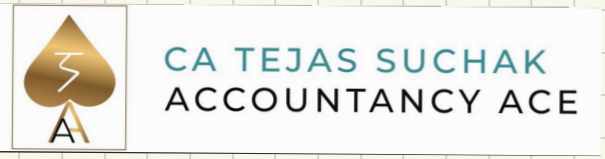


Borrowing cost $\xrightarrow{\text{Capitalised \& added to the cost of QA}}$

- Borrowing Cost**
- Interest &
 - Other costs
 - * Discounts & Premiums on borrowings.
 - * Commitment charges on borrowings.
 - * Finance charges on finance lease.
 - * Exchange difference on foreign currency borrowings to the extent they are an adjustments to interest costs.



Qualifying Assets

Any asset that takes a substantial period of time to get ready for its intended use or sale.

Substantial Period

Generally considered 12 months unless a shorter or a longer period can be justified.

* Any asset :- Includes Fixed Asset / Current Asset.

Borrowings

Specific Borrowings

- Taken for construction of QA.
- Specific Interest Rate will be used for capitalisation.
- Income from temporary investments of specific borrowings will be 1st deducted from interest cost before capitalisation.

General Borrowings

- cannot be directly related to a particular QA but is used for the purpose of acq./cons./prodn of a QA.
- weighted Average Interest Rate should be used for capitalisation.
- Income from temp investments of general borrowings → not to be deducted from interest cost.

→ $\frac{\text{Expenditure on QA} \times \text{Interest Rate}}$

should represent 12m (calculate average expenditure if different dates are mentioned in the question for expenses incurred)



Specific borrowing used \times S.I.R.

Bal: General borrowing used \times W.A.I.R.

(Expenditure on QA - Specific borrowing used)

$\frac{\text{Total Interest}}{\text{Total borrowings}}$

should represent 12 months. (If question mentions different dates for borrowings then calculate average borrowings that represent full 12 months)

Commencement, Suspension and Cessation of B.C.

Commencement :- All 3 conditions to be satisfied :-

1. Borrowing cost incurred.
2. Expenditure on QA.
3. Activities necessary to make QA ready for its intended use should be in progress.

Suspension :-

Active development interrupted :-



- Suspend capitalisation and Dr. to P&L for the period of interruption.
- continue capitalisation. No need to suspend.



Cessation :-

When substantially all activities necessary to prepare QA for its intended use are complete.

Borrowing cost completed in parts

