Focus more on Ques

Ind AS 23 – Borrowing Costs

1. Scope
2. Definition
3. Treatment of Borrowing costs
4. Borrowing Cost eligible for Capitalisation
   - Specific Borrowings
   - General Borrowings
5. Period of Capitalisation
6. Exchange Diff to be treated as Borrowing Cost
7. Other Relevant Concepts

Ind AS 23 - Borrowing costs

eg: Loan taken ⟶ Pay Int → Borrowing costs

- coupon ✗
- EIR ✓ (Int, Disc, Prem, Tr. Cost)

Borrowing Cost

- Incurred on a qualifying asset → Capitalise Borrowing cost → Add to the cost of asset
- Not incurred on qualifying asset → B.C → P/L

* Qualifying Asset → Asset which takes substantial period of time (Ind AS - Judgement) to get ready for its intended use or sale.

Examples

I] Specific Borrowings

Eg ① loan taken on 01/04/x1 of ₹100 crores @ 12% for 12 months.
loan was taken for construction of a Bldg which commenced on 01/04/x1 & was completed on 31/03/x2.
The Comp^y invested idle funds & earns ₹0.5 crores.
Calculate Borrowing cost to be capitalised.

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

(-) Income from Temp. Invst (0.5 crores)

Borrowing cost to be Cap. 11.5 crores → Add to cost of asset.

Eg 2 : Assume in the above example, the construction of the Bldg was completed within 9m (Assume this is Substantial Period)
Also assume 0.5 crores income on Temp Invst was earned during this 9m only

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

(-) Income from Temp Invst = (0.5cr)

B.C. to be capitalised 8.5cr

Bal 3m Jul → P/L

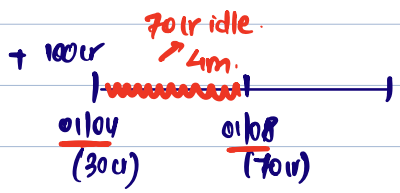
Eg 3 Specific Borrowing

loan taken on 01/04/X1 of ₹ 100 crores @ 12% p.a. for 12 months

Funds utilization is given below:

01/04/X1 → 30 cr

01/08/X1 → 70 cr.



Idle funds were invested @ 7% p.a.

loan taken for construction of Bldg which took 12 months

Calculate B.C. to be capitalised.

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

less: Income from Temp Invst = (1.63 cr)

$\left(70\text{cr} \times 7\% \times \frac{4}{12}\right)$

B.C Cost to be Cap. 10.37 cr

Illus 6	Fan's (10L)	office (20L)
Sp. Borrowing		
Int to be capitalised	90,000 (10L × 9% × 12/12)	180000 (20L × 9% × 12/12)
Less: Income from Temp Invst	(17500)	(35000)
SL idle (Apr to 30 sept)	(5L × 7% × 6/12)	Apr to 30 sep. Idle (10L × 7% × 6/12)
B.C to be Cap.	72500	145000
Total Cost of Asset	1072500 (10L + 72500)	21,45,000 (20L + 145000)

Eg 4. General Borrowing

			₹
On	01/04/X1 →	Term loan @ 12% →	100 cr
		Bank loan @ 14% →	75 cr
		Debentures @ 8% →	125 cr
			300 cr

Funds utilized for construction of Bldg → [construction started on 01/04/X1 completed on 31/03/X2]

01/04/X1 → 50 crores

01/07/X1 → 75 crores

01/01/X2 → 25 crores.

Compute B.C to be capitalised.

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

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

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

= 10.83% p.a. → Mean lena that we have single loan of 300 cr @ 10.83% p.a.

