L11

INVESTMENT IN SHARES & DEBENTURES

Variable Income Bearing Securities
↓
Shares

Equity shares & Preference Shares both

Fixed Income Bearing securities
↓
Debentures & Bonds

* Preference Shares - Rate of dividend is fixed but dividend is contingent (dependent) on profits.

FIXED INCOME BEARING SECURITIES

(POV - Investor)

→ Journal Entry on purchase and sale of debentures (bonds)

Purchase

Investment in Debentures Dr. (Asset) ⟶ Cost price
To, Bank

Sale

CP	105
SP	110
P	5

Bank	Dr.	⇒	Selling Price	110
P&L (loss)	Dr.	⇒	loss	0
To, Investment in Debentures		⇒	Cost price	105
To P&L (profit)		⇒	profit	5

→ Calculation and Treatment of Cost price and Selling Price of Debenture/Bond

a. Treatment of Interest on purchase and sale

Nora			Rakhi	
1.4.21	31.5.21	30.9.21	31.12.21	31.3.22
	100 Deb Purch @ 104	Interest	100 deb Sold @ 110	Interest
	+ Interest pay 2m.	↓ Deb. Hold.	+ Interest rec. 3m	↓ Deb. Hold.
		Tejas		Rakhi

6m Int. (1.4.21 – 30.9.21)

6m Int. (30.9.21 – 31.3.22)

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* Whenever debentures are purchased interest will be compulsarily paid for the period accrued.

* Whenever debentures are sold interest will be compulsarily received for the period accrued.

b. What is cum-interest and ex-interest price

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If this part gets completed in the middle of current year
Assume ; Interest Rate = 11%

Amount to be capitalised

Beg of CY — middle of CY — End of CY

↓

PART 1 complete

Interest capitalised $= 10cr \times 11\% \times 6/12$

Interest charged to P&L $= 10cr \times 11\% \times 6/12$

AS-16: SUMMARY CHART

LII

Borrowing $\xrightarrow{\text{directly attributable}}$ Production / construction / Acquisition of Qualifying Asset

Borrowing Cost .... Capitalised & added to the cost of QA.

Borrowing Cost

CA TEJAS SUCHAK ACCOUNTANCY ACE

→ 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 of sale.

Substantial Period

Generally considered 12months 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. / produ 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.

→ Expenditure on QA × Interest Rate

↓

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

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Specific borrowing used × S.I.R.

Bal General borrowing used × $\boxed{\text{W.A.I.R.}}$

(Expenditure on QA - Specific borrowing used)

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

Should represent 12months.
(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 interupted :

Avoidable

→ Suspend capitalisation and Dr. to P&L for the period of interuption.

Unavoidable

→ 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

Completed Part

Cease capitalisation if such completed part is capable of being used while construction continues for the remaining part.

Incomplete part

continue capitalisation.

CY Beg. — Part completion — CY ends.

Capitalise | Dr. to P&L.

Question 10 :-

Calculation of amount of interest to be capitalised for Phase I and Phase II

1.	Expenditure incurred on Phase I and Phase II	:-	9800000
2.	Total Expenditure incurred on all 4 phases	:-	22100000
3.	Total borrowings for construction of QA	:-	20000000
4.	Proportionate borrowings for Phase I & Phase II	:-	8868778
5.	Interest on pt. 4 @ 15%	:-	1330317
6.	Interest to be capitalised (pt. 5/2)	:-	665158
7.	Interest charged to P&L	:-	665159

Interest to be capitalised for phase III and phase IV :-

$$\Rightarrow \left(\frac{20000000}{22100000} \times 12300000\right) \times 15\% = ₹\ 1669683/-$$

Quote :- (Beginning of the answer) :-

AS per AS-16 : Borrowing Costs, when Qualifying Asset is completed in parts and the completed part is capable of being used while construction continues for remaining parts, capitalisation of borrowing costs should cease when the completed part is ready for its intended use.