

# Ind AS - 23

## Borrowing Cost

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# What is Borrowing Cost ?

Borrowing costs are **interest** and **other costs** that an entity incurs in connection with the borrowing of funds.

## Other Costs includes :

- ★ Finance charges in case of Finance Leases.
- ★ Exchange differences arises from foreign currency borrowings.



## What is **Qualifying asset** ?

A qualifying asset is an asset that necessarily takes a **substantial period** of time to get ready for its intended use or sale.

### **Substantial Period** :

- Substantial period of time is generally 12 Months or more but management may shorter the same.



## Recognition Criteria

Borrowing cost which is **incurred** for the **construction/acquisition/production** of any Qualifying asset, should be **capitalized** to the cost of such asset. Any other type of borrowing cost should be expensed in the statement of profit & loss.



# Stages for the Application of Ind AS - 23





## **Stage I : Commencement of Capitalization**

Following conditions should be fulfilled in order to commence the capitalization of Borrowing cost :

- There must be a Qualifying asset.
- Expenditure must be incurred out of borrowed fund.
- Interest cost should be Actual cost, not notional cost.
- Substantial active process to construct the asset must be started.



## **Stage II : Suspension of Capitalization**

If substantial active process to construct the asset is interrupted due to abnormal reason {Due to which work will be extended} then during that period borrowing cost should not be capitalized and the same will be charged to statement of profit & loss.



## **Stage III : Cessation of Capitalization**

When all the substantial activities to construct the assets are over then capitalization of borrowing cost or when all the substantial activities to construct the part of assets {which can be independently used} are over then capitalization for such part should be stopped.



# Disclosure Requirement





An entity shall disclose:

- A. the amount of borrowing costs capitalised during the period; and
- B. the capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation.

Q & A





Thank  
You!  
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