank Offered Rate) of 1% + 4%. The interest is payable at the end of the respective financial year. The loan was availed at the then rate of ₹ 45 to the US dollar while the rate as on 31st March, 2017 is ₹ 48 to the US dollar. Had Sun Co- operative Society Ltd. borrowed the Rupee equivalent in India, the interest would have been 11%.

You are required to compute 'Borrowing Cost'. Also show the amount of exchange difference as per prevailing Ind AS.

Question # 3 ILL 7 SM ICAI

Alpha Ltd on 1st April 20X1 borrowed 9% ₹ 30,00,000 to finance the construction of two qualifying assets. Construction started on 1st April 20X1.
The loan facility was availed on 1st April 20X1 and was utilized as follows with remaining funds invested temporarily at 7%.

	FACTORY BUILDING	OFFICE BUILDING
1st April 20X1 ✓	5,00,000	10,00,000
1st October 20X1 ✓	5,00,000	10,00,000

Calculate the cost of the asset and the borrowing cost to be capitalized.

Soln:- entire loan is of specific Borrowings.
Step1 Specific BC.

30L x 9% x 12/12 ⇒ 270000

− income on invt. (52500)

= 15L x 7% x 6/12.

217500

Step 2 Calⁿ of Q.A. as on 31-3-02

Amount spent.	Factory.	off. Building
	10L.	20L.
B/c on S.B. (217500 in 1:2)	72500	145000
	107250	214500

Question # 4 **ILL 9 SM ICAI**

Beta Ltd had the following loans in place at the end of 31 st March 20X2:

LOAN	1st April 20X1 ('000)	31st March 20X2 ('000)
18% Bank Loan	1,000	1,000
16% Term Loan	3,000	3,000
14% Debentures	-	2,000

14% debenture was issued to fund the construction of Office building on 1st July 20X1 but the development activities has yet to be started.

On 1st April 20X1, Beta ltd began the construction of a Plant being qualifying asset using the existing borrowings. Expenditure drawn down for the construction was: ₹ 500,000 on 1st April 20X1 and ₹ 2,500,000 on 1st January 20X2

Required: Calculate the borrowing cost that can be capitalised for the plant.

Soln :- Notes.

i) we are required to calculate B/c to be capitalised from Cons. of plant & not Building ∵ active development has still not started.

ii) Deb. int. would not be capitalised for capitalising it on plant, since deb. are borrowed specifically for Building.

iii) Bank loan & term loan both are Gr. B.

Step1 WABR.

$$\Rightarrow \frac{18\% \text{ of } 10L \times \frac{12}{12} + 16\% \text{ of } 30Lacs \times \frac{12m}{12m}}{10L \times \frac{12}{12} + 30L \times \frac{12}{12}} \times 100$$

$$\Rightarrow \frac{660000}{4000000} \times 100$$

$$\Rightarrow 16.5\%$$

Step2. B/C. to be capitalised

i) S.B.			N.A.
ii) Gr.B.			
1-4-01	5L	$\times 16.5\% \times \frac{12}{12}$	82500
1-1-02	25L	$\times 16.5\% \times \frac{3}{12}$	103125
			185625

Eligible Cr.B.Cost.

Eligible BIC Cost capitalised 185625

Actual Cr.B. Cost. 660000

W.I.L. ⇒ 185625

∴ Total BIC to be capitalised = 185625

Question # 5 **ILL 10 SM ICAI**

X Ltd is commencing a new construction project, which is to be financed by borrowing. The key dates are as follows:

1. 15 May 20X1: Loan interest relating to the project starts to be incurred
2. June 20X1 : Technical site planning commences
3. 19 June 20X1 : Expenditure on the project started to be incurred
4. 18 July 20X1 : Construction work commences Identify commencement date

