

Cost Accounting Standards
Issued by
Cost Accounting Standards Board (CASB)
ICWAI

Annexure to Paper 17: Cost Audit & Operational Audit

ICWAI - FINAL
GROUP – IV

First Edition : May 2011

Published :

Directorate of Studies

The Institute of Cost and Works Accountants of India
12, Sudder Street, Kolkata-700 016

Printed at :

Repro India Limited

50/2 T.T.C. MIDC Industrial Area, Mahape, Navi Mumbai - 400710.

Copyright of this Compendium is reserved by the Institute of Cost and Works Accountants of India and prior permission from the Institute is necessary for reproduction of the whole or any part thereof.

Cost Accounting Standards
Issued by
Cost Accounting Standards Board (CASB)
ICWAI

Annexure to Paper 17: Cost Audit & Operational Audit

INDEX

CAS	Title	Page Nos.
1.	Classification of Cost	1 – 17
2.	Capacity Determination	18-22
3.	Overheads	23-32
4.	Captive Consumption	33-40
5.	Average (equalized) cost of transportation	41-47
6.	Material Cost	48-54
7.	Employee Cost	55-62
8.	Cost of Utilities	63-69
9.	Packing Material Cost	70-76
10.	Direct Expenses	77-81
11.	Administrative Overheads	82-86
12.	Repairs & Maintenance Cost	87-92
13.	Cost of Service Cost Centre	93-98

CAS 1

COST ACCOUNTING STANDARD ON “CLASSIFICATION OF COST”

The following is the text of the COST ACCOUNTING STANDARD 1 (CAS 1) issued by the Council of the Institute of Cost and Works Accountants of India on “Classification of Cost”. The standard deals with the principle of classifying costs in the cost statements. In this Standard, the standard portions have been set in bold italic type. These should be read in the context of the background material which has been set in normal type.

1. Introduction

The standard on classification of costs deals with the basis of classification of costs and the practice to be adopted for classification of cost elements in regard to its nature and management objective. The statement aims at providing better understanding on classification of cost for preparation of various cost statements required for statutory obligations or cost control measures.

2. Objective

2.1 The objective of this Standard is to prescribe the classification of costs for ascertainment of cost of a product or service and preparation of cost statements on a consistent and uniform basis with a view to effect the comparability of the same of an enterprise with that of previous periods and of other enterprises.

2.2 The classification and its disclosure are aimed at providing better transparency in the cost statement.

2.3 The standard is also for better adoption of Uniform Costing and Inter-firm Comparison.

3. Scope

3.1 The standard on classification of cost should be applied in assessment of cost of a product or service, application of costing technique and in case of management decision making by the manufacturing industries in India.

Cost Accounting Standards

3.2 The standard is to be followed by an enterprise, whether covered under section 209(1)(d) of the Companies Act, 1956 or not, to classify cost in order to prepare cost statement on uniform basis to make it relevant and understandable for effective cost management.

3.3 The standard has also to be followed for the purpose of assessment of cost of production or valuation of product or the valuation of stock to be certified for calculation of duties and taxes, tariffs and other purposes as the case may be. The cost statement prepared based on standard will be used for assessment of excise duty and other taxes, anti-dumping measures, transfer pricing etc.

4. Definitions:

4.1 Cost: Cost is a measurement, in monetary terms, of the amount of resources used for the purpose of production of goods or rendering services.

4.2 Manufacturing of goods or rendering services involves consumption of resources. Cost is measured by the sacrifice made in terms of resources or price paid to acquire goods and services. The type of cost is often referred in the costing system depends on the purpose for which cost is incurred. For example material cost is the price of materials acquired for manufacturing a product.

4.3 Cost Centre : Any unit of Cost Accounting selected with a view to accumulating all cost under that unit. The unit may be a product, a service, division, department, section, a group of plant and machinery, a group of employees or a combination of several units. This may also be a budget centre.

4.4 Cost Centre or Cost Object is the logical sub-unit for collection of cost. Cost Centre may be of two types – personal and impersonal cost centers. Personal cost centre consists of a person or a group of persons. Cost centres which are not personal cost centres are impersonal cost centers. Again Cost centers may be divided into broad types i.e. Production Cost Centres and Service Cost Centres. Production Cost Centres are those which are engaged in production like Machine shop, Welding shop, Assembly shop etc. Service Cost centers are for rendering service to production cost centre like Power house, Maintenance, Stores, Purchase office etc.

4.5 Cost unit is a form of measurement of volume of production or service. This unit is generally adopted on the basis of convenience and practice in the industry concerned.

4.6 Examples of Cost Units :

Power - MW

Cement - MT

Automobile - Number etc

5. Basic Rules for Classification of Costs

5.1 Classification of cost is the arrangement of items of costs in logical groups having regard to their nature (subjective classification) or purpose (objective classification).

5.2 Items should be classified by one characteristic for a specific purpose without ambiguity.

5.3 Scheme of classification should be such that every item of cost can be classified.

5.4 Basis of classification :

- i) Nature of expense
- ii) Relation to object – traceability
- iii) Functions / activities
- iv) Behaviour fixed, semi-variable or variable
- v) Management decision making
- vi) Production Process
- vii) Time period

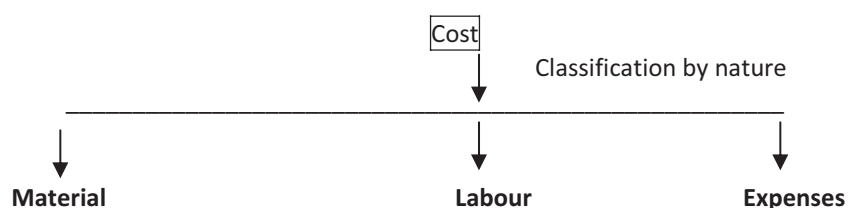
5.5 Classification of cost is the process of grouping the components of cost under a common designation on the basis of similarities of nature, attributes or relations. It is the process of identification of each item and the systematic placement of like items together according to their common features. Items grouped together under common heads may be further classified according to their fundamental differences. The same costs may appear in several different classifications depending on the purpose of classification.

5.6 Cost is classified normally in terms of a managerial objective. Its presentation normally requires sub-classification. Such sub-classification may be according to nature of the cost elements, functional lines, areas of responsibility, or some other useful break-up. The appropriate sub-classification depends upon the uses to be made of the cost report.

6. Classification of Costs

6.1 By Nature of expense:

6.1.1 Costs should be gathered together in their natural groupings such as material, labour and other expenses. Items of costs differ on the basis of their nature. The elements of cost can be classified in the following three categories : i) Material ii) Labour iii) Expenses



6.1.2 **Material Cost** is the cost of material of any nature used for the purpose of production of a product or a service.

