Borrowing Costs (AS-16)

Meaning

- Interest costs
- Amortisation of premium or discount related to borrowing
- Amortisation of Ancillary costs
- Exchange Differences

  Interest on Local Borrowings
  (-) Interest on Foreign Borrowings

Recognition

Qualifying Asset

Substantial period of time to get ready for use/sale [>12M]

↓

Capitalise

Others

Ready for intended use when acquired (w/off in period in which incurred)

↓

P&L A/c

Commencement of Capitalisation

↓

Expenditure Incurred [Acquisition, construction or Production of Qualifying Asset]

+

Borrowing costs Incurred

+

Activities in Progress

Borrowing Costs eligible for capitalisation

Specific Borrowing

Actual Borrowing Costs
(-) Income from temporary Inv.

General Borrowing

Steps for capitalisation:

1) Weighted Average Expenditure

   Expenditure X Period

2) Capitalisation Amount

   a) Use specific borrowing first

   b) Use General borrowing for balance

   Amount = Expenditure X capitalisation Rate

Suspension of capitalisation

When active development Interrupted

Exception:

Substantial technical/admin work carried out,
Temporary delay part of process,
Unavoidable reasons, etc.

Cessation of capitalisation

When substantially all the activities are complete

Notes:

* Amount capitalised cannot exceed borrowing costs
* Different rates for all specific borrowings
* Single rate for general borrowings