Fixed Assets

Name: Sudhir Jain
M. No.: 213157
Agenda

- AS-10 Accounting for Fixed Assets
  - Introduction & Scope
  - Definitions and other relevant provisions
- Relevant provisions of other Accounting Standards applicable to Fixed Assets accounting
- ASI-2 “Accounting for Machinery Spares”
- Provisions pertaining to Fixed Assets in CARO 2003 (as amended)
- Fixed Assets – Indian GAAP vs. IFRS
- AS 10 vs ED on AS10 (Revised)
AS 10 – Accounting for Fixed Assets
Introduction and Scope

► AS 10- Accounting for Fixed Assets was issued in 1985 by ICAI

► Does not deal with accounting of following items
  ► Forests, Plantations and similar regenerative natural resources;
  ► Wasting assets including mineral rights, expenditure related to exploring and extracting minerals, oil, gas and similar non-regenerative resources;
  ► Expenditure on real estate development; and
  ► Live stock

► Fixed assets
  ► An asset held with the intention of being used for the purpose of producing or providing goods or services and is not held for sale in the normal course of business
Other relevant provisions

Cost

**Includes**: Purchase price, import duties and other non-refundable taxes or levies and any directly attributable cost of bringing asset to its working condition for its intended use.

**Excludes**: Refundable taxes, any trade discounts or rebates.

*(Administration and general overhead expenses are generally excluded as they do no relate to a specific Fixed Asset)*

*(The cost of a fixed asset may undergo changes subsequent to its acquisition or construction on account of foreign exchange fluctuations, price adjustments, changes in duties or similar factors)*

**Gross Book Value**: Is historical cost or other amount substituted for historical cost in the books of account or financial statements.

*(Gross book value – Accumulated depreciation = Net Book Value)*
Other relevant provisions
Cost (Contd.)

► Self Constructed Fixed Assets: Cost to include all direct costs, costs of constructions that relate directly to the specific asset and costs attributable to the construction activity in general which are allocated to the specific asset. (Internal profits are eliminated)

► Non Monetary Consideration (Exchange of Assets): Cost is FMV of the consideration given; or FMV of asset acquired; or when assets exchanged are similar – Net book value of Asset given up.

► Non Monetary Consideration (Exchange of shares or other securities): Cost is FMV of the shares or securities issued;

► Fair Market Value:
  ► Price that would be agreed to in open market and unrestricted market between knowledgeable and willing parties dealing at arms’ length who are fully informed and are not under any compulsion to transact
Other relevant provisions
Improvements, Repairs and Extension

- **Improvement**: Expenditure which increases the future benefits from the existing asset beyond its previously assessed standard of performance is included in the gross book value, e.g. increase in capacity.

- **Repairs**: Expenditure which does not increase the future benefits. Such expenditures are charged to the profit and loss account.

- **Addition or Extension**: Cost of addition or extension which becomes integral part of existing asset is added to its Gross Book value.

  *(Any addition or extension, which has separate identity and is capable of being used after the existing asset is disposed of, is accounted separately)*
Revaluation of Fixed Assets is normally undertaken by competent valuers.

Gross book value to be disclosed on each basis, where different bases of valuation are used to determine book value of separate items within each of the categories.

One of the following options can be used to present the Fixed Asset in financial statement on account of revaluation:

- Restate both Gross Book Value and Accumulated Depreciation to give net book value equal to the net revalued amount
- Restate Net book value by adding therein the net increase
Other relevant provisions
Revaluation of Fixed Assets (Contd.)

- Accounting treatment in books under various circumstances due to revaluation of fixed assets:
  - Decrease in Net book value is charged to P&L Account (except debit to the revaluation reserve to the extent previous increase due to revaluation which is credited to Revaluation Reserve)
  - Increase in net book value to be credited to Revaluation Reserve Account (except to the P&L Account to the extent previous decrease due to revaluation which is charged to P&L Account);
Other relevant provisions
Retirements and Disposals

► An item of Fixed Asset is eliminated from the financial statements on disposal

► Item that is retired from active use and held for disposal are stated at the lower of their Net book value and Net realisable value

► Gain or losses arising on disposal are recognised in P&L Account

► Assets held for sale are disclosed under Other Current Assets at net realisable value

