

Borrowing Costs

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Borrowing Costs - Meaning

Definition of Borrowing Costs

IGAAP (AS-16)

- Interest and other costs incurred in connection with borrowing of funds
- May include:
 - Interest and commitment charges
 - Amortisation of discounts or premiums relating to borrowings
 - Amortisation of ancillary costs incurred in connection with the arrangement of borrowings
 - Finance charges in respect of finance leases or under other similar arrangements
 - Exchange differences to the extent that they are regarded as an adjustment to 'interest costs'

Ind AS - 23

- Interest and other costs incurred in connection with borrowing of funds
- May include:
 - Finance charges in respect of finance leases
 - Interest expense calculated using the EIR method
 - Exchange differences to the extent that they are regarded as an adjustment to 'interest costs'

ICDS IX

- Interest and other costs incurred in connection with borrowing of funds
- Also includes:
 - Finance charges in respect of finance leases or under other similar arrangements
 - Commitment charges on borrowings
 - Amortised amount of discounts or premiums relating to borrowings
 - Amortised amount of ancillary costs incurred in connection with the arrangement of borrowings

Covered by ICDS VI

Borrowing Costs - Qualifying Assets

Definition of Qualifying Asset

IGAAP (AS-16)

- Assets that takes a substantial period of time to get ready for its intended use or sale.

Ind AS - 23

- An asset that necessarily takes a substantial period of time to get ready for its intended use or sale

