

# AS-16 BORROWING COST

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# Scope

- Identify the nature of borrowings i.e specific and general borrowings and treatment of related borrowings
- Disclosures in financial statements

## Does not cover the following

1. Actual cost of owner's equity including pref. share capital,
  2. Imputed cost of such equity,
  3. Any other cost forming part of such equity and not classified as liability.
- Sec 208 of the Companies Act, 1956 deals with above.

# Borrowing cost

- Interest and commitment charges on bank borrowings
- Discounts and premiums on borrowing to the extent amortized
- Finance charges in respect of finance lease or hire purchase
- Exchange rate differences relatable to foreign currency borrowings, to the extent they are regarded as adjustment to interest cost.

## illustration

- ▶ Xyz.ltd has taken a loan of USD \$10,000 for specific project @ 5% p.a payable annually On 1<sup>st</sup> April exchange rate was rs.45 per USD and as on 31<sup>st</sup> march 2004 it was Rs. 48 per USD. The corresponding amount could have been borrowed in local currency @11% p.a as on april 1<sup>st</sup>,2003.

# Calc. of BC

- Interest for the period =  $\text{USD } 10,000 \times 5\% \times 48 = \text{Rs. } 24,000$ .
- Increase in the liability towards principal amount  $10,000 \times (48-45) = 30,000$ .
- Interest if loan was taken In local currency  $10,000 \times 45 \times 11\% = 49,500$ .
- Difference between interest on borrowings is  $49,500 - 24,000 = 25,500$
- Exchange difference is 30,000

Difference in interest on local  
 11  
 And foreign currency borrowing  
 Rs. 25,500

Balance dealt as per AS-  
 11  
 Rs. 4,500

- Total BC =  $24,000 + 25,500 = \text{Rs. } 49,500$

# Qualifying asset

- ▶ It is an asset that necessarily takes substantial period\* of time to get ready for intended use.
- ▶
- ▶ \*It refers to 12months generally as per interpretation committee of ASB.
- ▶ The following are not QA:
  1. Inventories routinely manufactured.
  2. Assets ready for intended use at the time of acquisition act the time of use.[eg. vehicles]

# Basis for recognition of BC

- The asset must be QA and must result in future economic benefits
- Costs that are capitalised “can be measured reliably”
- Costs other than qualifying BC must be charged off as expense for the period.
- ▶ ELIGIBLE ITEMS FOR BC
- Costs directly attributable to acquisition, construction or production of a QA
- Costs that would have been avoided if the expenditure on QA had not been made.



# Specific and general borrowings

## ❑ Specific borrowings:

- ▶ Borrowed for specific purpose and income on temporary investment forming part of specific borrowing alone should be deducted from BC and only net amount must be capitalised.

## ❑ General borrowings:

- ▶ More than one type of borrowing. Weighted average of borrowing costs outstanding during the period must be capitalised.

## ❑ Capitalisation ceiling:

- ▶ Borrowing cost capitalized should not exceed the borrowing cost actually incurred during the period.

# example

	(Amount in Rs. Lakhs)		
	Year 1	Year2	Year3
Cost or carrying amount.	100	90	98
Net Realisable Value	90	98	105
Write down to (or) write back to	90	98	100*

\*As BC capitalised cannot exceed BC actually incurred

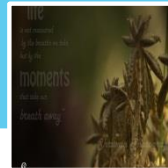
# Capitalisation

## COMMENCE

- Expense on QA
- BC being incurred
- Activity in progress

## SUSPEND

- If active development is on hold
- For avoidable reasons



## STOP OR CEASE

- Substantially all activities are completed

# Disclosure

1. Accounting policy followed for treatment of BC
2. The amount of BC capitalised

Thank you

▶ Shravan patel