

**SBS Hyderabad**  
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*Income Computation and Disclosure Standard*  
**ICDS IX – Borrowing Costs**

by

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# SYNOPSIS

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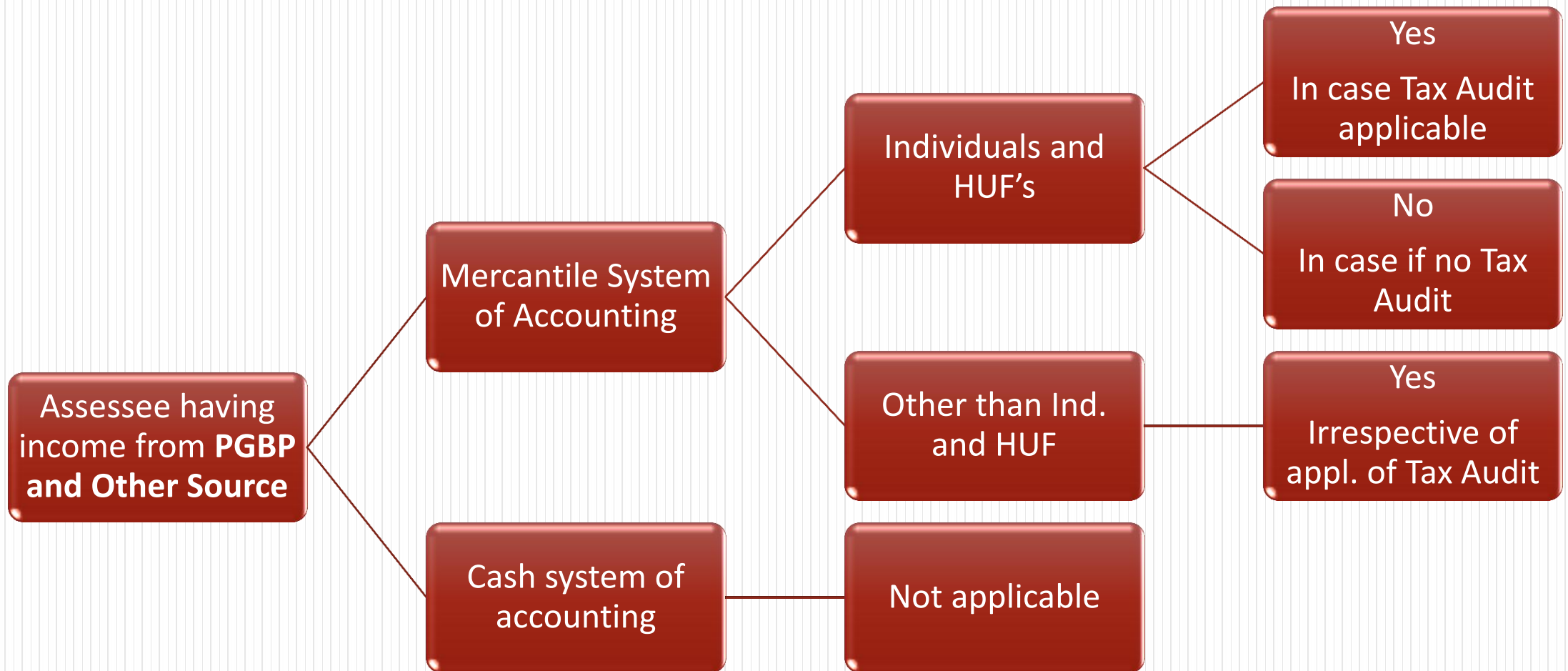
- Introduction and Applicability of ICDS
- Scope of ICDS – IX Borrowings Costs
- Definitions
- Recognition of Borrowing Costs
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# Introduction

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- Powers granted to CG under section 145(2) of the IT Act to notify ICDS and 10 ICDS were notified on 31<sup>st</sup> March 2015.
- However the applicability of ICDS was made from A.Y 2017-18.
- Not for the purpose of maintenance of books of accounts.(Notification S.O.892(E) dated 31.03.2015).
- In the case of conflict between the provisions of the Income-tax Act, 1961 ('the Act') and the ICDS, the provisions of the Act shall prevail to that extent.

