


# IND AS 23 - BORROWING COSTS



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**Definition of Borrowing Cost (B.C.)**

Incurring in Relation to Arrangement of Funds, it includes -  
(a) Interest Cost  
(b) Other Costs

**B.C. Covers Exclusively**

1) Interest Calculated as Per ERI (IndAS 109)  
2) Interest in case of Lease Liabilities under IndAS116  
3) Ex. Diff. to the extent of Saving in Interest on F.C. Loan\*

**\*Lower of :-**  
(a) Ex. Loss  
OR  
(b) Saving in Interest

**Treatment of Ex. Gain in Subsequent Years**

Ex Gain shall be deducted from B.C. to the Extent of Earlier Ex. Loss Included in B.C.

**Qualifying Assets (Q.A.) Any Asset**

That takes Substantial Period\*\* of Time  
To get Ready For Intended Use or Sale  
Eg:- IP/PPE/Intangible Asset (Software)

**Is Inventory a Q.A.?**

If Yes → When ?

Inventory must not be Produced in Larger Quantities & on Repetitive Basis and takes Substantial Period  
Eg:- Aircrafts or Ships Manufactured on Special Orders but Liquor is not Q.A.

\*\*Substantial Period :- Generally 12months or more but a Lower period can also be Substantial based on Facts & Circumstances

**Recognition of B.C.**

If B.C. is incurred in relation to:-  
Acquisition (A)  
Construction (C)  
Production (P)  
of Q.A., then Capitalised otherwise P&L

**Commencement of Capitalization**

Expenditure must be incurred on ACP  
B.C. must be incurred  
Necessary Activities Should be in Progress.

**Suspension**

Active Development is Interrupted During Extended Period. But When such Interruption is Necessary for active Development then No Suspension of Capitalization

**Cessation**

A/C/P is Substantially Completed  
If Completion takes place in Parts, then Cessation for Such Part of QA only when the Part is Capable of being Used/Sold Separately

**Types of Borrowing Cost**

**Specific B.C.** → One to One Relation of Q.A. & Borrowing → Capitalise B.C. to a Specific Q.A. only

**General B.C.** → One to Many (or) Many to Many → To Capitalise B.C. Calculate W. Avg Capitalisation Rate

**Total B.C. During the Year**  
**Total Borrowings O/s During the Period** (Take months as Weight)

**What to do now when W.A.C.R. is Calculated?**

$\text{Expenditure on Q.A.} \times \text{W.A.C.R.} \times \text{Months Weight}$

Expenditure Incurred till last year (Including BC Capitalised)	xxx
+ Cash Payment on Material & Lab.	xxx
+ Non - Cash Exp.	xxx
(-) Grant / Subsidy	xxx
(-) Progress Payments Received if any	xxx
	<b>xxxx</b>

**Misc Provisions**

1) Interest on Temp. Investment of Borrowed Funds

Deduction From Total Borrowing Cost before Capitalization & before Calculating W.A.C.R.