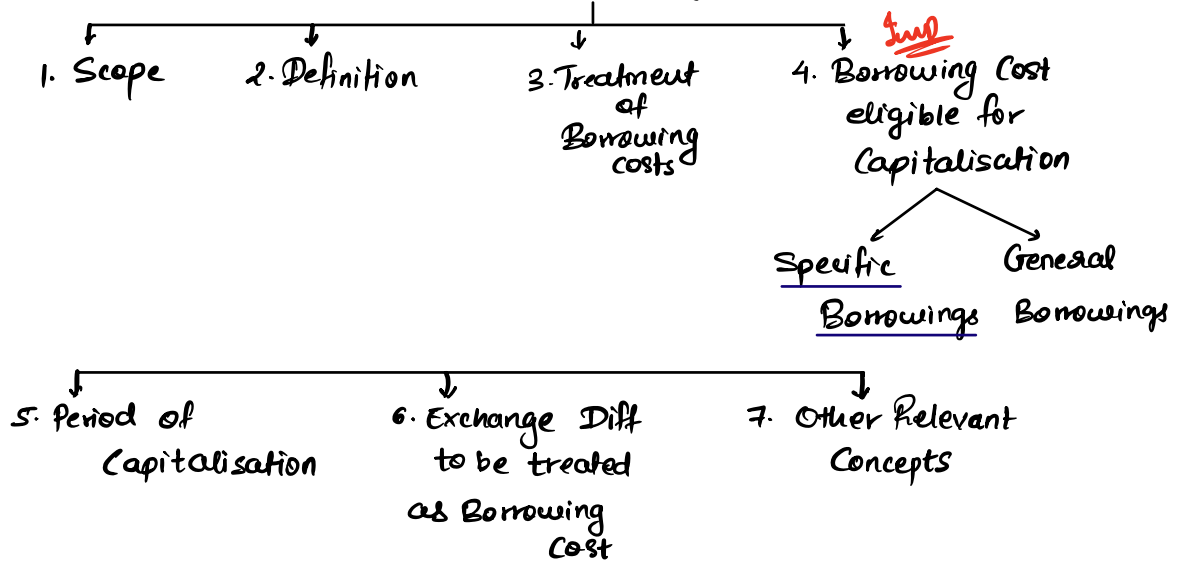
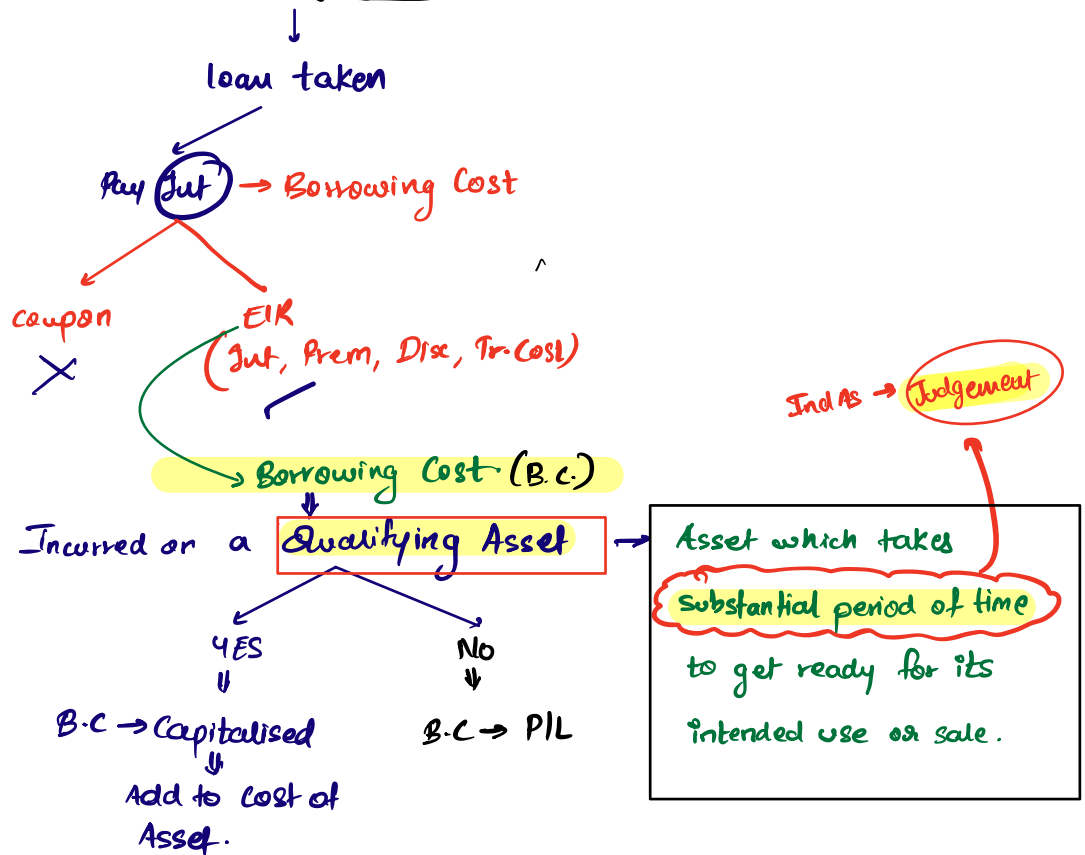