↳ 18-7-01

Question # 6 **TYK Q, 2 SM**

X Limited has a treasury department that arranges funds for all the requirements of the Company including funds for working capital and expansion programs. During the year ended March 31, 20X2, the Company commenced the construction of a qualifying asset and incurred following expenses:

DATE	Amount (₹)
July 1, 20X1	2,50,000
December 1, 20X1	3,00,000

The details of borrowings and interest thereon are as under:

Particulars	Average Balance	Interest (₹)
Long term loan @ 10%	10,00,000	100000
Working capital loan	5,00,000	65,000
	15,00,000	1,65,000

Compute the borrowing costs that need to be capitalised

Soln:- Step1 W.A.B.R

$\frac{165000}{1500000} \times 100 = 11\%$

Step 2 BIC.

i) S.B. N.A.

ii) Gr.B.

a) Gr.B./C incurred.

1-7-01	250000 x 11% x 9/12	20625
1-12-01	300000 x 11% x 4/12	11000
		31625

b) Gr.BIC to be capitalised

i) eligible Gr.B.Cost 31625

ii) ~~Total~~ Actual BIC 165000

W.I.L.

i.e. Total BIC cap. 31625

Question # 7

X Limited began construction of a new plant on 1st April 2016 and obtained a special loan of ₹ 8 lakhs to finance the construction of the plant. The rate of interest on loan was 10 per cent per annum.

The expenditure that was made on the project of plant construction was as follows:

	₹
1-4-2016	10,00,000
1-8-2016	24,00,000
1-1-2017	4,00,000

8

2

Gr.B. ⇒ WABR

The Company's other outstanding non-specific loan was ₹ 46,00,000 at an interest of 12 percent per annum.

The construction of the plant was completed on 31-3-2017.

You are required to calculate the amount of interest to be capitalized as per the provision of Ind AS 23 of the borrowing cost (including cost).

Soln :-

Step1 W.A.B.R. ⇒ 12% (given)

Step2 BIC to be capitalised

i) Specific Borrowings. (8L × 10% × 12/12) = 80000

ii) General Borrowings.

1-4-16 2L (10L-8L) × 12% × 12/12 = 24000

1-8-16 24L × 12% × 8/12 = 192000

1-1-17 4L × 12% × 3/12 = 12000

228000

Gr. BIC to be capitalised

i) eligible 228000

ii) Actual BIC 552000 ↓ i.e. 228000

(46L × 12%)

Total BIC 308000

Question # 8 — RTP Nov 18 - TYK Q. 4 SM ICAI

K limited began construction of a new building at an estimated cost of ₹7,00,000 on 1st April, 2017. To finance the construction of a new building it obtained a specific loan of ₹2,00,000 from a financial institution at an interest rate of 9% per annum.

Amount	Rate of Interest per annum
7,00,000	12%
9,00,000	11%

The expenditure on construction was.

Date	Amount
April,2017 (10m)	₹ 1,50,000
August,2017	₹ 2,00,000
October,2017 (4m)	₹ 3,50,000
January,2018 (1m)	₹ 1,00,000

The construction of building was completed on 31st January, 2018.
Following the provisions of Ind AS 23 calculate the amount of interest to be capitalised and pass necessary journal entry for capitalizing the cost and borrowing cost in respect of the building as on 31st January, 2018.

Soln :- Step 1 W.A.B.R.

$$= \frac{7\text{L} \times 12\% \times \frac{12}{12} + 9\text{L} \times 11\% \times \frac{12}{12}}{7\text{L} \times \frac{12}{12} + 9\text{L} \times \frac{12}{12}} \times 100$$

$$\Rightarrow \frac{84000 + 99000}{1600000} \times 100$$

$$= \frac{183000}{1600000} \times 100 \Rightarrow 11.4375\%$$

Step 2 BIC.

i) Specific BIC. (22 x 9% x 10/12) 15000

ii) Gr. BIC

1-8-17 (2L - 50K) x 11.4375% x 6/12 8578

1-10-17 350000 x 11.4375% x 4/12 13344

1-1-18 100000 x 11.4375% x 1/12 953

22875

Gr. B. to be Capitalised.

i) eligible 22875

ii) actual. 183000 w.r.t. i.e. 22875

Total BIC. 37875

Step 3.

