

LOAD

P2L but in some case capitalise

Debn issue
FV 100 TP 95 Disc. ₹5

Debn Redeem
FV 100 Redeem ₹102 Prem. ₹2

LOSS on TTD ₹7

AS 2 → Inventory → Ready to sale → substantial period Ex:- wine
 purchase → for sale
 produce → for sale
 purchase → for consumption
 in process of production
 ↓
 GA

Loan → Reliance ES / Debn
 Invest → QA x
 CA RISHABH ROHRA

Investment → Property
 AS 13
 cost → AS 10
 AS 16 Borrowing cost capitalisation → If QA

Borrowing cost ka

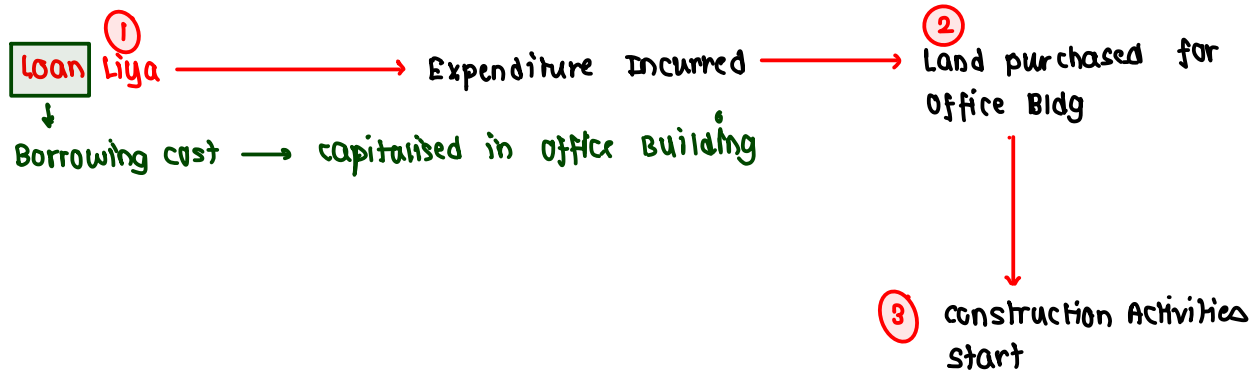


COMMENCEMENT OF CAPITALISATION

When all these conditions are satisfied:

kab start honga i.e kab mein use asset + kono start karunga

- ② a) Expenditure incurred on Acquisition, construction or Production of Qualifying Asset
- ① b) Borrowing costs incurred
- ③ c) Activities are in Progress Related to



RRg Edtech Pvt. Ltd. ———— Invest ————> GRR Infra Pvt. Ltd.
 Loan Liya ₹50 cr
 Bank Dr. 50 cr
 To Loan 50 cr

I utilise
 Construction of Office Bldg
 QA ✓

Int. Acc Dr. 5 cr
 To Bank Acc 5 cr

P&L Acc Dr. 5 cr
 To Int Acc 5 cr

RRg Loan ✓
 Invest ✓
 Expenditure x
 ∴ cannot capitalise



TYPES OF ELIGIBLE BORROWING COSTS

Borrowing Costs eligible for Capitalisation:

- 8.5cr a) Specific Borrowing Costs [Actual Borrowing Cost – Interest from Temporary Investment]
 b) General Borrowing Costs 8.75cr c) 0.25cr

STEPS FOR CAPITALISATION

capitalisation Rate / WACC

Step 1: Compute Weighted Average Expenditure [Expenditure x Period]

Step 2: Compute Average Interest rate (capitalization Rate) for other than Specific Borrowings [In case of more than one General Borrowings]

Step 3: Compute amount to be capitalized

- a) Use Specific borrowing first [Expenditure on specific borrowings x Interest rate]
 b) Use General Borrowings for balance [Balance Expenditure x Capitalization rate]

Notes:

- ✓ Amount capitalized cannot exceed Borrowing Costs
- ✓ Apply Different rates for all specific borrowings
- ✓ Apply Single rate for General Borrowing

Computation of Total Cost of Asset

Cost of Asset	-
Add: Interest to be capitalized as per AS 16	-
Total cost of Asset	-