6.1.3 Material cost includes cost of procurement, freight inwards, taxes & duties, insurance etc directly attributable to the acquisition. Trade discounts, rebates, duty drawbacks, refunds on account of modvat, cenvat, salex tax and other similar items are deducted in determining the costs of material.

6.1.4. Labour Cost means the payment made to the employees, permanent or temporary, for their services.

6.1.5 Labour cost include salaries and wages paid to permanent employees, temporary employees and also to employees of the contractor. Here, salaries & wages include all fringe benefits like Provident Fund contribution, gratuity, ESI, overtime, incentives, bonus , ex-gratia, leave encashment, wages for holidays and idle time etc.

6.1.6 Expenses are other than material cost or labour cost which are involved in an activity.

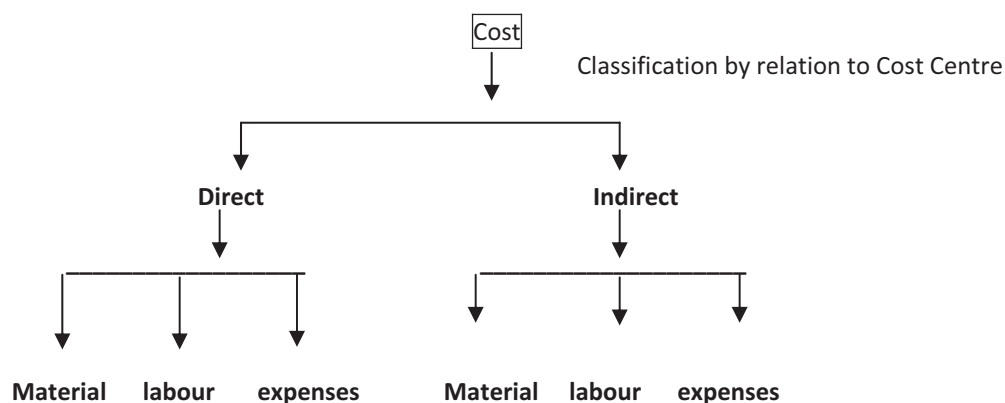
6.1.7 Expenditure on account of utilities, payment for bought out services, job processing charges etc. can be termed as expenses.

6.2 By Relation to Cost Centre

6.2.1 Classification should be on the basis of method of allocation of cost to a cost unit. If an expenditure can be allocated to a cost centre or cost object in an economically feasible way then it is called direct otherwise the cost component will be termed as indirect. According to this criteria for

Cost Accounting Standards

classification, material cost is divided into direct material cost and indirect material cost, labour cost into direct labour cost and indirect labour cost and expenses into direct expenses and indirect expenses. Indirect cost is also known as overhead.



6.2.2 Direct cost has three components – direct material cost, direct labour cost and direct expenses and indirect cost has three components- indirect material, indirect labour cost and indirect expenses. Sum of all direct costs is called prime cost .

6.2.3 Direct material Cost is the cost of material which can be directly allocated to a cost centre or a cost object in a economically feasible way.

6.2.4 Raw materials consumed for production for a product or service which are identifiable in the product or service form the direct material cost. Direct Material cost includes cost of procurement, freight inwards, taxes & duties, insurance etc directly attributable to the acquisition. Trade discounts, rebates, duty drawbacks, refunds on account of modvat, cenvat, salex tax and other similar items are deducted in determining the costs of direct material.

6.2.4 Direct Labour Cost is the cost of wages of those workers who are readily identified or linked with a cost centre or cost object.

6.2.5 Here, the wages of the workers include the fringe benefits include all fringe benefits like Provident Fund contribution, gratuity, ESI, overtime, incentives, bonus , ex-gratia, leave encashment, wages for holidays and idle time etc. for the purpose of calculation of direct labour cost.

6.2.6 Direct Expenses are the expenses other than direct material or direct labour which can be identified or linked with the cost centre or cost object.

6.2.7 Examples of direct expenses are

- expenses for special moulds required in a particular cost centre
- hiring charges for tools and equipments for a cost centre
- royalties in connection to a product
- Job processing charges etc

6.2.8 Indirect Material is the cost of material which can not be directly allocable to a particular cost centre or cost object.

6.2.9 Materials which are of small value and can not be identified in or allocated to a product/service are classified as indirect materials. Examples :

- Consumable spares and parts
- Lubricants etc.

6.2.10 Indirect labour cost is the wages of the employees which are not directly allocable to a particular cost centre.

6.2.11 Examples of indirect labour :

- Salaries of staff in the administration and accounts department
- Salaries of security staff etc

6.2.12 Indirect expenses are the expenses other than of the nature of material or labour and can not be directly allocable to a particular cost centres.

6.2.13 Indirect expenses are not be allocable to a particular cost centre. Examples – insurance, taxes and duties,

6.3 By functions/activities:

6.3.1 Costs should be classified according to the major functions for which the elements are used into the following four major functions :

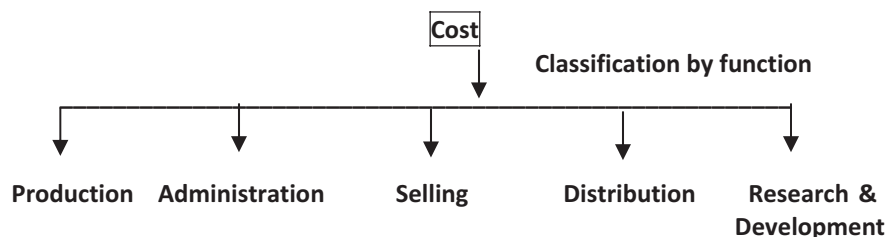
Production;

Administration;

Selling;

Distribution; and Research & Development Expenditure.

Cost Accounting Standards



6.3.2 Production Cost is the cost of all items involved in the production of a product or service. It includes all direct costs and all indirect costs related to the production.(Exhibit 1)

6.3.3 Production overhead is the indirect costs involved in the production process.

6.3.4 Production overhead is also termed as factory overhead or manufacturing overhead. Examples of Production overhead :

- Salaries for staff for production planning, technical supervision, factory administration etc
- normal idle time cost
- expenses for stores management
- security expenses in the factory
- labour welfare expenses
- dispensary and canteen expenses
- depreciation of plant and machineries
- repair and maintenance of factory building and plant & machineries
- insurance
- quality control etc.

6.3.5 Administration costs are expenses incurred for general management of an organization. These are in the nature of indirect costs and are also termed as administrative overhead.

6.3.6 Examples of items to be included in Administrative overhead :

- Salaries of administrative and accounts staff
- general office expenses like rent, lighting, rates and taxes, telephone, stationery, postage etc
- bank charges
- audit fees

- legal expenses
- depreciation & repair and maintenance of office building etc.

