Indian Accounting Standard (Ind AS) 23
Borrowing Costs

Core principle

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognized as an expense.

What does it not cover?

An entity shall apply this Standard in accounting for borrowing costs.

The Standard does not deal with the actual or imputed cost of equity, including preferred capital not classified as a liability.

For example:
Dividend paid on equity shares, cost of issuance of equity, cost on Irredeemable preference share capital will not be included as borrowing cost within the purview of this standard

An entity is not required to apply the Standard to borrowing costs directly attributable to the acquisition, construction or production of

- a qualifying asset measured at fair value, for example, a biological asset within the scope of Ind AS 41 *Agriculture*; or
- inventories that are manufactured, or otherwise produced, in large quantities on a repetitive basis

Definitions

BORROWING COSTS	are interest and other costs that an entity incurs in connection with the borrowing of fund
QUALIFYING ASSET	is an asset that necessarily takes a substantial period of time to get ready for its intended **use or sale**

1. **A company incorporated in June 2016, has setup a factory within a period of 8 months with borrowed funds. Whether interest on borrowings for the period prior to the date of setting up the factory should be capitalized although it has taken less than 12 months for the assets to get ready for use. Answer with reference to Ind AS 23.**

As per Ind AS 23 'Borrowing Costs',a qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Further, Explanationto the above para states that what constitutes a substantial period of time primarily depends on the facts and circumstances of each case. However, ordinarily, a period of twelve months is considered as substantial period of time unless a shorter or longer period can be justified on the basis of facts and circumstances of the case. In estimating the period, time which an asset takes, technologically and commercially, to get it ready for its intended use or sale is considered.

The above paras implythat there is a rebuttable presumption that a 12 months period constitutes substantial period of time. Under present circumstances where construction period has reduced drastically due to technical innovation, the 12 monthsperiod should at best be looked at as a benchmark and not as aconclusive yardstick. It may so happen that an asset under normal circumstances may take more than 12 months to complete. However, an enterprise that completes the asset in 8 months should not be penalized for its efficiency by denying it interest capitalization and vice versa. The substantial period criteria ensure that enterprises do not spend a lot of time and effort capturing immaterial interest cost for purposes of capitalization. Therefore, if the factory is constructed in 8 months then it shall be considered as a qualifying asset. The interest on borrowings for the same shallbe capitalized although it has taken less than 12 months for the asset to get ready to use.

2. **Firm produces its finished products in a peak season of five to six months in a year. No production takes place during the rest of the year. However, sales takes place throughout the year and therefore large inventories need to be carried resulting in interest burden. Can this interest be included in the valuation of Finished Goods?**

Ind AS – 2 specifically excludes Interest cost in determining value of inventory. Also under Ind AS 23, assets that are ready for their intended use/ sale when acquired are specifically excluded from Qualifying Assets.

Inventory which are produced in large quantity over a period of short time are not Qualifying asset. Hence in the instant case interest costs are not includible in the Asset cost

Such interest expense should be recognized in the statement of P&L in the period in which it is incurred.

3. **A.S. Ltd. has taken a loan of Rs. 20 lacs which has been used to buy trees. The average remaining period for the maturity of tree, to be sold as timer, is three years. The company wants to include the interest cost for the period of three years in the inventory cost of timber. Comment**

Answer

Interest paid on funds are necessary to hold the timber for prolonged period contributes to bring the asset to present condition. Thus interest cost can be capitalized as per Ind AS 23

What does borrowing cost include?

Borrowing costs may include:

- interest expense calculated using the effective interest method as described in Ind AS 109, *Financial Instruments*
- finance charges in respect of finance leases recognised in accordance with Ind AS 17, *Leases*; and
- exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs

How can exchange difference be treated as borrowing cost?

With regard to exchange difference required to be treated as borrowing costs, the manner of arriving at theadjustments stated therein shall be as follows:

Initially

the adjustment should be of an amount which is equivalent to the extent to which the exchange loss does not exceed the difference between the cost of borrowing in functional currency when compared to the cost of borrowing in a foreign currency

subsequently

where there is an unrealized exchange loss which is treated as an adjustment to interest and subsequently there is a realized or unrealized gain in respect of the settlement or translation of the same borrowing, the gain to the extent of the loss previously recognized as an adjustment should also be recognized as an adjustment to interest

Example:

An entity can borrow funds in its functional currency (`) @ 12%. It borrows $ 1,000 @ 4% on April 1, 20X1 when $ 1 = `40. The equivalent amount in functional currency is Rs 40,000. Interest is payable onMarch 31, 20X2. On March 31, 20X2, exchange rate is $ 1 = ` 50. The loan is not due for repayment. The exchange loss in this case is `10,000 [$ 1000 x (`50-` 40)]. The borrowing cost is `2,000 ($ 1,000 x 4% x `50). Had the entity borrowed in functional currency the borrowing cost would have been `4,800 (` 40,000 x 12%). The entity will treat exchange difference upto `2,800 (4,800 – `2,000) as a borrowing cost that may be eligible for capitalisation under this Standard. Thus the total eligible borrowing cost is `4,800 (` 2,000 + `2,800) equivalent to the cost of borrowing cost in functional currency.

**If the exchange rate on March 31, 20X2, is $ 1 = `41**. The exchange loss is `1,000 [$ 1,000 – (`41 – `40)]. The entity will treat the entire exchange loss as an eligible borrowing cost as total cost of the borrowing `3,000 (`2,000 + `1,000) in foreign currency does not exceed the cost of borrowings in functional currency, i.e., `4,800.

**If the exchange rate on March 31, 20X2, is $ 1 = `39**. There is an exchange gain of is `1,000 [($ 1,000 x (`40 – `39)]. The eligible borrowing cost will be `2,000 being interest paid to the foreign lender

Continuing with the aforesaid example:

**If the exchange rate on March 31, 20X3, is $ 1 = `48**; the exchange rate on March 31, 20X2, being $ 1= `50, the borrowings are still not due for payment. The entity will recognise a borrowing cost of `1,920 ($ 1,000 x 4% x `48). There is an exchange gain of `2,000 ($ 1,000 x (`50 – `48). This will be adjusted in the borrowing cost as there is unrealised exchange loss and the adjustment is less than the exchange loss of `2,800 recognised in earlier year.

