AS 16 Borrowing Costs.

Applicability	All enterprises with effect from 1.4.2000
Objective	To provide Accounting for Borrowing costs.
Not applie's	✗ Actual cost of owner's Equity - including pref. share capital ✗ Imputed cost of such Equity, and ✗ Such other items forming part of Equity & not classified as liability

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 Acquistions, Construction, Production (or) That would have been avoided if the exp had not been made.

- Qualifying Assets → Capitalized → Add to Acquisition cost of Asset
  - * It is probable that they will result in FEB
- Asset's Other than QA → Revenue Exp. → Charged to Profit and loss A/C
- * Any Income earned on the temp. inv of those borrowings is deducted from the BC incurred

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

Borrowing Funds

- Specific Borrowings → Use. specific Int. Rate
- General Borrowings → Use capitalisation Rate

$$\text{Capitalisation Rate} = \frac{\text{Total Borrowed Costs}}{\text{Total Borrowings}}$$

Capitalisation

Commencement (Start)

1. Exp on QA is being incurred
+
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 subs-tantial 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 it's 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 × 10% + 30L × 15%

= 6.5 L

General

Borrowed 50L & used for (A1) (A2)

BC of A1?

Capitalisation Rate

$$\frac{\text{Total BC (exp.)}}{\text{Total Borrowings}}$$

$\frac{6.5L}{50L} = 13\%$

A1 = 50L × 13%

= 6.5L

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

Loan on 22/7 1L\$ × ₹50 = 50,00,000

Repay on 29/7 1L\$ × ₹52 = 52,00,000

2,00,000

2,00,000

AS16 BC

Amt of Int in	Reporting currency (-) Foreign currency

Eg: Int rate \$ = 10%. ₹ = 12%.

1L\$ × 10% = 10K\$ × ₹52 = 5,20,000

50L × 12% : 6L → 6,00,000

80,000

AS 11 Exch d/f

Total Exch d/f

(-) AS16 BC

xxx

2L

− 80K

1.2L