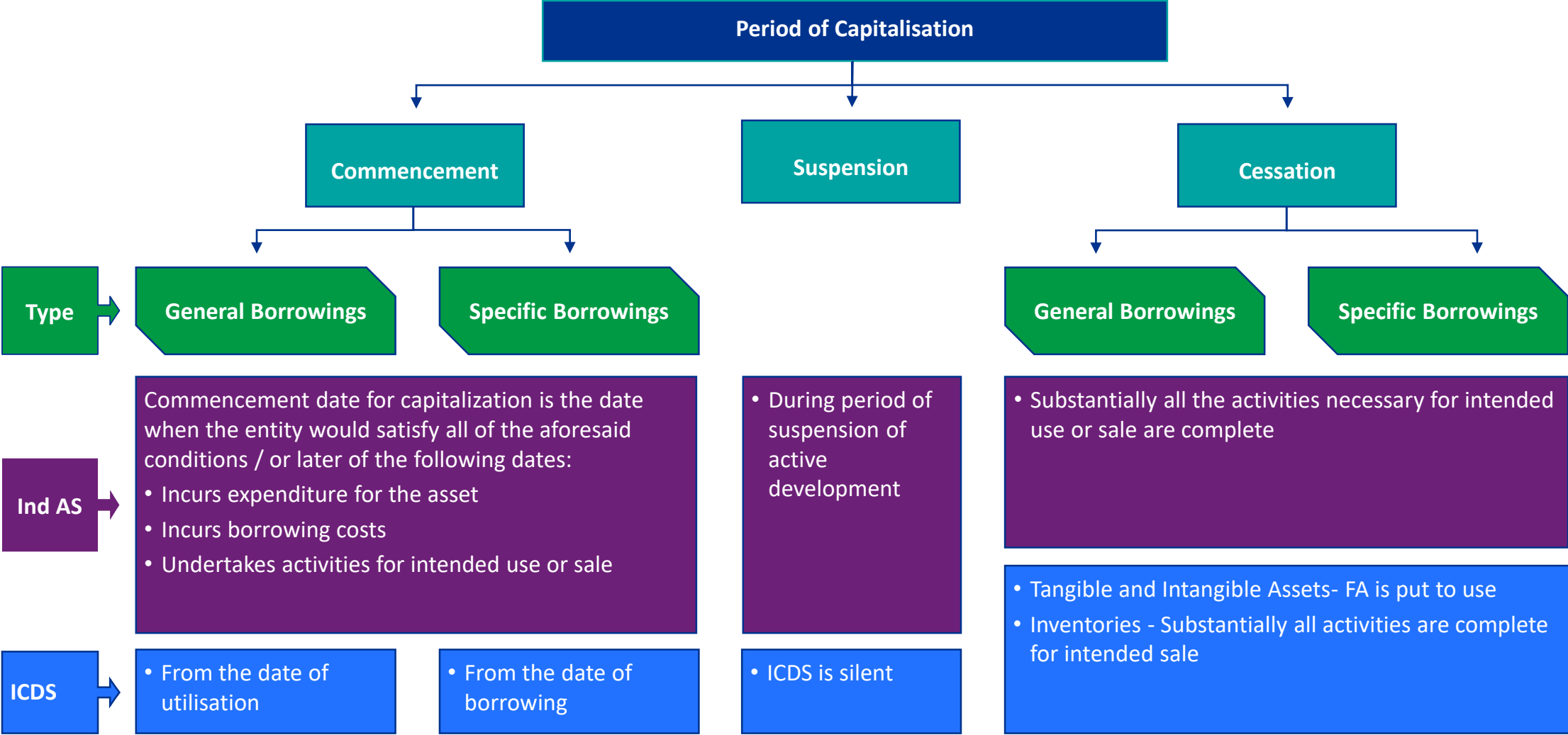
ICDS IX

- Qualifying asset means:
 - Land, building, machinery, plant or furniture, being tangible assets;
 - Know-how, patents, copyrights, trade marks, licences, franchises or any other business or commercial rights of similar nature, being intangible assets;
 - Inventories that require a period of twelve months or more to bring them to a saleable condition.

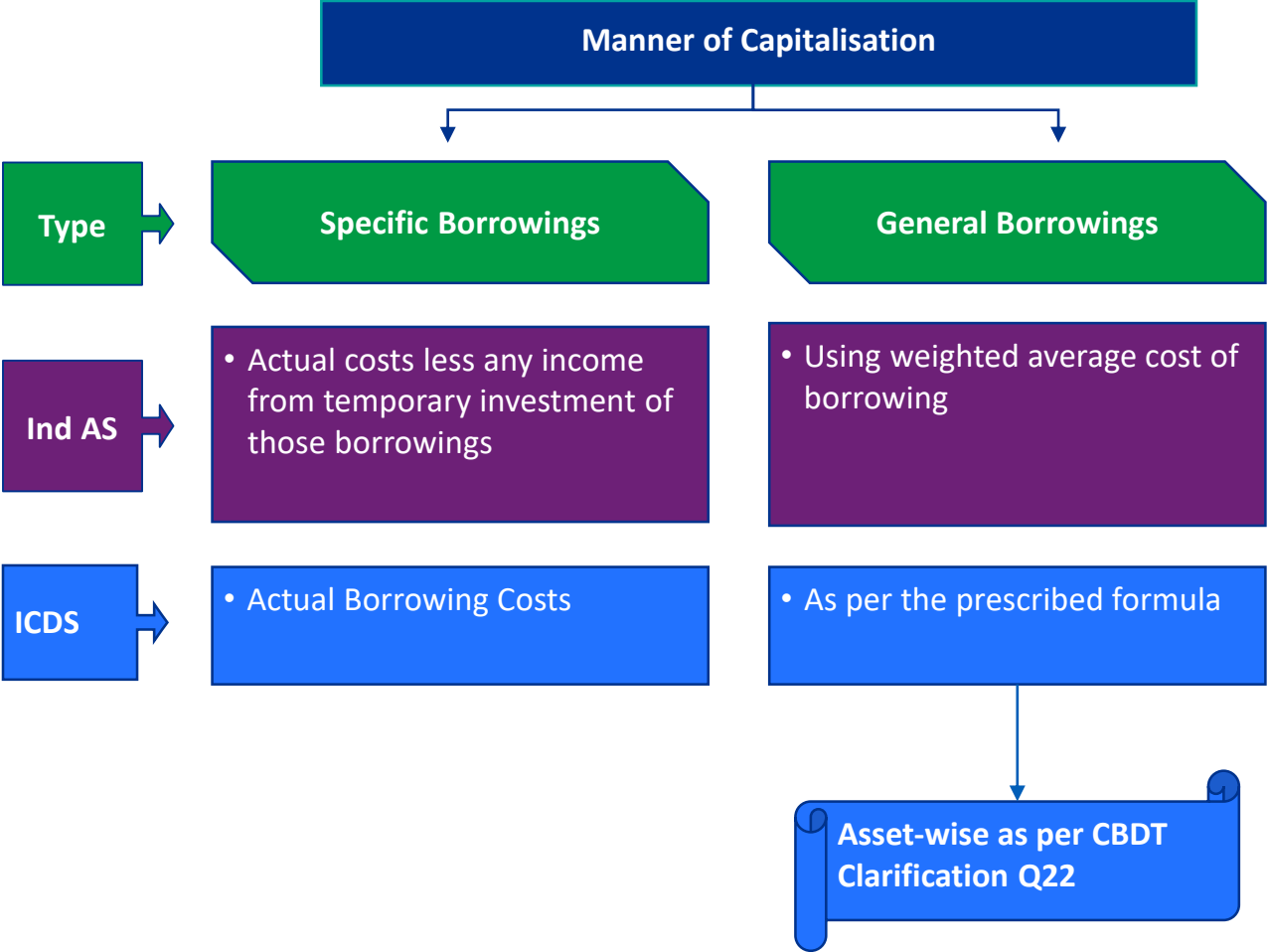
The standard does not define 'substantial period' and a benchmark of 12 months is often used, but a shorter period might be justified as well

