

## INDIAN ACCOUNTING STANDARD 23

# ***BORROWING COSTS***

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## Indian Accounting Standard (Ind AS) 23

# Borrowing Costs<sup>#</sup>

*(This Indian Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.)*

## Core principle

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- 1 **Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognised as an expense.**

## Scope

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- 2 **An entity shall apply this Standard in accounting for borrowing costs.**
- 3 The Standard does not deal with the actual or imputed cost of equity, including preferred capital not classified as a liability.
- 4 An entity is not required to apply the Standard to borrowing costs directly attributable to the acquisition, construction or production of:
  - (a) a qualifying asset measured at fair value, for example, a biological asset within the scope of Ind AS 41 *Agriculture*; or
  - (b) inventories that are manufactured, or otherwise produced, in large quantities on a repetitive basis.

## Definitions

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- 5 **This Standard uses the following terms with the meanings specified:**

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<sup>#</sup> This Ind AS was notified vide G.S.R. 111(E) dated 16<sup>th</sup> February, 2015 and was amended vide Notification No. G.S.R. 365(E) dated 30<sup>th</sup> March, 2016, G.S.R. 310(E) dated 28<sup>th</sup> March, 2018, G.S.R. 273(E) dated 30<sup>th</sup> March, 2019 and G.S.R. 274(E) dated 30<sup>th</sup> March, 2019.

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

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

- 6 Borrowing costs may include:
- (a) interest expense calculated using the effective interest method as described in Ind AS 109, *Financial Instruments*;
  - (b) [Refer Appendix 1]
  - (c) [Refer Appendix 1]
  - (d) <sup>1</sup>interest in respect of lease liabilities recognised in accordance with Ind AS 116, *Leases*; and
  - (e) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.
- 6A. With regard to exchange difference required to be treated as borrowing costs in accordance with paragraph 6(e), the manner of arriving at the adjustments stated therein shall be as follows:
- (i) the adjustment should be of an amount which is equivalent to the extent to which the exchange loss does not exceed the difference between the cost of borrowing in functional currency when compared to the cost of borrowing in a foreign currency.
  - (ii) where there is an unrealised exchange loss which is treated as an adjustment to interest and subsequently there is a realised or unrealised gain in respect of the settlement or translation of the same borrowing, the gain to the extent of the loss previously recognised as an adjustment should also be recognised as an adjustment to interest.
- 7 Depending on the circumstances, any of the following may be qualifying assets:
- (a) inventories

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<sup>1</sup> Substituted vide Notification No. G.S.R. 273(E) dated 30<sup>th</sup> March, 2019.

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- (b) manufacturing plants
- (c) power generation facilities
- (d) intangible assets
- (e) investment properties
- (f) bearer plants.

Financial assets, and inventories that are manufactured, or otherwise produced, over a short period of time, are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

## **Recognition**

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- 8 An entity shall capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. An entity shall recognise other borrowing costs as an expense in the period in which it incurs them.**
- 9 Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are included in the cost of that asset. Such borrowing costs are capitalised as part of the cost of the asset when it is probable that they will result in future economic benefits to the entity and the costs can be measured reliably. When an entity applies Ind AS 29 *Financial Reporting in Hyperinflationary Economies*, it recognises as an expense the part of borrowing costs that compensates for inflation during the same period in accordance with paragraph 21 of that Standard.

### **Borrowing costs eligible for capitalisation**

- 10 The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are those borrowing costs that would have been avoided if the expenditure on the qualifying asset had not been made. When an entity borrows funds specifically for the purpose of obtaining a particular qualifying asset, the borrowing costs that directly relate to that qualifying asset can be readily identified.