**If the exchange rate on March 31, 20X3, is $ 1 = `44**; the exchange rate on March 31, 20X2, being $ 1 = `50, the borrowings are still not due for payment. The entity will recognize a borrowing cost of `1,760 ($ 1,000 x 4% x `44). There is an exchange gain of `6,000 [$ 1,000 x (`50 – `44)]. This will be adjusted in the borrowing cost upto `2,800 as thereis unrealized exchange loss and the adjustment of the exchange loss recognised in earlier years is of `2,800.

**If the exchange rate on March 31, 20X3, is $ 1 = `44** and part of loan is repaid; the exchange rate on March 31, 20X2, being $ 1 = `50; $ 600 of the borrowings was paid on March 31, 20X2, $ 400 of the borrowings are still not due for payment. The entity will recognize a borrowing cost of `704 ($ 400 x 4% x `44). There is an exchange gain of `2400 [$ 400 x (`50 – `44)]. The unrealized exchange loss of earlier year is `4,000 [$400 x (`50 – ` 40)] out of which `1,120 (`2,800 x $ 400 / $1000) was charged in March 31, 20X1, as borrowing cost. Thus there will be an adjustment in the borrowing cost upto `1,120 as this is unrealized exchange loss.

4. **ABC Ltd. has taken a loan of USD 20,000 on April 1, 20X1 for constructing a plant at an interest rate of 5% per annum payable on annual basis. On April 1, 20X1, the exchange rate between the currencies i.e USD Vs INR was `45 per USD. The exchange rate on the reporting date i.e March 31, 20X2 is `48 per USD. The corresponding amount could have been borrowed by ABC Ltd from State bank of India in local currency at an interest rate of 11% per annum as on April 1, 20X1. Compute the borrowing cost to be capitalized for the construction of plant by ABC Ltd.**

Solution

In the above situation, the Borrowing cost needs to determine for interest cost on such foreign currency loan and eligible exchange loss difference if any.

(a) Interest on Foreign currency loan for the period:

USD 20,000 x 5% = USD 1,000

Converted in `: USD 1,000 x `48/USD = `48,000

Increase in liability due to change in exchange difference: USD 20,000 x (48 - 45) = `60,000

(b) Interest that would have resulted if the loan was taken in Indian Currency:

USD 20,000 x `45/USD x 11% = `99,000

(c) Difference between Interest on Foreign Currency borrowing and local Currency borrowing:

` 99,000 (-) 48,000 = `51,000

Hence, out of Exchange loss of `60,000 on principal amount of foreign currency loan, only exchange loss to the extent of `51,000 is considered as borrowing costs.

Total borrowing cost to be capitalized is as under:

(a) Interest cost on borrowing	`48,000
(b) Exchange difference to the extent considered to be an adjustment to Interest cost	`51,000
	`99,000

The exchange difference of `51,000 has been capitalized as borrowing cost and the remaining `9,000 will be expensed off in Statement of Profit and loss

5. **Sun Co-operative Society has borrowed a sum of US$12.50 million at the commencement of the financial year 2011-12 for its solar energy project at LIBOR (London Interbank Offered Rate) of 1% + 4% . The interest is payable at the end of the respective financial year. The loan was availed at the then rate of Rs. 45 to the US dollar while the rate as on 31st March, 2012 is Rs. 48 to the US dollar. Had Sun Co-operative Society Ltd. borrowed the Rupee equivalent in India, the interest would have been 11%. You are required to compute 'Borrowing Cost'. Also show the amount of exchange difference as per prevailing Accounting Standards.**

Computation of Borrowing Cost as per para 6(e) of Ind AS 23" Borrowing Costs" and Amount of Exchange Difference as per Ind AS 21 "The Effects of Changes in Foreign Exchange Rates":

(a) Interest for the period 2011-12

= US$ 12.5 million x 5% × Rs. 48 per US$ = Rs. 30 million

(b) Increase in the liability towards the principal amount

= US $ 12.5 million × Rs. (48 - 45) = Rs. 37.5 million

(c) Interest that would have resulted if the loan was taken in Indian currency

= US$ 12.5 million × Rs. 45 x 11% = Rs. 61.875 million

(d) Difference between interest on local currency borrowing and foreign currency borrowing = Rs.

61.875 million - Rs. 30 million = Rs. 31.875 million.
Therefore, out of Rs. 37.5 million increase in the liability towards principal amount, only Rs. 31.875 million will be considered as the borrowing cost. Thus, total borrowing cost would be Rs. 61.875 million being the aggregate of interest of Rs. 30 million on foreign currency borrowings plus the exchange difference to the extent of difference between interest on local currency borrowing and interest on foreign currency borrowing of Rs. 31.875 million.
Hence, Rs. 61.875 million would be considered as the borrowing cost to be accounted for as per Ind AS 23 and the remaining Rs. 5.625 million (37.5 - 31.875) would be considered as the exchange difference to be accounted for as per Ind AS 21.

What can be a qualifying asset?

Depending on the circumstances, any of the following may be qualifying assets:

(a) inventories
(b) manufacturing plants
(c) power generation facilities
(d) intangible assets
(e) investment properties
(f) bearer plants.

Financial assets, and inventories that are manufactured, or otherwise produced, over a short period of time, are not qualifying assets. Assets that are ready fortheir intended use or sale when acquired are not qualifying assets.

How to account for borrowing cost?

An entity shall capitalize borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of thecost of that asset. An entity shall recognize**other** borrowing costs as anexpense in the period in which it incurs them.
Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are included in the cost of that asset. Suchborrowing costs are capitalized as part of the cost of the asset when it is probablethat they will result in future economic benefits to the entity and the costs can bemeasured reliably. When an entity applies Ind AS 29 *Financial Reporting inHyperinflationary Economies*, it recognizes as an expense the part of borrowingcosts that compensates for inflation during the same period

Which Borrowing costs are eligible for capitalization?

The borrowing costs that are **directly attributable** to the acquisition, construction or production of a qualifying asset are those borrowing costs that would havebeen avoided if the expenditure on the qualifying asset had not been made. Whenan entity borrows funds specifically for the purpose of obtaining a particularqualifying asset, the borrowing costs that directly relate to that qualifying assetcan be readily identified.