6.3.7 Selling costs are indirect costs related to selling of products or services and include all indirect cost in sales management for the organization.

6.3.8 Selling Costs include all costs relating to regular sales and sales promotion activities. Examples of expenses which are included in selling cost are :

- Salaries, commission and traveling expenses for sales personnel
- advertisement cost
- Legal expenses for debt realization
- market research cost
- royalty on sale
- after sales service cost etc

6.3.9 Distribution Costs are the cost incurred in handling a product from the time it is completed in the works until it reaches the ultimate consumer.

6.3.10 Distribution costs are the costs incurred for distribution of product to customers. Examples of distribution costs :

- Transportation cost
- cost of warehousing salable products
- cost of delivering the products to customers. etc

Note

1. Primary packaging cost is included in production cost whereas secondary packaging cost is distribution cost.

2. In exceptional cases, for example in case of heavy industries equipment supply, installation cost at delivery site for heavy equipments which involves assembling of parts, testing etc is included in production cost but not distribution cost. For example. installation cost of a gas turbine at plant site is included in the cost of production of gas turbine.

Cost Accounting Standards

6.3.11 Research & Development Costs are the cost for undertaking research to improve quality of a present product or improve process of manufacture, develop a new product, market research etc and commercialization thereof.

6.3.12 Research Cost comprises the cost of development of new product and manufacturing process; improvement of existing products, process and equipment; finding new uses for known products; solving technical problem arising in manufacture and application of products etc. Development cost includes the cost incurred for commercialization / implementation of research findings.

Exhibit 1

	(1) Direct Material Cost (a)
	(2) Direct Labour Cost
	(3) Direct Expenses
(1)+(2)+(3) =	(4) Prime Cost
	(5) Production Overhead
	(6) Administrative Overhead
	(7) Research & Development Cost (apportioned)
(4)+(5)+(6)+(7)=	(8) Cost of Production (b)
	(9) Selling Cost
	(10) Distribution Cost
(8)+(9)+(10) =	(11) Cost of Sales

Note :

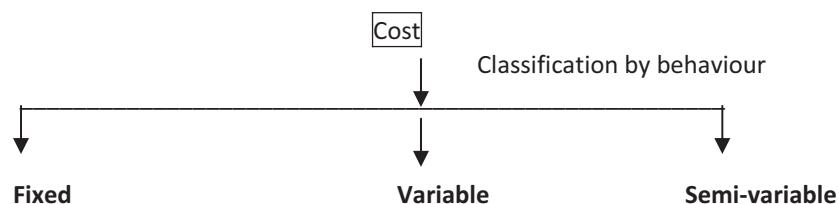
To arrive at value at different points as indicated above adjustment with opening and closing stock is necessary at following different points :

(a) opening and closing stock of raw materials

(b) opening and closing stock of work-in-progress & finished goods

6.4 By Behaviour

6.4.1 Costs are classified based on behaviour as fixed cost, variable cost and semi-variable cost depending upon response to the changes in the activity levels.



6.4.2 Fixed Cost is the cost which does not vary with the change in the volume of activity in the short run. These costs are not affected by temporary fluctuation in activity of an enterprise. These are also known as period costs.

6.4.3 Examples for fixed cost : salaries, rent, audit fees, depreciation etc.

6.4.4 Variable Cost is the cost of elements which tends to directly vary with the volume of activity. Variable cost has two parts – (a) Variable direct cost; and (b) Variable indirect costs. Variable indirect costs are termed as variable overhead.

6.4.5 Examples of variable cost are materials consumed, direct labour, sales commission, utilities, freight, packing, etc.

6.4.6 Semi Variable Costs contain both fixed and variable elements. They are partly affected by fluctuation in the level of activity.

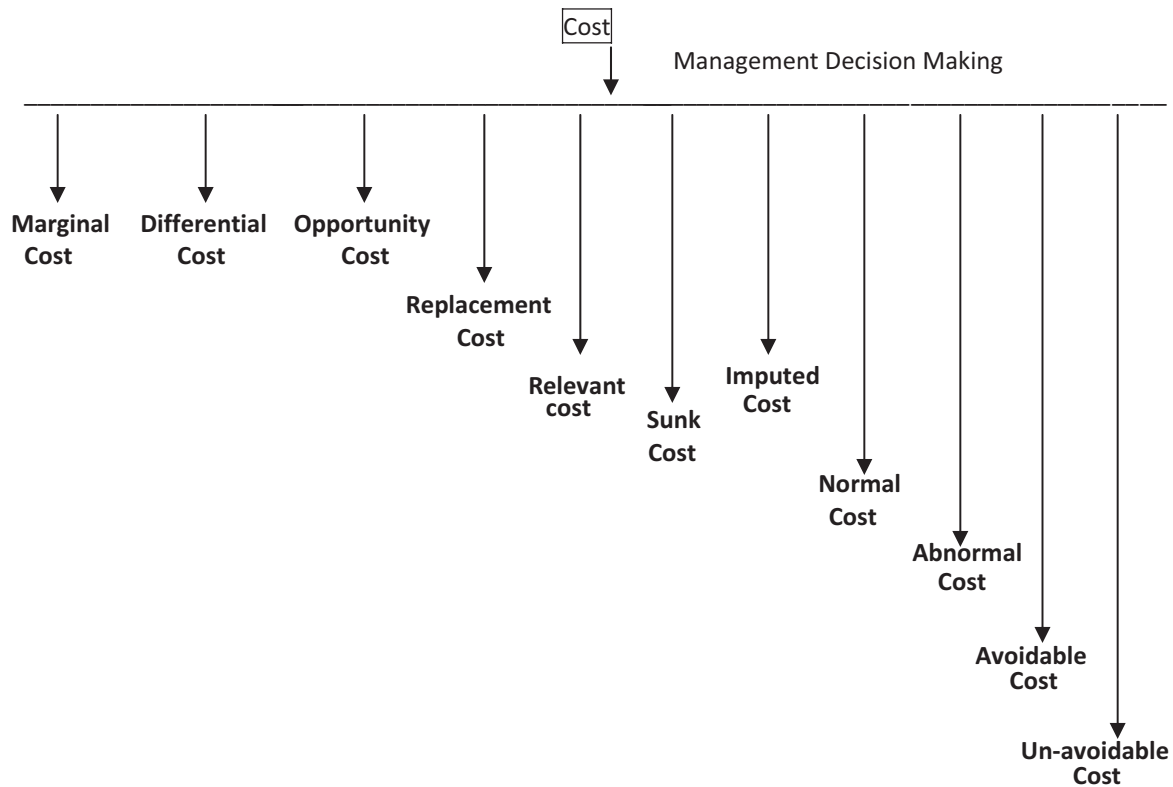
6.4.7 Examples of semi-variable cost : Factory supervision, maintenance, power etc.