Example :- specific Borrowing

VCgurukul Office Bldg construct → QA ✓ FD → 6% p.a. = Int Recd. for 1m 0.25cr

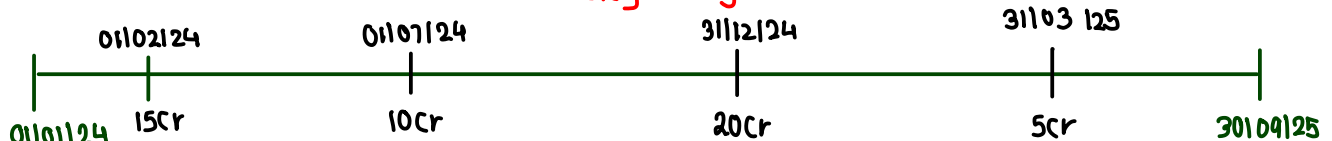
↳ Loan ₹50cr @10% p.a. taken on 01/01/24

↳ full amount was Repaid on 30/09/25

Date	Amt. of Expenditure	
01/02/24	15cr	01/02/24 → 30/06/25 = 17 month
01/07/24	10cr	01/07/24 → 30/06/25 = 12 month
31/12/24	20cr	31/12/24 → 30/06/25 = 6 month
31/03/25	5cr	31/03/25 → 30/06/25 = 3 month

30/06/25

→ Bldg Ready to use



Total Interest = 50 cr x $\frac{10\%}{12}$ x 21 i.e. 8.75 cr

c) Income on Temporary investment 0.25cr
 8.50 cr

f) Capitalise [Office Bldg cost +] 4.25 cr

P&L (Bldg) 4.25 cr

15cr x $\frac{10\%}{12}$ x 17 → 2.125

10cr x $\frac{10\%}{12}$ x 12 → 1

20cr x $\frac{10\%}{12}$ x 6 → 1

5cr x $\frac{10\%}{12}$ x 3 → 0.125 4.250

KAISE HOH RAJA ! ALL WELL & SET

Example 2 1- General Borrowing

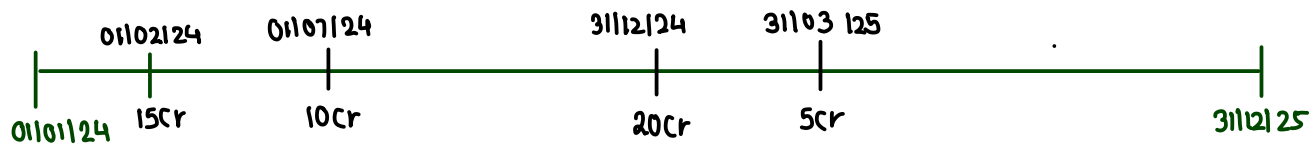
Took Total 150cr Loan on 01/01/24
 Repay x

→ HDFC 75cr @ 10% p.a.
 → Axis 25cr @ 11% p.a.
 → ICICI 50cr @ 12% p.a.

Bank A/c Dr. 150
 TO Loan from HDFC 75
 TO " " Axis 25
 TO " " ICICI 50

Construction of office Bldg 50cr

Date	Amt. of Expenditure	
01/02/24	15cr	01/02/24 → 30/06/25 = 17 month
01/07/24	10cr	01/07/24 → 30/06/25 = 12 month
31/12/24	20cr	31/12/24 → 30/06/25 = 6 month
31/03/25	5cr	31/03/25 → 30/06/25 = 3 month
30/06/25		→ Bldg Ready to use



Total Interest → 75cr x 10% / 12 x 24 → 15cr
 25cr x 11% / 12 x 24 → 5.5cr
 50cr x 12% / 12 x 24 → 12cr
32.5cr

$$WACR = \frac{32.5 \text{ cr}}{2} \text{ i.e. } \frac{16.25 \text{ cr} \times 100}{150 \text{ cr}} \text{ i.e. } 10.83\% \text{ p.a.}$$

E) Borrowing cost to be capitalised → 4.6
 P&L A/c 27.9cr

$$\begin{aligned}
 15 \text{ cr} \times 10.83\% / 12 \times 17 &\rightarrow 2.301375 \\
 10 \text{ cr} \times 10.83\% / 12 \times 12 &\rightarrow 1.083 \\
 20 \text{ cr} \times 10.83\% / 12 \times 6 &\rightarrow 1.083 \\
 5 \text{ cr} \times 10.83\% / 12 \times 3 &\rightarrow 0.135375 \\
 \hline
 &4.60275 \\
 &\approx 4.60
 \end{aligned}$$

Example 3 1- General Borrowing

Took Total 150cr Loan on 01/01/24
 Repay x

→ HDFC 75cr @ 10% p.a.
 → Axis 25cr @ 11% p.a.
 → ICICI 50cr @ 12% p.a. [30/09/24]

