THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

(Set up by an Act of Parliament)

March 4, 2021

Mr. Ian Carruthers
Chairman,
International Public Sector Accounting Standards Board,
The International Federation of Accountants,
277 Wellington Street West,
Toronto, Ontario M5V 3H2 CANADA

Dear Ian Carruthers,

Sub: Comment on Exposure Draft 74, *IPSAS 5, Borrowing Costs – Non- Authoritative Guidance*

We are pleased to provide comments on the Exposure Draft 74, *IPSAS 5, Borrowing Costs – Non-Authoritative Guidance* issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC). Our comments on the ED 74 are enclosed with this letter.

Please feel free to contact us, in case any further clarification in this regard is required.

Thanking you,

Yours sincerely,

(CA. Dhiraj Khandelwal)
Chairman and Central Council Member
Committee on Public & Government Financial Management (CP&GFM)
The Institute of Chartered Accountants of India
Ph: 011-30110459 (CP&GFM Secretariat)
E-mail Id: caslb@icai.in; cpf.aslb@icai.in;

Encl.: As above

Annexure

Specific Matter for Comment 1: Do you agree with the proposed additional implementation guidance and illustrative examples? If not, what changes would you make?

We broadly agree with the proposed additional implementation guidance and illustrative examples inserted by IPSAS Board with the following observations:

IG (A1-A6): It is noted that the structure adopted by IPSAS Board for providing the IG in draft IPSAS 5 is somewhat different from other IPSASs. It is further noted that some questions A1-A6 (on commencement, amount eligible, centralised borrowings etc.), have been framed and a few of those have already been addressed directly in the main part of the Standard itself. It does not seem relevant to reproduce the same guidance again in the IG as it is. It may be explored to merge these explanations/clarifications (provided in A1 to A6) appropriately with the examples/ practical situations in draft for better understanding of the users. (An example for A1 is enclosed for ready reference)

IE:- It is suggested that illustrative examples specifically to address the commencement, suspension, and cessation of capitalisation of borrowing Costs may be inserted appropriately for more clarification.

Others:

BC 10 may be provided in bold to be highlighted so that the outcome of the 'measurement' project is available at a glance itself instead of going through the whole BC, as per the requirement of the user.

Illustrative Example for Commencement of Capitalisation of Borrowing Cost (Covering A1)

Municipality ABC entered into a contract with a company X Ltd (builder) for construction of a shopping complex on April 1, 20X1. As per the contract, municipality ABC makes a down payment of 20% of the contract value of the shopping complex. The balance amount is to be paid at the time of delivery. The contract also specifies that the construction activity for the shopping complex should be completed within 3 years. On December 1, 20X1, the Company X Ltd. informs that the planning and designing activity (being substantive activities) for the said shopping complex is in progress but, construction activity has not commenced. Municipality ABC has paid the down payment out of long-term borrowings taken from a scheduled bank and is incurring borrowing costs on the same. When municipality ABC can commence capitalisation of the borrowing costs?

The shopping complex is a qualifying asset as it takes substantial period of time for its construction. The Conditions for capitalisation as prescribed in Standard in para 31 are met. Regarding the condition that the entity must undertake activities that are necessary to prepare the asset for its intended use to be able to commence capitalisation, it is pertinent to note that *the activities necessary to get the asset ready encompass more than the asset's physical acquisition, construction, or production. The activities include technical and administrative work prior to the commencement of physical acquisition, construction, or production but exclude the holding of the asset when no development the changes the asset's condition is begin undertaken.*

In the given case, the construction activity is not being undertaken by Municipality ABC itself as it has given contract to a third party to do the same. However, this cannot preclude municipality ABC from capitalising the borrowing costs that it is incurring (specifically) for the said asset because it has made down payment to third party so that the third party can commence construction of the asset. Further, the said party is also undertaking activities that are necessary to prepare the asset on behalf of Municipality ABC. Since, planning and designing activity (being substantive activities) for the said shopping complex have been commenced during the financial year ending March, 20X2 by company X Ltd., the Municipality ABC can commence capitalising borrowing costs relating to shopping Complex from April 1, 20X1 itself.