It may be difficult to identify a direct relationship between particular borrowings and a qualifying asset and to determine the borrowings that could otherwise havebeen avoided. Such a difficulty occurs, for example, when the financing activityof an entity is coordinated centrally. Difficulties also arise when a group uses arange of debt instruments to borrow funds at varying rates of interest, and lendsthose funds on various bases to other entities in the group. Other complicationsarise through the use of loans denominated in or linked to foreign currencies,when the group operates in highly inflationary economies, and from fluctuations in exchange rates. As a result, the determination of the amount of borrowing costs that are directly attributable to the acquisition of a qualifying asset is difficult andthe exercise of judgement is required.

To the extent that an entity borrows funds **specifically for the purpose** of obtaining a qualifying asset, the entity shall determine the amount ofborrowing costs eligible for capitalization as the actual borrowing costsincurred on that borrowing during the period **less any investment income onthe temporary investment** of those borrowings.

The financing arrangements for a qualifying asset may result in an entity obtaining borrowed funds and incurring associated borrowing costs before someor all of the funds are used for expenditures on the qualifying asset. In such circumstances, the funds are often temporarily invested pending their expenditureon the qualifying asset. In determining the amount of borrowing costs eligible forcapitalisation during a period, any investment income earned on such funds isdeducted from the borrowing costs incurred.

6. **Alpha Ltd on 1St April 20X1 borrowed 9% `30,00,000 to finance the construction of two qualifying assets. Construction started on 1st April 20X1. The loan facility was availed on 1st April 20X1 and was utilized as follows with remaining funds invested temporarily at 7%.**

	Factory Building	Office Building
1st April 20X1	**5,00,000**	**10,00,000**
1st October 20X1	**5,00,000**	**10,00,000**

Calculate the cost of the asset and the borrowing cost to be capitalized.

Solution:

Particulars	**Factory Building**	**Office Building**
Borrowing Costs Less: Investment Income	(10,00,000*9%) 90,000 (5,00,000*7%*6/12) (17,500)	(20,00,000*9%) 1,80,000 (10,00,000*7%*6/12) (35,000)
	72,500	**145,000**
Cost of the asset: Expenditure incurred Borrowing Costs	 10,00,000 72,500	 20,00,000 1,45,000
	10,72,500	21,45,000

Can general borrowing not specific for qualifying asset be capitalized?

To the extent that an entity **borrows funds generally** and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amountof borrowing costs eligible for capitalization by applying a capitalization rateto the expenditures on that asset. The capitalization rate shall be the**weighted average** of the borrowing costs applicable to the borrowings of theentity that are outstanding during the period, other than borrowings made
specifically, for the purpose of obtaining a qualifying asset. The amount ofborrowing costs that an entity capitalizes during a period shall not exceed theamount of borrowing costs it incurred during that period.

In some circumstances, it is appropriate to include all borrowings of the parent and its subsidiaries when computing a weighted average of the borrowing costs;in other circumstances, it is appropriate for each subsidiary to use a weightedaverage of the borrowing costs applicable to its own borrowings.

7. **Beta Ltd had the following loans in place at the end of 31st March 20X2:**

(Amounts in `000s)

Loan	**1st April 20X1**	**31st March 20X2**
18% Bank Loan	**1,000**	**1,000**
16% Term Loan	**3,000**	**3,000**
14% Debentures	**-**	**2,000**

14% debenture was issued to fund the construction of Office building on 1st July 20X1 but the development activities has yet to be started.

On 1st April 20X1, Beta ltd began the construction of a Plant being qualifying asset using the existing borrowings. Expenditure drawn down for the construction was: Rs 500,000 on 1st April 20X1 and Rs 2,500,000 on 1st January 20X2.

Required

Calculate the borrowing cost that can be capitalised for the plant.

Solution

Capitalisation rate $\dfrac{18\% * 1000 + 16\% * 3000}{1000 + 3000}$ =16.5%

Borrowing Costs = (500,000 x 16.5%) + (2,500,000 x16.5% x3/12)
= `1,85,625

What if carrying amount is excess of the qualifying asset over recoverable amount?

When the carrying amount or the expected ultimate cost of the qualifying assetexceeds its recoverable amount or net realizable value, the carrying amount iswritten down or written off in accordance with the requirements of otherStandards. In certain circumstances, the amount of the write-down or write-off iswritten back in accordance with those other Standards.

When will Commencement of capitalization begin?

An entity shall begin capitalizing borrowing costs as part of the cost of a qualifying asset on the commencement date. The commencement date for capitalization is the date when the entity first meets all of the followingconditions:

a) it incurs expenditures for the asset;
b) it incurs borrowing costs; and
c) it undertakes activities that are necessary to prepare the asset for itsintended use or sale.

Expenditures on a qualifying asset include only those expenditures that have resulted in payments of cash, transfers of other assets or the assumption ofinterest-bearing liabilities. Expenditures are reduced by any progress payments received and grants received in connection with the asset (see Ind AS 20,*Accounting for Government Grants and Disclosure of Government Assistance*).

The average carrying amount of the asset during a period, including borrowing costs previously capitalized, is normally a reasonable approximation of theexpenditures to which the capitalization rate is applied in that period.

The activities necessary to prepare the asset for its intended use or sale encompass more than the physical construction of the asset. They include technical andadministrative work prior to the commencement of physical construction, such asthe activities associated with obtaining permits prior to the commencement of thephysical construction. However, such activities exclude the holding of an assetwhen no production or development that changes the asset’s condition is takingplace. For example, borrowing costs incurred while land is under development arecapitalized during the period in which activities related to the development arebeing undertaken. However, borrowing costs incurred while land acquired for building purposes is held without any associated development activity do notqualify for capitalization.

8. X Ltd is commencing a new construction project, which is to be financed by borrowing. The key dates are as follows:

(i) 15 May 20X1: Loan interest relating to the project starts to be incurred

(ii) 2 June 20X1 : Technical site planning commences

(iii) 19 June 20X1 : Expenditure on the project started to be incurred

(iv) 18 July 20X1 : Construction work commences

Identify commencement date.