Bank A/c Dr. 150
 TO Loan from HDFC 75
 TO " " Axis 25
 TO " " ICICI 50

Construction of office Bldg 45cr

Date	Amt. of Expenditure	
01/02/24	15cr	01/02/24 → 31/12/24 11m
01/07/24	10cr	01/07/24 → 31/12/24 6m
30/09/24	20cr	30/09/24 → 31/12/24 3m
		→ 31/12/24 Ready to use

Total Interest 75cr x 10% / 12 x 12 → 7.5cr
 25cr x 11% / 12 x 12 → 2.75cr
 50cr x 12% / 12 x 3 → 1.5cr
11.75cr

$$WACR = \frac{11.75}{75 + 25 + [50 \times 3/12]} = \frac{11.75}{112.5} \times 100 \text{ i.e. } 10.44\%$$

F) Borrowing cost capitalised 2.48cr
 P&L A/c 9.27

KAISE HOH RAJA ! ALL WELL & SET

$$\begin{aligned}
 15 \text{ cr} \times 10.44\% / 12 \times 11 &\rightarrow 1.4355 \\
 10 \text{ cr} \times 10.44\% / 12 \times 6 &\rightarrow 0.522 \\
 20 \text{ cr} \times 10.44\% / 12 \times 3 &\rightarrow 0.522 \\
 \hline
 &2.4795
 \end{aligned}$$



Illustration 2

New Building construction 01/01/21 → start

specification	Loan	₹	01/01/21	at interest Rate	10%.
general	Loan 1	₹ 5,00,000	Op. 01s	11-	11%.
	2	₹ 9,00,000	Op. 01s	11-	13%.

Date of Expenditure	Date of completion	month	Amount	specific Loan	general Loan
01/01/21	31/12/21	12m	2,00,000	1,00,000	1,00,000
01/04/21	31/12/21	9m	2,50,000	-	2,50,000
01/07/21	31/12/21	6m	4,50,000	-	4,50,000
01/12/21	31/12/21	1m	1,20,000	-	1,20,000
			<u>10,20,000</u>		

Cal. of Amount to be capitalised

specific Loan → $1,00,000 \times 10\% \times 12/12$ → ₹ 10,000

general Loan → $1,00,000 \times 12.29\% / 12 \times 12$ i.e 12,290
 $100000 \times 12/12 = 100000$ $2,50,000 \times 12.29\% / 12 \times 9$ i.e 23,043.75
 $250000 \times 9/12 = 187500$ $4,50,000 \times 12.29\% / 12 \times 6$ i.e 27,652.50
 $450000 \times 6/12 = 225000$ $1,20,000 \times 12.29\% / 12 \times 1$ i.e 1,229
 $120000 \times 1/12 = 10000$ $522500 \times 12.29\%$ → 64,215.25

capitalise 74,215.25

Building A/c Dr. 10,20,000 → Building A/c Dr. 74,215.25
 Borrowing cost A/c Dr. 182,000 → P&L A/c Dr. 1,07,784.75
 ↓ To Bank A/c 12,02,000 TU Borrowing cost A/c 1,82,000
 [$1L \times 10\% + 5L \times 11\% + 9L \times 13\%$]

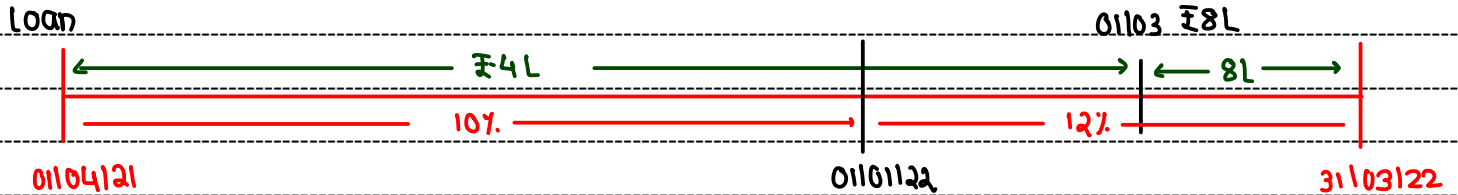
WN:- Cal. of weighted avg. capitalisation Rate = $\frac{5,00,000 \times 11\% \times 12/12 + 9,00,000 \times 13\% \times 12/12}{14,00,000} \times 100$
 = $\frac{55,000 + 1,17,000}{14,00,000} \times 100$
 = 12.286% or 12.29%



CQ6

Interest on Inter corporate Deposit = $20L \times 9\% \times 12/12 \rightarrow ₹1,80,000$

Interest on DTD = $4,00,000 \times 10\% \times 9/12$ i.e ₹30,000
 $+ 4,00,000 \times 12\% \times 2/12$ i.e ₹8,000 ₹
 $+ 8,00,000 \times 12\% \times 1/12$ i.e ₹8,000 46,000



