A Study into the Impact of IFRS (Ind AS) 'Borrowing Costs' on Corporate Financials and Government Revenues

* *Ambrish Gupta*

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 a 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 the 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 the "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 the existing AS 16 and IAS 23, which measures the impact of accounting treatment as per Ind AS 23 on the financial position and performance of an enterprise, and analyzes the financial consequences thereof. It is found that implementation of Ind AS 23 will result in an 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.

Keywords: **accounting standards, EIRM, IAS, IFRS, Ind AS**

JEL Classification : G39, H2, M41

Paper Submission Date : December 14, 2013 ; Paper sent back for Revision : February 4, 2014 ; Paper Acceptance Date : March 12, 2014

International Financial Reporting Standards provide a single source of such standards, which could be used globally so as to provide financial information in the same language in view of the border less economies. Reliable, consistent, and uniform financial reporting is an important part of good corporate governance practices worldwide in order to enhance the credibility of businesses in the eyes of the investors and other stakeholders and to enable them to take well informed decisions leading to a healthy growth of the capital markets. In tune with the global developments, The Institute of Chartered Accountants of India (ICAI) prepared 35 Indian Accounting Standards (Ind ASs) in convergence with International Financial Reporting Standards (IFRSs) and sent them to the National Advisory Committee on Accounting Standards (NACAS) of the Ministry of Corporate Affairs (MCA). NACAS recommended them on June 30, 2011 with some carve outs. As per the initial plans, Ind ASs were to be implemented in a phased manner w.e.f. April 1, 2011. However, mainly due to the differences within the government itself, particularly the Ministry of Finance, which views that "For the purposes of taxation, companies will have to continue with the historical system of accounting because IFRS allows significant under-reporting of profits," and the demand of the industry to get more time to be Ind AS compliance ready, the MCA deferred their implementation vide press note dated February 25, 2011. The press release also stated that the Ministry will implement the IFRS Converged Ind ASs in a phased manner after various issues, including the tax related issues, are resolved with the concerned authorities (Gupta, 2012).

PricewaterhouseCoopers LLP listed 147 countries across the globe, as of April 2013, which are already either using or have plans for conversion to International Financial Reporting Standards (PricewaterhouseCoopers LLP, 2013). India, too, cannot remain aloof from the global developments, and it is just a matter of time before the Ind ASs are implemented here as well. The present paper seeks to analyze the impact of one such standard, Ind AS 23,

* *Senior Professor - Finance and Accounts*, FORE School of Management, B-18, Qutub Institutional Area, New Delhi - 110 016. E-mail : ambrish@fsm.ac.in

which deals with the treatment of borrowing costs on the financial position and performance of an enterprise vis-a-vis AS 16. Borrowings contribute to a major part of the industrial financing structures all over the world. Consequently, borrowing costs play a very crucial role in ascertaining corporate profitability. Hence, a study of the treatment of costs of borrowings in the international context assumes high significance. That is why this topic has been chosen for the present paper.

Significance of Borrowing Costs

Treatment of borrowing costs is a key issue in financial reporting as it affects the measurement of financial performance and the position of an enterprise. It is the subject matter of existing AS 16 and IFRS Converged Ind AS 23 as formulated in India and IAS 23 at the international level. All these standards seek to prescribe the accounting treatment and disclosure requirements for borrowing costs in the financial statements. 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. In other words, such borrowing costs are capitalized and not charged as an expense. 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. Main issue in the treatment of borrowing costs revolves around costs to be capitalized. The treatment as provided in AS 16 (Indian, existing) has been totally revamped by IFRS converged Ind AS 23. Ind AS 23 is in line with the IAS 23 formulated by the International Accounting Standards Committee (IASC) later renamed as International Accounting Standards Board (IASB) of the International Financial Reporting Standards (IFRS) foundation. Standards formulated by the erstwhile IASC retain the nomenclature of IAS, though they represent only the IFRSs. In tune with the global developments and in pursuance to G-20 commitment, India is also committed to IFRS compliance (Gupta, 2012).

Objectives of the Study

This paper seeks to serve the following ends:

(1) Identification of key distinctive features of IFRS Converged Ind AS 23 'Borrowing Costs' corresponding to existing AS 16 and IAS 23.

