

Exercise 10-22

January 1, 2021, construction began on office building, which was completed in early 2022

Construction expenditures in 2021 were \$6,000,000; incurred evenly throughout the year

Debt obligations outstanding during all of 2021:

Construction loan, 10%	\$1,500,000
Long-term note, 9%	2,000,000
Long-term note, 6%	4,000,000

Exercise 10-22 (continued)

Calculate the amount of interest capitalized in 2021 for the building using the specific interest method.

Specific interest method – Uses rates from specific construction loans to the extent of specific borrowings before using the average of other debt.

Average accumulated expenditures: $\$6,000,000 \div 2 = \$3,000,000$

Interest capitalized:

Average accumulated expenditures	\$3,000,000
Construction loan	$(1,500,000) \times 10\% = \$150,000$
Additional debt	$\$1,500,000 \times 7\%^* = \underline{105,000}$
Total interest capitalized	<u>\$255,000</u>

Weighted average interest rate of other debt:

$$(2,000,000 \times 9\%) + (4,000,000 \times 6\%) = \$180,000 + 240,000 = \$420,000$$

$$\$420,000 \div 6,000,000 = 7\%$$