Interest Rest

$$\text{Capital Rate} = \frac{1,80,000 + 46,000}{20,00,000 + 400,000 \times \frac{11}{12} + 800,000 \times \frac{1}{12}} \times 100$$

$$\text{i.e. } \frac{2,26,000}{24,33,333} \times 100 \quad \text{i.e. } 9.29\%$$

For some temporary capitalisation
has stopped and will resume in future



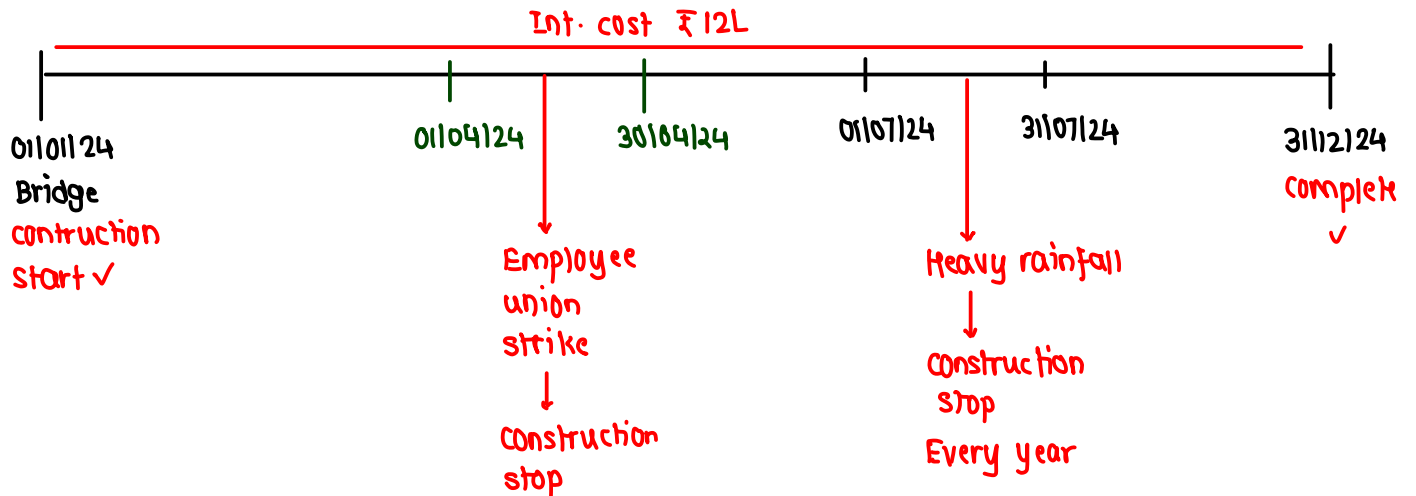
SUSPENSION OF CAPITALISATION

Suspend capitalization when **active development interrupted**

↳ Reason → something abnormally

Exceptions:

- Substantial technical or admin work carried out
- Temporary delay on part of progress
- Unavoidable reasons, etc.



∴ capitalise → 01/01/24 to 31/03/24 9m ✓
 suspend → 01/04/24 to 30/04/24 1m
 capitalise → 01/05/24 to 31/12/24 8m ✓