Note :

1. The characteristics of fixed costs are (1) fixed amount within an output range (2) fixed cost per unit decreases with increased output
2. The characteristics of variable Cost: (1) The variable cost varies directly with volume of activities or production (2) variable cost remains constant per unit within a range of activity .

6.5 For Management Decision Making

6.5.1 Costs are classified for the purpose of management decision making under different circumstances as under :



6.5.2 **Marginal cost** is the aggregate of variable costs, i.e. prime cost plus variable overhead. **Marginal cost per unit** is the change in the amount at any given volume of output by which the aggregate cost changes if the volume of output is increased or decreased by one unit.

6.5.3 Marginal cost is used in Marginal Costing system. For determining marginal cost, semi-variable costs, if any, are segregated into fixed and variable cost. Then, variable costs plus the variable part of semi-variable costs is the total marginal cost for the volume of production in consideration.

Cost Accounting Standards

Example :

A. Production 45,000 units

	Fixed Cost	Variable Cost
B Cost	Rs lakhs	Rs lakhs
1. Material cost		4.50
2. Labour cost		2.45
3. Fixed Cost	4.80	-
4. Variable Production & Selling overhead	2.30	
5. Semi-variable Cost	3.20	2.00
(after segregation fixed and variable part)		
C. Total Marginal Cost		----- 11.25 -----
D. Marginal cost per unit		Rs 25.00

6.5.4. Differential Cost is the change in cost due to change in activity from one level to another.

6.5.5 Differential Cost is found by using the principle which highlights the points of differences in costs by adoption of different alternatives. This technique is used in export pricing, new products and pricing goods sought to be promoted in new markets, either within the country or outside.

6.5.6 The algebraic difference between the relevant cost at two levels of activities is the differential cost. When the level of activity is increased, the differential cost is known as incremental cost and when the level of activity is decreased, the decrease in cost is known as decremental cost.

Output Unit in Lakhs	Differential Unit in lakhs	Total Cost (Rs lakhs)	Differential cost (Rs lakhs)	Differential cost per unit (Rs)
(a) 1.00	-	30.00	-	-
(b) 1.20	0.20 (b) –(a)	35.00	5.00	25.00
© 0.80	0.20 (a) –(c)	26.00	- 4.00	- 20.00

(+) Incremental cost

(-) Decremental cost

6.5.7 Opportunity Cost is the value of the alternatives foregone by adopting a particular strategy or employing resources in specific manner.

6.5.8 It is the return expected from an investment other than the present one. The opportunity cost is considered for selection of a project or justification of investment, studying viability of an investment option. Example : A machine is currently being used to produce product P. It can also be used to produce product Q which can fetch Rs 60,000 profit. Then the opportunity cost of using the machine is Rs 60000.

6.5.9 Replacement Cost is the cost of an asset in the current market for the purpose of replacement.

6.5.10 Replacement cost is generally used for determining the optimum time of replacement of an equipment or machine in consideration of maintenance cost of the existing one and its productive capacity.

6.5.11 Relevant Costs are costs relevant for a specific purpose or situation.

6.5.12 In the context of decision making relating to a specific issue, only those costs which are relevant are considered. A particular cost item may be relevant in a decision making and may be irrelevant in some other decision making situation. For example, present depreciated cost of machine is relevant in case of decision of its sale but it is irrelevant in case of decision of its replacement.

6.5.13 Imputed Costs are hypothetical or notional costs, not involving cash outlay, computed only for the purpose of decision making.

6.5.14. In economics, 'imputed' indicates an ascribed or estimated value when there is no criteria of absolute monetary value for such purpose. In national income estimation wages of housewives are imputed. Similarly, in farming operations, the wages or salaries of owner are imputed. Imputed costs are similar to opportunity costs. Interest on internally generated fund, which is not actually paid is an example of imputed cost.

6.5.15 Sunk Costs are historical costs which are incurred i.e. 'sunk' in the past and are not relevant to the particular decision making problem being considered.

6.5.16 Sunk costs are those that have been incurred for a project and which will not be recovered if the project is terminated. While considering the replacement of a plant, the depreciated book value of the old asset is irrelevant as the amount is a sunk cost which is to be written off at the time of replacement.

6.5.17 Normal Cost is a cost that is normally incurred at a given level of output in the conditions in which that level of output is achieved.

6.5.18 Normal cost includes those items of cost which occur in the normal situation of production process or in the normal environment of the business. The normal idle time is to be included in the ascertainment of normal cost.

6.5.19 Abnormal Cost is an unusual or a typical cost whose occurrence is usually irregular and unexpected and due to some abnormal situation of the production.

6.5.20 Abnormal cost arises due to idle time for some heavy break down or abnormal process loss. They are not considered in the cost of production for decision making and charged to profit & loss account.

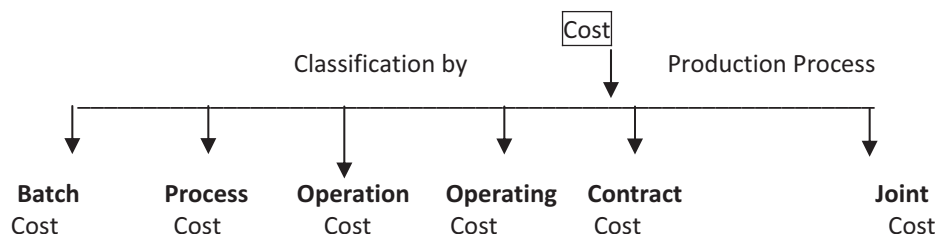
6.5.21 Avoidable Costs are those costs which under given conditions of performance efficiency should not have been incurred.

6.5.22. Avoidable costs are logically associated with some activity or situation and are ascertained by the difference of actual cost with the happening of the situation and the normal cost. When spoilage occurs in manufacture in excess of normal limit, the resulting cost of spoilage is avoidable cost. Cost variances which are controllable may be termed as avoidable cost.

6.5.23 Unavoidable Costs are inescapable costs which are essentially to be incurred, within the limits or norms provided for. It is the cost that must be incurred under a programme of business restriction. It is fixed in nature and inescapable.

6.6. By nature of production process

6.6.1 Costs are also classified on the basis of nature of production or manufacturing process.



6.6.2 Batch Cost is the aggregate cost related to a cost unit which consist of a group of similar articles which maintain its identity throughout one or more stages of production.

6.6.3 Process cost : When the production process is such that goods are produced from a sequence of continuous or repetitive operations or processes, the cost incurred during a period is considered as process cost. The process cost per unit is derived by dividing the process cost by number of units produced in the process during the period.

6.6.4. Accounts are maintained for cost of a process for a period. The average cost per unit produced during the period is process cost per unit.

