

**Recognition and Measurement of Borrowing Costs as per IFRS-23:
Suggestions for Paradigm Shift towards Introduction of a New Improved
Framework**

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Abstract

The recognition and measurement of borrowing costs becomes crucial in financial reporting as their treatment directly impacts the determination of profitability and valuation of the corresponding liability. Main issue in the treatment of borrowing costs therefore revolves around costs to be capitalized. The treatment as provided in existing 'Accounting Standard 16' in India has been totally revamped by 'Indian Accounting Standard 23' (Ind AS 23), based on the concept of Effective Interest Rate Methodology (EIRM), issued in convergence with the corresponding International Financial Reporting Standard (IFRS) -IAS 23. EIRM is however quite complex and cumbersome. This paper identifies key distinctive features of IAS (IFRS) 23/IFRS Converged Ind AS 23 'Borrowing Costs' corresponding to existing AS 16, brings out its complexities and introduces a new 'Sum of the Principal Outstanding Method' (SPUM) for simplification of EIRM and measures the impact of suggested methodology to assess whether it leads to any deviation in the diagnostic character of the existing methodology.

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