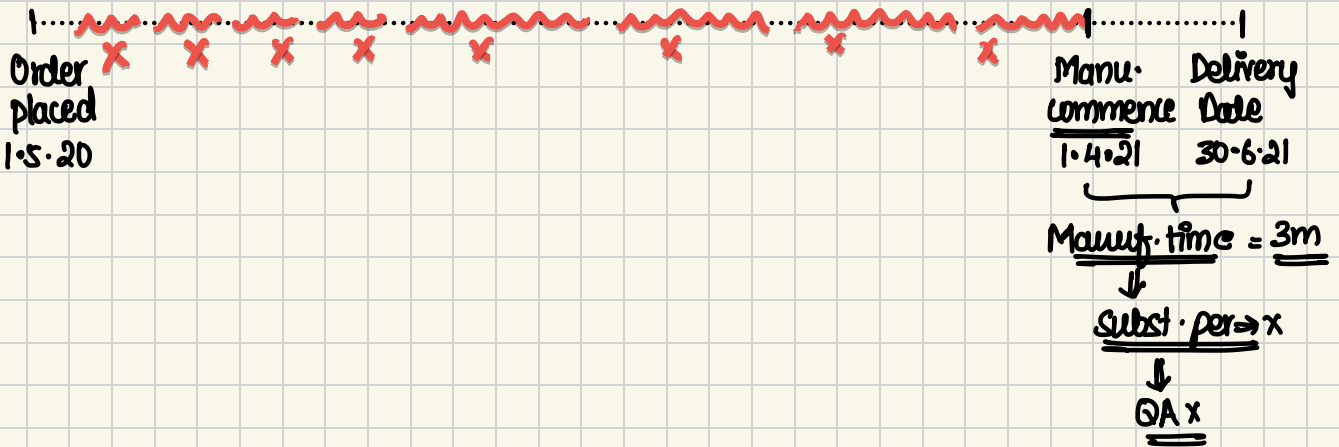


efficient working is able to complete it in 9 months.

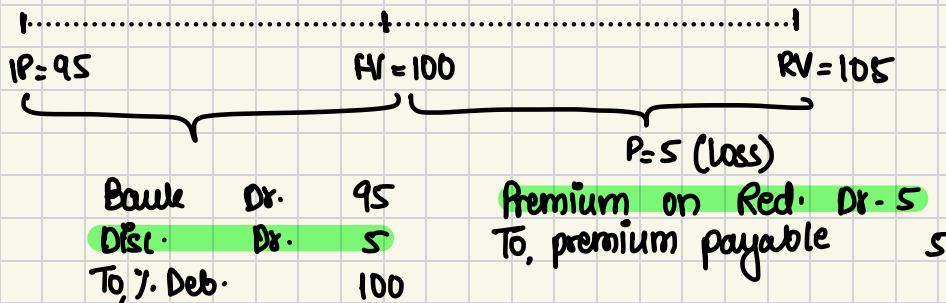
* In case of purchase of an asset if the vendor has given a waiting period of 12m/13m/14m, that does not make the asset a qualifying asset.



BORROWING COST

LB

1. → Interest cost
2. → Discount & premium on borrowings. (Eg: Debentures)

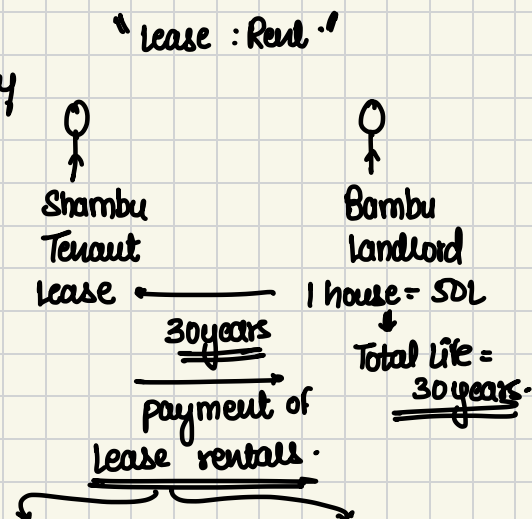


Preference shares issued → issue: discount
↓
Borrowings → X
redeem: premium } → Borrowing cost X

3. Commitment charges on borrowings.
4. Finance charges on finance lease (As-19)
5. Exchange difference arising on foreign currency borrowings to the extent they are an adjustment to interest cost.

Example :-

US \$ Borrowings = 100,000 \$
Date :- 1.4.20
Exchange Rate : 1\$ = ₹ 75
Interest = 4%.



31.3.21

Exchange Rate : 1 \$ = 85

Similar loan was available in India @ 11% p.a. Interest

Calculate borrowing cost to be capitalised (Exam Question)

Principal
50 lakhs.

Interest/finance
charges
↓
20 lakhs.