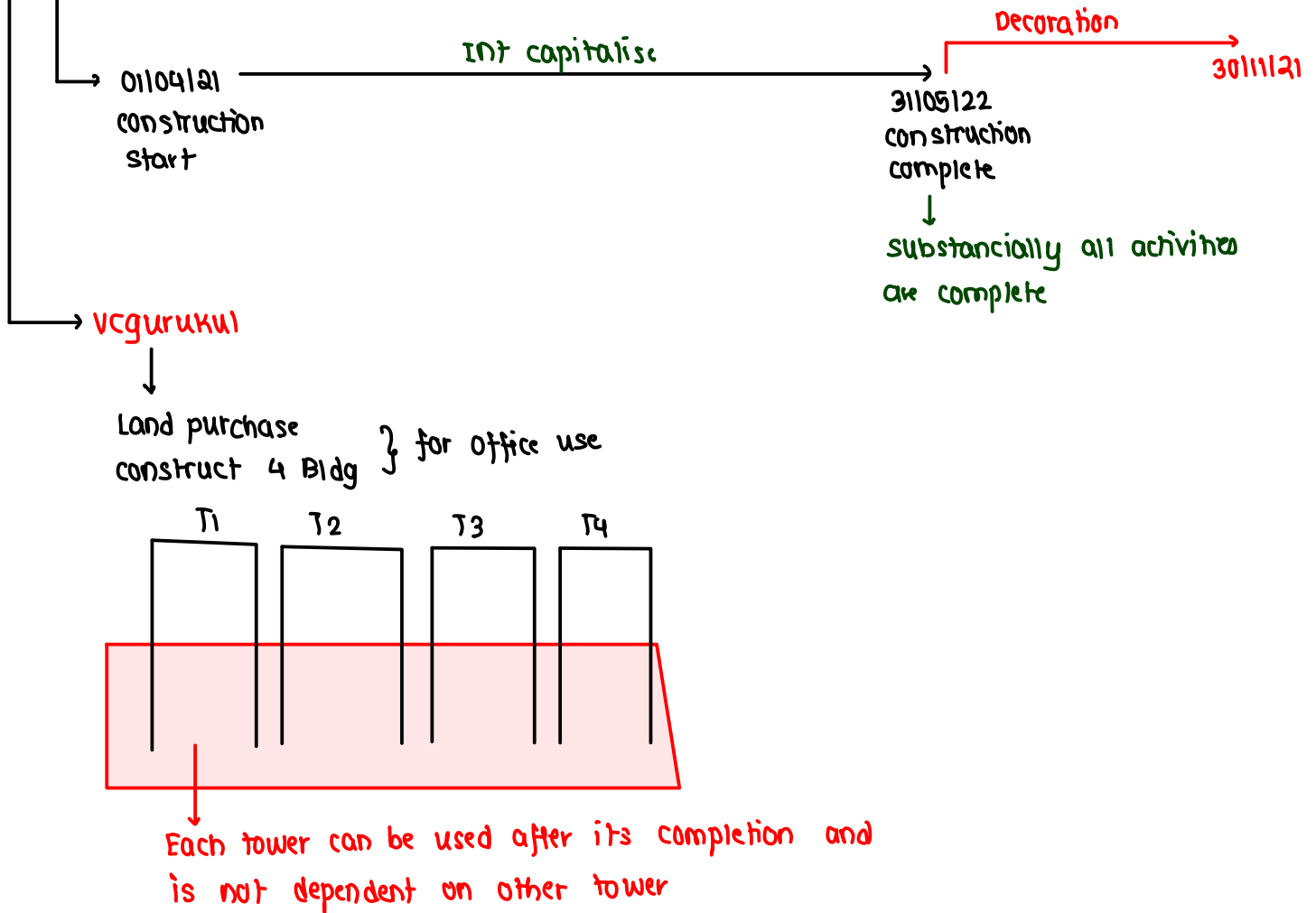
∴ out of 12m
 ↳ 11m → ₹ 11L
 ↳ 1m → IL Palace



capitalisation will stop
permanently

CESSATION OF CAPITALISATION

- ✓ **Normal Case:** Cease capitalization when substantially all the activities are complete.
- ✓ **Construction in Parts:** Cease Capitalization when complete part is capable of being used while construction continues for the other parts.



DISCLOSURE REQUIREMENTS

Kya राजा ! Ab Disclose कर ले ?

- ✓ Accounting Policies adopted for borrowing costs
- ✓ Amount of borrowing costs capitalized during the period



Q11

Loan amt $\longrightarrow$ ₹ 200L

Int on Loan $\longrightarrow$ ₹ 30L $[200L \times 15\%]$

	Phase 1	Phase 2	Phase 3	Phase 4	Total
Tot. Expenditure	34L	64L	55L	68L	221L
Allocated Int.	4.62L	8.69L	7.47L	9.22L	30L
	$\left[\frac{30L \times 34}{221} \right]$	$\left[\frac{30L \times 64}{221} \right]$	$\left[\frac{30L \times 55}{221} \right]$	$\left[\frac{30L \times 68}{221} \right]$	

Int $\rightarrow$ capitalise 2.31L 4.345L 7.47L 9.22L 23.345L

└ $\rightarrow$ Bal. Int 2.31L 4.345L - - 6.655L

Q15

Date of Expenditure	Expenditure	20L		Period	
		SB	GB	SB	GB
01/04/21	10,00,000	10L	-	12m	-
01/08/21	24,00,000	10L	14L	12m	8m
01/01/22	4,00,000	-	4L	-	3m

SB → 20L → 01/04/21

└─→ 10L use 01/04/21

Idle (10L) → Int for unused period → capitalise ✓

SB → Koi aur purpose x

01/08/21

use

20L x 10% → 2L

14L x 12% x 8/12 → 1.12L

4L x 12% x 3/12 → 0.12L

 3.24L