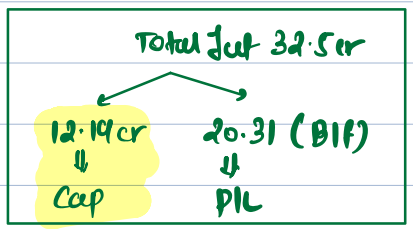
Step 2 : Borr. Cost to be capitalised

01/04/X1 ⟶ 50 cr × 10.83% × 12/12 = 5.42 cr

01/07/X1 ⟶ 75 cr × 10.83% × 9/12 = 6.09 cr

01/01/X2 ⟶ 25 cr × 10.83% × 3/12 = 0.68 cr

Total B.C to be cap. — 12.19 cr approx



Note: We deduct idle funds Income only in case of specific Borrowing & not in case of general Borrowing (i.e. No concept of idle funds income in gen Borr)

↓ why?

In specific Borrowing we take Int on full Amt of loan irrespective of whether it was fully used or not.

∴ Deduct Income from idle funds

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

Eg: Specific Borrowing + General Borrowing

01/04/X1 → Specific Borrowing → 10% loan – 30 crores

01/04/X1 → General Borrowing → Term loan @ 12% → 100 crores
→ Bank loan @ 14% → 75 crores

01/07/X1 → General Borrowing → Deb. 8% → 125 crores

Utilization of funds in Qualifying Asset

01/04/X1 → 50 cr → 30 cr → S.B
→ 20 cr → G.B

01/07/X1 → 75 cr → G.B.

01/01/X2 → 25 cr. → G.B

Const completed on 31/3/X2. Calculated B.C to be capitalized.

Soln: Step ① Capitalization Rate / WACC = Total Int (weighted Avg) / Total Borrowings (weighted Avg)
(Exclude S.B)

(125 cr × 8% × 9/12)

= 12 cr + 10.5 cr + 7.5 cr / 100 cr + 75 cr + ~~125 cr~~ 93.75 cr

(125 cr × 9/12)

= 11.16% p.a

Step ② Cal^n of B.C to be Cap

A. S.B. → 30cr x 10% x 12/12 = 3cr

B. G.B →

01.04.X1 50cr → 30cr → S.B
→ 20cr x 11.16% x 12/12 = 2.23cr

01.07.X1 75cr x 11.16% x 9/12 = 6.28 cr

01.01.X2 25cr x 11.16% x 3/12 = 0.70 cr

12.21 cr approx Total B.C to be Cap. (S.B + G.B)

Illus 8

i) Sp. Borrowing → 14% Deb (taken for ofc Bldg → Activities not yet started)

∴ No B.C. will be cap for Sp. Borr.

ii) General Borrowings → used for const of Plant

Step ① Cap Rate / WACC (exclude S.B.) = Total weighted Avg Int / Total weighted Avg Borrowings

= 180 + 480 / 1000 + 3000 x 100 = 16.5%

Step ② B.C to be Cap

01|04|X1 → 5L x 16.5% x 12/12 = 82500

01|01|X2 → 25L x 16.5% x 3/12 = 103125

185625

Illus 13 (LDR)

Const period : 01/04/17 to 31/01/18 = 10m

Step ① Cap. Rate / WACC = Total weighted Avg Int / Total weighted Avg Borrowings
(exclude S.B.)

= (7L × 12% + 9L × 11%) / (7L + 9L) = 11.4375% (or) 11.44% p.a.
p.a

Step ② B.C to be Cap

ⓐ S.B = 2L × 9% × 10m/12m (Const Period) = 15000

ⓑ G.B.

01/04/17 → 1.5L → S.B

01/08/17 → 50K → S.B
→ 150000 × 11.4375% × 6/12 (1/08/17 to 31/01/18) = 8578

01/10/17 350000 × 11.4375% × 4/12 = 13344

01/01/18 100000 × 11.4375% × 1/12 = 953

B.C to be Cap 37875

J.E (for capitalising cost u B C)

31/01/18 (Assume Int is payable)

Bldg A/c Dr 837875
To CB 800000
To Int Payable 37875

(OR)

Bldg A/c Dr 837875
To CB 837875
(Assume Int is paid)

Illus 14 (LDR)

Step ① Cap. Rate = $\frac{10L \times 12.5\% + 15L \times 10\%}{10L + 15L}$

= 11% p.a.