(2) Measurement of the impact of accounting treatment as per Ind AS 23 on the financial position and performance of an enterprise vis-à-vis AS 16.

(3) Measurement of the impact of accounting treatment as per Ind AS 23 on the government revenues vis-à-vis AS 16.

Hypotheses

The following hypotheses have been formed towards the above objectives:

➔ **H_o: IFRS Converged Ind AS 23 has no impact on corporate financials and government revenues vis-à-vis AS 16.**

➔ **H_a: IFRS Converged Ind AS 23 has an impact on corporate financials and government revenues vis-à-vis AS 16.**

Conceptual Framework

The conceptual framework for recognition, measurement, and disclosure of borrowing costs in the financial

statements draws from a number of accounting/financial reporting standards on the subject. These standards are:

(1) "AS 16: Borrowing Costs", issued by the ICAI [The Institute of Chartered Accountants of India (ICAIa), (n.d.)].

(2) "IFRS Converged Ind AS 23: Borrowing Costs", issued by the ICAI [The Institute of Chartered Accountants of India (ICAIb), (n.d.)].

(3) " IAS 23: Borrowing Costs," issued by the IFRS Foundation [The IFRS Foundation,(n.d.)].

(4) "IFRS Converged Ind AS 39 - Financial Instruments: Recognition and Measurement," issued by the IFRS Foundation [The Institute of Chartered Accountants of India (ICAIc), (n.d.).

Discussion on the core provisions of these standards follows in the subsequent sections.

AS 16: Borrowing Costs

This standard was issued by the ICAI in the year 2000 and is in effect, as of now in India, a mandatory standard.

(1) The Core Principle: Borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset should form part of the cost of that asset and ,therefore, should be capitalized. Other borrowing costs should be recognized as an expense in the period in which they are incurred.

In this context, we need to understand what constitutes 'borrowing costs' and 'qualifying asset'. The standard provides as under:

(2) Borrowing Costs Defined: Borrowing costs are interest and other costs incurred by an enterprise in connection with the borrowing of funds. Borrowing costs may include:

(1) Interest and commitment charges on bank borrowings and other short-term and long-term borrowings,
(2) Amortization of discounts or premiums relating to borrowings,
(3) Amortization of ancillary costs incurred in connection with the arrangement of borrowings,
(4) Finance charges in respect of assets acquired under finance leases or under other similar arrangements, and
(5) Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest.

(3) Qualifying Asset: A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. What constitutes a substantial period of time primarily depends on the facts and circumstances of each case. However, ordinarily, a period of 12 months is considered as substantial, unless a shorter or longer period can be justified on the basis of facts and circumstances of the case. In estimating the period and time which an asset takes, technologically and commercially, to get it ready for its intended use or sale is considered. Examples of qualifying assets are:

(1) Manufacturing plants,
(2) Power generation facilities,
(3) Inventories that require a substantial period of time to bring them to a saleable condition, and
(4) Investment properties.

Other investments and those inventories that are routinely manufactured or otherwise produced in large quantities on a repetitive basis over a short period of time are not qualifying assets. Assets that are ready for their intended use or sale when acquired also are not qualifying assets.

Now, at what stage should the capitalization of borrowing costs commence? The standard provides as follows :

(4) Commencement of Capitalization: The capitalization of borrowing costs as part of the cost of a qualifying asset commences when all the following conditions are satisfied:

(1) Expenditure for the acquisition, construction, or production of a qualifying asset is being incurred,

(2) Borrowing costs are being incurred, and

(3) Activities that are necessary to prepare the asset for its intended use or sale are in progress.

The capitalization will continue until the qualifying asset is ready for use or sale. Thereafter, it will cease and the borrowing costs will be charged as expenses in the statement of profit and loss until the borrowings are fully redeemed. Therefore, ascertainment of when the asset is ready for use/sale assumes a great significance. The standard provides as under:

(5) Cessation of Capitalization: Capitalization of borrowing costs ceases when (substantially) all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. An asset is normally ready for its intended use or sale when its physical construction or production is complete, even though routine administrative work might still continue. If minor modifications, such as the decoration of a property to the user's specification, are all that are outstanding, this indicates that substantially, all the activities are complete. How will the users of financial statements appreciate whether the company concerned has followed this accounting standard? The standard provides as under:

(6) Disclosures in the Financial Statements: The financial statements should disclose:

(1) The accounting policy adopted for borrowing costs, and

(2) The amount of borrowing costs capitalized during the period.