6.6.5 Operation Cost is the cost a specific operation involved in a production process or business activity.

6.6.6. When there are distinctly separate operations involved in a process, cost for each operation is found out for effective control mechanism.

Cost Accounting Standards

6.6.7 Operating Cost is the cost incurred in conducting a business activity. Operating costs refer to the cost of undertakings which do not manufacture any product but which provide services.

6.6.8 Contract cost is the cost of a contract with some terms and condition of adjustment agreed upon between the contractee and the contractor.

6.6.9. Contract cost usually implied to major long term contracts as distinct from short term job costs. Escalation clause are sometimes provided in the contract in order to take care of anticipated change in material price, labour cost etc.

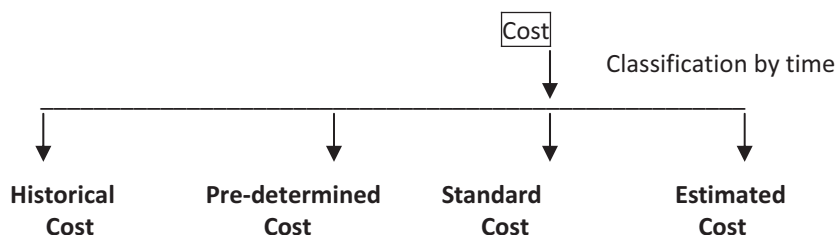
6.6.10 Joint Costs are the common cost of facilities or services employed in the output of two or more simultaneously produced or otherwise closely related operations, commodities or services.

6.6.11 When a production process is such that from a set of same input, two or more distinguishably different products are produced together, products of greater importance are termed as joint products and products of minor importance are termed as by-products and the costs incurred prior to the point of separation of the products are termed as Joint Costs. For example, in a petroleum refinery industry, petrol, diesel oil, kerosene oil, naptha, tar etc are produced jointly in the refinery process.

6.6.12 By-Product Cost is the cost assigned to the by-products.

6.7 Classification by time

6.7.1 A cost item is related to a specific period of time and cost can be classified according to the system of assessment and specific purpose as indicated in the following ways:



6.7.2 Historical Costs are the actual costs of acquiring assets or producing goods or services.

6.7.3 They are 'postmortem' costs ascertained after they have been incurred and they represent the cost of actual operational performance. Historical costing system follows a system of accounting to which all values (in revenue and capital accounts) are based on costs actually incurred or as relevant from time to time.

6.7.4 Pre-determined Costs for a product are computed in advance of production, on the basis of a specification of all the factors affecting cost and cost data. Pre-determined costs may be either standard or estimated.

6.7.5 Standard Costs : A predetermined norm applied as a scale of reference for assessing actual cost, whether these are more or less. The standard cost serves as a basis of cost control and as a measure of productive efficiency when ultimately posed with an actual cost. It provides management with a medium by which the effectiveness of current results is measured and responsibility of deviation placed.

6.7.6. Standard costs are used to compare the actual costs with the standard cost with a view to determine the variances, if any, and analyse the causes of variances and take proper measure to control them.

6.7.7 Estimated Costs of a product are prepared in advance prior to the performance of operations or even before the acceptance of sale orders.

6.7.8 Estimated cost is found with specific reference to product in question, and activity level of the plant. It has no link with actual and hence it is assumed to be less accurate than the standard cost.

7. Presentation and Disclosure:

7.1 The classification of cost item should be done on ' basis of classification' chosen with pre-determined objective.

7.2 The classification of cost item should be followed consistently from period to period and preparation of cost statements should be made with reference to a period of time.

7.3 A change in classification should be made only if it is required by law or for compliance with a Cost Accounting Standard or the change would reset in a more appropriate preparation or presentation of cost statements of an enterprise.

7.4. Any change in classification of cost which has a material effect on the cost of the product should be disclosed in the cost statements. Where the effect of such change is not ascertainable wholly or partly, the fact should be indicated in the cost statement.

(CAS-2)

COST ACCOUNTING STANDARD ON CAPACITY DETERMINATION

The following is the COST ACCOUNTING STANDARD 2 (CAS 2) issued by the Council of the Institute of Cost and Works Accountants of India on "CAPACITY DETERMINATION". The standard deals with determination of capacity of a unit. 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

Better utilization of capacity means better utilization of resources. It is an important consideration for cost determination and cost reduction. Thus, it is essential to establish the capacity of the plant. Cost Accounting Records Rules under section 209(1) (d) of Companies Act, 1956 and Cost Audit Report Rules, 2001 under section 233B of the said Act specify that comparative statement of installed capacity and actual capacity utilization is to be recorded and furnished in order to assess the operating level.

2. Objective

- 2.1 The objective of the standard is to prescribe the method of determination of capacity to be applied uniformly and consistently.
- 2.2 The standard is to help the management to identify the bottlenecks, imbalances and idle capacity for effective use of various resources.
- 2.3 The standard is to help in proper allocation, apportionment and absorption of cost.

3. Scope

- 3.1 *The standard should be followed for capacity determination required to be carried out for any purpose or under provisions of any Act, Rules or Regulations except where capacity determination has been prescribed otherwise.*
- 3.2 *The standard shall also be followed for maintaining cost records under the Cost Accounting Records Rules or for furnishing information on Capacity Utilization under the Cost Audit Report Rules issued pursuant to Section 209(1) (d) and section 233B of Companies Act, 1956 respectively.*
- 3.3 The standard is applicable for an undertaking, whether existing or new, where there is expansion of more than 5% of the existing capacity due to introduction of new machines or productive resources. Similarly, the standard is also applicable where there is more than 5% reduction of the

existing capacity due to disposal or withdrawal or impairment of old machines or productive resources.

4. Definitions

4.1 *'Licensed Capacity' is the production capacity of the plant for which license has been issued by an appropriate authority.*

4.2 *'Installed Capacity' is the maximum productive capacity according to the manufacturers' specification of machines / equipment. Installed capacity of the unit/plant is determined after taking into account imbalances in different machines/ equipment in the various departments / production cost centres in the unit / plant and number of working shifts.*

4.3 *'Practical or Achievable Capacity' is the maximum productive capacity of a plant reduced by the predictable and unavoidable factors of interruption pertaining to internal causes.*

Thus, practical capacity is the installed capacity minus the inevitable interruptions due to time lost for preventive maintenance, repairs, set ups, normal delays, weekly off-days and holidays etc. Practical capacity does not consider the external factors causing reduction in production e.g. lack of orders.

4.4 *'Normal Capacity' is the production achieved or achievable on an average over a period or season under normal circumstances taking into account the loss of capacity resulting from planned maintenance.*

Normal capacity is practical capacity minus the loss of productive capacity due to external factors.

