

Accounting Standard 16 – “Borrowing Cost”

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Borrowing cost includes

- interest and commitment charges
- amortisation of discounts or premiums in respect of borrowings
- amortisation of ancillary costs related to borrowings
- finance charges in respect of assets acquired under finance leases
- exchange differences arising from foreign currency borrowings to the extent of interest cost

Capitalisation of Borrowing Cost

- ❑ Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset.
- ❑ **Qualifying assets** are those asset that necessarily takes a substantial period of time to get ready for its intended use or sale. It includes stock-in-trade.
- ❑ Ordinarily, a period of twelve months is considered as substantial period of time
- ❑ Any other borrowing cost should be recognised as an expense.
- ❑ In case of specific borrowing for the purpose of obtaining qualifying asset the amount of borrowing costs eligible for capitalisation should be actual borrowing costs incurred on that borrowing.
- ❑ Any income on the temporary investment of in case of specific borrowings shall be reduced from the amount of borrowing cost to be capitalised.
- ❑ In case of general purpose borrowing, amount of borrowing costs eligible for capitalisation should be determined by applying a **capitalisation rate** to the expenditure on qualifying asset.

Capitalisation of Borrowing Cost

- ❑ Capitalisation rate should be the weighted average of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.
- ❑ The amount of borrowing costs capitalised during a period should not exceed the amount of borrowing costs incurred during that period.

Conditions for commencement of capitalisation

- expenditure for the acquisition, construction or production of a qualifying asset is being incurred
- borrowing costs are being incurred
- activities that are necessary to prepare the asset for its intended use or sale are in progress

Suspension or Cessation of capitalisation

- ❑ Capitalisation of borrowing costs should be suspended during extended periods in which active development is interrupted except in case of temporary delays.
- ❑ Capitalisation of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.
- ❑ When a completed part of a qualifying asset is capable of being used while construction continues for other parts, capitalisation of borrowing cost related to such completed part should cease.

Disclosures

- the accounting policy adopted for borrowing costs
- the amount of borrowing costs capitalised during the period

Thank You