Ind AS 23
Borrowing Costs

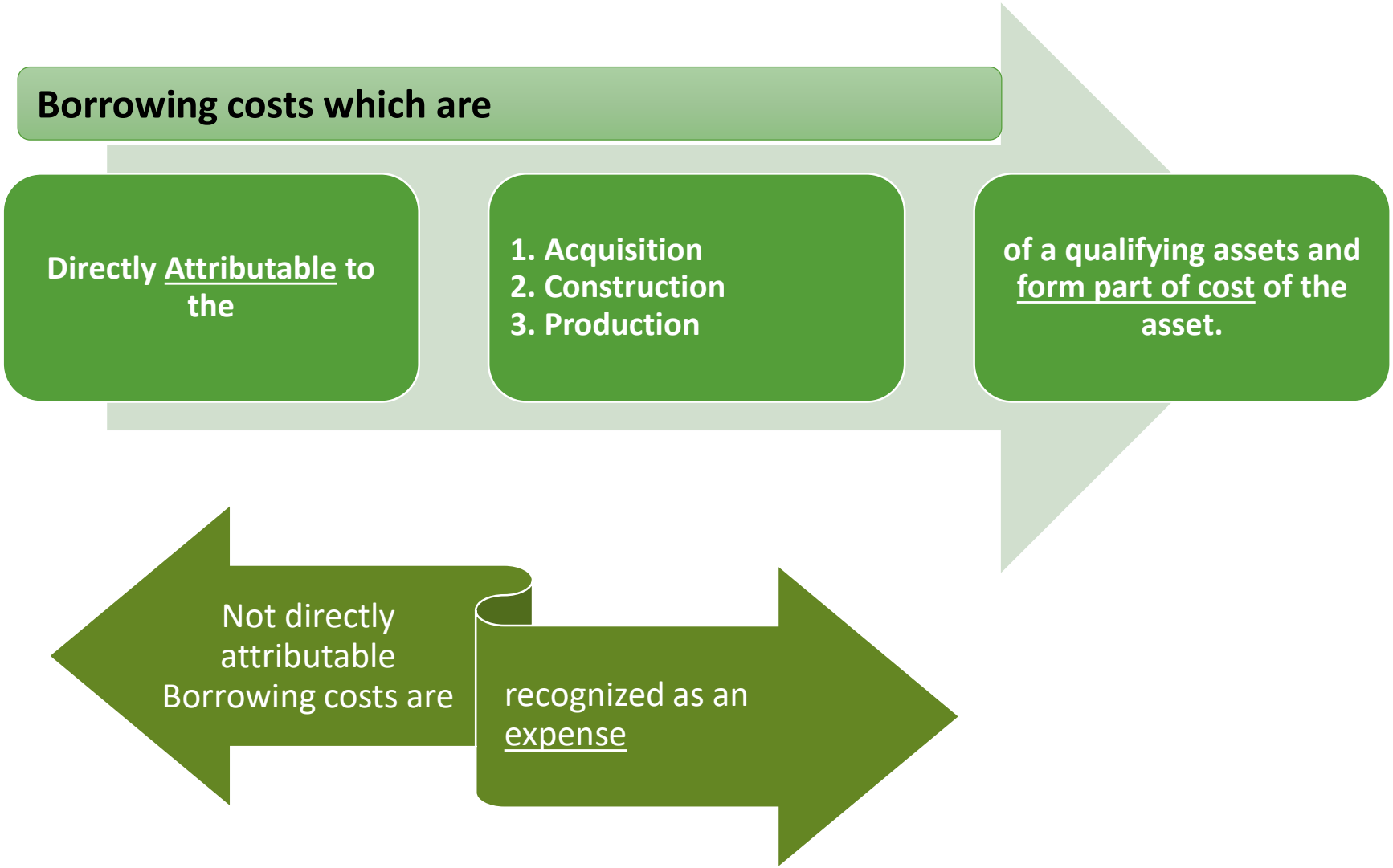


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CORE PRINCIPLE



SCOPE

This Standard

shall apply

- *On accounting for borrowing costs*

does not deal

- *with the actual or imputed cost of equity*

(including preferred capital not classified as a liability)

is not required to be applied on

- *Qualifying asset measured on fair value* (i.e. a biological assets as per Ind AS 41; Agriculture)
- *Inventories manufactured / produced in large quantities on repetitive basis.*

DEFINITIONS

Borrowing costs *refers to interest and other charges incurred when funds are borrowed, including*

- EIR based Interest expenses as per Ind AS 109 (Financial Instruments)
- Interest in respect of lease liabilities as per Ind AS 116 (Leases); and
- Exchange differences arising from foreign currency borrowings (to the extent that they are regarded as an adjustment to interest costs).