Ind 15 23 - Borrowing Costs



Ind AS 23 - Borrowing Cost (More focus on Ques)



Examples

1. Specific Borrowings

Eg 1: Loan taken on 01/04/21 of ₹100 crores @ 12% for 12 months.
Loan was taken for construction of a Bldg which commenced on 01/04/21 & was completed on 31/3/22.
The company invests idle funds @ 7% p.a. & earns ₹0.5 crores.
Calculate B.C to be capitalised.

Solⁿ: Total B.C (Actual) $100 \text{ cr} \times 12\% \times \frac{12 \text{ m}}{12 \text{ m}} = 12 \text{ cr}$

(-) Income from Temporary Invest = 0.5 cr
Borrowing cost to be Cap. $\frac{11.5 \text{ cr}}{\text{Add to cost of Asset}}$

Eg 2: Assume in the above example, the construction of the Bldg was completed within 9 months (Assume this is Substantial Period)

Solⁿ: Total B.C $\left[100 \text{ cr} \times 12\% \times \frac{9}{12 \text{ m}} \right] = 9 \text{ cr}$

(-) Temp Inc on Invest (Belongs to the Substantial period) $\frac{0.5 \text{ cr}}{\text{B.C to be capitalised}} = 8.5 \text{ cr}$

Bal 3 m Int → (PIL)

* General Borrowings

Eq 3 On 01/04/21, Term loan @ 12% → ₹ 100 cr
 Bank loan @ 14% → ₹ 75 cr
 Debentures @ 8% → ₹ 125 cr
300 crores.

Funds utilized for construction of Building → [Construction completed on 31/3/22]
 01/04/21 → 50 crores
 01/07/21 → 75 crores
 01/01/22 → 25 crores

Solⁿ: Step ① Capitalization Rate /
 weighted Average
 Cost of capital = $\frac{\text{Total Int (weighted Avg)}}{\text{Total Borrowings (weighted Avg)}} \times 100$

$$= \frac{12 \text{ cr} + 10.5 \text{ cr} + 10 \text{ cr}}{100 + 75 + 125} \times 100$$

$$= \frac{32.5}{300} \times 100$$

$$= 10.83\% \text{ p.a.} \rightarrow \text{Mean 10} \rightarrow \text{Single loan}$$

300 cr
 (Rate - 10.83%)
 p.a.

Step ② Borrowing Cost to be Capitalized

01/04/21 → 50 cr × 10.83% × 14/12 = 5.415 cr
 01/07/21 → 75 cr × 10.83% × 9/12 = 6.092 cr
 01/01/22 → 25 cr × 10.83% × 3/12 = 0.677 cr

Total B.C
 to be capitalised ₹ 12.184 approx

Total B.C [Int] = 32.5 $\begin{cases} \rightarrow 12.184 - \text{Cap (B.A)} \\ \rightarrow 20.316 \rightarrow \text{PIL (BIF)} \end{cases}$

Note: We deduct idle funds only in case of Specific Borrowing
& Not in case of general Borrowings (i.e. No concept of ^{income on} idle funds in general Borrowings)

why? → In specific we take full for Qualifying period on full amt of loan irrespective of whether it was fully used or not.

∴ Deduct Income from idle funds.

But in case of general Borrowings we compute B.C to be capitalised only for the months the exp was incurred.