Journal

Building Dr 837875

To Bank 800000

To BIC. 37875

Step4. Cost of Building to be capitalised

1-4-17	Amt spent.		150000
1-8-17	"	"	200000
1-10-17	"	"	350000
1-1-18	"	"	100000
31-3-18	BIC capitalised		37875
			837875

Question # 9 **TYK Q. 5 SM , SIMILAR TO SEPT 25**

On 1st April, 2011, entity A contracted for construction of a building for 22,00,000. The land under the building is regarded as a separate asset and is not part of the qualifying assets. The building was completed at the end of March, 2012 and during the period following payments were made to the contractor as under:

Payment date	Amount(000)	
1st April,2011	200	12m → S.B.
30th June,2011	600	9m → S.B.
31st December,2011	1,200	3m → G.B.
31st March,2011	200	0m → G.B.
Total	2,200	

Entity A's borrowings at this year-end of 31st March, 2012 were as follows :

(a) 10%, 4-year note with simple interest payable annually, which relates specifically to the project; debt outstanding on 31st March, 2012 amounted to ₹ 7,00,000. Interest of ₹ 65,000 was incurred on these borrowings during the year and interest income of ₹ 20,000 was earned on these funds while they held in anticipation of payments.

(b) 12.5%, 10-year note with simple interest payable annually, debt outstanding at 1st April, 2011 amounted to ₹ 10,00,000 and remained unchanged during the year.

(c) 10%, 10-year note with simple interest payable annually, debt outstanding at 1st April, 2011 amounted to ₹ 15,00,000 and remained unchanged during the year. What amount of borrowing cost can be capitalised at year end as per relevant Ind AS?

Soln:- Step1 W.A.B.R. for G.B.

$$\frac{12.5\% \times 10L \times \frac{12m}{12m} + 10\% \times 15L \times \frac{12m}{12m}}{10L \times \frac{12m}{12m} + 15L \times \frac{12m}{12m}} \times 100$$

$$\Rightarrow \frac{275000}{2500000} \times 100 = 11\%.$$

Step 2 BIC to be capitalised

i) S.B. $\Rightarrow$ $700000 \times 10\% \times \frac{12}{12} - 20000$

Op.

$65000 - 20000 \Rightarrow 45000$

ii) Cr.B.

30-6-11 $(6L - 5L) \times 11\% \times \frac{9}{12} = 8250$

31-12-11 $12L \times 11\% \times \frac{3}{12} = 33000$

31-3-12 $2L \times 11\% \times \frac{0}{12} = 0$

Eligible BIC. 41250

Cr.BIC to be capitalised

Eligible BIC	41250
Actual CrBIC	27500

W.I.L. i.e. 41250

Total B/C cost 86250

Question # 10 TYK Q. 3 SM , SIMILAR TO MAY 19 (8 MARKS)

An entity constructs a new head office building commencing on 1st September 20X1, which continues till 31st December 20X1. Directly attributable expenditure at the beginning of the month on this asset are ₹ 100,000 in September 20X1 and ₹ 250,000 in each of the months of October to December 20X1.

The entity has not taken any specific borrowings to finance the construction of the asset, but has incurred finance costs on its general borrowings during the construction period. During the year, the entity had issued 10% debentures with a face value of ₹ 20 lacs and had an overdraft of ₹500,000, which increased to ₹ 750,000 in December 20X1. Interest was paid on the overdraft at 15% until 1 October 20X1, then the rate was increased to 16%.

Calculate the capitalization rate for computation of borrowing cost in accordance with Ind AS 23 'Borrowing Costs'.