► Disposal of Previously Revalued item:
  ► Loss is charged to P&L Account (except the amount related to previous increase which is debited to Revaluation Reserve)
  ► Gain is credited to P&L Account
  ► The amount standing in revaluation reserve after above adjustments are transferred to general reserve.
Other relevant provisions
Valuation of Fixed Assets in Special Cases

▶ Fixed Assets owned jointly with others:
  ▶ The extent of the Company’s share in such assets and proportion of the original cost, accumulated depreciation and written down value are stated in the Financial Statements; or
  ▶ The pro rata cost of such assets grouped together with similar fully owned asset.
  ▶ Details of such jointly owned assets are indicated separately in the Fixed Asset Register
Disclosures pertaining to Fixed Assets as required under AS-1 ‘Disclosure of Accounting Policies’ and AS-6 ‘Depreciation Accounting’.

AS-1: The disclosure of the significant accounting policies as such should form part of the financial statements and the significant accounting policies should normally be disclosed in one place.

AS-6: The following information should be disclosed in the financial statements:
- the historical cost or other amount substituted for historical cost of each class of depreciable assets;
- total depreciation for the period for each class of assets; and
- the related accumulated depreciation.

Other disclosures:
- Gross and Net Book value at the beginning of the year and end of an accounting period showing additions, disposals, acquisitions and other movements;
- Expenditure incurred on account of fixed assets in the course of construction or acquisition; and
- In case where fixed assets are stated at revalued amounts: Revalued amount substituted for historical costs, the method adopted to compute the revalued amounts, the nature of any indices used, the year of any appraisal made and whether an external valuer was involved
AS-6 ‘Depreciation Accounting’

Fixed Assets to be depreciated over their **expected useful life** so that at the end of the expected useful life the asset has a book value which is its **residual value**

Commonly used Methods of Depreciation: (i) Straight line method; and (ii) Reducing balance method / written down value method;

Change in method of depreciation only if (i) the adoption of new method is required by statute; or (ii) for compliance with an accounting standard; or (iii) if it result in most appropriate preparation of presentation of financial statements

Depreciation to be computed **retrospectively** in case of change in method. Such change is change in accounting policy.

Depreciation to be computed **prospectively** in case of change in useful life. Such change is change in estimate.

Deficiency or surplus due to change in method is adjusted in P&L Account in the year the change is made. The impact to be quantified and disclosed separately in the financial statements.
Relevant Provisions of Other Accounting Standards

AS 11 Amendments:

► Rules to be called “the Companies (Accounting Standards) Amendment Rules, 2009 (the Rules )

► As per the Rules, Para 46 is inserted in Notified AS 11 giving option to the companies in respect of exchange differences on Long Term Monetary Foreign Currency Items (LMFC) to:
  ► Adjust in the cost of depreciable capital asset and depreciate over the balance life of the asset in so far as they relate to the acquisition of such asset
  ► In any other case accumulate in “Foreign Currency Monetary Item Translation Difference Account” and amortize over the balance period of such long term asset/liability but not beyond March 31, 2011

► For the purpose of the above option, LMFC will mean an asset or liability expressed in foreign currency and has a term of 12 months or more at the date of origination of such asset or liability
AS 11 Amendments (contd.)

- Option is in respect of accounting periods commencing on or after December 7, 2006 and ending on or before March 31, 2011

- The option is irrevocable and to be exercised retrospectively from the later of:
  - The date transitional provision comes into force or;
  - The first date on which the concerned foreign currency monetary item is acquired

- Transitional difference shall be reversed through General Reserve:
  - By adjusting cost of depreciable asset, if it relates to its acquisition OR;
  - In other cases by transfer to Foreign Currency Monetary Item Translation Difference Account

- The rules also requires disclosure if the option is exercised:
  - Of the fact of exercise of the option
  - Of the amount remaining to be amortized as above (till it remains unamortized)
Relevant Provisions of Other Accounting Standards

AS 11 Amendments (contd.)

► MCA notification has amended Schedule VI to the Companies Act, 1956 related with exchange differences arising out of liability related to fixed assets acquired outside India to be capitalized.

► Schedule VI has been amended to remove the requirement with regards to capitalization of exchange differences. Henceforth, the requirement with regards to capitalization of exchange difference will be dealt with only under Accounting Standards notified in the Companies (Accounting Standards) Rules.