LB

Solution :-

1st point to remember :-

$$\text{India loan} = \frac{(100000 \times 75)}{(1.4 \cdot 20)} \times 11\% = 825000 \rightarrow \text{maximum borrowing cost.}$$

2nd point :-

$$\text{US loan} = \frac{(31.3 \cdot 21)}{(100000 \times 4\%)} \times 85 = 340000$$

$$\begin{aligned} \text{Balance} &= 825000 - 340000 \\ &= 485000 \end{aligned}$$

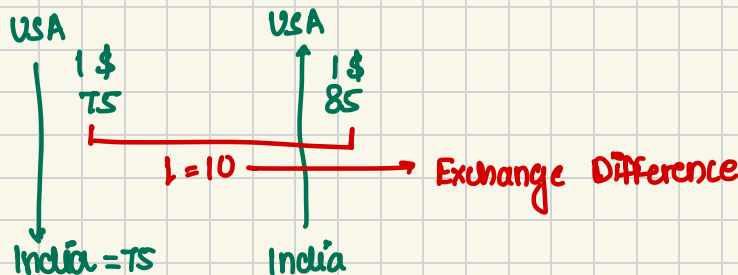
3rd point :-

$$\text{Exchange Difference :- } 100000 \times \left(\frac{85}{31.3 \cdot 21} - \frac{75}{1.4 \cdot 20} \right)$$

$$= 100000 \times 10$$

$$\text{Exchange loss} = 1000000$$

$$\begin{aligned} &1000000 - 485000 \\ &= 515000 \rightarrow \text{loss} \rightarrow \text{P\&L Dr.} \\ &\quad \text{(AS-11)} \end{aligned}$$



2008 :- US recession ----- → Related to AS-11 : para 16

ER : 1 \$ = 40

1 \$ = 65

(Tata) F.C.B.

Liability = loan
100000 x 40

100000 x 65 } Liability

Liability inc. 25L

Asset Dr.

Ex. loss (P&L) Dr. 25L

Profit ↓ → Share Market ↓

Example 2:-

Loan taken from Donald Duck Bank \$500,000

Interest Rate = 4.25%

Date of loan = 1.4.20

Similar loan available in India @ 10.25%

Exchange Rate : 1.4.20 : 1\$ = ₹ 70

31.3.21 : 1\$ = ₹ 77

calculated the exchange difference that can be treated as borrowing cost.

Solution:-

If loan was taken in India:-

$$\text{Interest} = (500000 \times 70) \times 10.25\% = 3587500$$

Actual Interest on us \$ loan

$$\text{Interest} = (500000 \times 4.25\%) \times 77 = 1636250$$

1951250/-

↓
adjustment scope

Exchange Difference

$$= 500000 (70 - 77)$$

$$= \underline{\underline{3500000/-}}$$

Borrowing Cost

$$1951250$$

Exchange loss
(P&L Dr.) → AS-11

$$= 1548750$$

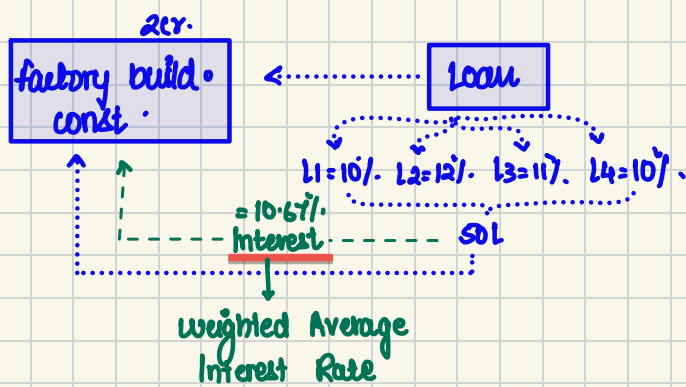
BORROWINGS

General Borrowings

↓
Borrowings that cannot be directly attributed for the acquisition/construction/manufacturing of a CA.

Specific Borrowings

↓
Borrowing for the purpose of acquiring/construction/manufacturing a CA.



$L1 = 5000000 \times IR = 10\%$	$= 500000$
$L2 = 3000000 \times IR = 12\%$	$= 360000$
$L3 = 6000000 \times IR = 11\%$	$= 660000$
$L4 = 4000000 \times IR = 10\%$	$= 400000$
<u>18000000</u>	<u>1920000</u>

$$WAIR = \frac{1920000}{18000000}$$

$$WAIR = 10.67\%$$

Example :-

Niharika Ltd. wants to construct a factory building for ₹ 1,50,00,000. For this purpose they used funds from the following borrowings :-

1. Bank loan - SBI - 75,00,000 @ 11%
2. 9% Debentures - 50,00,000
3. Bank loan - HOFCL - 10,00,000 @ 8.5%
4. Public Deposits - 50,00,000 @ 9.5%

Calculate the borrowing cost to be capitalised.