Soln :- Note! Since year end 31-12

		O/S for	ROI
Debenture	20 lacs.	12m	10%
overdraft.	5 lacs.	9m (Jan to sept)	15%
	5 lacs	2m (Oct & Nov)	16%
	7.5 lacs.	1m (Dec)	16%

Step 1 W.A.B.R. (C.R.)

$$\Rightarrow \frac{\text{Amt of Int. on All G.B. in C.Y.}}{\text{Total amt of G.B.} \times \frac{\text{months used}}{12}}$$

$\Rightarrow 20L \times 10\% \times \frac{12m}{12m} + 5L \times 15\% \times \frac{9}{12} + 5L \times 16\% \times \frac{2}{12} + 7.5L \times 16\% \times \frac{1}{12}$

$20L \times \frac{12}{12} + 5L \times \frac{11}{12} + 5L \times \frac{2}{12} \times 7.5 \times \frac{1}{12}$ $\times 100$

$\Rightarrow \frac{200000 + 56250 + 13333 + 10000}{2000000 + 458333 + 62500} \times 100$

$\Rightarrow \frac{279583}{2520833} \times 100$

$\Rightarrow 11.09\%$

Question # 18 RTP May 22 PRACTICE Q. 3 SM ICAI

X LTD commenced the construction a plant (qualifying asset) on 1st sept 2021 estimated to cost 10 crores. For this purpose, X has not raised any specific borrowings, rather it intends to use general borrowings, which have a weighted average cost of 11%. Total borrowing costs incurred during the period, viz., 1 September, 20X1 to 31 March, 20X2 were 0.5 crore.

The other relevant details are as follows:

Month	Cost of construction Accrued		Cash outflows (paid in advance at the start of each month)
Sept	1.50	7m	3.00
Oct	0.50	6m	1.70
Nov	1.50	5m	2.50
Dec	0.50	4m	-
Jan	1.80	3m	1.00
Feb	0.70	2m	-
Mar	3.00	1m	1.50

Based on the above information, discuss the treatment of borrowing cost as per cash outflow basis and accrual basis and also suggest the appropriate amount of interest that should be capitalised to the cost of the plant in the financial statements for the year ended 31 March, 20X2?

Soln :- Step 1 WABR ⇒ 11% given.

Step 2 BC to be capitalised

Date	C.O.C. Accrued. (A)	Cash Outflows. (B)	months. (C)	Int on Cost Qlc (A×11%×C/12)	Int. on Cash outflows (B×11%×C/12)
Sept	1.5	3	7		
Oct	0.5	1.7	6		
Nov	1.5	0.5	5		
Dec	0.5	—	4		
Jan	1.8	1	3		
Feb	0.7	—	2		
Mar	3	1.5	1		
				0.30	0.4418

As per IND AS 23 BIC is incurred on cash out flow. ∴ BIC of 0.4418 is more appropriate.

Amount of BIC to be capitalised lower of

Eligible Cri B.C.	0.4418
Actual BIC	0.5 Cr.
i.e.	0.4418 Cr.

Question # 20 RTP May 23 **PRACTICE Q. 5 SM ICAI**

LT Ltd. is in the process of constructing a building. The construction process is expected to take about 18 months from 1st January 20X1 to 30th June 20X2. The building meets the definition of a qualifying asset. LT Ltd. incurs the following expenditure for the construction:

1 January, 20X1	(10-11)	5 crores → 3m.
30 June, 20X1	(11-12)	20 crores → 9m.
31 March, 20X2	(11-12)	20 crores → 0m.
30 June, 20X2	(12-13)	5 crores → 0m.

Pre / Post

On 1 July 20X1, LT Ltd. issued 10% Redeemable Debentures of 50 crores. The proceeds from the debentures form part of the company's general borrowings, which it uses to finance the construction of the qualifying asset, ie, the building. LT Ltd. had no borrowings (general or specific) before 1st July 20X1 and did not incur any borrowing costs before that date. LT Ltd. incurred 25 crores of construction costs before obtaining general borrowings on 1 July 20X1 (pre-borrowing expenditure) and 25 crores after obtaining the general borrowings (post-borrowing expenditure).