(7) A Case Illustrated: Now follows a case illustrating the accounting treatment of borrowing costs as per AS 16 and its consequent effects on the measurement and disclosure of profitability and financial position of an enterprise.

➔ **Case of Patanjali Healthcare Ltd. :** Patanjali Healthcare Ltd. borrows ₹ 100 crores @ 14% P.A. from IFBI Ltd. as a term loan for constructing a pharmaceutical plant at the beginning of year 1. The loan is repayable in five equal installments every year end. Interest on outstanding loan has to be paid at the end of every year. The company pays an upfront fee of 1% to IFBI Ltd. The company also pays a fee of 2% to the consultant engaged for the purpose. The plant will take a year for completion. The Table 1 depicts the accounting treatment of borrowing costs to be

Table 1. Patanjali Healthcare Ltd. - Borrowing Costs to be Capitalized as per AS 16

	Rate	Amount (₹ crores)
Transaction costs:		
1. Upfront fee to IFBI Ltd.	1% of ₹ 100 crores	1.00
2. Consultant's fee	2% of ₹ 100 crores	2.00
3. Sub-total		**3.00**
Interest for year 1	14% of ₹ 100 crores	14.00
	Total........	**17.00**

Notes:

1. Data source: As given in the case.
2. Computations: Self explanatory.
3. Plant in the balance sheet will be initially recognized at ₹ 117.00 crores.

Table 2. Patanjali Healthcare Ltd. - Borrowing Costs to be Charged as Expenses as per AS 16

Year	Term Loan	Principal Repayment	Outstanding Balance		Amount (₹ crores)	
					Interest	
				Paid	Capitalized	Expensed
Beginning of year 1	100.00	....	100.00	....	....	....
End of year 1	....	20.00	80.00	14.00	14.00	....
End of year 2	....	20.00	60.00	11.20	....	11.20
End of year 3	....	20.00	40.00	8.40	....	8.40
End of year 4	....	20.00	20.00	5.60	....	5.60
End of year 5	....	20.00	....	2.80	....	2.80
	Total.....	**100.00**	**....**	**42.00**	**14.00**	**28.00**

Note: Interest paid has been calculated @ 14% on last year's outstanding balance.

capitalized in the financial statements in accordance with AS 16, that is, the practice being followed as at present in India. The Table 2 depicts the accounting treatment of borrowing costs to be charged as expenses in the statement of profit and loss. We now move over to the IFRS Converged Ind AS 23 corresponding to the existing AS 16.

IFRS Converged Ind AS 23: Borrowing Costs

The standard, issued by the ICAI, is in line with IAS 23 issued by the IFRS Foundation. Core principle, commencement of capitalization, and cessation of capitalization as per Ind AS 23 are exactly the same as in AS 16. However, there are differences in respect of *'inclusions'* in the borrowing costs, qualifying asset, and disclosure requirements as discussed hereunder.

(1) Borrowing Costs Defined: While the basic definition of borrowing costs as in AS 16 has been retained, only three inclusions have been specified instead of five as in AS 16. These are:

(1) Interest expense calculated using the effective interest rate method (EIRM) as described in Ind AS 39 "Financial Instruments: Recognition and Measurement".

(2) Finance charges in respect of finance leases recognized in accordance with Ind AS 17 'Leases'.

(3) Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

The first inclusion, as stated above, is a comprehensive item encompassing the first three inclusions as specified in AS 16.

(2) Qualifying Asset: Here also, the definition as given in the AS 16 has been retained. However one more 'inclusion,' that is, 'intangible assets' has been added to the list of four inclusions as specified in AS 16, increasing the total inclusions to five.

(3) Disclosures in the Financial Statements: An entity needs to disclose the following information in its financial statements:

(1) The amount of borrowing costs capitalized during the period, and

(2) The capitalization rate used to determine the amount of borrowing costs eligible for capitalization.

In comparison to AS 16, the first disclosure requirement thereof, that is, accounting policy has been deleted.