# Applicability of ICDS





**Income Computation and Disclosure  
Standard IX - Borrowing Costs**

# Scope of ICDS - IX

## Income Computation Disclosure Standard – IX

- It primarily deals with treatment of Borrowing Costs i.e., deals with:
  - the Timing and
  - the Circumstances

under which borrowing costs are to be **Capitalised**.

- It does not deal with:
  - Actual or imputed cost of owners equity and preference share capital.
  - Borrowing cost which are allowable as deduction. (*u/s 36(1)(iii), explanation & u/s 43(1), u/s 57(iii)*).
- Further only borrowing costs which are otherwise allowable as deduction are to be considered, and not borrowing costs disallowed under sections 43B, 40A(2), etc. *Circular no. 10/2017, dated 23rd March 2017.*



## *Borrowing Costs*

Interest & Other costs

incurred by a person in connection with the borrowing of funds and **include:**

- commitment charges on borrowings,
- amortised amount of discounts or premiums relating to borrowings,
- amortised amount of ancillary costs incurred in connection with the arrangement of borrowings,
- finance charges in respect of assets acquired under finance leases or under other similar arrangements.

## *Qualifying Asset*

*Qualifying asset means:*

- **Tangible Assets:** Land, Building, Machinery, Plant or Furniture.
- **Intangible Assets:** Know-how, Patents, Copy rights, Trade marks, Licences, Franchises or any other business or commercial rights of similar nature.
- **Inventories** that require a period of 12 months or more to bring them to a saleable condition.



## Other Points:

- The term “interest” is not defined in the ICDS, therefore it would have the same meaning as contained in section 2(28A) of the Act, i.e.

“interest” means

- interest payable in any manner
- in respect of any moneys borrowed or debt incurred (including a deposit, claim or other similar right or obligation) and
- includes any service fee or other charge in respect of the moneys borrowed or debt incurred or in respect of any credit facility which has not been utilised.



- Borrowing costs that are directly attributable to the
  - Acquisition or
  - Construction or
  - Production

of a qualifying asset shall be capitalised as part of the cost of that asset.

- For the purposes of this ICDS, "*capitalisation*" in the context of inventory means addition of borrowing cost to the cost of inventory."
- The Capitalization of borrowing cost shall continue as part of cost of the asset till the asset is **put to use.**



## Borrowing Costs Eligible for Capitalisation:

### In case of **Specific Borrowings**

- the amount of borrowing costs to be capitalised shall be the **actual borrowing costs incurred during the period** on the funds so borrowed.

### In case of **\*General Borrowings**

- the amount of borrowing costs to be capitalised shall be **in accordance with the formulae.**

\*Capitalization of General borrowings is only for those assets that necessarily **require period of 12 months or more** for acquiring, construction, production.

# Eligibility for Capitalisation



- Pro rata borrowing costs allocation based on formula =  $[A*B/C]$

<b>A =</b> General Purpose Borrowing Costs ( <i>i.e excludes the borrowing costs incurred during the P.Y on specific borrowings</i> )	
<b>B =</b>	<b>Cost of Qualifying Assets</b>
Assets appearing on the first and last day of Previous Year	the average of costs of qualifying asset as appearing in the balance sheet of a person on the first day and the last day of the previous year
Assets does not appear on the balance sheet of the person on the first day of the previous year	half of the cost of qualifying asset
Assets does not appear on the balance sheet of the person on the Last day of the previous year	The average of the costs of qualifying asset as appearing in the balance sheet of a person on the first day of the previous year and on the date of put to use or completion, as the case may be, excluding the extent to which the qualifying assets are directly funded out of specific borrowings
<b>C =</b> the average of the amount of total assets as appearing in the balance sheet of a person on the first day and the last day of the previous year, other than assets to the extent they are specifically funded	

# Commencement of Capitalisation

Capitalisation of borrowing costs shall commence:

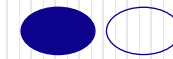
- In case of Specific Borrowings - from the date on which funds were **Borrowed**.
- In case of General Borrowings - from the date on which funds were **Utilised**.