For each of the financial years ended 31 March 20X1, 20X2 and 20X3, calculate the borrowing cost that LT Ltd. is permitted to capitalize as a part of the building cost.

Sol :-

Note :- Cap. of BIC starts from 1-7-2011

10-11	11-12	12-13
5cr - 3m.	5cr. + int. — 9m	45cr + int. — 3m
↓	20cr — 9m	5cr. — 0m
There monthly	20cr — 0m	
Int. will be	45cr.	
Calculated &		
cap. in 11-12.		

Step 1 W.A.B.R. = 10%

Step 2 BIC to be capitalised

i) S.B. N.A.

ii) Cr.B.

For 10-11

1-1-11 5Cr x 3/12 x 0% = 0

For 11-12

1-4-11 5Cr x 9/12 x 10% = 0.375

30-6-11 20Cr x 9/12 x 10% = 1.5

31-3-12 20Cr x 0/12 x 10% = 0 — 1.875

For 12-13.

1-4-12 46.875 x 3/12 x 10% ⇒ 1.172

30-6-12 20Cr x 0/12 x 10% ⇒ 0

1.172

General BIC to be capitalised.

	31-3-11	31-3-12	31-3-13
i) eligible	—	1.875	1.172
ii) Actual	—	45 x 10% x 9/12	45 x 10% x 12/12
W.I.L. ⇒	—	1.875	1.172.

Question # 17 — **SIMILAR TO MAY 22 , PRACTICE Q. 2 SM ICAI**

Nikka Limited has obtained a term loan of 620 lacs for a complete renovation and modernisation of its Factory on 1st April, 20X1. Plant and Machinery was acquired under the modernisation scheme and installation was completed on 30th April, 20X2. An expenditure of 510 lacs was incurred on installation of Plant and Machinery, 54 lacs has been advanced to suppliers for additional assets (acquired on 25th April, 20X1) which were also installed on 30th April, 20X2 and the balance loan of ₹ 56 lacs has been used for working capital purposes. Management of Nikka Limited considers the 12 months period as substantial period of time to get the asset ready for its intended use.

The company has paid total interest of ₹ 68.20 lacs during financial year 20X1-20X2 on the above loan. The accountant seeks your advice how to account for the interest paid in the books of accounts. Will your answer be different, if the whole process of renovation and modernization gets completed by 28th February, 20X2?

Soln:- Case-1 if construction completed on 30-4-22

Treatment of BIC.

Name of Asset.	Nature.	Sh. of int.	BIC capit.	PIL
modern. of PM	Q.A.	$\frac{510}{620} \times 68.2$	56.10	—
Advance to supp.	Q.A.	$\frac{54}{620} \times 68.2$	5.94	—
W.C.	not a Q.A.	$\frac{56}{620} \times 68.2$	—	6.16
			62.04	6.16

Case-2 if Cons. Completed on 28-2-02.

1-4-01 to 28-02-02 = 10m < 12m.

∴ not a Q.A.

∴ entire Int of 68.2 lacs. will be trf. to PIL

Question # 19 PRACTICE Q. 4 SM ICAI

Harish Construction Company is constructing a huge building project consisting of four phases. It is expected that the full building will be constructed over several years but Phase I and Phase II of the building will be operational as soon as they are completed.

Following is the detail of the work done on different phases of the building during the current year:

	PHASE I	PHASE II	PHASE III	PHASE IV
Cash expenditure	10	30	25	30
Building purchased	24	34	30	38
Total expenditure	**34**	**64**	**55**	**68**
Total expenditure of all phases				221
Loan taken @ 15% at the beginning of the year				200

After taking substantial period of construction, at the mid of the current year, Phase I and Phase II have become operational.