The requirement of capitalization rate has been added. However, these two disclosures, put together, constitute the accounting policy itself.

Major Differences Between AS 16 and IFRS Converged Ind AS 23

While AS 16 requires actual interest expense to be capitalized, as illustrated in the case above, IFRS Converged Ind AS 23 requires calculating the effective interest expense to be capitalized using the EIRM as described in Ind AS 39 "Financial Instruments: Recognition and Measurement". It ,therefore, becomes necessary to have a look at the corresponding provisions of Ind AS 39 to understand what EIRM is.

IFRS Converged Ind AS 39: Financial Instruments - Recognition and Measurement

The provisions of Ind AS 39, issued by the ICAI, relevant for the purposes of advancing this paper are briefed hereunder.

(1) Initial Measurement of Financial Liability at Amortized Cost: The amortized cost of a financial liability (say, loan taken) is the amount at which the financial liability is measured at initial recognition minus principal repayments and cumulative amortization, using the EIRM, of any difference between that initial amount and the maturity amount. This leads us to EIRM.

(2) Effective Interest Rate Method (EIRM): The effective interest rate method is a method of calculating the amortized cost of a financial liability and of allocating the interest expense over the life of the liability. The effective interest rate (EIR) is the rate that exactly discounts estimated future cash outflows through the expected life of the financial liability. When calculating the EIR, an entity needs to estimate cash flows, considering all contractual terms of the financial liability (for example, prepayment, call, and similar options), but should not consider future credit losses. The calculation includes all 'transaction costs' and all other debt premiums or discounts. This leads us to 'transaction costs'.

(3) Transaction Costs: Transaction costs are incremental costs that are directly attributable to the acquisition, issue, or disposal of a financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued, or disposed of the financial liability. Transaction costs include:

(1) Fees and commissions paid to agents, advisers, brokers and consultants, and so forth.
(2) Levies by regulatory agencies and securities exchanges, and
(3) Transfer taxes and duties.

Ind AS 39 has thus introduced the concept of discounted cash flows (DCF-time value of money) in the computation of interest expenses for the purposes of Ind AS 23. Furthermore, this concept takes into account effective interest expenses and not the actual expenses incurred.

➔ **Case of Patanjali Healthcare Limited Continued :** The case of Patanjali Healthcare Ltd. is continued to illustrate the accounting treatment of borrowing costs as per Ind AS 23 and its consequent effects on the measurement and disclosure of profitability and financial position of the company. The following tables illustrate the application of EIRM. Let us first workout cash outflows in years 1 to 5. The Table 3 provides the details.

Moving further, the Table 4 provides the details of EIR or internal rate of return (IRR), amortized cost of the loan, and allocation of effective interest expenses over the life of the loan, that is, 5 years.

Table 3. Patanjali Healthcare Ltd., Determination of Cash Outflows as per Ind AS 39

Year	Term Loan Taken	Principal Repayment	Outstanding Balance	Interest paid	Amount (₹ crores) Cash Outflows (Principal Repayment + Interest Paid)
Beginning of year 1	100.00	....	100.00	....	...
End of year 1	....	20.00	80.00	14.00	34.00
End of year 2	....	20.00	60.00	11.20	31.20
End of year 3	....	20.00	40.00	8.40	28.40
End of year 4	....	20.00	20.00	5.60	25.60
End of year 5		20.00	....	2.80	22.80
	Total.....	**100.00**	**....**	**42.00**	**142.00**

Notes:

1. Data source: As given in the case.
2.Interest paid calculated @ 14% on last year's outstanding balance.
3. Rest of the computations: Self explanatory.