- This adjustment should not exceed the difference between borrowing costs in the functional currency & foreign currency.
- When unrealised exchange loss is adjusted to interest, any subsequent gain (realised or unrealised) on the same borrowing should also be adjusted to interest (up to the amount of the earlier loss).

A qualifying asset *is one that requires a significant amount of time to become ready for its intended use / sale.*

Qualifying Assets:-

- ✓ Inventories that need substantial time to bring them to their saleable condition
- ✓ Manufacturing Plants
- ✓ Power generation facilities
- ✓ Intangible assets
- ✓ Investment properties
- ✓ Bearer plants

NOT Qualifying Assets:-

- ☒ Financial assets, inventories that are normally manufactured over a short period of time;
- ☒ Assets which are ready for use / sale when acquired.

Key Challenges

Aspect	Considerations
Dividend on preference shares	• When mandatorily redeemable preference shares are classified as a financial liability under Ind AS 32 with a fixed dividend, the dividend payments are in substance interest costs. As per Ind AS 23, these dividends qualify as borrowing costs and should be capitalised as part of the cost of a qualifying asset until it is ready for its intended use or sale.
Large-Scale Repetitive Production vs Long-Duration Custom Production	• Products like cheese, beer or sparkling wine take a substantial period to become ready for sale. However, since they are produced in large quantities on a repetitive basis, Ind AS 23 allows borrowing costs to be either added to the cost of the asset (capitalised) or expensed immediately, provided disclosure is made and the treatment is applied consistently. • In contrast, the manufacturing of aircraft, ships, and large custom-built plants takes a long time to complete but is not mass-produced; thus, borrowing costs must be added to the cost of the asset (capitalised) under Ind AS 23.

Key Challenges

Aspect	Considerations
Whether borrowing Cost?	• The 'prepayment penalty' incurred for foreclosure of existing loan and availing new loan/borrowings is recognized as part of the gain or loss on extinguishment of the old loan in the statement of profit and loss and, hence, cannot be considered as part of the borrowing cost for the new loan. • Borrowing costs incurred for acquiring shares in the subsidiary cannot be capitalized in either standalone or consolidated financial statements.

RECOGNITION

Borrowing cost that are directly attributable to the

(1) acquisition (2) construction (3) production

of a qualifying asset *shall be capitalized* as a part of the cost of the asset *when*

(a) It is probable that they will result in future economic benefit to the entity; and
(b) These costs can be measured reliably.

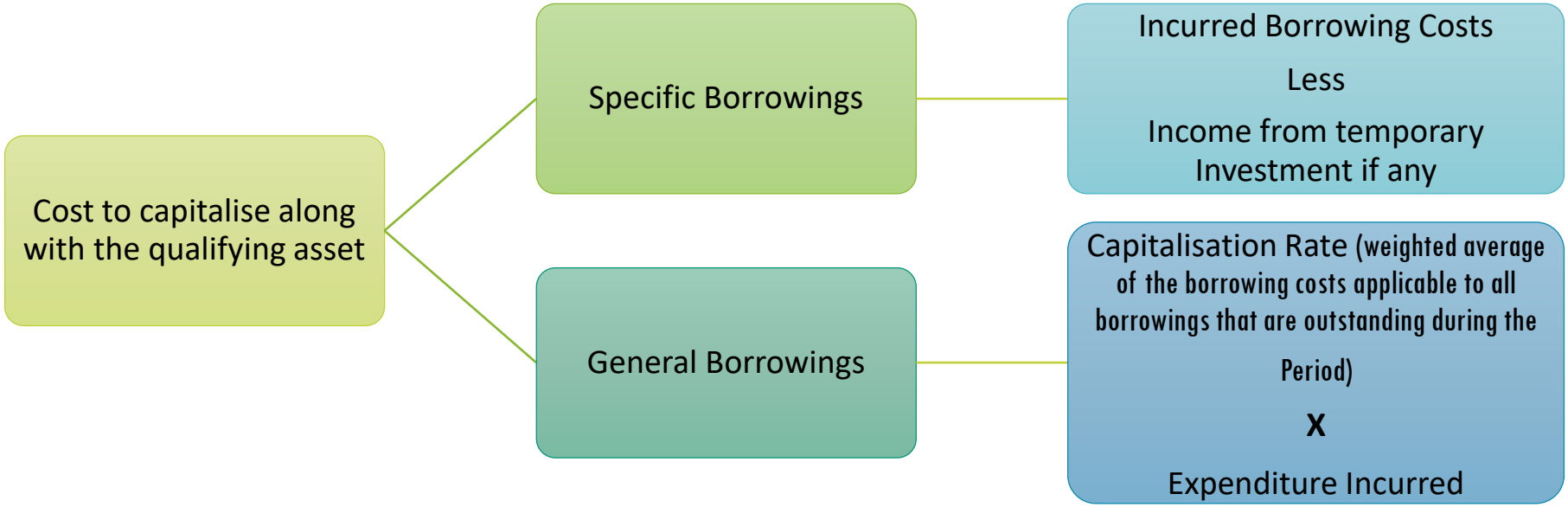
Other borrowing costs are recognised *as an expense* in the period in which they are incurred.

