### Objective
To prescribe the accounting treatment for borrowing costs.

### Scope
- Applied in accounting for borrowing costs.
- Does not deal with the actual or imputed cost of owners’ equity, including preference share capital not classified as a liability.
DEFINITIONS

• **Borrowing costs** - Interest and other costs incurred in connection with the borrowing of funds.

  Inclusions:
  • Interest and commitment charges on borrowings
  • Amortisation of discounts and premiums related to borrowings
  • Amortisation of ancillary costs incurred in connection with arrangement of borrowings
  • Finance charges in respect of assets acquired under finance lease
  • Exchange differences arising from foreign currency borrowings to the extent they are regarded as adjustment to interest costs

• **Qualifying Asset** - An asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

• **Substantial period of time** - Ordinarily, a period of 12 months is considered unless a shorter or longer period can be justified on the basis of facts and circumstances of the case.
Borrowing costs directly attributable to the acquisition, construction or production of a Qualifying Asset should be capitalised as part of the cost of that asset.

Borrowing costs are capitalised as part of the cost of a qualifying asset when:

- It is probable that they will result in future economic benefits, and
- Costs can be measured reliably.

Other borrowing costs are recognised as an expense in the period in which they are incurred.
Computation of Amount to be capitalised in case funds are borrowed

<table>
<thead>
<tr>
<th>Generally</th>
<th>Specifically</th>
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<tbody>
<tr>
<td>Capitalisation rate (weighted average of the borrowing costs outstanding during the period, other than specific borrowings) applied to the expenditure on qualifying assets.</td>
<td>Actual Borrowing Costs (-) Income on temporary investment of these borrowings.</td>
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<tr>
<td>Amount capitalised should not exceed borrowing costs incurred during that period.</td>
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TIMING OF CAPITALISATION

Commencement of Capitalisation of Borrowing costs
All following conditions to be satisfied:
- Expenditure for acquisition, construction or production of a qualifying asset is being incurred;
- Borrowing costs are being incurred;
- Activities necessary to prepare the asset for its intended use or sale are in progress.

Suspension of Capitalisation of Borrowing Costs
During extended periods in which Active development is interrupted.

Cessation of Capitalisation of Borrowing costs
- When substantially all activities necessary to prepare the qualifying asset for its intended use or sale are complete.
- When construction of a qualifying asset is completed in parts and completed part is capable of being used while construction continues for the other parts, capitalisation of borrowing costs in relation to a part should cease when substantially all the activities necessary to prepare that part for its intended use or sale are complete.
- Accounting Policy adopted for borrowing costs
- Amount of borrowing costs capitalised during the period.
Thank You

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