Solution

In the above case, the three conditions to be tested for commencement date would be:

Borrowing cost has been incurred on : 15 May 20X1

Expenditure has been incurred for the asset on : 19 June 20X1

Activities necessary to prepare asset for its intended use or sale: 2 June 20X1

Commencement date would be the date when the above three conditions would be satisfied in all i.e 19 June 20X1

9. Marine Transport Limited ordered 3 ships for its fleet on April 1,20X0. It pays a down payment of 25% of the contract value of each of the ship out of long term borrowings from a scheduled bank. The delivery has to commence from the financial year 20X7. On March 1, 20X2, the ship builder informs that it has commenced production of one ship. There is no progress on other 2 ships. Marine Transport Limited prepares its financial statements on financial year basis. Is it permissible for Marine Transport Limited to capitalise any borrowing costs for the financial year ended March 31, 20X1 or March 31, 20X2.

Answer

As per paragraph 5 of Ind AS 23, a qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

As per paragraph 17 of Ind AS 23, an entity shall begin capitalising borrowing costs as part of the cost of a qualifying asset on the commencement date. The commencement date for capitalisation is the date when the entity first meets all of the following conditions:

(a)It incurs expenditures for the asset.

(b)It incurs borrowing costs.

(c)It undertakes activities that are necessary to prepare the asset for its intended use or sale. The ship is a qualifying asset as it takes substantial period of time for its construction. Thus the related borrowing costs should be capitalised.

Marine Transport Limited borrows funds and incurs expenditures in the form of down payment on April 1, 20X0. Thus condition (a) and (b) are met.However, condition (c) is met only on March 1, 20X1, and that too only with respect to one ship. Thus there is no capitalisation of borrowing costs during the financial year ended March 31, 20X1. Even during the financial year ended March 31, 20X2, borrowing costs relating to the 'one' ship whose construction had commenced from March 1, 20X2 will be capitalised from March 1, 20X2 to March 31, 20X2. All other borrowing costs are expensed.

10. X Limited has a treasury department that arranges funds for all the requirements of the Company including funds for working capital and expansion programs. During the year ended March 31,20X2, the Company commenced the construction of a qualifying asset and incurred the following expenses:

Date	**Amount (`)**
July 1, 20X1	**2,50,000**
December 1, 20X1	**3,00,000**

The details of borrowings and interest thereon are as under:

Particulars	**Average Balance (`)**	**Interest (`)**

Long term loan @ 10%	**10,00,000**	**1,00,000**
Working capital loan	**5,00,000**	**65,000**
	15,00,000	**1,65,000**

Compute the borrowing costs that need to be capitalised.

Answer

The capitalisation rate is:

Total borrowing costs / Weighted average total borrowings: 1,65,000/15,00,000 = 11% Interest will be capitalised as under:

— On `2,50,000 @ 11% p.a. for 9 months = ` 20,625

— On `3,00,000 @ 11% p.a. for 4 months = `11,000

Can during the capitalization period there can be Suspension of capitalization?

An entity shall **suspend capitalization of borrowing costs during extended periods** in which it suspends active development of a qualifying asset.

An entity may incur borrowing costs during an extended period in which itsuspends the activities necessary to prepare an asset for its intended use or sale.Such costs are costs of holding partially completed assets and do not qualify forcapitalization. However, an entity does not normally suspend capitalizingborrowing costs during a period when it carries out substantial technical andadministrative work. An entity also does not suspend capitalizing borrowing costswhen a temporary delay is a necessary part of the process of getting an asset readyfor its intended use or sale. For example, capitalization continues during the extended period that high water levels delay construction of a bridge, if such high-water levels are common during the construction period in the geographicalregion involved.

Example:Suspension of Capitalization

(a) Construction suspended between October 20X1 to January 20X2 during which period certain heavy construction equipment under use was shifted to another site. In this case, capitalization of borrowing costs needs to be suspended since active development is interrupted.

(b) When Qualifying Asset construction is about to complete, there was temporary delay of 20 days on account of some technical reasons. In this case, capitalization of borrowing costs shall be continued.

When to Ceasecapitalization?

An entity shall cease capitalizing borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use or saleare complete.

An asset is normally ready for its intended use or sale when the physical construction of the asset is complete even though routine administrative workmight still continue. If minor modifications, such as the decoration of a propertyto the purchaser's or user's specification, are all that are outstanding, thisindicates that substantially all the activities are complete.

When an entity completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on otherparts, the entity shall cease capitalizing borrowing costs when it completessubstantially all the activities necessary to prepare that part for its intendeduse or sale.

A business park comprising several buildings, each of which can be used individually, is an example of a qualifying asset for which each part is capable ofbeing usable while construction continues on other parts. An example of aqualifying asset that needs to be complete before any part can be used is anindustrial plant involving several processes which are carried out in sequence atdifferent parts of the plant within the same site, such as a steel mill.

Example:
H Limited, a real estate company, gives immovable property on rent. It has completed on May 31, 20X1, a commercial complex consisting of various offices that could be rented out. It expects that the commercial complex will be completely rented out by June 30, 20X1. However, due to adverse market conditions, only 10% of the commercial complex could be
rented outby its reporting date of March 31, 20X2. H Limited wants to capitalise the eligible borrowing costs incurred up to March 31, 20X2.
H Limited should capitalise borrowing costs only up to May 31, 20X1. The borrowing cost incurred thereafter cannot be capitalised as the asset was ready for its intended use on May 31, 20X1. The fact that only a small portion could be rented out by March 31, 20X2, is immaterial.

Example:
An entertainment park consisting of several rides and facilities, each of which can be used individually, is an example of a qualifying asset for which each part is capable of being usable while construction continues on other parts. On the other side in a case of an industrial undertaking such as a steel mill, all parts have to be completed before any earlier completed part can be put to use

Disclosure

An entity shall disclose:

a) the amount of borrowing costs capitalized during the period; and

b) the capitalization rate used to determine the amount of borrowing costs eligible for capitalization.

11. PRM Ltd. obtained a loan from a bank for Rs.50 lakhs on 30-04-2011. It was utilized as follows:

Particulars	**Amount (Rs. in lakhs)**
Construction of a shed	**50**
Purchase of a machinery	**40**
Working Capital	**20**
Advance for purchase of truck	**10**

Construction of shed was completed in March 2012. The machinery was installed on the same date. Delivery truck was not received. Total interest charged by the bank for the year ending 31-03-2012 was Rs. 18 lakhs. Show the treatment of interest.