Depending on circumstances, inventories, manufacturing plants, power facilities, intangibles, etc

Borrowing Costs - Capitalisation Period



Borrowing Costs – Manner of capitalisation of borrowing costs



Capitalisation of general borrowing costs under ICDS = $A \times \left(\frac{B}{C}\right)$

A = Actual borrowing costs less relatable to specific purposes

B =

- (i) *Where QA appear on first and last day - Average of QA as on First Day and Last Day*
- (ii) *Where QA not appearing in Opening B/S. - Half of cost of QA*
- (iii) *Where QA not appearing in balance sheet on last date - Average of QA as on First Day and Date put to use*

Exclude QA funded out of specific borrowings

C = Average of Total Assets as on First Day and Last Day

Exclude assets funded out of specific borrowings

QA under this clause - >12m

Illustrations

Borrowing Costs – Computation of General Borrowing Cost (1/3)

Details of Qualifying Assets (QA)				
Asset	Balance Sheet Items	1 April 2016	31 March 2017	Remarks
P	Asset under construction	2,000	3,000	<ul style="list-style-type: none"> Partly funded out of specific borrowings. Balance as on 1 April 2016 – INR 500 and 31 March 17 – Rs. 1,000 Interest Cost INR 200
Q	Asset from opening CWIP put to use during the year	6,000	-	<ul style="list-style-type: none"> Installation period > 12m Put to use on 1.10.16 (Cost Rs. 8,000)
R	Asset acquired but not installed	0	6,000	<ul style="list-style-type: none"> Installation period < 12m
S	Asset acquired and put to use	0	20,000	
	Sub Total of all Qualifying Asset	8,000	29,000	
	Other Assets in Balance Sheet (including Current Assets)	10,000	23,000	
	Total Assets as per Balance Sheet	18,000	52,000	• Total Interest INR 1000

Calculation of Borrowing Costs (A for formula)	
Particulars	Rs.
Total Borrowing Costs	1000
Less: Borrowing Cost for Specific Borrowings (for QA and Others)	(200)
General Borrowing	800

Calculation of Average Assets (C for formula)		
Particulars	1 April 2016	31 March 2017
Total Assets (less funded through specific borrowings)	17,500	51,000
Average	34,250	

Borrowing Costs - Computation of General Borrowing Cost (2/3)

Calculation of B for formula			
Asset	Basis for Rule	Working	B for formula
P	Average of QA appearing in Balance Sheet on 1 st day & last day of PY excluding the extent to which the QA is directly funded out of Specific Borrowings	$\frac{(2000-500) + (3000-1000)}{2}$	1,750
Q	Average of QA as appearing in the balance sheet on 1 st day of the previous year and on the date of put to use	$\frac{6000 + 8000}{2}$	7,000
R	Not to be capitalized since installation period < 12 m	-	-
S	Not to be capitalized since put to use within 12 m	-	-
	Total		8,750

Borrowing Costs – Computation of General Borrowing Cost (3/3)

Borrowing Costs to be Capitalized					
General Borrowings				Specific Borrowings	Total
Asset	A x B / C	No. of months	Amount (INR)	Amount (INR)	Amount (INR)
P	$800 \times \frac{1750}{34250}$	12	40.88	200	240.88
Q	$800 \times \frac{7000}{34250}$	6	81.75	-	81.75
R	-	-	-	-	-
S	-	-	-	-	-
Total borrowing cost capitalized					322.63

Thank you

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