Step ② B.C to be capitalised

ⓐ S.B (65000 - 20000) = 45000

ⓑ G.B 1st April – 2L → S.B

30th June → 5L → S.B

→ 100000 × 11% × 9/12 = 8250

31st Dec → 1200000 × 11% × 3/12 = 33000

31st March → 200000 × 11% × 0/12 = Nil

B.C to be Cap 86250

Illus 16 (LOR)

Step ① Cash flows

10% DISC

0 200000 - 20000 = 180000 (net inflow)

1-4 (20k p.a.) outflow (coupon @ 10%)

4th yr end (2L) outflow (Princ)

Day ① inflow / outflow

Step 2 Fair value of FL < FV = T.P (Assume) / Compute FV = PV of FCF @ EIR (Relation, CFI, level 1 input) ✗

F.V of FL (Bonds) = 180000

Step ③ EIR = 13.39%

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

Yr end	Opn	Int @ 13.39%	Repay	CL
1	180000	24102	(20000)	184102
2	184102	24651	(20000)	188753
		48753		

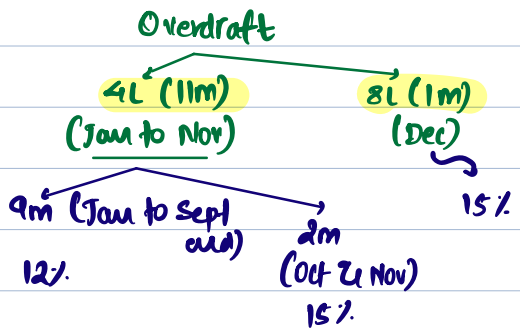
B.C to be cap (as per Ind AS 23)

Ques 1 (LDR)

Assumption: Dec yr end, loan was o/s for full 12 months i.e. loan was taken on 1st Jan.

Note: Const period = 4m (in current year) → But it is not relevant to calculate Cap. Rate. Const period is relevant in step ② (B.C to be cap), but it is not asked in the ques.

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



Cap. Rate / WACC = Total Jut (weighted Avg) (WN1) / Total Borrowings (weighted Avg) (WN2)

= 326000 / 3433334 × 100 = 9.50% approx.

WN 1 Total Jut

ⓐ Deb

30L × 9% × 12/12 = 270000

ⓑ Overdraft

4L × 12% × 9/12 = 36000

4L × 15% × 2/12 = 10000

8L × 15% × 1/12 = 10000

326000

WN ② Total Borrowings

ⓐ Deb

30L × 12/12 = 30L

ⓑ Overdraft

4L × 9/12 = 300000

4L × 2/12 = 66667

8L × 1/12 = 66667

34,33,334

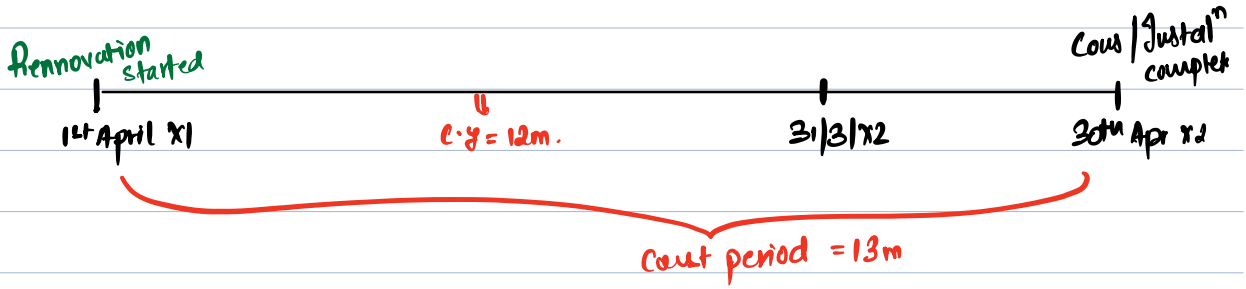
Illus 17 (COP)

OFY

Const period = 13m → C.Y. (12m) ✓
→ Next Yr (1m) ✗

B.C to be cap ⇒ C.Y.