4.5 *'Actual Capacity Utilization' is the volume of production achieved in relation to installed capacity.*

4.6 *'Idle Capacity' is the difference between installed capacity and the actual capacity utilization when actual capacity utilization is less than installed capacity.*

4.7 *'Excess Capacity Utilization' is the difference between installed capacity and the actual capacity utilization when actual capacity utilization is more than installed capacity.*

4.8 *'Abnormal idle capacity' is the difference between practical capacity and normal capacity or actual capacity utilization whichever is higher.*

5. Determination of Installed Capacity

5.1 *Installed capacity is determined based on :*

- i) Manufacturers' Technical specifications*
- ii) Capacities of individual or interrelated production centres.*
- iii) Operational constraints / capacity of critical machines*
- iv) Number of shifts*
- v) Any other factor*

5.2 *In case of manufacturers' technical specifications are not available, the estimates by technical experts on capacity under ideal conditions may be considered for determination of installed capacity.*

5.3 *In case a product passes through different production processes and each process is having different capacity then the process which brings effective or ultimate production shall be considered for deciding installed capacity.*

6. Determination of Practical / Achievable Capacity

6.1 *Practical capacity or achievable capacity should be determined after adjustment of the following with the installed capacity.*

- (i) Available production hours taking into consideration holidays, normal shut down days and normal idle time.*
- (ii) Normal time loss in batch change over, break downs of machines, repairs etc.*
- (iii) Loss in efficiency due to ageing of the machines/ equipment*
- (iv) Number of shifts*
- (v) Any other factor*

7. Determination of Normal Capacity

7.1 *Normal capacity is determined based on the productive capacity achieved over a period of time, say average of three normal years out of preceding five years or expected to be achieved over a period of time, say next three to five years .*

7.2 *This capacity is determined after adjustment of external factors with practical capacity.*

7.3 *Normal capacity of production process involved in the production of a product or the productive capacity of the plant as a whole should be taken into account to arrive at normal capacity for a product or plant, as the case may be .*

7.4 *The periods influenced by abnormalities should be excluded for this purpose.*

Explanation:

1. In case the same products with different specifications and of different ranges in terms of size, type, variety etc. are manufactured, then there is a need to determine equivalence among them in order to determine the capacity.
2. In case some intermediate products / components etc are also produced, they should be taken into consideration for determining equivalent capacity.
3. In case some machines are leased out/let out or some machines are taken on lease, resulting decrease / increase in capacity should also be considered.

8. Disclosure

8.1 *The details of basis for arriving at the capacity, variables used and assumptions made should be disclosed.*

8.2 *Any change in the installed capacity due to modifications in the machines / equipment or addition of balancing equipment or disposal or impairment of some machines / equipment should be disclosed.*

8.3 *The licensed capacity and installed capacity should be disclosed in absolute term of production whereas practical capacity, normal capacity and actual capacity utilization should be disclosed in absolute term as well as in percentage of installed capacity.*

8.4 *In case the same products with different specifications and of different ranges in terms of size, type, variety etc. are manufactured, then there is a need to determine equivalence among them and capacity should be established in terms of equivalent units.*

8.5 *In case some machines are taken on lease or some machines are leased out, their impact in terms of increase/ decrease in capacity should be disclosed separately.*

8.6 *In case of low capacity utilization as compared to the installed capacity, reasons for the same should be disclosed. Comments on the shortfall in production should also specify the factors which are controllable and uncontrollable in short term or in long term.*

8.7 *In case of excess capacity utilization, the same should be disclosed separately in absolute terms and in terms of percentage with reasons.*

Exhibit 1

Illustration

Manufacturers' Specifications - capacity per hour = 500 units

No of shifts (each shift 8 hours) = 3 shifts

Holidays in a year:

Sundays = 52 days

Other holidays = 13 days

Annual maintenance is done within these 13 holidays

Preventive Weekly Maintenance for the machine on Sunday.

Normal idle capacity for batch change over,
Lunch, personal need etc = 1 hr per shift

Production based on sales expectancy in past 5 years
= 30.1, 26.9, 29.7, 24.4 and 30.2 lakh units

Actual Production for the year = 30.1

Calculation

Installed Capacity for the machine = $365 * 8 * 3 * 500 = 43.8$ lakh units

Practical Capacity = $(365 - 52 - 13) * (8 - 1) * 3 * 500 = 31.5$ lakh units

Out of the past five years, normal capacity is average of 3 normal years.

Normal Capacity = $(30.1 + 29.7 + 30.2) / 3 = 30.0$ lakh units

Actual Capacity Utilization = 30.1 lakh units = 68.7 %

Idle Capacity = $(43.8 - 30.1) = 13.7$ lakh unit = 31.3 %

CAS-3

COST ACCOUNTING STANDARD ON “OVERHEADS”

The following is the text of the COST ACCOUNTING STANDARD 3 (CAS- 3) issued by the Council of the Institute of Cost and Works Accountants of India on “Overheads”. The standard deals with the method of collection, allocation, apportionment and absorption of overheads” In this Standard, the standard portions have been set in bold italic type. These should be read in the context of the background material which has been set in normal type.

1. Introduction

1.1 In Cost Accounting the analysis and collection of overheads, their allocation and apportionment to different cost centres and absorption to products or services plays an important role in determination of cost as well as control purposes. A system of better distribution of overheads can only ensure greater accuracy in determination of cost of products or services. It is, therefore, necessary to follow standard practices for allocation, apportionment and absorption of overheads for preparation of cost statements.

2. Objective

2.1 The standard is to prescribe the methods of collection, allocation, apportionment of overheads to different cost centres and absorption thereof to products or services on a consistent and uniform basis in the preparation of cost statements and to facilitate inter-firm and intra-firm comparison.

2.2 The standardization of collection, allocation, apportionment and absorption of overheads is to provide a scientific basis for determination of cost of different activities, products, services, assets, etc.

2.3 The standard is to facilitate in taking commercial and strategic management ` decisions such as resource allocation, product mix optimization, make or buy decisions, price fixation etc.

2.4 The standard aims at ensuring better disclosure requirement and transparency in the cost statement.

3. Scope

3.1 *The standard should be followed for treatment of overheads by all enterprises including companies covered under Cost Accounting Records Rules issued in pursuant to Sec 209(1)(d) of the Companies Act, 1956 or under the provisions of any other Act, Rules and Regulations.*

3.2 The standard shall be applied in Cost and Management Accounting practices relating to

- (a) Cost of products, services or activities
- (b) Valuation of stock
- (c) Transfer pricing
- (d) Segment Performance
- (e) Excise / Custom duty, VAT, Income Tax, Service Tax and other levies, duties and abatement fixation
- (f) Cost statements for any other purpose

4. Definitions:

- 4.2 Overheads –** *Overheads comprise of indirect materials, indirect employee costs and indirect expenses which are not directly identifiable or allocable to a cost object in an economically feasible way.*

Overheads are to be classified on the basis of functions to which the overheads are related (Refer to 'Classification of cost' – CAS-1), viz

- *Production overheads*
- *Administrative overheads*
- *Selling overheads*
- *Distribution overheads*

Overheads may also be classified on the basis of behaviour such as variable overheads, semi-variable overheads and fixed overheads.