Solution

Qualifying Asset as per AS-16 = Rs. 50 lakhs (construction of a shed)

Borrowing cost to be capitalized = 18X 50/120 =Rs. 7.5 lakhs

Interest to be debited to Profit or Loss account = Rs. (18 – 7.5) lakhs =Rs. 10.5 lakhs

12. An industry borrowed Rs.40,00,000 for purchase of machinery on 1.6.2007. Interest on loan is 9% per annum. The machinery was put to use from 1.1.2008. Pass journal entry for the year ended 31.3.2008 to record the borrowing cost of loan as per AS 16.

Interest upto 31.3.2008 (40,00,000 × 9% ×10/12)= 3,00,000

Less: Interest relating to pre-operative period 3,00,000 *7/10= 2,10,000

Amount to be charged to P&L A/c = 90,000

Pre-operative interest to be capitalized = 2,10,000

Journal Entry

Machinery A/c Dr. 2,10,000

To Loan A/c 2,10,000

(Being interest on loan for pre-operative period capitalized)
Interest on loan A/c Dr. 90,000
To Loan A/c 90,000
(Being the interest on loan for the post-operative period)
Profit and Loss A/c Dr. 90,000
To Interest on loan A/c 90,000
(Being interest on loan transferred to P&L A/c)

13. Southern Tower Ltd. purchased a plant from M/s. Tatamaco Ltd. on 30-09-2010 with a quoted price of Rs. 180 lakhs. Tatamaco offer 3 months credit with a condition that discount of 1.25% will be allowed if the payment were made within one month. VAT is 12.5% on the quoted price. Company incurred 2% on transportation costs and 3% on erection costs of the quoted price. Preoperative cost amount to Rs. 1.50 lakhs. To finance the purchase of the machinery, company took a term bank loan of Rs. 125 lakhs at an interest rate of 14.50% per annum. The machine was ready for use on 31-12-2010; however, it was put to use only on 01-04-2011.

(i) Find out the original cost.

Particulars	Rs. *in lakhs*	Rs. *in lakhs*
Quoted price	180.00	
Less: Discount @1.25%	(2.25)	177.75
Add: VAT @12.5%		22.50
Transportation @ 2%		3.60
Erection cost @ 3%		5.40
Pre-operative cost		1.50
Finance cost (14.5% on Rs. 125 lakhs for the period 01.10.08 to 31.12.08)		4.53
Total		215.28

(ii) Suggest the accounting treatment for the cost incurred during the period between the date the machine was ready for use and the actual date the machine was put to use.

Finance cost amounting Rs. 4.53 lakhs (14.50% on Rs. 125 lakhs for the period 01.01.2011 to 31.03.2011) will be charged to profit and loss account as per Ind AS 23 “Borrowing Costs”.

14. The company has obtained Institutional Term Loan of Rs.580 lakhs for modernization and renovation of its Plant & Machinery. Plant & Machinery acquired under the modernization scheme and installation completed on 31st March, 2012 amounted to Rs.406 lakhs, Rs.58 lakhs has been advanced to suppliers for additional assets and the balance loan of Rs.116 lakhs has been utilized for working capital purpose. The Accountant is on a dilemma as to how to account for the total interest of Rs.52.20 lakhs incurred during 2011-2012 on the entire Institutional Term Loan of Rs.580 lakhs.

Solution

As per Ind AS 23 ‘Borrowing Costs’, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset. Other borrowing costs should be recognized as an expense in the period in which they are incurred. Borrowing costs should be expensed except where they are directly attributable to acquisition, construction or production of qualifying asset.

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

The treatment for total interest amount of Rs. 52.20 lakhs can be given as:

Purpose	Nature		Interest to be charged to P&L
Modernization and renovation of plant and machinery	Qualifying asset	**52.20*58/580=5.22	
Advance to supplies for additional assets	Qualifying asset	**52.2*406/580=36.54	
Working Capital	Not a Qualifying Asset		52.2*116/580=10.44
	TOTAL	41.76	10.44

** It is assumed in the above solution that the modernization and renovation of plant and machinery will take substantial period of time (i.e. more than twelve months). Regarding purchase of additional assets, the nature of additional assets has also been considered as qualifying assts. Alternatively, the plant and machinery and additional assets may be assumed to be non-qualifying assts on the basis that the renovation and installation of additional assets will not take substantial period of time. In that case, the entire amount of interest, Rs. 52.20 lakhs will be recognized as expense in the profit and loss account for year ended 31st March, 2012.

15. The notes to accounts of X Ltd. for the year 2011-2012 include the following: "Interest on bridge loan from banks and Financial Institutions and on Debentures specifically obtained for the Company's Fertilizer Project amounting to Rs. 1,80,80,000 has been capitalized during the year, which includes approximately Rs. 1,70,33,465 capitalized in respect of the utilization of loan and debenture money for the said purpose." Is the treatment correct? Briefly comment.

Solution

The treatment done by the company is not in accordance with Ind AS 23 'Borrowing Costs'. As per Ind AS 23, to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period. Hence, the capitalisation of borrowing costs should be restricted to the actual amount of interest expenditure i.e. Rs. 1,70,33,465. Thus, there is an excess capitalisation of Rs. 10,46,535. This has resulted in overstatement of profits by Rs. 10,46,535 and amount of fixed assets has also gone up by this amount.

16. X Ltd. had following general borrowings and investments in qualifying assets.

Source	Date of raising	Amount (Rs.)
12% Debentures	01.04.2004	1,500,000
15% Term Loan	01.04.2004	600,000
18% Term Loan	01.04.2004	400,000

Qualifying Assets	Amount (Rs.)	Date of Commencement	Date of Completion
A	600,000	01.04.2004	31.01.2005
B	500,000	01.05.2004	31.03.2005
C	400,000	01.07.2004	------

With the help of these details, determine for the year ended 31.03.2005

1. the amount of borrowing cost incurred

2. the amount of borrowing cost to be capitalised to qualifying assets

3. the amount of borrowing cost to be charged to revenue

Answer

Loan	*Amount*	*Interest*
12% Debenture	*15,00,000*	*180,000*

15% Term Loan	6,00,000	90,000
18% Term Loan	4,00,000	72,000

Weighted Average Interest Rate = 13.68%

A

Commence date: 1.4.2004

Completion date: 31.1.2005

Period = 10 months

Interest to be Capitalized = 6,00,000 * 13.68% * 10/12 months =68,400

B

Commence date: 1.5.2004

Completion date: 31.3.2005

Period = 11 months

Interest to be Capitalized = 5,00,000 * 13.68% * 11/12 months = 62,700

C

Commence date: 1.7.2004

Completion date: Yet to complete

Period = 9 months

Interest to be Capitalized = 4,00,000 * 13.68% * 9/12 months = 41,040

17. Company issued 1 lakh 10% Debentures of Rs.100 each at a discount of 5% repayable after 5yrs at 7% premium for construction of Qualifying Asset which will take two years to complete. Issue expenses will be Rs.2 lakh. Determine Interest cost to be capitalized as per Ind AS 23