620L loan
- 510 → PYM Q.A ✓
- 54 → Addn Asset → Q.A ✓
- 56 → work cap → Q.A ✗



Part A : Const period (13 m) (C.Y=12m) Q.A ✓

Step ① Cap Rate = $\frac{68.20L}{620L} \times 100$

= 11%

Step ② B.C to be cap

Plant & Mach^y	= 510L x 11% x 12/12 =	56.10L ✓
Adv for Addn Assets	= 54L x 11% x 12/12 =	5.94L
Works Cap (Not a Q.A)		—
B.C to be Cap.		62.04L

ICAI

PYM

$68.20L \times \frac{510L}{620L} = 56.10$

$68.20 \times \frac{54}{620} = 5.94$

B.C trf to PIL

WC → 56L x 11% x 12/12 = 6.16L

Note: Adv Paid was ₹54L . we calculate B.C when exp on Q.A is paid (Not accrued) i.e. we will consider cash Basis & not accrual Basis for exp on Q.A.

Part (B) Const period = 11m

In this ques management considers 12m to be substantial.

∴ It will not be a Q.A & full Jut will be trf P/L.

Ques 2 (LDR)

Step① Cap Rate / WACC = 11%

Step② B.C to be capitalised (Const period = 1st Sept 'x1 to 31/03/x2) = 7m

B.C Based on Cost Accrued

Sept	= 1.5cr x 11% x 7m/12m =	962500
Oct	= 0.5cr x 11% x 6m/12m =	275000
Nov	= 1.5cr x 11% x 5m/12m =	687500
Dec	= 0.5cr x 11% x 4m/12m =	183333
Jan	= 1.9cr x 11% x 3/12m =	495000
Feb	= 0.7cr x 11% x 2/12m =	128333
Mar	= 3cr x 11% x 1/12m =	275000
	B.C cap (As per Accr)	30,06,667
		0.30 cr

B.C. Based on cash outflows (Adv Paid)

Sept	= 3cr x 11% x 7m/12m =	1925000
Oct	= 1.7cr x 11% x 6/12m =	935000
Nov	= 2.5 x 11% x 5m/12m =	1145833
Dec	= –	
Jan	= 1 x 11% x 3/12m =	225000
Feb	= –	
Mar	= 1.5cr x 11% x 1/12 =	137500
		44,18,333
		0.44 cr.

B.C cap Based on cash outflows Basis is more appropriate

↓

Refer Q.B. (for Reason)

Extra Note

B.C cap should not exceed the total Amt of Int.

Illus 15 (LOR)

A. Real Estate Company

Specific Borrowing = 10,00,000 x 7% = 70000 → Capitalise.

Exp incurred was ₹15,40,000 but since loan was taken only for ₹10,00,000

∴ Int on ₹10,00,000 will be capitalised.

B. Construction Company

Exp incurred on Q.A. = ₹10,00,000

But since no Borrowing was taken ∴ No Int will be capitalised.

C. Finance Co.

Borrowing taken = 20,00,000 @7%

But finance Co. did not use the Borrowing for Q.A. ∴ No Int will be Cap.

D. Parent Co. (Group as a whole)

Borrowings 10L @7%, 20L @7% } WACC / Cap. Rate = 7% (Total Borrowings 30L)

Exp on Q.A

1. ~~1540000~~ 14,00,000 x 7% x 12/12 = 98000

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

2. 10,00,000 × 7% × 12/12 = 70000

Total B.C Cap 168000

In CFS

We take Borrowings in whole Group & we also consider Exp on Q.A as a whole group (excluding any inter Co. Profit margin)

Individually some exp on Q.A might be self funded by Co. But still from groups point of view, if we have Borrowings, we will assume that Exp on Q.A was funded by Borrowings.