► Unlike pre-revised Schedule VI, the amendment does not make any distinction in respect of fixed assets acquired from outside India or otherwise. Hence the optional treatment in the notification would have to be applied in respect of all depreciable assets, whether acquired from within or outside India.
Relevant Provisions of Other Accounting Standards

► **AS-12 ‘Accounting for Government Grants’**

► Grant in the form of **Non-Monetary Assets** such as land given at **concessional rates** are to be accounted at **acquisition cost**

► Grant in the form of **Non-Monetary Assets** such as land given **free of cost** are to be accounted at **nominal value**

► Two methods available to account Grants related to specific fixed assets

► Grant is shown as deduction from the gross value of the asset in arriving at book value

► Grant is treated as deferred income and the cost of the asset is stated at value, gross of grant.
AS-16 ‘Borrowing Costs’

- Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset - Should be capitalised as a cost of that asset

- Other borrowing costs - Should be recognised as an expense in the period in which they are incurred

- Borrowing costs are capitalised - As a part of the cost of a qualifying asset when it is probable that they will result in future economic benefits to the enterprise and the costs can be measured reliably
AS-19 ‘Leases’

A lease is classified as a Finance Lease if it transfers substantially all the risks and rewards incident to ownership. Title may or may not eventually be transferred.

At the inception of a Finance Lease, the lessee should recognise the lease as an asset and a liability. Such recognition should be at an amount equal to the fair value of the leased asset at the inception of the lease.

A finance lease gives rise to a depreciation expense for the asset as well as a finance expense for each accounting period. The depreciation policy for a leased asset should be consistent with that for depreciable assets which are owned, and the depreciation recognised should be calculated on the basis set out in Accounting Standard (AS) 6, Depreciation Accounting. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset should be fully depreciated over the lease term or its useful life, whichever is shorter.
AS-26 ‘Intangibles’

An intangible asset is an identifiable non-monetary asset, without physical substance, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.

To recognise an intangible asset it should fulfill the recognition criteria:
(i) Identifiability, (ii) Control over a resource; (iii) Expectation of future economic benefits flowing to the enterprise; and (iv) Cost can be measured reliably.

Intangible should asset should be measured initially at cost.

Intangible recognised as an asset shall be amortised over the expected useful life.
Relevant Provisions of Other Accounting Standards

► **AS-28 ‘Impairment of assets’**

► The Company should assess at each balance sheet date for any impairment of an asset.

► **Impairment loss** is the amount by which the **carrying amount** of an asset **exceeds** its **recoverable amount**.

► **Recoverable amount** is the **higher** of an asset’s **net selling price** and **value in use**.

► If external and internal sources of information indicate that an asset may be impaired, the enterprise should estimate the recoverable amount of the asset and **provide for impairment losses**.
The machinery spares of the following types should be capitalised being of the nature of capital spares/insurance spares:

- Machinery spares which are specific to a particular item of fixed asset, (they can be used only in connection with a particular item of the fixed asset; and
- their use is expected to be irregular.

The total cost as capitalised above shall be depreciated over the period not exceeding the useful life of the principal fixed asset to which they relate.

When the related fixed asset is either discarded or sold, the written down value less disposal value, if any, of the capital spares/insurance spares should be written off.
Provisions pertaining to Fixed Assets in CARO, 2003 (as amended)

- Following are the requirements pertaining to Fixed Assets as per CARO, 2003 (as amended)
  - The Company shall maintain proper records showing full particulars (i.e. description of asset, classification, original cost, accumulated depreciation, year of purchase, etc.), including quantitative details and situation of fixed assets
  - The Company shall verify the fixed assets physically at reasonable intervals and material discrepancies, if any, noticed shall be properly dealt with in books of account
  - The Company shall assess whether substantial disposal, if any, during the year has affected the going concern
  - The Company shall have an adequate internal control system commensurate with the size of the Company and nature of business for the purchase of fixed assets, e.g., vendor evaluation, capital expenditure budgeting, approval protocol, etc.
## Fixed Asset - Indian GAAP vs. IFRS (IAS 16)