Answer

Determine IRR

Year	Interest & Principal	PVF @ 11%	Present Value	PVF@ 13%	Present Value
0	2	1	2.00	1	2.00
1	10	0.9009	9.01	0.8850	8.85
2	10	0.8116	8.12	0.7831	7.83
3	10	0.7312	7.31	0.6931	6.93
4	10	0.6587	6.59	0.6133	6.13
5	117	0.5935	69.43	0.5428	63.50
TOTAL			102.46		95.25

IRR =

$$\text{Lower Rate} + \frac{\text{PV @ Lower Rate} - \text{Required Amount}}{\text{PV @ Lower Rate} - \text{PV @ Higher Rate}} * (\text{Higher Rate} - \text{Lower Rate})$$

Lower rate = 11%, PV @ Lower rate = 102.46, PV @ Higher rate = 95.25, Higher Rate = 13%, Required Amount = 95

$$= 11 + \frac{102.46 - 95}{102.46 - 95.25} * (13-11)$$

$$= 11 + \frac{7.46}{7.21} * 2$$

11+2.06 = 13.06%

Repayment schedule

Year	Interest @ 13.06%	Actual Interest paid	Closing
0			95 – 2 = 93
1	12.15	10	95.15
2	12.42	10	97.57
3	12.74	10	100.31
4	13.10	10	103.41
5	13.59	10	107

Interest cost to be capitalized will be for first two years
= 12.15 + 12.42 = 24.57 lakhs

18. On 01.04.2004 N Ltd. borrowed Rs. 2,00,000 @12% p. a. for construction of qualifying asset. The construction commences on 01.06.2004 and completes on 28.02.2005. Income earned on investing the same borrowings temporarily was Rs.5,000, of which Rs.2,000 represents income earned after 01.06.2004. Ascertain the amount of borrowing cost eligible for capitalisation.

19. Rainbow Limited borrowed an amount of Rs. 150 crores on 1.4.2010 for construction of boiler plant @ 11% p.a. The plant is expected to be completed in 4 years. Since the weighted average cost of capital is 13% p.a., the accountant of Rainbow Ltd. capitalized Rs. 19.50 crores for the accounting period ending on 31.3.2011. Due to surplus fund out of Rs. 150 crores, an income of Rs. 3.50 crores was earned and credited to profit and loss account. Comment on the above treatment of accountant with reference to relevant accounting standard.

Ind AS 23 'Borrowing Costs' states "To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings." The 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. Hence, in the above case, treatment of accountant of Rainbow Ltd. Is incorrect. The amount of borrowing costs capitalized for the financial year 2010-11 should be calculated as follows:

Actual interest for 2010-11 (11% of Rs. 150 crores)	16.50 crores
Less: Income on temporary investment from specific borrowings	3.50 crores
Borrowing costs to be capitalized during year 2010-2011	13.0 rores

20. XYZ Ltd., has undertaken a project for expansion of capacity as per the following details:

	Plan	Actual
	Rs.	
April, 2012	2,00,000	2,00,000
May, 2012	2,00,000	3,00,000
June, 2012	10,00,000	–
July, 2012	1,00,000	–
August, 2012	2,00,000	1,00,000
September, 2012	5,00,000	7,00,000

The company pays to its bankers at the rate of 12% p.a., interest being debited on a monthly basis. During the half year company had Rs. 10 lakhs overdraft upto 31st July, surplus cash in August and again overdraft of over Rs. 10 lakhs from 1.9.2012. The company had a strike

during June and hence could not continue the work during June. Work was again commenced on 1st July and all the works were completed on 30th September. Assume that expenditure were incurred on 1st day of each month. Calculate:
(i) Interest to be capitalised.
(ii) Give reasons wherever necessary.
Assume:
(a) Overdraft will be less, if there is no capital expenditure.
(b) The Board of Directors based on facts and circumstances of the case has decided that any capital expenditure taking more than 3 months as substantial period of time.

Solution

(a) XYZ Ltd.

Month	*Actual Expenditure*	*Interest Capitalised*	*Cumulative Amount*	
	Rs.	Rs.	Rs.	
April, 2012	2,00,000	2,000	2,02,000	
May, 2012	3,00,000	5,020	5,07,020	
June, 2012	–	5,070	5,12,090	Note 2
July, 2012	–	5,120	5,17,210	
August, 2012	1,00,000	–	6,17,210	Note 3
September, 2012	7,00,000	10,000	13,27,210	Note 4
	13,00,000	**27,210**	**13,27,210**	

Note:

1. There would not have been overdraft, if there is no capital expenditure. Hence, it is a case of specific borrowing as per Ind AS 23 on Borrowing Costs.
2. The company had a strike in June and hence could not continue the work during June. As per Ind AS 23, the activities that are necessary to prepare the asset for its intended use or sale are in progress. The strike is not during extended period. Thus during strike period, interest need to be capitalised.
3. During August, the company did not incur any interest as there was surplus cash in August. Therefore, no amount should be capitalised during August as per Ind AS 23.
4. During September, it has been taken that actual overdraft is Rs. 10 lakhs only. Hence, only Rs. 10,000 interest has been capitalised even though actual expenditure exceeds Rs. 10 lakhs.

Alternatively, interest may be charged on total amount of (Rs. 6,17,210 + Rs. 7,00,000 = 13,17,210) for the month of September, 2012 as it is given in the question that overdraft was over Rs. 10 lakhs from 1.9.2012 and not exactly Rs. 10 lakhs. In that case, interest amount Rs. 13,172 will be capitalised for the month of September.

21. An amount of Rs. 20,00,000 was incurred for construction of a building and it was ready for occupation on 31.12.2012. The construction expenditure was incurred out of working capital facilities availed from the Bank. Interest payable to it @ 15% p.a. The average working capital loan has never fallen below Rs. 25 lakhs during the construction period.