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 (para 21).

BORROWING COSTS ELIGIBLE FOR CAPITALISATION

Borrowing costs that are directly attributable to a qualifying asset are those that *would have been avoided* if the expenditure on the asset had not been made and

When funds are borrowed specifically for a qualifying asset, the related borrowing costs can be clearly identified.



- *To calculate the capitalisation rate for general borrowings, borrowing costs from specific borrowings for qualifying assets must be excluded until the asset is nearly ready for use or sale.*
- *Capitalised borrowing costs during the period shall not exceed the total borrowing costs incurred by the entity in that period.*

Key Challenges

Aspect	Considerations
Costs accrued versus actual cash outflows	• When capitalising general borrowing costs, eligible borrowing costs should be computed on the basis of actual cash outflows rather than on the basis of costs accrued.
Interest Savings vs Income from Temporary Investments	• When an entity deposits surplus of specific borrowings into its cash credit account, it reduces interest costs. Under Ind AS 23, only actual investment income from temporary investments must be deducted from borrowing costs before capitalisation, and such interest savings do not qualify as income to be deducted.

COMMENCEMENT OF CAPITALISATION

The commencement date for capitalisation is the date when the entity first meets **ALL** of the following conditions:

(a) Expenditures for the asset are being incurred;

(b) Borrowing costs are being incurred; and

(c) Activities necessary to prepare the asset for its intended use / sale are undertaken.

Key Challenges

Aspect	Considerations
Active development of qualified assets	• The activities needed to prepare an asset for its intended use or sale include not only physical construction but also technical and administrative tasks such as obtaining permits before construction starts. • However, they exclude periods when an asset is merely held without active development or changes to its condition. • For example, borrowing costs on land under active development are capitalised, but costs incurred while holding land without any development do not qualify for capitalisation.

SUSPENSION AND CESSATION OF CAPITALISATION

Suspension

An entity shall suspend capitalisation of borrowing costs during *extended periods* in which it *suspends active development* of a qualifying asset.

Cessation

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

Key Challenges

Aspect	Considerations
Suspension of Capitalisation	• Capitalisation continues during normal/temporary delays (e.g., seasonal high water or monsoon interruptions, routine maintenance stoppages, short-term material shortages, etc.), • Capitalisation is suspended during extended abnormal delays (e.g., natural disasters, civil unrest, prolonged major strikes, etc.).
Cessation of Capitalisation	• An asset is considered ready for use when construction is complete, even if only minor administrative work or final touches, such as decoration, remain. • However, in cases where obtaining safety approvals or similar mandatory clearances is a strict precondition for use, capitalisation should continue until such approvals are obtained, provided there is no abnormal delay in seeking them. • Further, Capitalisation stops for each part of the qualifying asset when it is ready for use (e.g., individual buildings in a business park) but continues until full completion if the parts of the qualifying asset cannot be used independently (e.g., a steel mill). • Until the asset is ready for commercial production, it is not considered fully prepared for use. Therefore, borrowing costs incurred during normal test runs after installation are capitalised.

EXCESS OF THE CARRYING AMOUNT OF THE QUALIFYING ASSET OVER RECOVERABLE AMOUNT

When the carrying amount / the expected ultimate cost of the qualifying asset **exceeds** its recoverable amount / net realisable value

The carrying amount is written down / off in accordance with the requirements of other Standards.