Find out the total amount to be capitalized and to be expensed during the year.

Soln :- Step 1 WABR. ⇒ N.A. ∵ No G.B.

Step 2 BIC to be capitalised

i) Specific Borrowings

⇒ 200 Lacs × 15% × $\frac{12}{12}$ = 3000000

Step 3. T. B.C. to be capitalised & expensed.

	Phase I & II	Phase III & IV
a) Total exps.	98 lacs. (34 + 64)	123 lacs. (55 + 68)
b) Sh. of BIC.	1330317 ($\frac{98}{221}$ × 30 Lac.)	1669683 ($\frac{123}{221}$ × 30 L)
c) Amt. Cap.	665158.5 (1330317 × $\frac{6m}{12m}$)	1669683 ∵ Cons. is not

d) Amt exp. 665158.5

completed.

(1330317 × 6m/12m)

MENTORING
HARSHIT DWIVEDI

Question # 11

Fee Ltd. borrows a sum of ₹ 20 crore from Coffee Ltd., repayable as a single bullet payment at the end of 5 years. The interest thereon @ 5% p.a. is payable at yearly rests. Since the market rate is 8%, Fee Ltd. paid an origination fee of ₹ 2.40 crores to Coffee Ltd. to compensate Coffee Ltd. for the lower rate of interest, Apart from the above, there are no other transactions between the two parties.

You are required to show the value at which Coffee Ltd., would recognize the loan and the annual interest thereon.

Soln :- Step1 Actual cfs.

yr0	yr1	yr2	yr3	yr4	yr5
−20Cr.	+1	+1	+1	+1	+1 + 20

Step2 EIR = 8%.

Step3 FV.

FV of all cfs @ EIR.

= 1Cr × PVAF of 5 years @ 8%.

+20Cr × DF of 5th year @ 8%.

⇒ 176 Cr.

Step4 Diff.

T.V. 20 Cr.

FV 17.6Cr → Level I.

PIL 2.4Cr.

Steps A.T.

year	op. bal.	Int@8.1.	Int.	Cl. bal.
1	17.6Cr.		1	
2			1	
3			1	
4			1	
5			1	20
		7.4.	5	

Step6 Alcing.

A.S.

i) loan Dr 20
To Bank 20

ii) Bank Dr 2.4
To off/Adm. 2.4.

iii) Yr1 to yr5

IND AS.

loan Dr 17.6
PIL Dr 2.4.
To Bank 20

Bank Dr 2.4
To off/Adm. 2.4.

loan Dr 5
To int. 5

Bank Dr 5
To loan 5

Bank Dr 20
To loan 20

Same entry. 7.4

— ditto. 7.4.

— ditto.

Question # 16 **PRACTICE Q. 1 SM ICAI**

Examine how will you capitalise the interest, when qualifying assets are funded by borrowings in the nature bonds that are issued discount.

Y Ltd. issued at the start of year 1, 10% (interest paid annually and having maturity period of 4 years) bonds with a face value of ₹ 2,00,000 at a discount of 10% to finance a qualifying asset which is ready for intended use at the end of year 2.

Compute the amount of borrowing costs to be capitalized if the company amortizes discount using Effective Interest Rate method by applying 13.39% p.a. of EIR

Capitalisation method.

↳ As per the standard BIC includes int. exp. calculated using E.I.R. method. (which takes into a/c Dis/prem. on issue, regular payment & prem/Dis. on Red^n)

↳ Capitalisation of BIC. cease where asset is ready for its intended use/sale.

↳ more over only that portion of amortised discount should be capitalised as a part of Q.A. which relates to the period of acquisition / construction / prod^n of Q.A.

Step1 WABR ⇒ N.A. ∵ No Gr.B.