Solution :-

Borrowing cost to be capitalised

= Expenditure on CA $\times$ Weighted Average Interest Rate

= 15,00,000 $\times$ WAIR

= 15,00,000 $\times$ 9.45%

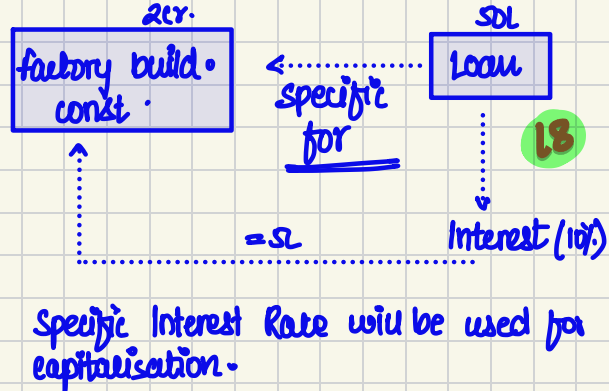
= 14,17,500 $\rightarrow$ capitalised & added to the cost of CA.

Weighted Average Interest Rate

$B1 = 7500000 \times 11\%$	$= 825000$
$B2 = 5000000 \times 9\%$	$= 450000$
$B3 = 1000000 \times 8.5\%$	$= 85000$
$B4 = 5000000 \times 9.5\%$	$= 475000$
<u>27500000</u>	

$$= \frac{75L \times 11\%}{275L} + \frac{50L \times 9\%}{275L} + \frac{100L \times 8.5\%}{275L} + \frac{50L \times 9.5\%}{275L}$$

$\uparrow$
 $\leq 10\%$



* Income from temporary investment of specific loan will be first deducted from the amount of interest and then the balance interest will be capitalised to the cost of qualifying asset.

$$= \frac{2600000}{27500000}$$

$$= 9.45\%$$

What amount of interest will be debited to P&L.

$$= 2600000 - 1417500$$

$$= 1182500$$

Example :-

Shipra Ltd. wants to construct a Qualifying Asset.

Cost = 27500000

For this purpose it took a specific loan of ₹ 10000000 @ 8.5% p.a.

It also has other general loans which are as follows :-

1. Bank loan - SBI - 7500000 @ 11%.
2. 9% Debentures - 5000000
3. Bank loan - HDFC - 10000000 @ 8.5%.
4. Public Deposits - 5000000 @ 9.5%.

Calculate the amount of borrowing cost to be capitalised.

Solution :-

Borrowing cost to be capitalised :-

Expenditure incurred on QA × Interest Rate

Total cost	=	27500000			
Specific loan	=	10000000	×	(SIR) 8.5%	= 850000
General loan	=	17500000	×	(WAIR) 9.45%	= 1653750
					<u>2503750</u>
				↓	
				calculated in previous example.	

$$\text{Interest debited to P\&L} = 2600000 - 1653750 = 946250/-$$

Example 3:-

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Shivok Ltd. wants to construct a Qualifying Asset.

Cost = 27,50,00,000

For this purpose it took a specific loan of ₹ 10,00,00,000 @ 8.5% p.a.

It also has other general loans which are as follows:-

1. Bank loan - SBI - 7,50,00,000 @ 11%.
2. 9% Debentures - 5,00,00,000
3. Bank loan - HDFC - 10,00,00,000 @ 8.5%.
4. Public Deposits - 5,00,00,000 @ 9.5%.

Specific borrowings were temp. invested for 3 months and an income of 3,50,000 was earned from the same.

General borrowings were also invested for 4 months and an income of 4,00,000 was earned from the same.

Calculate the amount of borrowing cost to be capitalised.

Solution:-

Borrowing cost to be capitalised:-

Expenditure on Qualifying Asset × Interest Rate

Total expenditure = 27,50,00,000

$$\begin{aligned} 1. \text{ Specific loan} &= 10,00,00,000 \quad \times \quad 8.5\% &= 8,50,000 \\ \text{less: Income from temporary investment} &&&= \underline{\underline{(3,50,000)}} \\ &&&= \underline{\underline{5,00,000}} \end{aligned}$$

$$2. \text{ General loan} = 17,50,00,000 \quad \times \quad 9.45\% = 16,53,750$$

$$\begin{aligned} A &= 2.75 \times 1 \times \text{Int} = 26\% \\ &= 26 / 2.75 \\ &= 9.45\% \end{aligned}$$

Total Interest to be capitalised

$$= \underline{\underline{21,53,750}}$$

NOTE:- Income from temporary investment of general borrowing will not be deducted from the total interest on general borrowing. It will simply be credited to P&L a/c.

$$\text{Interest debited to P&L a/c} = 26,00,000 - 16,53,750 = 9,46,250 \rightarrow \underline{\underline{\text{Dr. P&L}}}$$