<table>
<thead>
<tr>
<th>Indian GAAP</th>
<th>IFRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recommends but does not force component accounting.</td>
<td>Mandates component accounting</td>
</tr>
<tr>
<td>Depreciation is based on higher of useful life or Schedule XIV rates.</td>
<td>Depreciation is based on useful life.</td>
</tr>
<tr>
<td>In practice most companies use Schedule XIV rates.</td>
<td></td>
</tr>
<tr>
<td>Major repair and overhaul expenditure are expensed.</td>
<td>Major repairs and overhaul expenditure are capitalized as if it is a separate component.</td>
</tr>
<tr>
<td>AS 10 provides that only that expenditure which increases the future benefits from the existing asset beyond its previously assessed standard of performance is included in the gross book value, e.g. an increase in capacity.</td>
<td>Under IAS 16, if subsequent costs are incurred for replacement of a part of an item of fixed assets, such costs are required to be capitalized and simultaneously the replaced part has to be de-capitalized.</td>
</tr>
<tr>
<td>AS 6 requires retrospectively re-computation of depreciation and any excess or deficit on such re-computation is required to be adjusted in the period in which such change is effected. AS 6 considers this as change in accounting policy.</td>
<td>In case of change in method of depreciation, IAS 16 requires effect to be given prospectively. Change in method of depreciation is treated as change in accounting estimate under IAS 16.</td>
</tr>
<tr>
<td>Estimates of residual value are not updated.</td>
<td>Estimates of residual value needs to be updated.</td>
</tr>
<tr>
<td>No need to update revaluation regularly.</td>
<td>Revaluation will have to be done regularly.</td>
</tr>
<tr>
<td>Depreciation on revaluation portion can be recouped out of revaluation reserve.</td>
<td>Depreciation on revaluation portion cannot be recouped out of revaluation reserve and will have to be charged to the P&amp;L A/c.</td>
</tr>
<tr>
<td>No specific guidance. However, guidance note on oil and gas issued by ICAI, requires capitalization of site restoration cost.</td>
<td>Provision on site-restoration and dismantling is mandatory.</td>
</tr>
</tbody>
</table>
Borrowing Costs

Name: Sudhir Jain
M. No.: 213157
Agenda

► Introduction & Scope
► Definitions
► ASI 1
► Recognition
► Capitalisation of Borrowing Costs
► Commencement of Capitalisation
► Suspension of Capitalisation
► Cessation of Capitalisation
► ASI 10
► Illustrations
► Disclosures
► Indian GAAP v. IFRS
# AS 16 – Borrowing Costs

## Introduction and Scope

<table>
<thead>
<tr>
<th>Section</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Applicability</td>
<td>Effective from accounting period commencing on or after April 1, 2000</td>
</tr>
<tr>
<td>Nature</td>
<td>Mandatory for all enterprises</td>
</tr>
<tr>
<td>Objective of AS-16</td>
<td>Should be applied in accounting for borrowing costs</td>
</tr>
<tr>
<td>Excludes</td>
<td>Does not deal with actual or imputed cost of owners’ equity including preference shares not classified as liability</td>
</tr>
</tbody>
</table>
Definitions

► **Borrowing Costs:**
  ► Interest and other costs incurred by an enterprise in connection with the borrowing of the funds

► **Borrowings Costs include:**
  ► interest and commitment charges on borrowings
  ► amortisation of ancillary costs in connection with the arrangement of borrowings such as discount, premium and ancillary costs.
  ► finance charges in respect of assets acquired under finance leases or other similar arrangements
  ► exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to interest costs (*ASI*-10)
Definitions (Contd.)

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

► Examples of Qualifying Asset:
  ► manufacturing plants
  ► power generation facilities
  ► investment properties
  ► inventories that require a substantial period of time to bring them to a saleable condition

► Qualifying Asset does not include:
  ► inventories that are routinely manufactured
  ► assets which are ready for their intended use or sale when acquired
  ► investment other than investment properties
What is the meaning of the expression ‘substantial period of time’?

Ordinarily, a period of twelve months is considered as substantial period of time unless a shorter or longer period can be justified on the basis of facts and circumstances of the case.

In estimating the period, time which an asset takes, technologically and commercially, to get it ready for its intended use or sale should be considered.
Recognition

- Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset

  **Capitalise** - when it is probable that they will result in future economic benefits and costs can be measured reliably

- Other Borrowing cost

  **Recognise** as **an expense** in the period in which they are incurred
Capitalisation of Borrowing Costs

► Specific Borrowing costs eligible for capitalisation
  ► That which would be avoided if the expenditure on the qualifying asset is not made

  ► To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the actual borrowing cost incurred on that borrowing during that period

  ► Any income earned on temporary investment of these borrowings is deducted from the borrowing cost incurred
General Borrowing costs eligible for capitalisation

To the extent funds are borrowed generally, and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation should be determined by applying a capitalisation rate to the expenditure on that asset.