* **Period of Cap**

i] **Commencement**

(a) Exp incurr

(b) Activity starts (Planning, Paper / legal work)

c) B.C incurr

↓

All to be met

ii] **Suspend**

eg① Const start 01/04/X1

01/Nov/11 to 30/Nov/X1 → Strike → 1m → Cap Susp

Const end 31/03/X2

11m - B.C Cap.

eg ② Cons start 01/04/X1 (Bridge)

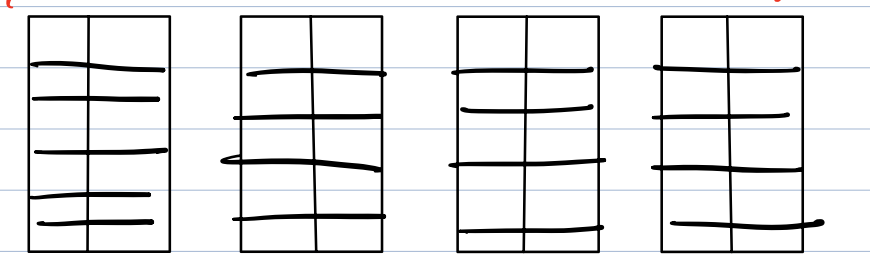
01/Nov/11 to 30/Nov/X1 → (Bridge sukhne ko rakha tha) → Cap ~~Suspend~~ ⇓ Part of your const.

Const complete 31/03/X2

} 12m → B.C Cap.

3] Cessation

Tower (Complex) Combined Borrowing taken



9m complete. ⇓

Still work in progress after 9m.

✗ option ① Cap should continue for All 4 Bldgs even after 9m ✗

✓ option ② Bldg A & B → Cap stop after 9m

Bldg C & D → ⇓ Cap continue after 9m ✓

Ques 3 (LOR)

Total Exp incurred (All 4 phases) = 221 lakhs

Loan taken @ 15% = 200 lakhs

Total Interest Incurred = 30,00,000 (full year) (200L × 15%)

Phase I & II	Phase III & IV
Cost incurred = 34L + 64L = 98L	Cost incurred = 55L + 68L = 123L
Int for Phase I & II = $30L \times \frac{98L}{221L}$	Int for Phase III & IV = $30L \times \frac{123L}{221L}$
= 13,30,317 (full yr)	= 16,69,683 (full yr)
	⇓ full cap.

13,30,317 (full yr)

- Ready in 6m (mid of the yr) ⇓ → 665158.5 ⇓ → Cap.
- 6m (Bal) ⇓ → 665158.5 ⇓ → PIL

Total Int Cap = 665158.5 + 16,69,683

= 2334841.5

Total Int (Trf to PIL) = 665158.5

Ques 4 (LDR)

B.C to be Capitalised

1] For the year ended 31/03/X1

B.C cap → NIL

(There were no Borrowings taken during this year ∴ No B.C to be cap)

2] For the year ended 31/03/X2

1] 5crores → 01/01/X1 to 30/06/X1 → B.C Cap NIL

→ 01/07/X1 to 31/03/X2 → (9m): 5cr x 10% x 9/12 = 0.375

2] 20 crores → 01/07/X1 to 31/03/X2 (9m) = 20cr x 10% x 9/12 = 1.5

3] 20 crores → Exp incurred on 31/03/X2 (last day of the year) = 20cr x 10% x 0/12 = -

B.C to be cap (for the yr ended 31/3/X2) 1.875

3] For the year ended 31/03/X3 (Asset was ready on 30/06/X2 ∴ cease cap)

CA of asset (WIP) on 01/04/X2 45 + 1.875 = 46.875

46.875 (01/04/X2 to 30/06/X2) = 46.875 x 10% x 3m/12m = 1.17

5cr (30/06/X2) → since on this day, asset is ready, cap ceases = 0

(5cr x 10% x 0/12)