(In certain circumstances, the amount of the write-down / off is written back in accordance with those other Standards)

DISCLOSURE

An entity shall disclose the

- **amount of borrowing costs capitalised during the period**
- **capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation.**

COMPARISON: IND AS 23 VS IAS 23

Aspect	Ind AS 23	IAS 23
Guidance on Capitalization Exchange Differences	Provides specific guidelines on computation of exchange difference arising from foreign currency borrowings to the extent they are regarded as adjustment to the Borrowing Cost (paragraph 6A).	No specific guidance on determining the adjustment for exchange differences.

COMPARISON: IND AS 23 VS AS 16

Aspect	Ind AS 23	AS 16
Scope Exclusion	Excludes borrowing costs for qualifying assets measured at fair value and inventories produced in large quantities on a repetitive basis.	No such scope exclusion.
Components of Borrowing Costs	Includes interest expense calculated using the effective interest rate method and interest in respect of lease liabilities.	Includes interest, commitment charges, amortisation of discounts/premiums, and finance charges for assets under finance lease.
Exchange Differences	Unrealised exchange loss treated as an adjustment to interest must be reversed if there is a subsequent gain.	No explicit guidance on this scenario.
Substantial Period of Time	No specific explanation.	Defined as twelve months.
Hyperinflationary Economies	Part of borrowing costs compensating for inflation should be expensed.	No similar provision.
Capitalisation Rate	Requires disclosure of the capitalisation rate used.	No such disclosure requirement.
Foreign Currency Borrowing	Difference computed with reference to functional currency.	Difference computed between local currency and foreign currency.

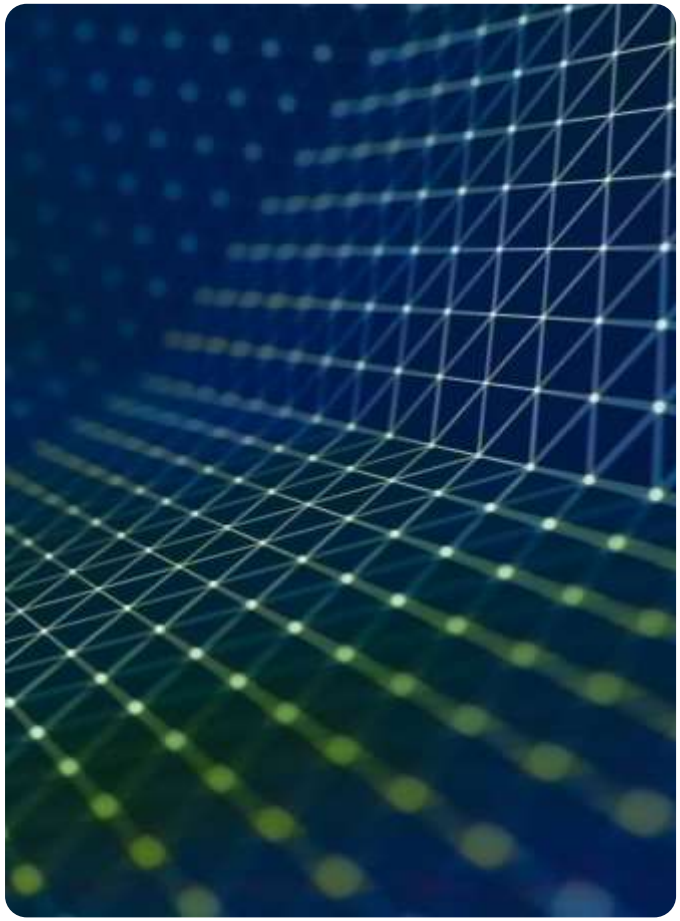
Key Challenges

Aspect	Considerations
Borrowing Cost Capitalisation at the Transition Date	• In the absence of a specific exemption, a first-time adopter must apply Ind AS 23 retrospectively. • If the entity uses the fair value as deemed cost exemption for PPE under Ind AS 101: No need to retrospectively adjust borrowing costs already capitalised. • If the entity decides to reconstruct the cost of the PPEs retrospectively without using deemed cost: Borrowing costs must be adjusted at the transition date (e.g., Borrowing costs arising from EIR computations and dividends on preference shares related to the pre-transition period).

QUESTIONS AND ANSWERS



THANK YOU



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