Capitalisation rate should be the weighted average of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

The amount of borrowing costs capitalised during a period should not exceed the amount of borrowing costs incurred during the period.
Capitalisation of Borrowing Costs (contd.)

► **Excess of the Carrying Amount of the Qualifying Asset over Recoverable Amount**

► When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or net realisable value, the carrying amount is written down or written off in accordance with the requirements of other Accounting Standards. In certain circumstances, the amount of the write-down or write-off is written back in accordance with those other Accounting Standards.
Commencement of Capitalisation

- **All the following conditions are to be satisfied for commencement of Capitalisation**
  - expenditure for the acquisition, construction or production of a qualifying asset is being incurred;
  - borrowing costs are being incurred; and
  - activities that are necessary to prepare the asset for its intended use or sale are in progress*

*(Activities included are more than the physical construction of the asset and include technical and administrative work prior to the commencement of the physical construction)*
Suspension of Capitalisation

- Capitalization of borrowing costs should be suspended during extended periods in which active development is interrupted.

Criteria

- Capitalisation to be suspended during extended periods in which active development is hampered.

Suspension not to take place in case:

- substantial technical & administrative work is being carried on
- temporary delays necessary for preparation of qualifying assets (seasonal rains etc.)
Cessation of Capitalisation

- **Criteria**
  - Capitalisation should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

- **Cessation to take place even if:**
  - routine administrative work still continues
  - minor modifications to property as per users' specifications is to be made

- **Cessation to take place in part if:**
  - Construction of qualifying asset is completed in parts and a part is capable of being used separately
Paragraph 4 (e) of AS 16, ‘Borrowing Costs’, provides that borrowing costs may include “exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs”.

**Issue:** which exchange differences are covered under paragraph 4 (e) of AS 16?

**Conclusion:** Paragraph 4 (e) of AS 16 covers exchange differences on the amount of principal of the foreign currency borrowings to the extent of difference between interest on local currency borrowings and interest on foreign currency borrowings.

- The interest rate for the local currency borrowings should be considered as that rate at which the enterprise would have raised the borrowings locally had the enterprise not decided to raise the foreign currency borrowings.

- If the difference between the interest on local currency borrowings and the interest on foreign currency borrowings is equal to or more than the exchange difference on the amount of principal of the foreign currency borrowings, the entire amount of exchange difference is covered under paragraph 4 (e) of AS 16.
ASI – 10 Example

Facts

► XYZ Ltd. has taken a loan of USD 10,000 on April 1, 2003, for a specific project at an interest rate of 5% p.a., payable annually. On April 1, 2003, the exchange rate between the currencies was Rs. 45 per USD. The exchange rate, as at March 31, 2004, is Rs. 48 per USD. The corresponding amount could have been borrowed by XYZ Ltd. in local currency at an interest rate of 11 per cent per annum as on April 1, 2003.
**ASI – 10 Example (contd.)**

**Computation**

- Interest for the period = Rs. 24,000/-
  
  (USD 10,000 X 5% X Rs.48 )

- Increase in liability towards principal amount = Rs 30,000/-
  
  [USD 10,000 X (48-45)]

- Interest -if the loan was taken in Indian currency = Rs.49,500/-
  
  (USD 10000 x 45 x 11%)

- Interest on local currency - foreign currency borrowing = Rs. 25,500/-
  
  (Rs.49,500- Rs.24,000)
Conclusion

► Out of Rs. 30,000 increase in the liability towards principal amount, only Rs. 25,500 will be considered as the borrowing cost.

► Total borrowing cost would be Rs. 49,500 being the aggregate of interest of Rs. 24,000 on foreign currency borrowings (covered by paragraph 4(a) of AS 16) plus the exchange difference to the extent of difference between interest on local currency borrowing and interest on foreign currency borrowing of Rs. 25,500.

► Thus, Rs. 49,500 would be considered as the borrowing cost to be accounted for as per AS 16 and the remaining Rs. 4,500 would be considered as the exchange difference to be accounted for as per Accounting Standard (AS) 11, The Effects of Changes in Foreign Exchange Rates.
Capitalisation of Borrowing Costs (contd.)