Table 4. Patanjali Healthcare Ltd., Determination of EIR, Amortized Cost, and Allocation of Interest Expenses as per Ind AS 39

1 Year	2 Cash Flows- Inflow/(Outflow)	3 Remaining Principal Balance or Amortized Cost	4 Interest Payable	5 Principal Repayment	Amount (₹ crores) 6 Allocation of Interest Payable Capitalized	7 Expensed
Beginning of year 1	**97.00**	**97.00**	**....**	**....**		
End of year 1	(34.00)	77.91	**14.91**	19.09	**14.91**	....
End of year 2	(31.20)	58.68	11.97	19.23		11.97
End of year 3	(28.40)	39.30	9.02	19.38		9.02
End of year 4	(25.60)	19.74	6.04	19.56		6.04
End of year 5	(22.80)	0.07	3.03	19.77		3.03
Total outflows....	**(142.00)**	----	**44.97**	**97.03**	**14.91**	**30.06**
IRR, i.e., EIR=15.37%						

➔ Methodology Followed For EIR Computations in Table 4

(1) Column 2: Cash inflow in the beginning of year 1 (97.00 crores) = Principal loan (100.00 crores) - Upfront fee (1.00 crore) - Consultant's fee (2.00 crores). This is the remaining principal balance or amortized cost in the beginning of year 1 as per the EIRM.

(2) Cash outflows in years 1 to 5: As per the Table 3.

(3) IRR of these cash flows arrived at by feeding the inflow and outflows in excel software is 15.37%. This is the effective interest rate (EIR) also called the capitalization rate.

(4) Interest payable in column 4 = remaining principal balance in the beginning of the year or amortized cost* EIR. For example, for year 1, it is : 97.00*15.37% = 14.91.

(5) Principal repayment in column 5 = total cash outflow in column 2 minus interest payable in column 4. Thus, for year 1: 34.00 - 14.91= 19.09. Remaining principal balance or amortized cost at the end of year 1: 97.00 - 19.09 = 77.91.

(6) Procedure repeated for all the years.

B7	= IRR((A1:A6))	
fx	**A**	**B**
1	97.00	
2	-34.00	
3	-31.20	
4	-28.40	
5	-25.60	
6	-22.80	
7	**IRR**	**15.37%**

➔ **Interpretation of the Table 4:** It is explained hereunder :

(1) Out of total cash outflow of ₹142.00 crores over 5 years, interest payable amounts to ₹ 44.97 crores, and principal repayment to ₹ 97.03 crores.

(2) 1st year's interest of ₹14.91 crores is to be capitalized and for rest of the years (as per column 7), totaling to ₹ 30.06 crores, it has to be charged to the respective year's statement of profit and loss.

(3) As against principal balance of ₹ 97.00 crores, ₹ 97.03 crores has been paid. Difference of ₹ 0.03 crores represents the rounding effect.

(4) Balance sheets of the respective years will show the amortized cost of loan as per column 3.

Impact of IFRS Converged Ind AS 23 on Financial Position and Performance

The Tables 5 and 6 measure the impact of Ind AS 23 on financial position and performance of Patanjali Healthcare Ltd. The Table 5 shows the impact on financial performance. The Table 6 shows the impact of Ind AS 23 on financial position.

Analysis and Discussion

EIRM is based on the principle of effective inflows from a transaction and recomputation of borrowing cost with reference to it. The resultant figure is effective borrowing cost. Transaction here in the case of Patanjali Healthcare Ltd. is borrowing of ₹ 100.00 crores from IFBI Ltd. Transaction costs of ₹ 3.00 crores have been incurred to fetch

Table 5. Patanjali Healthcare Ltd., Impact of Ind AS 23 on the Financial Performance: Relevant Parts of Statements of Profit and Loss for Years 1 to 5

					Amount (₹ crores)
EXPENSES			**Year end.......**		
Borrowing Costs:	**1**	**2**	**3**	**4**	**5**
1. Per AS 16	(Capitalized)	11.20	8.40	5.60	2.80
2. Per Ind AS 23	(Capitalized)	11.97	9.02	6.04	3.03
3. **Impact.......(2 *minus* 1)**	**Nil**	**0.77**	**0.62**	**0.44**	**0.23**

Notes:
1. Data source:
1.1 Borrowing costs (Interest: AS 16)......Table 2.
1.2 Borrowing costs (Interest: Ind AS 23)........Table 4.
2. Sub-totals and Impact computations: Self explanatory.

