

# AS 16 Borrowing Costs.

Applicability	All enterprises with effect from 1.4.2000
Objective	To provide Accounting for <u>Borrowing Costs</u> .
Not applies	<ul style="list-style-type: none"> <li>* Actual cost of owner's Equity - including pref. share capital</li> <li>* Imputed cost of such Equity, and</li> <li>* Such other items forming part of Equity &amp; not classified as liability</li> </ul>

Borrowing costs are interest and other costs incurred by an enterprise in connection with the borrowing of funds. The borrowing costs may include: (N'09) (M'11)

- a) Interest and commitment charges on bank borrowings and other borrowings;
- b) Amortization of discounts or premiums or other costs relating to borrowings;
- c) Finance charges in respect of assets acquired under finance leases; and
- \* \* d) Exchange difference arising from adjustment to interest costs in case of foreign currency borrowings.

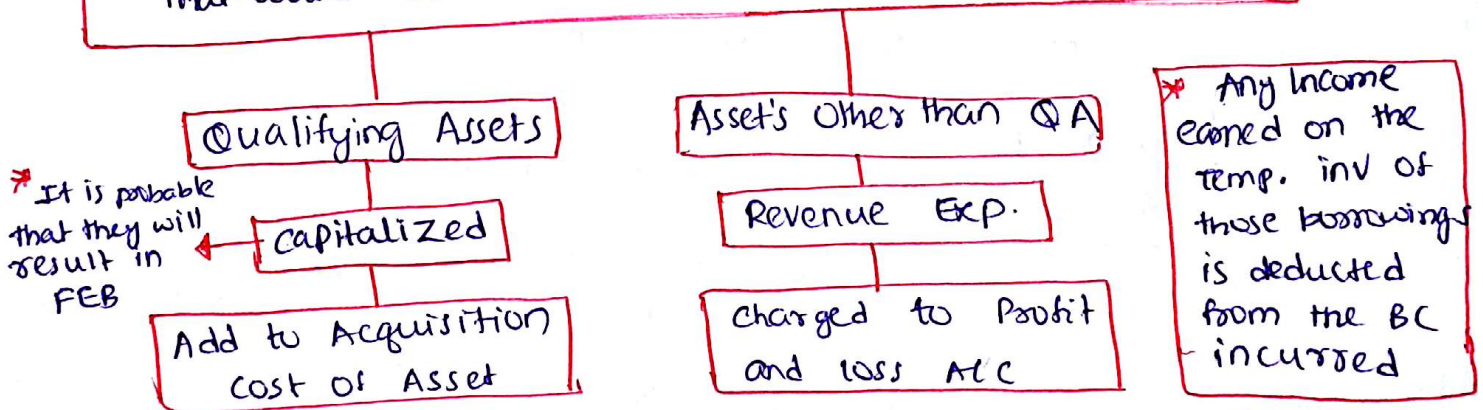
A qualifying asset is an asset that takes a substantial period of time to get ready for its intended use or sale.

Ordinarily A period of 12 months unless a shorter (or) longer period justified.

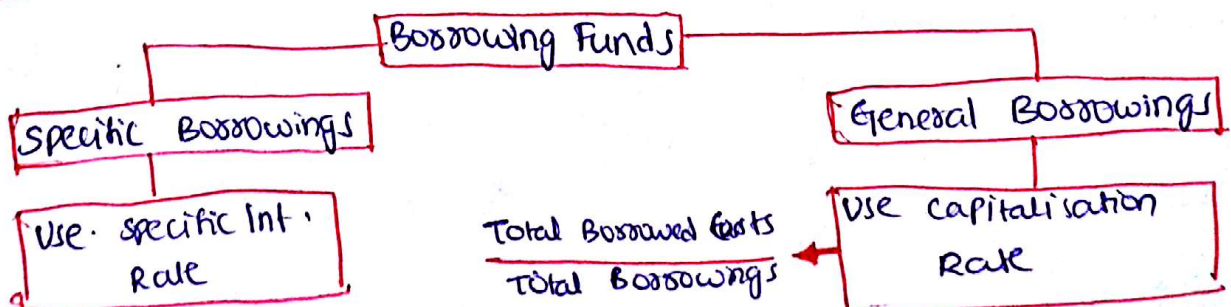
\* Assets that are ready for their intended use (or) sale are not QA.

## Treatment of Borrowing Costs

BC Directly related for Acquisitions, Construction, Production (or) that would have been avoided if the exp had not been made.



BC Amount of BC capitalised during a period should not exceed the amount of BC incurred during that period.



# Capitalisation

## Commencement Start

1. Exp on QA is being increased
2. Borrowing costs are " " +
3. Activities that are necessary to prepare the asset for its intended use (or) sale are in progress

All the above (3) cond should met.

## Suspension

BC should be suspended during Extended periods in which Active develop is interrupted.

### Exceptions:

- Temp delay is a necessary part
- cap of BC not suspended during a period when substantial technical & Admin. work is being carried out.

## Cessation !

cap should cease when substantially all the activities necessary to prepare the QA for its intended use (or) sale are complete.

! When the construction of a QA is completed in parts & completed part is capable of being used while construction for other the parts continues, then also BC should cease.

Eg: Business park is a QA; park is ready but internal Buildings are under construction; then also cease capitalisation as park is ready.

\* Surplus amount of specifically borrowed funds if temporarily invested, interest income goes to reduce Borrowing costs.

\* If carrying amount of the asset (including capitalized BC) exceeds its recoverable amount (or) NRV, then the carrying amount is written down in line with AS-28. Impairment of Assets & AS-10 FA.

## Disclosures

- \* The Accounting policy adopted for BC and
- \* The amount of BC capitalised during the period.

## Borrowings

### Specific

Eg: loan (1)  
20L @ 10%  
loan (2)  
30L @ 15%

Calculation  
20L x 10% +  
30L x 15%  
6.5L

### General

Borrowed 50L & used for (A1) (A2)  
BC of A1?  
Capitalisation rate

Total BC (Exp.)  
Total Borrowings  
 $\frac{6.5L}{50L} = 13\%$   
A1 = 50L x 13%  
= 6.5L

As per para 4(e) of AS 16, Exchange dif to the extent of Adj to int. costs, are treated as BC.

Loan on 22/7 1L\$ x £50 = 50,00,000  
Repay on 29/7 1L\$ x £52 = 52,00,000

