Nexia International

CHATURVEDI & SHAH

IND AS 23 – BORROWING COSTS

INDEX

- Core Principle
- New Concept
- Example
- New Disclosure
- Illustration Disclosed
- First Time Adoption Challenges

CORE PRINCIPLE

- Borrowing costs that are directly attributable
- ✓ Acquisition
- ✓ construction or
- ✓ Production

of a qualifying asset

form part of the cost of that asset.

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

NEW CONCEPT

- Ind AS 23 recognize the concept of "group borrowings Costs" by stating in Para 15 that
- "In some circumstances, it is appropriate to include all the borrowings of the parent and its subsidiaries (the Group) 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."

EXAMPLE

- ✓ Parent Co. "A"

Liabilities		Assets	
Equity	50 Cr.	FA	50 Cr.
Loan	100 Cr.	Investment Subsidiary B	100 Cr.

Profit & Loss Account	
Finance Costs	4.47 Cr.

- ✓ Subsidiary Co. "B"

Liabilities		Assets	
Equity	100 Cr.	CWIP	131.63 Cr.
Loan	50 Cr.	Bank	10 Cr.
Reserve & Surplus *	1.63 Cr.	Advance	10 Cr.
CWIP is Qualified Asset			

Profit & Loss Account	
Finance Costs	1.05 Cr.

Weighted Average of Borrowing costs is 14.52%

EXAMPLE

- Consolidation Parent Co. “A” (Ind AS 23)

Liabilities		Assets	
Equity	50 Cr.	FA	50 Cr.
Loan	150 Cr.	CWIP	136.17 Cr.
Reserve & Surplus *	6.17 Cr.	Bank	10 Cr.
		Advance	10 Cr.
* Tax effect not considered			

Profit & Loss Account	
Finance Costs	0.98 Cr.

Weighted Average of Borrowing costs is 13.46 %

EXAMPLE

- Consolidation Parent Co. “A” (AS 16)

Liabilities		Assets	
Equity	50 Cr.	FA	50 Cr.
Loan	150 Cr.	CWIP	131.63 Cr.
Reserve & Surplus *	1.63 Cr.	Bank	10 Cr.
		Advance	10 Cr.

Profit & Loss Account	
Finance Costs	5.52 Cr.

MAJOR DIFFERENCE
INDIAN GAAP (16) VS. IND AS (23)

- New Disclosure :- Capitalisation Rate

Indian GAAP (Old AS)	Ind AS
No separate disclosure required	Ind AS 23 require an entity to disclose separately the **capitalization rate used** to determine the amount of Borrowing Costs eligible for capitalisation.

DISCLOSED BY IFRS COMPLIED CO.

- Disclosure :- Capitalisation Rate

  1) Optics Valley Union Holding Co. Ltd (Hong Kong, KPMG) - Under Finance Costs note

- ✓ The borrowing costs have been capitalised at rates ranging from 6.0% to 12.0% (2013: 5.4% to 12.0%) per annum for the year ended 31 December 2014.

  2) Vedanta Resources plc (UK, Deloitte) – Under Finance Costs note

- ✓ All borrowing costs are capitalised using rates based **on specific borrowings.**

  3) Samsung Heavy Industries Co. Ltd. (Korea, PwC) – Under PPE note

- ✓ Acquisition of construction-in-progress includes capitalized borrowing costs amounting to ₩198 million (2013: ₩ 676 million). Borrowing costs were capitalized at the weighted average rate **of general borrowings** of 3.37% (2013: 3.37%).

DISCLOSED BY IFRS COMPLIED CO.

- ✓ Under Accounting Policies disclosed by Vedanta Resources plc (UK, Deloitte)

- ➢ Borrowing costs:

  Borrowing costs directly relating to the acquisition, construction or production of a qualifying capital project under construction are capitalised and added to the project cost during construction until such time that the assets are substantially ready for their intended use in accordance with the Group policy which is when they are capable of commercial production. Where funds are borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred. Where surplus funds are available out of money borrowed specifically to finance a project, the income generated from such short-term investments is also capitalised to reduce the total capitalised borrowing cost.

DISCLOSED BY IFRS COMPLIED CO.

- Under Accounting Policies (Continued..)

- Borrowing costs (Continued..):

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Capitalisation of interest on borrowings related to construction or development projects ceases when substantially all the activities that are necessary to make the assets ready for their intended use are complete or when delays occur outside of the normal course of business.

FIRST TIME ADOPTION CHALLENGES & PERSPECTIVE

- ✓ Ind AS 101 does not contain any exemption / exception with regard to Borrowing Costs.

- ✓ Basic principle of AS 16 & Ind AS 23 are similar, however differences may arise in practice with regards to amount of Borrowing Cost eligible for capitalisation. Due to:

- ➢ The application of effective interest method under Ind AS 109

- ➢ Classification of preference shares as liability under Ind AS 32

THANK YOU