Eg: Specific Borrowings + Gen. Borrowing.

01/04/11 → Specific Borrowing → 10% Loan → 30 crores

01/04/11 → Gen. Borrowing → Term loan 12% → 100 crores
→ Bank loan 14% → 75 crores

01/07/11 → Gen. Borrowing → Debenture @ 8% → 125 crores

Utilization of above funds in Qualifying Asset.

01/04/11 → 50 cr → 30 cr → S.B
→ 20 cr → G.B

01/07/11 → 75 cr → G.B

01/01/12 → 25 cr → G.B.

Const. Completed on 31/03/12

Sol^m: Step 1 $\frac{\text{WACC (Cap. Rate)}}{\text{Total Borrowings (Weighted Avg)}}$ = $\frac{\text{Total Int (Weighted Avg)}}{\text{Total Borrowings (Weighted Avg)}}$

exclude S.B
(only for G.B)

$$= \frac{12\text{cr} + 10.5\text{cr} + 7.5\text{cr}}{100\text{cr} + 75\text{cr} + 125\text{cr}} \times 12$$

[125cr x 8% x 9/12]

$$= \frac{29.5\text{cr}}{200\text{cr}} \times 12$$

[125cr x 9/12]

$$= \boxed{11.16\%} \text{ p.a.}$$

Step 2 B.C to be capitalised

A. S.B $\rightarrow 30\text{cr} \times 10\% \times 12/12 = 3\text{cr}$

B. G.B $\rightarrow \frac{50\text{cr}}{20\text{cr}} \times 11.16\% \times 12/12 = 2.23\text{cr}$

$\rightarrow 75\text{cr} \times 11.16\% \times 9/12 = 6.28$

$\rightarrow 25\text{cr} \times 11.16\% \times 3/12 = 0.697$

12.21 \rightarrow Total B.C to be Cap
[Specific + General]

Illus 6

Spec. Borrowing

	Fact 1	ofc Bldg
Int to be capitalised.	90000 (10L x 9% x 12/12)	180000 (20L x 9% x 12/12)
less: Inc on Temp Invst	(17500) (5L x 7% x 6/12) <i>April to Sept they were idle</i>	(35000) (10L x 7% x 6/12)
B-C to be Capitalised	72500	145000
<u>Total Cost of the Asset</u>	10,72,500 (10,00,000 + 72500)	21,45,000 (20,00,000 + 145000)

Illustration 8

Specific Borrowing → 14% Deb (Taken for construction of → Activities Not yet started.
Bldg)

∴ No B-C will be capitalised

General Borrowings → used for const of plant.

Step 1 Cap Rate / wACC = $\frac{\text{Total weighted Avg Int}}{\text{Total weighted Avg Borr}} \times 100$
(Exclude S.B.)

$$= \frac{1000 \times 18\% + 3000 \times 16\%}{1000 + 3000} \times 100$$

$$= \frac{660}{4000} \times 100$$

$$= \boxed{16.5\%}$$

Step ② B.c to be Capitalised

$$01/09/21 \rightarrow SL \times 16.5\% \times 12/12 = 82500$$

$$01/01/22 \rightarrow 2SL \times 16.5\% \times 3/12 = \underline{103125}$$

$$\text{B.c to be Cap.} \quad 185625$$

Illustration 11

$$\begin{aligned} \text{Step ① Cap Rate} &= \frac{1.65L}{15L} \times 100 \\ &= 11\% \end{aligned}$$

Step ② B.c to be Cap

$$01/07/21 = 250000 \times 11\% \times 9/12 = 20625$$

$$\begin{aligned} 01/12/21 \quad 300000 \times 11\% \times 4/12 &= \underline{11000} \\ &\underline{\underline{\text{₹ 31625}}} \end{aligned}$$

Illustration 13 (LOR)

Sp. Borrowing of 2L @ 9%.