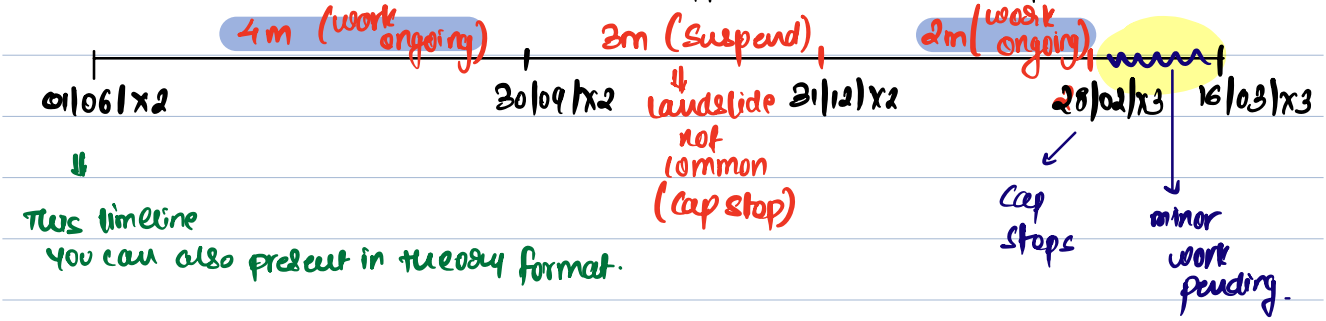
B.C to be cap (31/3/X3) 1.17

Imp

In the above ques, it was noted that for the qr 31/03/x3, when we compute B.C to be Cap, we will take benefit of B.C cap on Exp incurred in x1-x2 (ft) B.C cap of x1-x2. → Permitted by Ind AS 23

Ques 5

i) Landslide not common, District Approval is minor work pending.

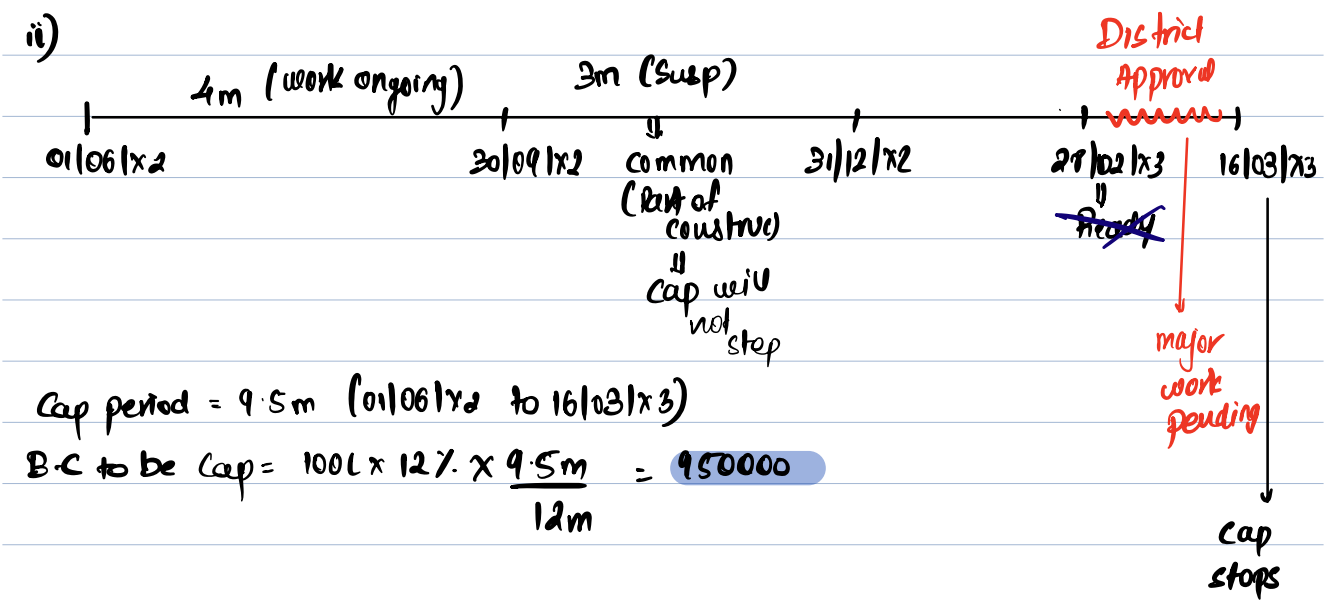


This timeline you can also present in theory format.

