# AS-16 BORROWING COST

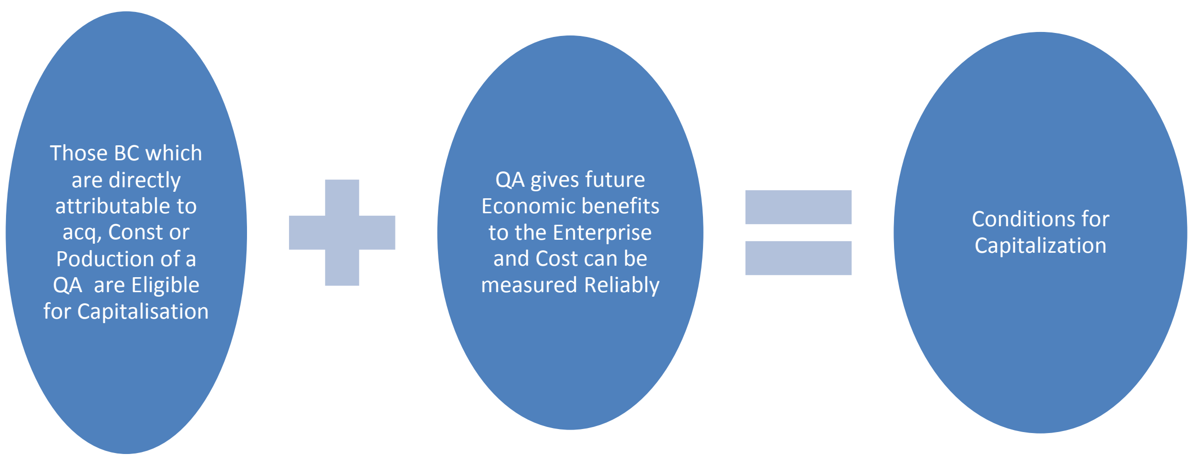
# SUMMARISED

As Per AS-16, Borrowing Cost Directly attributable to Acquisition, Construction or Production of a **Qualifying Asset** should be capitalized.

QA: Assets which take Substantial Period of Time to get ready for its Intended use. As per Explanation added to AS-16, Substantial Period of time primarily depends on the facts and circumstances of the case; however a period of 12 months is substantial period of time unless a shorter or longer period can be justified.

Example:

- Tangible FA which are in construction process or acquired tangible FA which are not ready for use or Resale
- IA in development phase or acquired but ready for use or resale.
- Investment Property
- Inventories that require substantial period of time to bring them to saleable condition.




**<u>Amount of Borrowing Cost Eligible for Capitalization</u>**

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**Specific Borrowing**

- Actual Borrowing cost incurred during the Period - Any Income on the Temporary Investment of Borrowed amount

**General Borrowing**

- Step 1: Calculation of Avg Accumulated Expenses
- Step 2: Calculate Avg Interest Rate based on O/s Debt of the Entity other than Specific Borrowing
- Step 3: Calculate Interest i.e 1*2

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**Note:** Amount of borrowing cost capitalized should not exceed amount of borrowing cost Incurred

**<u>Commencement of Capitalization of Borrowing Cost</u>**

Following Conditions must be fulfilled before Commencement of Capitalization

- Activities which are essential to prepare the asset for its Intended use, should be in progress
- Borrowing Cost is Incurred
- Expenditure for Acquisition, Construction or Production of a QA is being Incurred

**<u>Suspension of Capitalization:</u>** During Extended period in which active development is interrupted. It should not be interrupted when temporary delay is necessary for getting asset ready for intended use.

**<u>Cessation of Borrowing Cost:</u>** When substantially all the Activities necessary to Prepare QA for its intended use or Sale are Complete.

**<u>Exchange Difference Eligible for Capitalization</u>**

A) Interest for the Period for borrowing in Foreign Currency
B) Increase in Liability towards Principal Amount
C) Interest if Borrowing made in Indian Currency
D) C-A

B-D= Exchange difference to be Capitalized as per AS-11

D+A=C=Borrowing cost to be Accounted as Per AS-16

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