



CAS-20

COST ACCOUNTING STANDARD ON ROYALTY AND TECHNICAL KNOW-HOW FEE

The following is Cost Accounting Standard- (CAS-20) issued by the council of The Institute of Cost Accountants of India for determination of “**ROYALTY AND TECHNICAL KNOW-HOW FEE**”. In this Standard, the standard portions have been set in *bold italic* type. This standard should be read in the context of the background material which has been set in normal type.

1. Introduction

1.1 This standard deals with the principles and methods of determining the amount of Royalty and Technical Know-how Fee.

1.2 *This standard deals with the principles and methods of classification, measurement and assignment of the amount of Royalty and Technical Know-how Fee, for determination of the cost of product or service, and their presentation and disclosure in cost statements.*

2. Objective

The objective of this standard is to bring uniformity and consistency in the principles and methods of determining the amount of Royalty and Technical Know-how Fee with reasonable accuracy.

3. Scope

This standard should be applied to cost statements, which require classification, measurement, assignment, presentation and disclosure of the amount of Royalty and Technical Know-how Fee including those requiring attestation.

4. Definitions

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

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

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

4.4 **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.*

This will include interest and commitment charges on bank borrowings, other short



term and long term borrowings, amortisation of discounts or premium related to borrowings, amortisation of ancillary cost incurred in connection with the arrangements of borrowings, finance charges in respect of finance leases, other similar arrangements and exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest costs¹. The terms Finance costs and Borrowing costs are used interchangeably.

4.2 *Royalty: Royalty is any consideration for the use of asset (tangible and/or intangible) to the owner.*

Royalty is often expressed as a percentage of the revenues obtained by use of the owners asset(tangible and/or intangible); per unit of production or sales value. It may relate to use of: Non-renewable resource (petroleum and mineral resources) ; Patents; Trade marks; Franchise rights; Copy rights; art-work, software and the like.

The terms Assets, tangible assets and intangible assets will have the same meaning as in the Accounting Standards notified by the Central Government under the Companies (Accounting Standards) Rules,2006.

4.5 *Technical service fee: Technical service fee is any consideration payable to provider of technical or managerial services.*

5. Principles of Measurement:

5.1 *Royalty and Technical Know-how Fee paid or incurred in lump-sum or which are in the nature of 'one – time' payment, shall be amortised on the basis of the estimated output or benefit to be derived from the related asset.*

Examples: Amortisation of the amount of Royalty or Technical Know-how fee paid for which the benefit is ensued in the current or future periods shall be determined based on the production / service volumes estimated for the period over which the asset is expected to benefit the entity.

5.2 *Amount of the Royalty and Technical Know-how Fee shall not include finance costs and imputed costs.*

5.3 *Any Subsidy/Grant/Incentive or any such payment received/receivable with respect to amount of Royalty and Technical Know-how fee shall be reduced to measure the amount of royalty and technical know- how fee.*

5.4 *Penalties, damages paid to statutory authorities or other third parties shall not form part of the amount of Royalty and Technical Know-how fee.*

5.5 *Credits/ recoveries relating to the amount Royalty and Technical Know-how fee,*

¹ Adapted from CIMA Terminology

material and quantifiable, shall be deducted to arrive at the net amount of Royalty and Technical Know-how fee.

5.6 ***Any change in the cost accounting principles applied for the measurement of the amount of Royalty and Technical Know-how Fee should be made only if, it is required by law or for compliance with the requirements of a cost accounting standard, or a change would result in a more appropriate preparation or presentation of cost statements of an organisation.***

6. Assignment of costs

6.1 ***Royalty and Technical Know-how fee that is directly traceable to a cost object shall be assigned to that cost object. In case such fee is not directly traceable to a cost object then it shall be assigned on any of the following basis:***

- a. Units produced***
- b. Units sold***
- c. Sales value***

6.2 ***The amount of Royalty fee paid for mining rights shall form part of the cost of material.***

6.3 ***The amount of Royalty and Technical Know-how fee shall be assigned on the nature/ purpose of such fee.***

The amount of royalty and technical know-how fee related to product or process know how shall be treated as cost of production; if it is related to trademarks or brands shall be treated as cost of sales.

7. Presentation

7.1 ***The amount Royalty and Technical Know-how fee shall be presented as a separate cost head with suitable classification.***

8. Disclosures

8.1 ***The cost statements shall disclose the following:***

- 1. The basis of distribution of the amount Royalty and Technical Know-how fee to the cost objects/ cost units.***
- 2. Quantity and the related rate of items of the amount of Royalty and Technical Know-how fee, as applicable.***
- 3. Royalty and Technical Know-how fee paid/ payable to related parties².***

² Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement



4. *Royalty and Technical Know-how fee incurred in foreign exchange.*
 5. *Any Subsidy/Grant/Incentive and any such payment reduced from the amount of Royalty and Technical Know-how fee.*
 6. *Credits/recoveries relating to the amount of Royalty and Technical Know-how fee.*
 7. *Penalties and damages excluded from the amount of Royalty and Technical Know-how fee*
- 8.2 *Disclosures shall be made in the body of the Cost Statement or as a foot note or as a separate schedule.*
- 8.3 *Any change in the cost accounting principles and methods applied for the measurement and assignment of the amount Royalty and Technical Know-how fee during the period covered by the cost statement which has a material effect on the amount Royalty and Technical Know-how fee. Where the effect of such change is not ascertainable wholly or partly the fact shall be indicated.*