

AS 16 - Borrowing Cost

1) ancillary cost :- Processing fees ₹ 50,000
Loan = 10 yrs.

$$\frac{50000}{10} = 5000$$



amortised
part

2) 10% Debt issue 3000 no. (FV 100/-) at 90/-
10 yrs.

$$\text{Cash Received} = 270000$$

$$\frac{30000}{10} = 3000 \text{ amortised part.}$$

Redeem at 20% premium

$$\text{i.e. } 20/- \times 3000 = \frac{60000}{10}$$

6000
Amort part

Step 4:- Calculate Ex. difference (Loss)

$$\$50000 \times (84.57 - 81.26) = 165500/-$$

(Bc) Ex. loss Dr. 165500
To Fc Loan 165500

Step 5:- Bc-2 Step 3 or Step 4
Whichever is lower
i.e 165500/-

Total Bc :-

Bc 1	=	169140
Bc 2	=	165500
		<hr/>
		334640

Assume Clog rate in above Example is 86.5/-

Step 1:- Actual Interest $\Rightarrow \$50000 \times 4\% \times 86.5$
 $\Rightarrow 173000$ (Bc 1)

Step 2:- Interest in Indian Cur. Loan

$$\$50000 \times 81.26 = ₹ 4063000$$
$$\times 10.5\%$$

$$426615$$

Step 3:- Saving = 253615

Step 4:- Ex. loss \Rightarrow \$50000 (86.5 - 81.26)

\Rightarrow ₹262000



BC a/c Dr. 253615

Ex. Loss Dr. 8385

To FC Loan 262000

AS 11 (P&L)

435000
FC

426615
Int.

Step:- 5

BC 2

Lower of Step 3 & 4

253615 (or) 262000

253615

BC 2

Total BC \Rightarrow BC 1 173000 Interest

BC 2 253615 Ex. diff.

426615

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BC on Loan

Not in Relation to any Asset

Ex! - Working Capital



BC \Rightarrow P&L

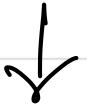
In Relation to any Asset

Non-Qualifying Asset



BC \Rightarrow P&L

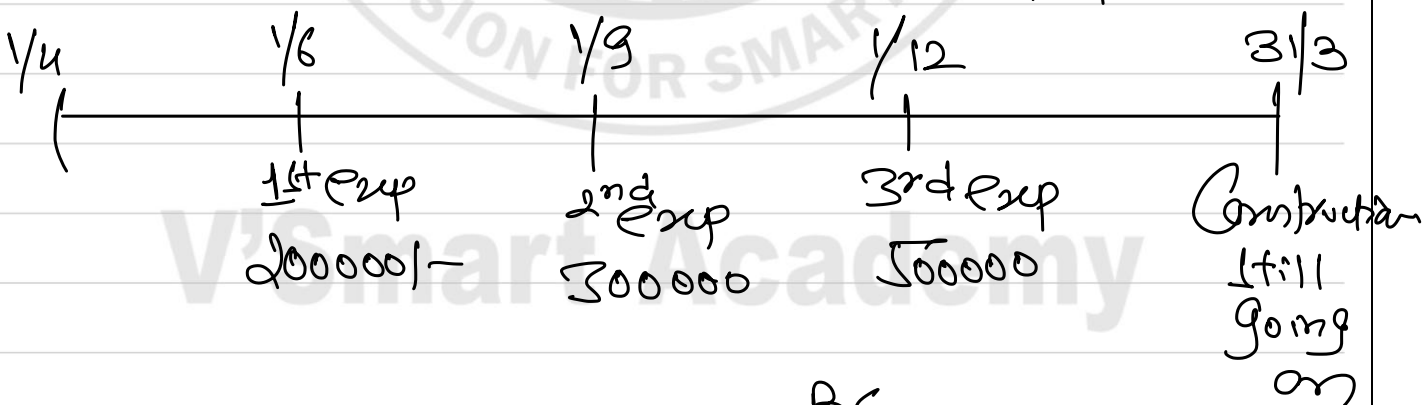
Qualifying Asset



BC added to be Cost of QA.

Class Ex! - 1 (Specific Borrowing)

Loan 12% 10,00,000 1/4/24



$$10,00,000 \times 12\% \times \frac{10}{12} = 1,00,000 \text{ Capital BC}$$

20,000 P&L BC

Class Ex:-2 Continuation of Ex 1

In the next year Suppose Construction Completed on 1/10

$$\leftarrow \text{Total Bc} = 10,00,000 \times 12\% = 120,000$$

$$(-) \text{ Capitalised} = 10,00,000 \times 12\% \times \frac{6}{12} = (60,000)$$

P&L 60,000

Example 7: - Financial Year 22 - 23

1 st April	SBI Loan @10%	20 lakhs
1 st June	HDFC Loan @12%	25 lakhs
1 st Dec	ICICI Loan @10.5%	30 lakhs
		75 lakhs

QA
Building
P&M

Calculate Weightage Average Borrowing Rate.

