

Ahmedabad Branch of WIRC of ICAI
“ICAI BHAWAN”, 123, Sardar Patel Colony,
Nr Usmanpura Under Bridge, Naranpura,
Ahmedabad – 380014
Email : ahmedabad@icai.in

23rd October, 2017

Re: Exposure Draft: AS 23 Borrowing Cost

Dear Sir,

We appreciate the opportunity to comment on AS Exposure Draft Borrowing Cost.

We would be pleased to respond to any questions the Board / Committee or its staff may have about any of our comments.

Please do not hesitate to contact me at +91 - 9099 921 163 or chintan@nareshco.com.

Yours Faithfully,
For Naresh J. Patel & Co.
Chartered Accountants

sd/-
Chintan Patel
Partner

1. Capitalisation Rate : To include illustration

14...The capitalisation rate shall be the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset...

In respect of Para 14 which describes capitalization of borrowing cost in respect of generally borrowed funds, there is confusion among industry as to method of computing the weighted average cost of capital particularly in case of owned funds, loan from related party at substantially reduced rates. The clarity on use of incremental borrowing rate of the entity in place of actual borrowing cost also need to be given. An illustration to calculate (WACC) covering these situations will able to clarify all these points.

2. Clarity on 'some circumstances' for considering related party borrowing costs

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

The number & types of inter-company transactions particularly loans and advances have increased manifold. The circumstances (illustrative list) in which it is appropriate to include all borrowings of parent and its subsidiaries for computing a weighted average of the borrowing costs is required for its implementation.

3. Introductory paragraph/purpose of the standard

The Ministry of Corporate Affairs has requested the Accounting Standards Board of The Institute of Chartered Accountants of India (ICAI) to upgrade Accounting Standards, as notified under Companies (Accounting Standards) Rules, 2006, to bring them nearer to Indian Accounting Standards. Accordingly, the Accounting Standards Board, ICAI, initiated to upgrade these standards which will be applicable to all companies having net-worth less than Rs. 250 crores including non-corporate entities. While formulating these Accounting Standards, the Accounting Standards Board, ICAI, decided to maintain the consistency with the numbering of Standards of the Indian Accounting Standards).

IASB has developed two sets of standards namely IFRS and IFRS for SMEs. IFRS for SME are developed for small medium size entities, private entities and non-publicly accountable entities. To enhance compliance of the standards, IFRS for SMEs are structured in easy manner, lucid language, less voluminous and significantly diluted version of IFRS. Accounting Standards (AS) are also applicable to private entities, SMEs and non-publicly accountable entities. Upgrading AS in line with Ind AS will defeat the whole purpose of making compliance smooth and easy. Hence, it would be suggested to frame the AS in line with IFRS for SMEs like Ind AS in line with IFRS.

4. Disclosure of capitalisation rate

The capitalization rate is important assumption used in capitalization of borrowing costs. The disclosure of the same will increase transparency and ensure compliance in true spirit.