Cap period = 6m

B.C Cap = 100L x 12% x 6/12 = 6,00,000

ii)



Cap period = 9.5m (01/06/x2 to 16/03/x3)

B.C to be Cap = 100L x 12% x 9.5m/12m = 950000

* Exchange Diff to be treated as Borrowing costs

Eg: AK Vishvals (Indian Co.) → loan taken for a Q.A = $10000 (vs Bank) @ 5% p.a. on 01/04/X1.

Similar loan in India is provided @ 12% p.a.

Exchange rate on 01/04/X1 = ₹70/$

on 31/03/X2 = ₹75/$

Soln: loan on 01/04/X1 = $10000

Int @ 5% on Yr end = $500

~~× ₹70/$~~

× ₹75/$

₹ 37500 → Capitalise

Princ. Amt = Ex loss on Yr end = (₹70/$ - ₹75/$) × $10000

= ₹50,000 (Ex loss)

Max loss that can be cap = 46500

Bal (P/L) → Ex loss 3500

(a) Int on equivalent loan from India

$10000 × ₹70/$ = 7,00,000 × 12% = 84000 → (A)

(b) Int on foreign loan (Already cap allowed) 37500 → (B)

Max loss that can be cap 46500 (A - B)

Total B.C Cap = 37500 + 46500 = 84000

Illus 5 → Refer Q.B

Solved Example (LDR)

4 and 31.03.X2

(a) Jul on foreign loan : $1000 × 4% × ₹50/$ = ₹2000 → Capitalise
(Add to the cost of asset)

(b) Exchange loss = ₹10,000 [(₹40/$ - ₹50/$) × $1000]

Max loss that can be capitalised		Bal Ex loss (PIL)
1) Jul on Indian loan =	4800 (40000 × 12%)	7200
2) Jul on foreign loan =	(2000)	↓
Max Ex loss Cap.	2800	PIL

Total Cap
Jul = 2000
Ex loss = 2800
4800

Case A: Exchange Rate on 31/3/X3 = ₹48/$

[40 → 50 → 48]
loss 31/3/X2 ↓ 31/3/X3
Gain

(a) Jul on foreign loan = $1000 × 4% × ₹48/$ = ₹1920 → Capitalize.

(b) Ex Gain $1000 (₹50/$ - ₹48/$)

= ₹2000

⇓

~~P&L~~

to the extent of Prev Exch loss capitalised (i.e. ₹2800),

we will deduct this Exch gain from cost of asset i.e. Reversal of capitalisation.

∴ In this case full ₹2000 will be Reverse Cap. (i.e. less from the cost of asset)

Case B: If exchange rate was ₹44/$ on 31/3/x3 [40 → 50 → 44; 50 ⇓ 31/3/x2; 44 ⇓ 31/3/x3]

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

(b) Ex Gain = $1000 × (₹50/$ - ₹44/$)

=₹6000

To the extent of Prev loss Cap ⇓ Ex Gain (Reversal of cap) i.e. less from cost of asset ⇓ ₹2800

Bal Gain (PIL) ⇓ ₹3200

Case C: If exchange was ₹44/$ & $600 Borrowings repaid last yr.

i.e. only $400 Prin. o/s (x2-x3)

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

(b) Ex Gain = ~~$1000~~ $400 (₹50/$ - ₹44/$)

= ₹2400

Equivalent portion of exchange loss

= ₹2800 → $1000

₹1120 ? $400

= ₹1120

Max Gain → Revenue Cap.

Bal Gain 1280 (PIL)

OFY

Eg ① 1st yr Ex loss = ₹5000 → Cap

2nd yr Ex Gain = ₹7000 → ₹5000 → Rev Cap

₹2000 → PIL

Eg ② 1st yr Ex Gain = ₹4000 → PIL

Sat & Sun → off → ~~Test~~

Monday aana = Ind AS 19 -