IFRS Impact - Borrowing Costs

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Abstract

Treatment of borrowing costs is a key issue in financial reporting as it affects the measurement of financial performance and position of an enterprise. Borrowing costs in general are recognized as an expense. However, in certain situations borrowing costs, that are directly attribuTable to the acquisition, construction or production of a qualifying asset, form part of the cost of that asset. This is where the recognition and measurement of borrowing costs becomes crucial as their treatment directly impacts the determination of profitability and valuation of the corresponding liability. The main issue in the treatment of borrowing costs, therefore, revolves around costs to be capitalized. The treatment as provided in 'Accounting Standard 16' (AS 16: Indian. Existing) has been totally revamped by 'Indian Accounting Standard 23' (Ind AS 23), based on the concept of effective interest rate method, issued in convergence with the corresponding International Financial Reporting Standard IAS 23. This paper identifies key distinctive features of Ind AS 23 'Borrowing Costs' corresponding to existing AS 16 and IAS 23, measures the impact of accounting treatment as per Ind AS 23 on the financial position and the performance of an enterprise, and analyses the financial consequences thereof. It is found that implementation of Ind AS 23 will result into understatement of borrowing liabilities in company balance sheets, overstatement of borrowing costs in the statements of profit and loss, understatement of profits to that extent and therefore revenue loss to the government. Though the implementation of IFRS converged accounting standards has been deferred in India, in tune with the global developments and in pursuance to G-20 commitment, India is also committed to IFRS compliance and it is only a matter of time before they are implemented.

Key Words: AS, EIRM, IAS, IFRS, Ind AS.