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- 11 It may be difficult to identify a direct relationship between particular borrowings and a qualifying asset and to determine the borrowings that could otherwise have been avoided. Such a difficulty occurs, for example, when the financing activity of an entity is co-ordinated centrally. Difficulties also arise when a group uses a range of debt instruments to borrow funds at varying rates of interest, and lends those funds on various bases to other entities in the group. Other complications arise through the use of loans denominated in or linked to foreign currencies, when the group operates in highly inflationary economies, and from fluctuations in exchange rates. As a result, the determination of the amount of borrowing costs that are directly attributable to the acquisition of a qualifying asset is difficult and the exercise of judgement is required.
- 12 **To the extent that an entity borrows funds specifically for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.**
- 13 The financing arrangements for a qualifying asset may result in an entity obtaining borrowed funds and incurring associated borrowing costs before some or all of the funds are used for expenditures on the qualifying asset. In such circumstances, the funds are often temporarily invested pending their expenditure on the qualifying asset. In determining the amount of borrowing costs eligible for capitalisation during a period, any investment income earned on such funds is deducted from the borrowing costs incurred.
- 14 <sup>2</sup>**To the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to all borrowings of the entity that are outstanding during the period. However, an entity shall exclude from this calculation borrowing costs applicable to**

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<sup>2</sup> Substituted vide Notification No. G.S.R. 274(E) dated 30<sup>th</sup> March, 2019.

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**borrowings made specifically for the purpose of obtaining a qualifying asset until substantially all the activities necessary to prepare that asset for its intended use or sale are complete. The amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.**

- 15 In some circumstances, it is appropriate to include all borrowings of the parent and its subsidiaries when computing a weighted average of the borrowing costs; in other circumstances, it is appropriate for each subsidiary to use a weighted average of the borrowing costs applicable to its own borrowings.

**Excess of the carrying amount of the qualifying asset over recoverable amount**

- 16 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 Standards. In certain circumstances, the amount of the write-down or write-off is written back in accordance with those other Standards.

**Commencement of capitalisation**

- 17 **An entity shall begin capitalising borrowing costs as part of the cost of a qualifying asset on the commencement date. The commencement date for capitalisation is the date when the entity first meets all of the following conditions:**
- (a) **it incurs expenditures for the asset;**
  - (b) **it incurs borrowing costs; and**
  - (c) **it undertakes activities that are necessary to prepare the asset for its intended use or sale.**
- 18 Expenditures on a qualifying asset include only those expenditures that have resulted in payments of cash, transfers of other assets or the assumption of interest-bearing liabilities. Expenditures are reduced by any progress payments received and grants received in connection with the asset (see Ind AS 20, *Accounting for Government Grants and Disclosure of Government Assistance*). The average carrying amount

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of the asset during a period, including borrowing costs previously capitalised, is normally a reasonable approximation of the expenditures to which the capitalisation rate is applied in that period.

- 19 The activities necessary to prepare the asset for its intended use or sale encompass more than the physical construction of the asset. They include technical and administrative work prior to the commencement of physical construction, such as the activities associated with obtaining permits prior to the commencement of the physical construction. However, such activities exclude the holding of an asset when no production or development that changes the asset's condition is taking place. For example, borrowing costs incurred while land is under development are capitalised during the period in which activities related to the development are being undertaken. However, borrowing costs incurred while land acquired for building purposes is held without any associated development activity do not qualify for capitalisation.

### **Suspension of capitalisation**

- 20 **An entity shall suspend capitalisation of borrowing costs during extended periods in which it suspends active development of a qualifying asset.**
- 21 An entity may incur borrowing costs during an extended period in which it suspends the activities necessary to prepare an asset for its intended use or sale. Such costs are costs of holding partially completed assets and do not qualify for capitalisation. However, an entity does not normally suspend capitalising borrowing costs during a period when it carries out substantial technical and administrative work. An entity also does not suspend capitalising borrowing costs when a temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale. For example, capitalisation continues during the extended period that high water levels delay construction of a bridge, if such high water levels are common during the construction period in the geographical region involved.