Step ① Cap Rate / WACC → G·B

$$= \frac{7L \times 12\% + 9L \times 11\%}{7L + 9L}$$

$$= 11.4375\%$$

Step ② B·c to be cap

April to 31st Jan

Ⓐ Sp. Borrowing = $2L \times 9\% \times \frac{10}{12} = 15,000$

Ⓑ G·B Borrowing

↳ Aug → $150,000 \times 11.4375\% \times \frac{6}{12} = 8,578$

Oct → $350,000 \times 11.4375\% \times \frac{4}{12} = 13,344$

Jan → $100,000 \times 11.4375\% \times \frac{1}{12} = 953$

37,875

J·E to be passed

31/01/18

Bldg A/c Dr 837,875
 To CIB A/c 800,000
 To Int payable A/c 37,875

(8L + 37,875)

Assume
↓
Int is
Payable

OR

Bldg A/c Dr	837,875
To CIB	837,875

Assume Int is
paid.

Illus 14 (LDR)

→ In exam write formula.

$$\text{Step ① Cap Rate / (WACC)} \rightarrow G \cdot B = \frac{10L \times 12.5\% + 15L \times 10\%}{10L + 15L}$$

$$= \boxed{11\%}$$

Step ② B.c to be Capitalised

$$\text{① S.B } (65000 (-) 20000) = 45000$$

$$\text{② G.B} \rightarrow 1^{\text{st}} \text{ April } - 2L \rightarrow \text{S.B}$$

$$30^{\text{th}} \text{ June} \rightarrow 5L \rightarrow \text{S.B}$$

$$\rightarrow 12 \times 11\% \times 9/12 = 8250$$

$$31^{\text{st}} \text{ Dec } - 12L \times 11\% \times 3/12 = 33000$$

$$31^{\text{st}} \text{ March } - 2L \times 11\% \times 0/12 = 0$$

$$\boxed{86250}$$

Illus 16 (LDR) FI + IndAS 23

Step ① C-F [FL]
4r

0 1.8L inflow (2L - 10% Disc)

1-4 (20K p.a) outflow (coupon)

4th yr end (2L) outflow → Princip.

Step ② FV of FL [No relation, No CFI, No level I input] = FV = T-P
 To understand this refer F-I. → Debt ① inflow/outflow

FV of FL = 180000

OFY
 FV = PV of FCF @ EIR
 = 20K x AF of 4 yrs @ 13.39% + 2L x D.F of 4th yr @ 13.39%
 = 180000 approx.

Step ③ EIR = 13.39%

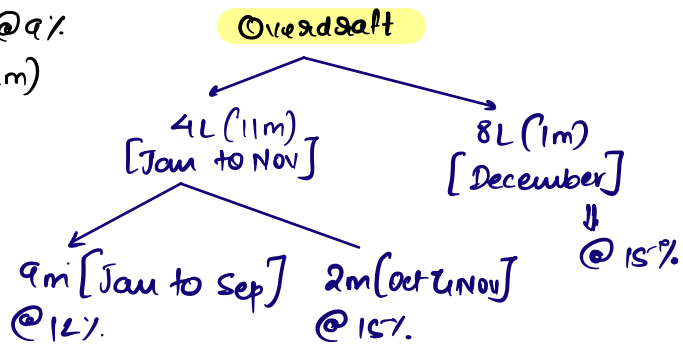
Step ④ LAT (FL) → for 2 yrs → B.C to be cap only for 2 yrs

yr end	Opn	Int @ 13.39%	Repay ^{→ coupon}	Cl
1	180000	24102	(20000)	184102
2	184102	24651	(20000)	188753
		48753		

↓
 B.C. to be capitalised (As per IndAS 23)

Ques 1 (LOR)

OFU Given: Deb - 30L @ 9%
(12m)



$$\text{WACC / Cap. Rate} = \frac{\text{Total Int (Weighted Avg)}}{\text{Total Borrowings (Weighted Avg)}} \rightarrow \text{WACC} = \frac{326000}{3433333}$$

$$= 9.50\% \text{ p.a.}$$

WACC Total Int

(a) Debt

$$\rightarrow 30L \times 9\% \times 12/12 = 270000$$

(b) Overdraft

i) $4L \times 12\% \times 9/12 = 36000$

ii) $4L \times 15\% \times 2/12 = 10000$

iii) $8L \times 15\% \times 1/12 = 10000$

326000

Total Borrowings (Weighted)

(a) Deb

$$30L \times 12/12 = 30L$$

(b) Overdraft

$$4L \times 9/12 = 300000$$

$$4L \times 2/12 = 66667$$

$$8L \times 1/12 = 66667$$

34,33,334

Illus 17 Part A

Step ① Cap Rate = $\frac{68.20}{620L} = 11\%$

Step ② B.C to be Cap

Plant & Equipⁿ Just = $510L \times 11\% = 56.10$

Adv for Addⁿ Asset = $54L \times 11\% = 5.94$

Introsking Cap (Not a Quality^g Asset) -

B.C to be Cap 62.04.