The details of expenditure incurred are as follows:	**(Rs.)**
July 2012	**3,00,000**
August, 2012	**4,50,000**
September, 2012	**2,00,000**
October, 2012	**5,00,000**

November, 2012	**3,00,000**
December, 2012	**2,50,000**
	20,00,000

Calculate the value of the qualifying asset.

Month	Expenditure on qualifying asset	Interest	Cumulative expenditure including interest
July 2012	3,00,000		3,00,000
August, 2012	4,50,000	3,750	7,53,750
September, 2012	2,00,000	9,422	9,63,172
October, 2012	5,00,000	12,040	14,75,212
November, 2012	3,00,000	18,440	17,93,652
December, 2012	2,50,000	22,421	20,66,073
Total	20,00,000	66,073	

The value of the qualifying asset is Rs. 20,66,073.

22. ABC Ltd commenced construction of a flyover in Mumbai in January 2006 under BOLT schemes. The same was completed in February 2007. Due to heavy seasonal rains in July 2006 in the area, the work on the flyover had to be suspended for a month. The Company accordingly suspended capitalization of Borrowing Costs of Rs. 12.50 lakhs for that month. Comment

Answer

Rain cannot be considered to be extended period leading to substantial delay. It can be considered as temporary delay and hence eligible for capitalization purpose. Borrowing cost should be capitalized

23. A.S Ltd borrowed Rs.1500 lakhs at 12% interest for creation integrated additional plant facilities. The expenditure was incurred in the phase manner, each resulting in specifically identifiable capital asset as under-

Particulars	**Phase I**	**Phase III**	**Phase III**
Asset Created	**Plant L**	**Plant M**	**Plant N**
Machinery Purchased	**Rs. 500 lakhs**	**Rs. 400 lakhs**	**Rs. 600 lakhs**
Cost of Buildings	**Rs. 150 lakhs**	**Rs. 100 lakhs**	**Rs. 150 lakhs**
Other Utilities	**Rs. 50 lakhs**	**Rs. 50 lakhs**	**Rs. 100 lakhs**

Note:

A: Each of the above Plants is a continuous process whereby output of L is transferred to M for further processing and thereafter to N, before sale to customers.

B: Plant N includes machinery on which a Capital Grant of Rs. 100 lakhs is received from the Government.

Determine the amount to be capitalized in respect of each of the above Plants. You need not allocate the same between machinery, buildings and other utilities.

Answer

Total borrowing cost = 1500 * 12% = 180 lakhs

Particulars	**Plant L**	**Plant M**	**Plant N**
Cost of plant	700	550	850 – 100 = 750
Interest cost to be apportioned 700: 550: 750	63	49.5	67.5
Total	**763**	**599.5**	**617.5**

24. Particulars	Amount (Rs.)
Expenditure incurred till 31-03-2011	**7,00,000**
Interest cost capitalized for the financial year 2010-11	**30,000**
Amount borrowed till 31-03-11	**4,00,000**
Amount transferred to construction during 2011-12	**2,00,000**
Cash payment during 2011-12	**1,00,000**
Progress payment received	**5,00,000**
New borrowing during 2011-12 @ 15%	**3,00,000**

Calculate the amount of borrowing to be capitalized.

Solution

Total Borrowing Cost = 7,00,000 X 0.15 = Rs. 1,05,000

Expenditure incurred including previously capitalized borrowing cost	7,30,000
Cash payment during 2011-12	1,00,000
Asset transferred during 2011-12	1,00,000
9,30,000	
Less: Progress payment received	5,00,000
4,30,000	

Money borrowed including previously capitalized interest cost = Rs. 7,30,000

Borrowing cost to be capitalized = 4,30,000/7,30,000x1,05,000 = Rs. 61,849.32

25. Faulad Iron and Steel Ltd. is establishing an integrated steel plant consisting of four phases. It is expected that the full plant will be established over several years but Phase I and Phase II of the Plant will be started as soon as they are completed. Following is the detail of the work done on different phases of the plant during the current year:

	Phase I	Phase II	Phase III	Phase IV
	Rs.	Rs.	Rs.	Rs.
Cash expenditure	**20,00,000**	**35,00,000**	**25,00,000**	**40,00,000**
Plants purchased	**28,00,000**	**40,00,000**	**30,00,000**	**48,00,000**
Total expenditure	**48,00,000**	**75,00,000**	**55,00,000**	**88,00,000**
Total expenditure of all phases			**2,66,00,000**	
Loan taken @ 16%			**2,40,00,000**	

During current year, Phases I and II have become operational. Find out the total amount to be capitalized and to be expensed during the year..

In this case, the total capital expenditure is Rs. 2,66,00,000 while the loan taken is Rs. 2,40,00,000 only. It appears that the balance amount of Rs. 26,00,000 would have been spent by the company from its own resources on which no interest would have been payable. Interest payable on loan of Rs. 2,40,00,000 @ 16% is Rs. 38,40,000. This interest cost is consisting of two components i.e., interest to be expensed and interest to be capitalized.

As Phases I and II have become operational during the year, the interest in proportion to their cost should be treated as expense of the year and interest in respect of Phases III and IV should be capitalized.

Total cost of Phases I and II (Rs. 48,00,000 + Rs. 75, 00,000)	1,23,00,000
Total Cost of Phases III and IV (Rs. 55,00,000 + Rs. 88,00,000)	1,43,00,000
Total cost	2,66,00,000

Total loan	2,40,00,000
Proportionate loan used for Phases I and II 2,40,00,000*1,23,00,000/2,66,00,000	1,10,97,744
Proportionate loan used for Phases III and IV 2,40,00,000*1,43,00,000/2,66,00,000	1,29,02,256
Interest on loan used for Phases I and II @ 16%	17,75,639
Interest on loan used for Phases III and IV @ l6%	20,64,361
Total Interest	38,40,000

Interest amounting Rs. 20,64,361 should be capitalized and added to the cost of Phases III and IV, and Rs. 17,75,639 should be treated as expense of the year.

26. X Limited began construction of a new plant on 1st April 2011 and obtained a special loan of 8 lakhs to finance the construction of the plant. The rate of interest on loan was 10 per cent per annum.