Step2 BIC to be capitalised.

i) S.BIC.

a) Borrowed fund = 2L - 10%.
= 180000

b) A.T.

year	op.bal.	Int@ 13.39%	(10% of loan) inst.	Cl.bal.
1	180000	24102	20000	184102
2	184102	24651	20000	188753
3	188753	25274	20000	194027
4	194027	25973.	20000	200000

ii) Gr.B. ⇒ N.A.

Step3. Treatment of BIC.

year.	BIC.	Capitalised	P/L
1	24102	24102	
2	24651	24651	
3	25274		25274
4	25973.		25973.
		48753	51247

C) Group Borrowings:

Borrowings o/s the group

Eg →

→ S_1 borrowed from SBI @ 9% and gave to S_2 @ 10%.

∴ S_2 has a Q.A. of ₹100

↓

BIC to be capitalised

S_1	S_2	CFS
Zero	10% of 100	9% of 100
∵ No Q.A.	⇒ 10	⇒ 9

Borrowings not o/s the group

Eg →

→ S_1 gave loan to ₹100 to S_2 @ 10%.

∴ S_2 has a Q.A. of ₹100

↓

BIC to be capitalised

S_1	S_2	CFS
↓	10% of 100	↓
0	⇒ 10	0
∵ No Q.A.		∵ loan is within group.

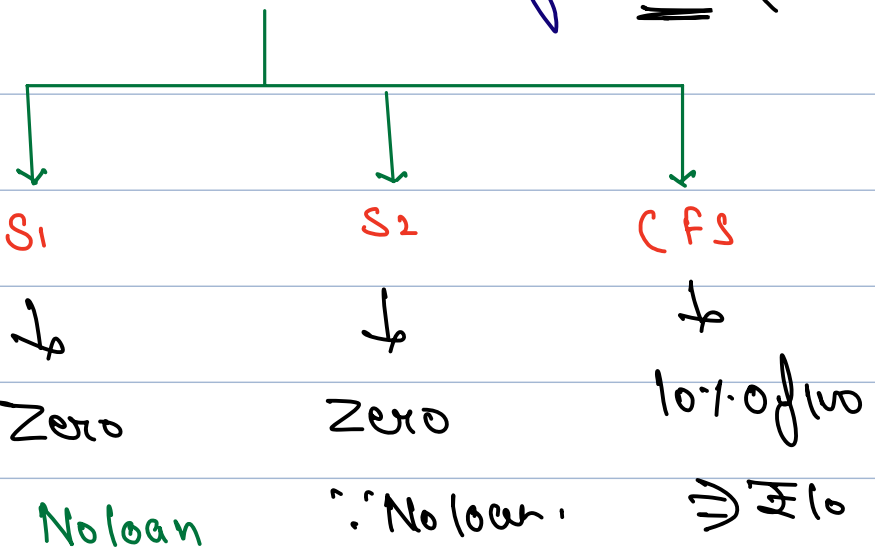
Eg → → S_1 Constructed a Q.A. by Contractor of S_2

→ Cost of construction ₹100 but charged from S_1 ₹120

⇒ S_1 ⇒ Q.A. ⇒ ₹120 − 20 profit eliminated,

∴ Q.A of S_1 ⇒ ₹100

⇒ S_2 ⇒ 10% loan of ₹100. (OIS group)



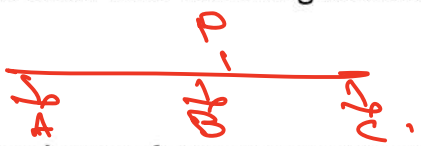
Question # 22 **PRACTICE Q. 6 SM ICAI**

In a group with Parent Company "P" there are 3 subsidiaries with following business:

"A" – Real Estate Company

"B" – Construction Company

"C" – Finance Company



- Parent Company has no operating activities of its own but performs management functions for its subsidiaries.
- Financing activities and cash management in the group are coordinated centrally.
- Finance Company is a vehicle used by the group solely for raising finance.
- All entities in the group prepare Ind AS financial statements.
- The following information is relevant for the current reporting period 20X1-20X2:

Real Estate Company A

- Borrowings of ₹ 10,00,000 with an interest rate of 7% p.a.
- Expenditures on qualifying assets during the period amounted to ₹ 15,40,000.
- All construction works were performed by Construction Company. Amounts invoiced to Real Estate Company included 10% profit margin. B.