Solution:

$$\text{W. Avg. B. Rate} \Rightarrow \frac{\text{Total Bc during the year}}{\text{Total Borrowings of during the year}} \times 100$$

<u>Date</u>	<u>Loan</u>	<u>Working</u>	<u>Interest</u>
1/4	20,00,000	$20,00,000 \times 10\% \times \frac{12}{12}$	2,00,000
1/6	25,00,000	$25,00,000 \times 12\% \times \frac{10}{12}$	2,50,000
1/12	30,00,000	$30,00,000 \times 10.5\% \times \frac{4}{12}$	1,05,000
			<u>5,55,000</u>

$$\text{WABR}(\%) = \frac{555000}{\left(\frac{2000000 \times 12}{12}\right) + \left(\frac{2500000 \times 10}{12}\right) + \left(\frac{50 \times 4}{12}\right)}$$

$$= \frac{555000}{5083333} \times 100$$

$$\text{WABR} = 10.918\%$$

Common Rate

Ex:-8

1/4/22 Machine A $65000 \times 10.918\% \times \frac{12}{12} = 70967$

1/6/22 Machine B $20,00,000 \times 10.918\% \times \frac{10}{12} = 181967$

1/7/22 Building A $1800000 \times 10.918\% \times \frac{9}{12} = 147393$

1/Jan/23 Building A $2100000 \times 10.918\% \times \frac{3}{12} = 57320$

BC to be Capitalised = 457647

$$\text{Bc (P&L)} \Rightarrow \frac{555000}{\text{Total Bc}} - \frac{457647}{\text{Bc Capitalised}} = 97353$$

① Interest Cost Dr. 555000

To SBI Loan 200000

To HDFC Loan 250000

To ICICI Loan 105000

② Machine A Dr. 70967

Mach. B Dr. 181967

Building Dr. 204713

P&L Dr. 97353

To Interest Cost 555000

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Q203

WN-1 Calculation of WABR (%) on General Borrowings :-

<u>Loan Amt.</u>		<u>Int %</u>	<u>Bc (Amt)</u>
500000	12m	11%	55000
900000	12m	13%	117000
<u>1400000</u>			<u>172000</u>

$$\text{WABR} = \frac{172000}{1400000} \times 100 = 12.286\%$$

Capitalisation of Bc

<u>Date</u>	<u>Particulars</u>	<u>Specific</u>	<u>General</u>
1/Jan/07	200000	$100000 \times 10\% \times \frac{12}{12}$	$100000 \times 12.286\%$
		10000/-	12286/-
1/4/07	250000	-	$250000 \times 12.286\% \times \frac{9}{12}$
			23036/-

1/4 Asset 25000
 To Bank 25000

1/7 Asset 45000
 To Bank 45000

1/12 Asset 12000
 To Bank 12000

31/12 Interest Cost 182000 (10000 + 172000)
 To Loan 182000

31/12 Asset Dr. 74195 (10000 + 64195)
 P&L Dr. 107805
 To Interest 182000

Total Asset Value = 10,94,195

Q205

1) Total Bc incurred $\Rightarrow 200 \text{ lacs.} \times 15\%$
 $\Rightarrow 30 \text{ lacs.}$

2) Bc shall be distribute to each phase in ratio of their Total Expenditure incurred :-

	<u>Phase I</u>	<u>II</u>	<u>III</u>	<u>IV</u>
Expenditure	34	64	55	68 = 221
Bc Distributed	$\frac{30 \times 34}{221}$	$\frac{30 \times 64}{221}$	$\frac{30 \times 55}{221}$	$\frac{30 \times 68}{221}$
	461538	868778	746606	923078

Bc Capitalised 230769 434389 746606 923078

Bc (P&I) 230769 434389 — —

Note:- Since phase I & II are Completed in mid of year Hence 50% OF their Respective Bc shall be Capitalised.

Q206

← Total Loan

Sp. $25 + 15 + 30 + 18 = 88$ laes.

General

Wrong Solution :-

$$\text{WABR} = \frac{750000}{6300000} \times 100 = 11.905\%$$

$$\text{Building} = 4500000 \times 11.905\% = 535725$$

~~$$\text{Fur} = 2200000 \times 11.905\%$$~~

$$\text{P\&M} = 9000000 \times 11.905\% = 1071450$$

$$\text{Factory} = 4300000 \times 11.905\% = 511915$$

Since actual Interest ($300000 + 750000$) is Less than above Capitalised BC Hence above solution is Wrong.

Correct Solution

$$1) \text{ BC on Specific Loan } \Rightarrow 2500000 \times 12\% \\ = 300000$$

Fully Capitalised to Cost of Building.

2) BC on General Borrowings :-

<u>Particulars</u>	<u>Amnt</u>	<u>BC</u>
8% Debt	1500000	120000
15% Term Loan	3000000	450000
10% Other Loans	1800000	180000
		<u>750000</u>

Total BC shall be distributed in the ratio of Expenditure incurred.

<u>Assets</u>	<u>Expenditure</u>	<u>BC distributed</u>	<u>Remarks</u>
Building	45 (70-25)	$750000 \times \frac{45}{200} = 168750$	Capitalised
(Non QA) Furniture	22	82500	P&L
P&M	90	337500	Capitalised
Factory	43	161250	Capitalised
	<u>200</u>		