The expenditure that was made on the project of plant construction was as follows:

1-4-2011	**10,00,000**
1-8-2011	**24,00,000**
1-1-2012	**4,00,000**

The Company's other outstanding non specific loan was Rs.46,00,000 at an interest of 12 percent per annum.

The construction of the plant was completed on 31-3-2012. You are required to calculate the amount of interest to be capitalized as per the provision of Ind AS 23 of the borrowing cost (including cost).

(i) Computation of average accumulated expenses

Rs. 10,00,000 x 12 / 12	=	10,00,000
Rs. 24,00,000 x 8 / 12	=	16,00,000
Rs. 4,00,000 x 3 / 12	=	1,00,000
		27,00,000

Non-specific Borrowings

Non-specific Borrowings = Average accumulated capital expenses – Specific borrowings

= Rs. 27,00,000 – Rs. 8,00,000 = Rs. 19,00,000

Interest on average accumulated expenses

Specific borrowings (Rs. 8,00,000 X 10%)	=	80,000
Non-specific borrowings (Rs. 19,00,000 × 12%)	=	2,28,000
Amount of interest to be capitalized	=	3,08,000

Total expenses to be capitalized for Plant

Cost of plant Rs. (10,00,000 + 24,00,000 + 4,00,000)	38,00,000
Add: Amount of interest to be capitalised	3,08,000
Total cost of plant	41,08,000

27. K Ltd. began construction of a new building at an estimated cost of `7 lakh on 1st April, 2017. To finance construction of the building it obtained a specific loan of `2 lakh from a financial institution at an interest rate of 9% per annum. The company's other outstanding loans were:

Amount	Rate of Interest per annum
`7,00,000	12%
`9,00,000	11%

The expenditure incurred on the construction was:

April, 2017	` 1,50,000
August, 2017	` 2,00,000
October, 2017	` 3,50,000
January, 2018	` 1,00,000

The construction of building was completed by 31st January, 2018. Following the provisions of Ind AS 23 'Borrowing Costs', calculate the amount of interest to be capitalized and pass necessary journal entry for capitalizing the cost and borrowing cost in respect of the building as on 31st January, 2018.

Answer

(i) Calculation of capitalization rate on borrowings other than specific borrowings

Amount of loan (`)	Rate of interest	Amount of interest(`)
7,00,000	12%	= 84,000
9,00,000	11%	= 99,000
16,00,000		1,83,000

Weighted average rate of interest (1,83,000/16,00,000) x 100 = 11.4375%

(ii) Computation of borrowing cost to be capitalized for specific borrowings and general borrowings based on weighted average accumulated expenses

Date	Amount spent	Financed through	Calculation	
1st April, 2017	1,50,000	Specific borrowing	1,50,000 x 9% x 10/12	11,250
1st August, 2017	2,00,000	Specific borrowing	50,000 x 9% x 10/12	3,750
		General borrowing	1,50,000 x 11.4375% x 6/12	8,578.125
1st October, 2017	3,50,000	General borrowing	3,50,000 x 11.4375% x 4/12	13,343.75
1st January, 2018	1,00,000	General borrowing	1,00,000 x 11.4375% x 1/12	953.125
				37,875

Note:

Since construction of building started on 1st April, 2017, it is presumed that all the later expenditures on construction of building had been incurred at the beginning of the respective month.

(iii) Total expenses to be capitalized for building

Cost of building ` (1,50,000 + 2,00,000 + 3,50,000 + 1,00,000)	8,00,000
Add: Amount of interest to be capitalized	37,875
	8,37,875

(iv) Journal Entry

Date	Particulars		
31.1.2018	Building account Dr.	8,37,875	
	To Bank account		8,00,0000
	To Interest payable (borrowing cost)		37,875

(Being expenditure incurred on construction of building and borrowing cost thereon capitalized)

Note:

In the above journal entry, it is assumed that interest amount will be paid at the year end. Hence, entry for interest payable has been passed on 31.1.2018. Alternatively, following journal entry may be passed if interest is paid on the date of capitalization:

Date	Particulars		
31.1.2018	Building account Dr.	8,37,875	
	To Bank account		8,37,875

(Being expenditure incurred on construction of building and borrowing cost thereon capitalized)

Particular	Ind AS 23	AS 16
Qualifying Asset measured at Fair Value	Ind AS 23 does not require an entity to apply this standard to borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset measured at fair value, for example, a biological asset	AS 16 does not provide for such scope relaxation
Applicability to Inventories	Ind AS 23 excludes the application of this Standard to borrowing costs directly attributable to theacquisition, construction or production of inventories that are manufactured, or otherwise produced, in large quantities on a repetitive basis	AS 16 does not provide for such scope relaxation and is applicable to borrowing costs related to all inventories that require substantial period of time to bring them in saleable condition
Inclusion as Borrowing Costs	Ind AS 23 requires to calculate the interest expense using the effective interest rate method as described in Ind AS 109. Certain items therein have been deleted, as some of those components of borrowing costs are considered as the components of interest expense calculated using the effective interest rate method	AS 16, Borrowing Costs, inter alia, include the following: •interest and commitment charges on bank borrowings and other short-term and long-term borrowings; •amortisation of discounts or premiums relating to borrowings; •amortisation of ancillary costs incurred in connection with the arrangement of borrowings
Explanation of Substantial Period of Time	This explanation is not included in Ind AS 23	AS 16 gives explanation for meaning of 'substantial period of time' appearing in the definition of the term 'qualifying asset'
Reporting in Hyperinflationary Economies	Ind AS 23 provides that when Ind AS 29, 'Financial Reporting in Hyperinflationary Economies', is applied, part of the borrowing costs that compensates for inflation should be expensed as required by that Standard (and not capitalized in respect of qualifying assets).	AS 16 does not contain a similar clarification because at present, in India, there is no Standard on ' Financial Reporting in Hyperinflationary Economies'.
Borrowings of the Parent and its Subsidiaries for Computing Weighted Average	IndAS 23 specifically provides that in some circumstances, it is appropriate to include all borrowings of the parent and its subsidiaries when computing a weighted average of the borrowing costs while in other circumstances, it is appropriate for each subsidiary to use a weighted average of the borrowing costs	This specific provision is not there in AS 16

	applicable to its own borrowings	
Disclosure of Capitalization Rate	Ind AS 23 requires disclosure of capitalization rate used to determine the amount of borrowing costs eligible for capitalization	AS 16 does not have this disclosure requirement