Example

► ILLUSTRATION

► ABC Co. Ltd. undertakes significant expansion program and incurs following capital expenditure:

<table>
<thead>
<tr>
<th>Facility</th>
<th>Capex (in Rs.)</th>
<th>Remarks</th>
<th>Date of Start</th>
<th>Date of Completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plant I</td>
<td>30 Lacs</td>
<td>Specific Borrowing to the extent of Rs. 22 Lacs</td>
<td>June 1, 2005</td>
<td>December 31, 2005</td>
</tr>
<tr>
<td>Plant II</td>
<td>20 Lacs</td>
<td>Specific Borrowing to the extent of Rs. 8 Lacs</td>
<td>June 1, 2005</td>
<td>November 30, 2005</td>
</tr>
</tbody>
</table>

► Additional Information

► Rs. 20 Lacs, 11% p.a. secured debentures raised on July 2004 redeemable in four equal installments commencing July 1, 2005

► Rs. 5 Lacs, 14% working capital loan obtained on April 1, 2005 and repaid Rs. 1 Lac on December 31, 2005.
Example

Solution

(A) Calculation of borrowing costs for the year ended on March 31, 2006

Secured debentures

= 20,00,000 x 11% x 3 / 12 =Rs. 55,000/-

= 15,00,000 x 11% x 9 / 12 =Rs.123,750/-

Working Capital Loan

= 5,00,000 x 14% x 9 / 12 =Rs. 52,500/-

= 4,00,000 x 14% x 3 / 12 =Rs.14,000/-

(Contd.)
Example

Solution (contd.)

(B) Calculation of average unspecified borrowings outstanding during the year

Secured debentures

- \( = 20,00,000 \times \frac{3}{12} \) = Rs. 500,000/-
- \( = 15,00,000 \times \frac{9}{12} \) = Rs. 1,125,000/-

Working Capital Loan

- \( = 5,00,000 \times \frac{9}{12} \) = Rs. 375,000/-
- \( = 4,00,000 \times \frac{3}{12} \) = Rs. 100,000/-

Total Rs.2,100,000
Capitalisation of Borrowing Costs (contd.)

Example

- **Solution (contd.)**

  - **(C) Calculation of average interest on unspecified borrowings for the year**
  
  - Secured debentures
    
    - \[ = 20,00,000 \times 11\% \times \frac{3}{12} \] = Rs. 55,000/-
    
    - \[ = 15,00,000 \times 11\% \times \frac{9}{12} \] = Rs. 123,750/-

  - Working Capital Loan
    
    - \[ = 5,00,000 \times 14\% \times \frac{9}{12} \] = Rs. 52,500/-
    
    - \[ = 4,00,000 \times 14\% \times \frac{3}{12} \] = Rs. 14,000/-
    
    **Total** = Rs. 245,250/-

  - **(D) Average interest rate for the year (C / B)**

    - \[ = \left( \frac{2,45,250}{21,00,000} \right) \times 100 \] = 11.67%

  \((Contd.\))
Capitalisation of Borrowing Costs (contd.)

Example

► Solution (contd.)
► Interest Capitalised
► Plant I
  ► On specific borrowings: 22,00,000 X 14% X 7 / 12 = Rs.1,79,667/-
  ► On general Borrowings: 8,00,000 x 11.67% x 7 / 12 = Rs. 54,460/-

► Plant II
  ► On specific borrowings: 8,00,000 X 14% X 6 / 12 = Rs.56,000/-
  ► On general Borrowings: 12,00,000 x 11.67% x 6 / 12 = Rs. 70,020/-
Disclosures

- Financial Statements should disclose

  - Accounting policy adopted for borrowing costs; and

  - The amount of borrowing costs capitalised during the period
<table>
<thead>
<tr>
<th>Accounting for Borrowing cost</th>
<th>Indian GAAP (AS -16 )</th>
<th>IFRS (IAS- 23)</th>
</tr>
</thead>
<tbody>
<tr>
<td>AS 16 mandates capitalization of borrowing costs, where the relevant conditions are fulfilled.</td>
<td>IAS 23 prescribes borrowing costs to be recognized as expense as benchmark treatment. It allows capitalization as an allowed alternative.</td>
<td></td>
</tr>
<tr>
<td>Disclosure of capitalization rate</td>
<td>AS 16 does not require such disclosure.</td>
<td>IAS 23 requires disclosure of capitalization rate used to determine the amount of borrowing costs.</td>
</tr>
</tbody>
</table>
Thank You