Accounting Standard 16: Borrowing Cost

1. This AS is mandatory in nature and application to all entities companies and non-companies. In case of companies, auditor is requires its compliance and in other cases of Non-companies, CA who attest financial statements is to comply with Accounting Standard.

2. Meaning of Borrowing Cost It includes following
   (a) Interest and other related charges.
   (b) Amortisation of Discount on issue of Debentures/other cost of borrowings.
   (c) Finanical expenses
   (d) Other cost related to borrowings.

3. Treatment of borrowing cost Borrowing cost related to Qualifying assets should capitalised with cost of assets. Other Borrowing cost should be written off in Profit and Loss Account.

4. Meaning of Qualifying Assets These are those assets which takes substantial period of time, for getting ready for use. Substantial period is generally 12 months or more (For Exam. 12 monthes limit is NOT fixed, hence even 3 months will be considered as substantial).
   Ready for use means where assets is being installed, constructed, reconstructed, modernise or renovated so as to short its use. Examples:
   - Building
   - Ships
   - Aircrafts
   - Factory
   - Machines
   - Wines and Alcohol
   - Advances for Buidling Etc

   Following are not Qualifying Assets

   - Investment
   - Stock
   - Working Capital
   - Vehicle
   - Advances for Vehicles

   Stock will be Qualifying assets if it takes substantial period for getting ready.

5. Period of Capitalisation
   (i) Commencement of Capitalisation: Capitalisation will begin if all of following conditions are satisfied:
      - Borrowing Cost has been incurred AND
      - Assets is being constructed AND
      - Expenditure on assets has been incurred
   (ii) Suspension of Capitalisation: Capitalisation will begin of any of following condition is satisfied
      - Borrowing cost is not being incurred OR
      - Active development is not taking place due to abnormal reasons.
   (iii) Cessation of Capitalisation: Capitalisation will cease if any of following condition is satisfied.
      - Borrowing cost is not being incurred OR
      - Assets is ready for use.

6. If any interest is earned on idle funds, which have been from Borriwing Cost to be capitalised.

7. Disclosure Requirement
   (a) Borrowing cost policy should be disclosed
   (b) Amount of Borrowing cost should be shown.

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