B.C (Trf to P/L)

W.C → $56L \times 11\%$

6.16 → Trf to P/L.

Part B → Construction period = 11m → Not a Q.A
↓
Refer Q.B for solⁿ:

Illus 15 (LDR)

A- Real Estate Comp^s

$$\text{Specific Borrowing} = 10,00,000 \times 7\% = \boxed{70000} \rightarrow \text{Capitalize.}$$

Exp incurred was 15,40,000 But since loan was taken only for ₹10L.
∴ Int on ₹10L will be capitalised.

B. Construction Co.

Exp Incurred on G.A = ₹10,00,000

But since No Borrowing was taken ∴ No Int will be cap.

C. Finance Co.

Borrowing taken = 20,00,000 @ 7%.

But did Not use the Borrowing for G.A ∴ No Int will be capitalised.

Jump

D. Parent Co. (Group as a whole)

Borrowings 10L @ 7% } WACC / Cap. Rate = 7%. [Total Borrowing 30L]
20L @ 7% }

Exp on Qualifying Asset

$$1. \cancel{1540000} \quad 14,00,000 \times 7\% \times \frac{12}{12} = 98000$$

(1540000 includes 10% margin ∴ 1540000 - 110% }
1400000 → 100% }

$$2. 10,00,000 \times 7\% \times \frac{12}{12} = \underline{70,000}$$

Total B.C Cap. 168000

Exchange loss on foreign loan

Eg: ABC Ltd (Indian Co.) → loan taken for Q.A = \$10,000 (US Bank) @ 5% p.a. on 01/04/11. Similar loan in India is provided @ 12% p.a.

Exchange Rate on 01/04/11 = ₹70/\$

————— 31/3/12 = ₹75/\$

Solⁿ: Loan on 01/04/11 = \$10000

Int @ 5% on 4rend = \$500

~~(x) ₹70/\$~~

(x) ₹75/\$

₹ 37800

→ Capitalised

$$\begin{aligned} \text{Prinip. Amt} = \text{Ex loss on 4rend} &= (\text{₹70}/\$ - \text{₹75}/\$) \times \$10000 \\ &= \text{₹50,000 (Ex loss)} \end{aligned}$$

Max loss that can be capitalised

3500 (Bal Ex loss)
↓
PIL

Ⓐ Int on Equivalent loan from

India = \$10000 × ₹70/\$

= 7,00,000 × 12% = 84000 → Ⓐ

Ⓑ Int on Foreign loan = $\frac{57500}{46500}$ → Ⓑ

(Already Cap allowed)

Max Ex loss
Cap.

Total Cap

Int = 37500

Ex loss = 46500

84000

Note: In Exch Gain (Instead of loss in 4r1) → Ex Gain - Int to PIL

Illus 5 (Refer Q.B.)

Solved Eg1 (LOR) → 4% end 31.03.22

i) Int on Foreign loan = $\$1000 \times 4\% \times \text{₹}50/\$ = \boxed{\text{₹}2000} \rightarrow \text{Cap (Add to cost of Asset)}$

ii) Ex loss = $\text{₹}10000 (\text{₹}40/\$ - \text{₹}50/\$) \times \$1000$

Max Ex loss that can be cap

Int in Indian loan = $4800 (40000 \times 12\%)$

Int in foreign loan = $\underline{\text{₹}2000}$

Max Ex loss Cap $\text{₹}2800 \rightarrow \text{Cap.}$

Bal Ex loss = $\text{₹}2000$ (B/L)

↓
P/L

Total Cap	
Int	= 2000
Ex loss	= 2800
	<u>4800</u>

Case A: Ex Rate on 31/03/23 = $\text{₹}48/\$$

i) Int on foreign loan = $\$1000 \times \text{₹}48/\$ \times 4\% = \boxed{1920} \rightarrow \text{Cap.}$

ii) Ex Gain = $\$1000 (\text{₹}50/\$ - \text{₹}48/\$)$

= $\boxed{\text{₹}2000}$

To the extent of Ex Prev loss Capitalised, $\rightarrow \text{₹}2800$

we will deduct this Ex Gain from cost of asset.

i.e. Reverse Capitalisation.

