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B.Com Honours | Semester III | Calicut University

CORPORATE FINANCIAL STATEMENTS

Course Code: COM3MN203 • Module 2 Notes

Module II: Accounting Standards for Liabilities & Expenses (Ind AS)

Focuses on accounting principles governing borrowing costs incurred during qualifying asset construction and accounting for income taxes, including deferred tax assets and liabilities.

Unit 4: Accounting for Borrowing Costs (Ind AS 23) – Capitalization Criteria & Qualifying Assets

1. Qualifying Asset: An asset that necessarily takes a substantial period of time (typically 12 months or more) to get ready for its intended use or sale.
2. Capitalization Principles: Borrowing costs directly attributable to the acquisition or construction of a qualifying asset are capitalized as part of asset cost. Other borrowing costs are expensed.

> **Capitalized Borrowing Cost = Specific Borrowing Interest - Investment Income on Temporary Re-investment**

Unit 5: Income Taxes (Ind AS 12) – Current Tax & Deferred Tax (DTA / DTL)

1. Balance Sheet Approach: Compares Accounting Base (carrying amount in financial statements) with Tax Base (value for tax authorities).
2. Deferred Tax Liability (DTL): Arises when Carrying Amount of Asset > Tax Base of Asset (tax payable in future periods).
3. Deferred Tax Asset (DTA): Arises when Carrying Amount of Asset < Tax Base of Asset (tax deductible in future periods).

> **Deferred Tax Expense = (Temporary Difference) × Enacted Tax Rate**

Practical Problem 2 (Ind AS 23 Borrowing Cost & Ind AS 12 Deferred Tax DTL Computation):
Part A (Borrowing Costs): Construction of a factory building (Qualifying Asset). Specific bank loan borrowed = Rs. 50,00,000 at 12% p.a. Construction period = 12 months. Temporary investment income earned on unused loan funds = Rs. 1,00,000. Calculate interest to be capitalized.
Part B (Deferred Tax): Carrying Amount of Machine = Rs. 10,00,000. Tax Base of Machine (due to accelerated tax depreciation) = Rs. 6,00,000. Enacted tax rate = 30%. Compute Deferred Tax Liability (DTL).

Step-by-Step Solved Computations:

- **Part A (Capitalization of Borrowing Cost):**
  Gross Interest Expense = (50,00,000 imes 12% = ext{Rs. 6,00,000}).
  Less: Temporary Investment Income = Rs. 1,00,000.
  > **Borrowing Cost to be Capitalized to Building = 6,00,000 - 1,00,000 = Rs. 5,00,000**

  Building Initial Cost Entry: Includes Rs. 5,00,000 capitalized interest.
- **Part B (Deferred Tax Liability under Ind AS 12):**
  Carrying Amount = Rs. 10,00,000; Tax Base = Rs. 6,00,000.

Taxable Temporary Difference = (10,00,000 - 6,00,000 = ext{Rs. 4,00,000}).

Deferred Tax Liability (DTL) = 4,00,000 × 30% = Rs. 1,20,000

Journal Entry: Profit & Loss A/c Dr. Rs. 1,20,000 To Deferred Tax Liability A/c Rs. 1,20,000.