Variable overheads comprise of expenses which vary in proportion to the change of volume of production. For example, cost of utilities etc.

Fixed overheads comprise of expenses whose value do not change with the change in volume of production such as salaries, rent etc.

Semi-variable overheads are partly affected by change in the production volume. They are further segregated into variable overheads and fixed overheads

Any items of overheads arising out of abnormal situation in business activity should not be treated as overheads. They are charged to Costing Profit and Loss Account. Items not related to business activities such as donation, loss / profit on sale of assets etc are also not to be treated as overheads.

Borrowing cost and other financial charges including foreign exchange fluctuations will not form the part of overheads.

- 4.3 Collection of Overheads -** *Collection of overheads means the pooling of indirect items of expenses from books of account and supportive/ corroborative records in logical groups having regards to their nature and purpose.*

Overheads are collected on the basis of pre-planned groupings, called cost pools. Homogeneity of the cost components in respect of their behaviour and character is to be considered in developing the cost pool. Variable and fixed overheads should be collected in separate cost pools under a cost centre. A great degree of homogeneity in the cost pools are to be maintained to make the apportionment of overheads more rational and scientific. A cost pool for maintenance expenses will help in apportioning them to different cost centres which use the maintenance service.

- 4.4 Allocation of overheads –** *Allocation of overheads is assigning a whole item of cost directly to a cost centre.*

An item of expense which can be directly related to a cost centre is to be allocated to the cost centre. For example, depreciation of a particular machine should be allocated to a particular cost centre if the machine is directly attached to the cost centre.

4.5 Apportionment of overhead - Apportionment of overhead is distribution of overheads to more than one cost centre on some equitable basis.

When the indirect costs are common to different cost centres, these are to be apportioned to the cost centres on an equitable basis. For example, the expenditure on general repair and maintenance pertaining to a department can be allocated to that department but has to be apportioned to various machines (Cost Centres) in the department. If the department is involved in the production of a single product, the whole repair & maintenance of the department may be allocated to the product.

4.6 Primary and Secondary Distribution of Overheads :

In case of multi-product environment, there are common service cost centres which are providing services to the various production cost centres and other service cost centres. The costs of services are required to be apportioned to the relevant cost centres. First step to be followed is to apportion the overheads to different cost centres and then second step is to apportion the costs of service cost centres to production cost centres on an equitable basis. The first step is termed as primary distribution and the second step is termed as secondary distribution of overheads.

4.6 Absorption of overheads - Absorption of overheads is charging of overheads from cost centres to products or services by means of absorption rates for each cost center which is calculated as follows :

$$\text{Overhead absorption Rate} = \frac{\text{Total overheads of the cost centre}}{\text{Total quantum of base}}$$

The base (denominator) is selected on the basis of type of the cost centre and its contribution to the products or services, for example, machine hours, labour hours, quantity produced etc.

Overhead absorbed = Overhead absorption rate x units of base in product or service

4.7 Normal Capacity is the production achieved or achievable on an average over a period or season under normal circumstances taking into account the loss of capacity resulting from planned maintenance. (CAS-2)

5. Apportionment and absorption of Production Overheads

5.1 Overheads are to be apportioned to different cost centres based on following two principles :

- i) Cause and Effect - Cause is the process or operation or activity and effect is the incurrence of cost. Apportionment of overheads based on this criterion ensures better rationality as it is guided by the relationship between cost object and cost.*
- ii) Benefits received – overheads are to be apportioned to the various cost centres in proportion to the benefits received by them.*

5.2 Primary Distribution of overheads :

Basis of primary apportionment of items of production overheads is to be selected to distribute them among the cost centres following the above two principles as given above in 5.1.

Cost Accounting Standards

Basis of apportionment must be rational to distribute overheads. Once the base is selected, the same is to be followed consistently and uniformly. However, change in basis for apportionment can be adopted only when it is considered necessary due to change in circumstances like change in technology, degree of mechanization, product mix, etc. In case of such changes, proper disclosure in cost records is essential.

Examples of basis of primary distribution of some items of production overheads

Item of Cost	Basis of Apportionment
Power	(H.P. rating of Machines x hours x LF *
Fuel	Consumption rate x hour
Jigs, tools & fixtures	Machine hours or Man hours
Crane hire charges	Crane hours or weight of materials handled
Supervisors' salary & fringe benefits	Number of employees
Labour welfare cost	Number of employees
Rent & rates	Floor or Space area
Insurance	Value of fixed asset
Depreciation	Value of fixed asset

* LF = Motor Load Factor

5.3 Secondary Distribution of Overheads :

Secondary distribution of overheads may be done by following either Reciprocal basis or Non-Reciprocal Basis. While reciprocal basis considers the exchange of service among the service departments, non-reciprocal basis considers only one directional service flow from a service cost centre to other production cost centre(s).

5.4 Secondary Apportionment of Overheads on Reciprocal Basis

The services rendered by certain service cost centres are also utilized by other service cost centres. In reciprocal secondary distribution, the cost of service cost centres are apportioned to production cost centres as well as other service cost centres. In such case, any one of the following three methods may be followed :

- I. Repeated Distribution Method*
- II. Trial & Error Method*
- III. Simultaneous Equation Method*

5.4.1 Repeated Distribution Method

Steps to be followed under this method are :

- i) The proportion at which the costs of a service cost centres are to be distributed to production cost centres and other service cost centres are determined.*
- ii) Costs of first service cost centres are to be apportioned to production cost centres and service cost centres in the proportion as determined in step (i).*
- iii) Similarly, the cost of other service cost centres are to be apportioned.*
- iv) This process as stated in (ii) and (iii) are to be continued till the figures remaining undistributed in the service cost centres are negligibly small. The negligible small amount left with service centre may be distributed to production cost centres.*

For example, refer to Exhibit 1

5.4.2 Trial and Error Method

This method is to be followed when the question of distribution of costs of service cost centres which are interlocked among themselves arises. In the first stage, gross costs of services of service cost centres are determined and then in the second stage, costs of service centres are apportioned to production cost centres. Steps to be followed :

