CAS-17
COST ACCOUNTING STANDARD ON INTEREST AND FINANCING CHARGES

The following is the Cost Accounting Standard (CAS 17) issued by the Council of The Institute of Cost Accountants of India for determination of **"INTEREST AND FINANCING CHARGES"**. In this Standard, the standard portions have been set in ***bold italic*** type. These are to be read in the context of the background material which has been set in normal type.

1 Introduction

This standard deals with the principles and methods of classification, measurement and assignment of Interest and Financing Charges.

2 Objective

The objective of this standard is to bring uniformity and consistency in the principles, methods of determining and assigning the Interest and Financing Charges with reasonable accuracy.

3 Scope

This standard should be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of Interest and Financing Charges including those requiring attestation.

This standard does not deal with costs relating to risk management through derivatives.

4 Definitions

The following terms are being used in this standard with the meaning specified.

4.1 Asset: An Asset is a resource;

(a) controlled by an entity as a result of past events; and

(b) from which future economic benefits are expected to flow to the entity.

4.2 Cost Object: ***An activity, contract, cost centre, customer, process, product, project, service or any other object for which costs are ascertained.***

4.3 Current asset: An entity shall classify an asset as current when :

(a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;

(b) it holds the asset primarily for the purpose of trading;

(c) it expects to realise the asset within twelve months after the reporting period; or

(d) the asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

4.4 Current Liabilities: An entity shall classify a liability as current when :

(a) it expects to settle the liability in its normal operating cycle;

(b) it holds the liability primarily for the purpose of trading;

(c) the liability is due to be settled within twelve months after the reporting period ; or

(d) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

4.5 Imputed Costs: Notional cost, not involving cash outlay, computed for any purpose.

4.6 Intangible Asset: An intangible asset is an identifiable non-monetary asset without physical substance.

4.7 Interest and Finance charges: Interest, including any payment in the nature of interest for use of non equity funds and incidental cost that an entity incurs in arranging those funds.

Examples are:

1. interest and commitment charges on bank borrowings, other short term and long term borrowings:
2. amortisation of discounts or premium related to borrowings:
3. amortisation of ancillary cost incurred in connection with the arrangements of borrowings:
4. Financing Charges in respect of finance leases and other similar arrangements: and
5. exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest costs.[1]
6. Cash discount allowed to customers.

The terms Interest and financing charges, finance costs, and borrowing costs are used interchangeably.

[1] *Adapted from CIMA Terminology*

4.8 ***Net current asset: Net current asset is the excess of current assets over current liabilities***

Current Liabilities shall include *short term borrowings and that part of long term borrowings which are classified as current liabilities*

Short term borrowing is the borrowing which is repayable within one year from the date of disbursal as per Loan Agreement.

Long term borrowing is the borrowing which is repayable after one year from the date of disbursal as per Loan Agreement.

5 Principles of Measurement:

5.1 ***Interest and Financing Charges incurred shall be identified for :***

(a) acquisition / construction/ production of qualifying assets including fixed assets; and

(b) Other finance costs for production of goods/ operations or services rendered which cannot be classified as qualifying assets.

5.2 ***Interest and Financing Charges directly attributable to the acquisition / construction/ production of a qualifying asset shall be included in the cost of the asset.***

5.3 ***Interest and Financing Charges shall not include imputed costs.***

5.4 ***Subsidy / Grant / Incentive or amount of similar nature received / receivable with respect to Interest and Financing Charges if any, shall be reduced to ascertain the net interest and financing charges.***

5.5 ***Penal Interest for delayed payment, Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the Interest and Financing Charges.***

In case the company delays the payment of Statutory dues beyond the stipulated date, interest paid for delayed payment shall not be treated as penal interest.

5.6 ***Interest paid for or received on investment shall not form part of the other financing charges for production of goods / operations or services rendered;***

6. Assignment of costs

6.1 ***Assignment of Interest and Financing Charges to the cost objects shall be based on either of the following principles;***

I. Cause and effect- cause is the process or operation or activity and effect is the incurrence of cost.

II. Benefits received- Interest and Financing Charges are to be apportioned to the various cost objects in proportion to the benefits received by them.

7. Presentation

Interest and Financing Charges shall be presented in the cost statement as a separate item of cost of sales.

8. Disclosures

8.1 The cost statements shall disclose the following:

1. ***The basis of distribution of Interest and Financing Charges to the cost objects/ cost units.***
2. ***Where predetermined cost is applied in Interest and Financing Charges, the rate and usage variances.***
3. ***Interest and Financing Charges paid/ payable to related parties.***
4. ***Interest and Financing Charges incurred in foreign exchange.***
5. ***Any Subsidy / Grant / Incentive or any amount of similar nature received / receivable reduced Interest and Financing Charges.***

8.2 Disclosures shall be made only where material, significant and quantifiable.

8.3 Interest and Financing Charges incurred relating to prior periods and taken to reconciliation directly shall be disclosed separately.

8.4 Disclosures shall be made in the body of the Cost Statement or as a foot note or as a separate schedule.

8.5 Any change in the cost accounting principles and methods applied for the measurement and assignment of the Interest and Financing Charges during the period covered by the cost statement which has a material effect on the Interest and Financing Charges shall be disclosed. Where the effect of such change is not ascertainable wholly or partly the fact shall be indicated.

9. Effective date:

This Cost Accounting Standard shall be effective from the period commencing on or after 1st April 2014 for being applied for the preparation and certification of General Purpose Cost Accounting Statements