Construction Company B

- No borrowings during the period.
- Financed ₹ 10,00,000 of expenditures on qualifying assets using its own cash resources.

Finance Company C

- Raised ₹ 20,00,000 at 7% p.a. externally and issued a loan to Parent Company for general corporate purposes at the rate of 8%.

Parent Company

- Used loan from Finance Company to acquire a new subsidiary.
- No qualifying assets apart from those in Real Estate Company and Construction Company.

• Parent Company did not issue any loans to other entities during the period.
• What is the amount of borrowing costs eligible for capitalisation in the financial statements of each of the four entities for the current reporting period 20X1-20X2?

Answer:

Following is the treatment as per Ind AS 23:

Finance Company

No expenditure on qualifying assets have been incurred, so Finance Company cannot capitalise anything.

Real Estate Company

Total interest costs in the financial statements of Real Estate Company is ₹ 70,000.
Expenditures on qualifying assets exceed total borrowings, so the total amount of interest can be capitalised.

Construction Company

No interest expense has been incurred, so Construction Company cannot capitalise anything.

Consolidated financial statements of Parent Company:

Total general borrowings of the group: ₹ 10,00,000 + ₹ 20,00,000 = ₹30,00,000
Although Parent Company used proceeds from loan to acquire a subsidiary, this loan cannot be excluded from the pool of general borrowings.
Total interest expenditures for the group = ₹ 30,00,000 x 7% = ₹ 2,10,000
Total expenditures on qualifying assets for the group are added up. Profit margin charged by Construction Company to Real Estate Company is eliminated:
Real Estate Company – ₹ 15,40,000/1.1 = ₹ 14,00,000
Construction Co – ₹10,00,000
Total consolidated expenditures on qualifying assets:
₹ (14,00,000 + 10,00,000) = ₹ 24,00,000
Capitalisation rate = 7%
Borrowing costs eligible for capitalisation = ₹ 24,00,000 x 7% = ₹ 1,68,000
Total interest expenditures of the group are higher than borrowing costs eligible for capitalisation calculated based on the actual expenditures incurred on the qualifying

Soln :-

Following is the treatment as per IND AS 23.

Real Estate Co. (Loan ⇒ Q.A ✓)

Total int. cost to be capitalised = 7% of 10 Lac = 70000

∵ exp. on Q.A. > Loan.

Construction Co.

No int. Exps incurred ∴ no borrowing.
∴ It cannot capitalise any int.

Finance Co. (Loan → ✓ Q.A. → ✗)
No exp. on Q.A. ∴ it cannot capitalise any int.

CFS of Parent.
Total G.B. = 10L + 20L = 3000000
→ G.BIC ⇒ 30L × 7% = 210000
BIC to be capitalised on Q.A.

$$\Rightarrow 7\% \left(\frac{15.4L.}{110\%} + 10L \right)$$

$$\Rightarrow 168000$$

Or.

Step1 ⇒ WABR.

$$\Rightarrow \frac{7\% \text{ of } 10L + 7\% \text{ of } 20L.}{30L} \times 100$$

$$= \frac{210000}{3000000} \times 100 = 7\%$$

Step2 BIC. to be capitalised
i) S.B. N.A.

ii) Gr.B.

on Q.A. of Reest. $\left(\frac{154000}{110\%} \times 7\%\right) \Rightarrow$ 98000

" " " C.C. (102 x 7%) 70000

168000

Gr.B.C. to be capital.

i) eligible. 168000

ii) Actual. 210000

lower of i) & ii) i.e. 168000.