***Example – in case of Specific Borrowings***

Financial Year	2017-18
Date of Borrowings	01.04.2017
Date of Utilization of Funds	01.12.2017
Amount borrowed	50 Lakhs
Interest Rate	10% p.a
Date of Asset put to use	01.04.2018
Borrowing costs to be capitalized as per ICDS – IX	Rs.5,00,000

# Cessation of Capitalisation

S.No	Particulars	In case of Tangible & Intangible assets	In Case of Inventory
a.	When Acquisition / Production / Construction is completed	when such asset is first put to use	when substantially all the activities necessary to prepare such inventory for its intended sale are complete
b.	When construction of a qualifying asset is completed in parts & <ul style="list-style-type: none"> <li>completed part is capable of being used</li> <li>while construction continues for the other parts</li> </ul>	when such part of a qualifying asset is first put to use	when substantially all the activities necessary to prepare such part of inventory for its intended sale are complete.
c.	Example for (b.)	In case of construction of 5 floored building where first floor is completed, capitalization of borrowing cost shall cease when such first floor is first put to use	In case of construction of plant, involving 3 processes capitalization of borrowing cost shall cease on completion of all the processes.



## Disclosure under Tax Audit Report under clause 13(d)

- Whether any adjustment is required to be made to the profit / loss for complying with the provisions of Income Computation & Disclosure Standards notified under section 142(2) **YES**

## Disclosure under Tax Audit Report under clause 13(e)

- If answer to (d) is affirmative, give details of such adjustments

S.No.		ICDS	Increase in profit (Rs.)	Decrease in profit (Rs.)	Net effect (Rs.)
1	<input checked="" type="checkbox"/>	ICDS IX - Borrowing Costs	10000	0	10000
Total			10000	0	10000

# Disclosures



## Disclosure under Tax Audit Report under Clause 13(f)

- Disclosure as per ICDS

S.No.		ICDS	Disclosure
1	<input checked="" type="checkbox"/>	ICDS IX Borrowing Costs	<ol style="list-style-type: none"><li>1. Accounting Policy adopted for Borrowing Cost.</li><li>2. Amount of Borrowing Costs capitalised during the P.Y</li></ol>

# Basis of Difference



S.No	Basis	ICDS – IX	AS – 16 / Ind AS
1.	Qualifying Asset	Qualifying assets are any Tangible and Intangible asset and inventory which require time of 12 months or more to bring them in saleable condition.	An asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Ind AS 23: excludes qualifying asset measured at fair value and inventories that are manufactured, or otherwise produced, in large quantities on a repetitive basis.
2.	Capitalization of General Borrowings	As per the Formulae	Determined by applying the capitalization rate on the expenditure
3.	Commencement of Capitalization	Capitalization will commence from the date when funds are utilized in case of inventories/borrowed.	Capitalization will commence when: Expense and Borrowing Cost are incurred and activities, to prepare the asset for sale,
4.	Suspension of capitalization	There is no condition mentioned for suspension of capitalization.	Capitalisation suspended during extended periods in which active development is interrupted.



# Basis of Difference



S.No	Basis	ICDS – IX	AS – 16 / Ind AS
5.	Income from temporary investment	ICDS does not specify about the treatment	income earned from it will be reduced from the actual borrowing cost.
6.	Exchange Difference	Borrowing Costs definition does not include the treatment. However as per ICDS –VI Not Treated as Borrowing cost to be charged to P&L acc.	Includes the Foreign Currency Borrowings

- Effect of ICDS is not applicable for computation of MAT provisions of ICDS are applicable for computation of income under the regular provisions of the Act.

## **Non Compliance of ICDS :**

- Where the Assessing Officer is not satisfied about the
  - correctness or completeness of the accounts of the assessee, or
  - where the method of accounting has not been regularly followed by the assessee, or
  - income has not been computed in accordance with the standards notified
- the Assessing Officer may make an assessment in the manner provided in section 144.

At

*SBS Hyderabad*

**Thank you!!!**

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