Table 6. Patanjali Healthcare Ltd., Impact of Ind AS 23 on the Financial Position: Relevant Parts of Balance Sheets for the Years 1 to 5

				Amount (₹ crores)	
EQUITY AND LIABILITIES			**Year end.......**		
Non-Current Liabilities: Long Term Borrowings-IFBI Term Loan	**1**	**2**	**3**	**4**	**5**
1. Per AS 16	80.00	60.00	40.00	20.00	Nil
2. Per Ind AS 23	77.91	58.68	39.30	19.74	0.07 (Nil)
3. Impact .....(2 *minus* 1)	**(-) 2.09**	**(-) 1.32**	**(-) 0.70**	**(-) 0.26**	**Nil**

Notes:
1. Data source: Table 2 and 4.
2. Impact computation: Self explanatory.
3. Term loan: 0.07 outstanding at the end of 5th year, as per Ind AS 23, is only due to rounding effect. Otherwise it is nil.
4. For simplicity, part of IFBI term loan payable in short term at the end of respective years has not been shown separately.

the borrowing. Effectively, therefore, the company receives a net ₹ 97.00 crore in this transaction. However, the interest that it has to pay at the rate of 14% on written down value is computed with reference to ₹ 100.00 crores, which works out to a total of ₹ 42.00 crores over 5 years. The argument advocated in Ind AS 23 is that this interest is in effect being paid on ₹ 97.00 crores. Obviously, with this argument, interest of ₹ 42.00 crores is being borne by the company on ₹ 97.00 crores received, as against ₹100.00 crores, which results in effectively a higher rate of 15.37% as per the DCF technique, since the actual repayment of principal still remains at ₹100.00 crores. This is the effective interest rate for all practical purposes and ,therefore, Ind AS 23 prescribes recalculation of interest at this rate. Naturally, the interest portion out of total outflow of ₹142.00 crores will go up, resulting in a lower outflow of ₹ 97.00 crores towards the principal's repayment. Consequently, the balance sheet will disclose a lower liability and statement of profit and loss at lower profit.

This is very well proved in this case. The Tables 5 and 6 reveal the related results. The first year's interest being capitalized, there is no impact on the profitability in this year. From the 2nd year onwards, the profit is getting reduced every year over the remaining 4 years by ₹ 0.77 crore (77 lacs), ₹ 0.62 crore (62 lacs), ₹ 0.44 crore (44 lacs), and ₹ 0.23 crore (23 lacs) respectively (Figures in ₹ lacs have been given for better comprehension). Therefore, if Ind AS 23 were implemented, this will lead to reduced tax payments by the company or revenue loss to the exchequer. The Table 7 measures this loss assuming the rate of tax as 30%.

It is clear that the government will have to forego ₹ 23.10 lacs, ₹ 18.60 lacs, ₹ 13.20 lacs, and ₹ 6.90 lacs in the years 2 to 5 in that order totaling ₹ 61.80 lacs. This is about Patanjali Healthcare Ltd. alone and that too about just one transaction. Though the figures do not sound to be alarming, but how much revenue loss the government will

Table 7. Patanjali Healthcare Ltd., Revenue Loss to the Government for Years 1 to 5 if Ind AS 23 were Implemented

	Amount (₹ crores), unless otherwise specified				
			Year end.......		
Revenue Loss:	**1**	**2**	**3**	**4**	**5**
Understatement of profit (Impact as per table 5)	**Nil**	**0.77**	**0.62**	**0.44**	**0.23**
Tax rate	30%	30%	30%	30%	30%
Revenue loss to the government	Nil	0.23	0.19	0.13	0.07
Revenue loss to the government in ₹ lacs	**Nil**	**23.10**	**18.60**	**13.20**	**6.90**

Notes:
1. Data source: Table 5.
2. Computations: Self explanatory.
3. Figures in ₹ lacs have been given for better comprehension

have to suffer, on this count alone, when calculated for the entire corporate sector where total borrowings amount to lakhs of crores of rupees, is any body's guess.

Moving further, this is the impact of implementation of just one Ind AS. What will be the situation when all Ind ASs are implemented? This is where the fears of the Ministry of Finance lie, which is the reason behind deferment of Ind ASs as mentioned in the beginning of this paper. Coming to balance sheets, it comes out that values carried in the balance sheets are lower as per Ind AS 23 as compared to AS 16. It reduces the size of borrowing liabilities by ₹ 2.09 crores, ₹ 1.32 crores, ₹ 0.70 crore, and ₹ 0.26 crore over the first 4 years in that order. There is no impact on the fifth year as the loan is fully redeemed in this year. Does it mean that the leveraging capacity of the companies will go up? This could be the subject matter of further research.

