

BORROWING COSTS

1. As per AS 16, all the following are qualifying assets except
 - a. Manufacturing plants and Power generation facilities
 - b. Inventories that require substantial period of time
 - c. Assets those are ready for sale.
 - d. None of the above
2. Which of the following statement is correct:
 - a. Entire exchange gain is reduced from the cost of the Qualifying asset.
 - b. Entire exchange loss is added to the cost of a Qualifying asset.
 - c. No adjustment is done for the exchange loss while computing cost of Qualifying asset.
 - d. None of the above
3. Capitalisation rate considers:
 - a. Borrowing costs on general borrowings only.
 - b. Borrowing costs on general and specific borrowings both.
 - c. Borrowing costs on specific borrowings only
 - d. None of the above
4. If the amount eligible for capitalisation in case of inventory as per AS 16 is ₹ 12,000 and cost of inventory is ₹ 40,000 and its net realizable value is ₹ 45,000; What amount can be capitalised as a part of inventory cost.
 - a. ₹ 12,000.
 - b. ₹ 5,000.
 - c. ₹ 7,000.
 - d. ₹ 10,000.
5. X Ltd is commencing a new construction project, which is to be financed by borrowing. The key dates are as follows:
 - a. 15th May, 2023: Loan interest relating to the project starts to be incurred
 - b. 2nd June, 2023: Technical site planning commences
 - c. 19th June, 2023: Expenditure on the project started to be incurred
 - d. 18th July, 2023: Construction work commencesIdentify the commencement date for capitalisation under AS 16.
 - a. 15th May, 2023
 - b. 19th June, 2023
 - c. 18th July, 2023
 - d. 2nd June, 2023
6. What is the primary objective of Accounting Standard 16 (AS 16) - Borrowing Costs?
 - a. To define the accounting treatment for interest income
 - b. To prescribe the accounting treatment for borrowing costs
 - c. To regulate the issuance of bonds
 - d. To provide guidelines for lease accounting
7. Borrowing cost of a qualifying asset does not include?
 - a. Finance charges in respect of assets acquired under finance lease
 - b. Exchange differences arising from foreign currency borrowing
 - c. Interest charges on bank borrowing
 - d. Loss on sale of investment

8. Under AS 16, which of the following borrowing costs should be capitalized?
 - a. All borrowing costs
 - b. Only borrowing costs directly attributable to the acquisition, construction, or production of qualifying assets
 - c. Only borrowing costs incurred for short-term loans
 - d. Borrowing costs incurred for any purpose
9. Under AS 16, what is the treatment of borrowing costs that do not qualify for capitalization?
 - a. They should be expensed in the period they are incurred
 - b. They should be capitalized in the subsequent period
 - c. They should be amortized over an extended period
 - d. They should be disclosed in the financial statements
10. A qualifying being constructed in a factory since 1.4.21 is completed on 28.2.22 Interest on loan taken for the asset for the entire year is 1,20,000. What will be the completion date and capitalisation amount for the asset.
 - a. 28.2.22 ₹ 1,20,000
 - b. 28.2.22 ₹ 1,10,000
 - c. 31.3.22 ₹ 1,20,000
 - d. 31.3.22 ₹ 1,10,000
11. Following will not be considered as borrowing cost.
 - a. amortisation of discounts or premiums relating to borrowings
 - b. finance charges in respect of assets acquired under finance leases or under other similar arrangements
 - c. exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs
 - d. Interest and commitment charges on bank borrowings on non-qualifying assets
12. What is the correct treatment of income from temporary investment from borrowed fund pending expenditure on qualifying asset?
 - a. Income is deducted from borrowing cost.
 - b. Income is credited to P&L account.
 - c. Income is deducted from PPE.
 - d. Income is deducted from borrowing amount.

Answers:

1. (c)
2. (c)
3. (a)
4. (b)
5. (b)
6. (b)
7. (d)
8. (b)
9. (a)
10. (b)
11. (d)
12. (a)