### **Cessation of capitalisation**

- 22 **An entity shall cease capitalising borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.**

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- 23 An asset is normally ready for its intended use or sale when the physical construction of the asset is complete even though routine administrative work might still continue. If minor modifications, such as the decoration of a property to the purchaser's or user's specification, are all that are outstanding, this indicates that substantially all the activities are complete.
- 24 **When an entity completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity shall cease capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.**
- 25 A business park comprising several buildings, each of which can be used individually, is an example of a qualifying asset for which each part is capable of being usable while construction continues on other parts. An example of a qualifying asset that needs to be complete before any part can be used is an industrial plant involving several processes which are carried out in sequence at different parts of the plant within the same site, such as a steel mill.

## **Disclosure**

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- 26 **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.**

## **<sup>3</sup>Transitional provisions**

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27-28 Omitted\*

28A <sup>4</sup>*Annual Improvements to Ind AS (2018)* amended paragraph 14. An entity shall apply those amendments to borrowing costs incurred on or

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<sup>3</sup> Headings and paragraph 27-28 inserted vide Notification No. G.S.R. 273(E) dated 30<sup>th</sup> March, 2019.

\* Refer Appendix 1

<sup>4</sup> Inserted vide Notification No. G.S.R. 274(E) dated 30<sup>th</sup> March, 2019.



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after the beginning of the annual reporting period in which the entity first applies those amendments.

## **<sup>5</sup>Effective date**

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29-29B      Omitted\*

29C      Ind AS 116 amended paragraph 6. An entity shall apply that amendment when it applies Ind AS 116.

29D      <sup>6</sup>*Annual Improvements to Ind AS (2018)* amended paragraph 14 and added paragraph 28A. An entity shall apply those amendments for annual reporting periods beginning on or after 1 April, 2019.

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<sup>5</sup> Headings and paragraph 29-29C inserted vide Notification No. G.S.R. 273(E) dated 30<sup>th</sup> March, 2019.

\* Refer Appendix 1.

<sup>6</sup> Inserted vide Notification No. G.S.R. 274(E) dated 30<sup>th</sup> March, 2019.

## **Appendix A**

### **References to matters contained in other Indian Accounting Standards (Ind ASs)**

*This Appendix is an integral part of the Ind AS.*

1. Appendix A, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*), contained in Ind AS 16, *Property, Plant and Equipment*, makes reference to this Standard also.
2. <sup>7</sup>Appendix D, *Service Concession Arrangements* contained in Ind AS 115, *Revenue from Contracts with Customers*, makes reference to this Standard also.

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<sup>7</sup> Substituted vide Notification No. G.S.R. 365(E) dated 30<sup>th</sup> March, 2016 and, thereafter, substituted vide Notification No. G.S.R. 310(E) dated 28<sup>th</sup> March, 2018.

## Appendix 1

*Note: This Appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Indian Accounting Standard (Ind AS) 23 and the corresponding International Accounting Standard (IAS) 23, Borrowing Costs, issued by the International Accounting Standards Board.*

### Comparison with IAS 23, Borrowing Costs

- 1 IAS 23 provides no guidance as to how the adjustment prescribed in paragraph 6(e) is to be determined. Paragraph 6A is added in Ind AS 23 to provide the guidance.
- 2 The following paragraph numbers appear as 'Deleted' in IAS 23. In order to maintain consistency with paragraph numbers of IAS 23, the paragraph numbers are retained in Ind AS 23:
  - (i) paragraph 6(b)
  - (ii) paragraph 6(c)
- 3 <sup>8</sup>Paragraphs 27-28 related to transitional provisions given in IAS 23 have not been given in Ind AS 23, since all transitional provisions related to Ind ASs, wherever considered appropriate have been included in Ind AS 101, *First-time Adoption of Indian Accounting Standards*, corresponding to IFRS 1, *First-time Adoption of International Financial Reporting Standards*. Paragraphs 29-29B of IAS 23 have not been included in Ind AS 23 as these paragraphs relate to effective date which are not relevant in Indian context. However, in order to maintain consistency with paragraph numbers of IAS 23, these paragraph numbers are retained in Ind AS 23.

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<sup>8</sup> Substituted vide Notification No. G.S.R. 273(E) dated 30<sup>th</sup> March, 2019.