To sum up, this research unequivocally proves that implementation of Ind AS 23 will result in 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. Thus, our hypothesis H_a is proved.

Conclusion

This study brings out very clearly that Ind AS 23 is conceptually more logical and strong. It follows the well established accounting and reporting principle of 'substance over form,' and at the same time, it is based on realistic business situations. By introducing the DCF technique, it aims at bringing financial accounting and financial management closer to each other. It also implies that, once implemented, disclosure of lower amortized value of borrowings in the balance sheets could improve corporate gearing capacity. However, it involves a cumbersome computation process for each and every borrowing transaction and ,therefore, is more time and cost consuming. Furthermore, the treatment prescribed is beyond the comprehension of common shareholders and investors. However, IFRSs (Ind ASs in India) being based on the concept of fair value, instead of historical cost, are bound to be complex and this poses a challenge before the IFRS Foundation. This is also one of the biggest criticisms against the adoption of IFRSs (Ind ASs) in India. I am of the opinion that following the principle of 'substance over form' in material borrowings should not be dumped simply for the sake of simplicity. At the same time, the IFRS Foundation also has to find out the ways and means for reducing the complexities. The Institute of Chartered Accountants of India also needs to take up this issue with the IFRS Foundation.

Research Implications

In the light of the discussion aforesaid, this research has many implications for the capital markets and the government's fiscal policies, as described hereunder:

(1) Decline in the reported corporate profits, after implementation of Ind AS 23, is bound to reporting of lower EPS (earnings per share ratio), PE (price earnings ratio), NAV (net asset value), and RONW (return on net worth ratio).

(2) The valuation of a company in the capital market is a direct function of these ratios and ,therefore, it may take a dive resulting into losses to the investors , which means that entire capital markets may undergo a beating.

(3) The revenue loss to the government may have a bearing on its fiscal policies. The government may be tempted to revise the tax rates northwards.

(4) Decline in the reported borrowings and net worth may lead to a changed DE (Debt Equity ratio). This will affect the leverage 'structure and capacity' of the corporates and ,therefore, may impact their equity raising capacity.

(5) Theoretically also, the implementation of IFRS on borrowing costs involves cumbersome computation process for each and every borrowing transaction and ,therefore, is more time and cost consuming particularly for the corporates. This also raises the issue of a trade-off between the cost and benefit of its implementation.

Limitations of the Study and Scope for Further Research

Limitation of this research is that it is based on a case study. In the light of this limitation and the above implications, among others, the under mentioned areas may be explored for further research:

(1) Advancing this study with all actual borrowing transactions of a sample of companies, say, 30 BSE (Bombay Stock Exchange) Sensex companies.

(2) Impact of Ind AS 23 on different financial ratios.

(3) Impact of the impacted ratios on the corporate valuation and capital markets.

(4) The likely impact on the government's fiscal policy.

(5) The likely impact on equity raising capacity of India Inc.

(6) Cost - benefit analysis of its implementation.

References

Gupta, A. (2012). *Financial accounting for management: An analytical perspective* (pp. 173 -174). New Delhi: Pearson Education.

PricewaterhouseCoopers LLP. (2013). IFRS adoption by country. Retrieved from http://www.pwc.com/en_US/us/issues/ifrs-reporting/publications/assets/pwc-ifrs-by-country-apr-2013.pdf

The IFRS Foundation. (n.d.). IAS 23: Borrowing costs. Retrieved from http://220.227.161.86/23722IndAS-39.pdf

The Institute of Chartered Accountants of India (ICAIa). (n.d.). AS 16: Borrowing costs. Retrieved from http://220.227.161.86/27282asb-as-16.pdf

The Institute of Chartered Accountants of India (ICAIb). (n.d.). Ind AS 23: Borrowing costs. Retrieved from http://220.227.161.86/23711IndAS-23.pdf

The Institute of Chartered Accountants of India (ICAIc). (n.d.). Ind AS 39. Financial instruments: Recognition and measurement. Retrieved from http://220.227.161.86/23722IndAS-39.pdf