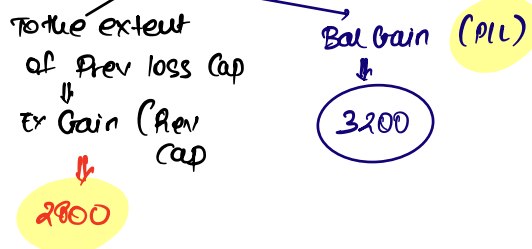
In this case full $\text{₹}2000$ will be Reverse Cap.

Case B: If exchange Rate was £44/\$ on 31/03/13

40 ^{100%} → 50 } Ex Gain.
44.

(a) Int on foreign loan = \$1000 × 4% × £44/\$ = £1760 → Cap.

(b) Ex Gain = \$1000 × (£50/\$ - £44/\$)
= £6000



Jump

Case c: If exchange Rate was £44/\$ & \$600 Borrowings repaid, i.e. only \$400 Principals

(a) Int on foreign loan = \$400 × 4% × £44/\$ = £704 → Cap

(b) Ex Gain = ~~\$1000~~ \$400 (£50/\$ - £44/\$)
= £2400

Equivalent portion of Ex. loss

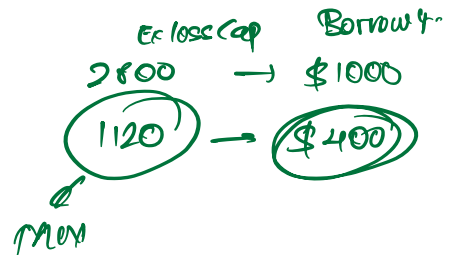
(BIF) £1280 → PIL (Ex Gain)

= $\frac{2800}{1000} \times \400

\$1120

= £1120

↓
Max Gain - Reverse Cap.



Question 2 (COR)

Step ① C.A / WACC = 11%

Step ② B.C to be capitalised (Const Period = 1st Sept to 31st March = 7m)

1 st day	Based on Cost Accrued
↓	
Sept	$1.5 \text{ cr} \times 11\% \times \frac{7}{12} = 9,62,500$
Oct	$0.5 \text{ cr} \times 11\% \times \frac{6}{12} = 2,75,000$
Nov	$1.5 \text{ cr} \times 11\% \times \frac{5}{12} = 6,87,500$
Dec	$0.5 \text{ cr} \times 11\% \times \frac{4}{12} = 1,83,333$
Jan	$1.8 \text{ cr} \times 11\% \times \frac{3}{12} = 4,95,000$
Feb	$0.7 \text{ cr} \times 11\% \times \frac{2}{12} = 1,28,333$
March	$3 \text{ cr} \times 11\% \times \frac{1}{12} = 2,75,000$
	<u>B.C cap (As per Acc) 30,06,667</u>

	Based on Advance Paid.
Sept	$3 \text{ cr} \times 11\% \times \frac{7}{12} = 9,25,000$
Oct	$1.7 \text{ cr} \times 11\% \times \frac{6}{12} = 9,35,000$
Nov	$2.5 \text{ cr} \times 11\% \times \frac{5}{12} = 11,45,833$
Dec	-
Jan	$1 \text{ cr} \times 11\% \times \frac{3}{12} = 2,75,000$
Feb	-
Mar	$1.5 \text{ cr} \times 11\% \times \frac{1}{12} = 1,37,500$
	<u>B.C Cap (As per Adv) 44,18,333</u>

↓
This is more appropriate

Reason: OB highlight

Ques 3 (WOR)

Exp Incurred Total = 221 lakhs

loan taken @ 15% = 200 lakhs

Total Interest Incurred = **30L** ^{full 4r} (200L x 15%)

Phase I & II

Cost Incurred = 34L + 64L
= 98L

Phase III & IV

55L + 68L
= 123L

Int for Phase I & II = $30L \times \frac{98L}{221}$

Int for Phase III & IV = $30L \times \frac{123L}{221L}$

= 13,30,317 (full 12m)

= 16,69,683 (full 12m)
↓
full cap

Ready in 6m (mid of tue 4r)

665158
↓
Cap.

6m (Bal)

665159
↓
PIL.