- i) The proportion at which the costs of a service cost centre to be distributed to production cost centres and other service cost centres is determined.*
- ii) Cost of first service cost centre is distributed to the other service centres in the proportion of service they received from the first as assessed in step (i).*
- iii) In the next step, total cost of second service cost centre so arrived has to be distributed to the other service centres in the proportion of service they received from the second as assessed in step (i).*
- iv) Similarly, the cost of other service cost centres are to be apportioned to the service cost centres.*
- v) This process as described in (iii) and (iv) is to be continued till the figures remaining undistributed in the service cost centres are negligibly small.*
- vi) At the last, total cost of service cost centres to be distributed to production cost centres.*

For example, refer to Exhibit 2

5.4.3 Simultaneous Equation Method

The simultaneous equation method is to be adopted to take care of secondary distribution of cost of service cost centres to production cost centres with the help of mathematical formulation and solution. Steps to be followed :

- i) Proportion of service benefits received by different cost centres from a cost centre are assessed on the basis of records*
- ii) The same ratios are used as coefficients in the equations framed for apportionment of cost of service cost centres to production cost centres.*
- iii) Solution of the equations gives the cost of service cost centres.*
- iv) Cost of service cost centres to be distributed to production cost centres*

For example, refer to Exhibit 3

5.5 Secondary Apportionment of Overheads on Non-Reciprocal basis

In non-reciprocal secondary distribution, the costs of service cost centres are apportioned to the production cost centres. Steps involved are :

- i) The cost of first service cost centre is apportioned on a suitable basis to production cost centres.*
- ii) The next step is to apportion the cost of second service centre to the production cost centres as indicated in stage (i).*
- iii) The process is to be continued till the costs of all service cost centres are apportioned.*

For example, refer to Exhibit 4

Cost Accounting Standards

5.6 Common bases for absorption of Production overheads from production cost centres to products or services :

<i>Bases of denominator</i>	<i>Applicability</i>
<i>Unit of Production</i>	<i>When single product is produced or various products are similar in specification.</i>
<i>Direct labour cost</i>	<i>When conversion process is labour intensive and wage rates are substantially uniform</i>
<i>Direct labour hour</i>	<i>When conversion process is labour intensive</i>
<i>Machine Hour or Vessel Occupancy or Reaction Hour or Crushing Hour etc</i>	<i>When production mainly depends on performance of the base</i>

5.7 Absorption of Production Overheads and production capacity

Overheads shall be analysed into variable overheads and fixed overheads.

The variable production overheads shall be absorbed to products or services based on actual capacity utilisation.

The fixed production overheads and other similar item of fixed costs such as quality control cost shall be absorbed in the production cost on the basis of the normal capacity or actual capacity utilization of the plant, whichever is higher.

In case of less production than normal, under-absorption of overheads shall be adjusted with Costing Profit & Loss Account. In case of higher production than normal, the over-absorption of overheads shall also be adjusted with Costing Profit & Loss Account.

5.8 Absorption of Production overheads :

Production Overheads absorption rate for each cost centre is to be determined with the help of quantum base as indicated in 5.6 above and the formula as indicated below :

$$\text{Fixed overheads absorption rate} = \frac{\text{Fixed overheads}}{\text{Normal or actual quantum of base, whichever is higher}}$$

$$\text{Variable overheads absorption rate} = \frac{\text{Variable overheads}}{\text{Actual quantum of base}}$$

5.9 A pre-determined rate may be used on a provisional basis for internal management decision making such as cost estimates for quotation, fixation of selling price etc. These rates are to be calculated for each cost centre for a particular period. Budgeted overheads for the respective cost centres for the period concerned are to be taken as numerator and budgeted normal base for the period as denominator for determining the rate.

Cost Accounting Standards

$$\text{Pre-determined Overhead Rate} = \frac{\text{Budgeted overheads for the Period}}{\text{Budgeted normal base for the period}}$$

The amount of total overheads absorbed by a product, service or activity will be the sum total of the overheads absorbed from individual cost centres on pre-determined basis. The difference between overheads absorbed on pre-determined basis and the actual overheads incurred is the under- or over-absorption of overheads.

The under- or over- absorption of overheads is mainly due to variation between the estimation and actual.

6. Apportionment and absorption of Administrative Overheads

6.1 Administrative overheads include the following items of cost :

- Printing and stationery, other office supplies
- Employees cost – salaries of administrative staff
- Establishment expenses – Office rent & rates, insurance, depreciation of office building and other assets, legal expenses, audit fees, bank charges etc.

6.2 Administrative overheads are to be collected in different cost pools such as :

- General Office
- Personnel department
- Accounts department
- Legal department
- Secretarial department etc

6.3 *Administrative overheads are to be further analysed into two – one for production activities and other for sales and distribution activities. Costs collected under the cost pools indicated in 6.2 above are to be distributed to administrative overheads relating to production activities and administrative overheads relating to selling and distribution activities on rational basis for each cost pool.*

6.4 *Administrative overheads relating to production activities are to be apportioned to different production cost centres on the basis conversion costs of production cost centres. The apportioned overheads are absorbed to products on the basis of the normal capacity or actual capacity, whichever is higher.*

In case of under-absorption or over-absorption of administrative overheads relating to production, the same shall also be adjusted with Costing Profit & Loss Account.

7. Apportionment and absorption of Selling overheads and Distribution overheads

7.1 *The selling overheads and distribution overheads are collected under different cost pools such as :*

Selling Overheads :

- (i) Sales Employees cost
- (ii) Rent
- (iii) Traveling expenses
- (iv) Warranty claim
- (v) Brokerage & Commission
- (vi) Advertisement relating to sales and sales promotion
- (vii) Sales incentive
- (viii) Bad debt etc

Cost Accounting Standards

Distribution Overheads :

- (i) Secondary Packaging
- (ii) Freight & forwarding
- (iii) Warehousing & storage
- (iv) Insurance etc.

7.2 Some items of selling overheads and distribution overheads are directly identified and absorbed to products or services and remaining part of selling and distribution overhead along with the share of administration overheads relating to selling and distribution activities are to be apportioned to various products or jobs or services on the basis of net actual sales value (i.e. Gross sales value less excise duty, sales tax and other government levies).

8. Presentation and Disclosure:

8.1 Once the basis of collection, allocation, apportionment and absorption for different production cost centres are selected, the same shall be followed consistently and uniformly

8.2 Change in basis for collection, allocation, apportionment and absorption can be adopted only when it is compelled by the change in circumstances like change in technology, refinement and improvement in the basis etc and the change would provide more scientific approach. In case of such changes, proper disclosure in cost records is essential..

8.3 Any change in basis for collection, allocation, apportionment and absorption which has a material effect on the cost of the product should be disclosed in the cost statements. Where the effect of such change is not ascertainable wholly or partly, the fact should be indicated in the cost statement.

Exhibit 1 : Reciprocal Overheads Apportionment : Repeated Method

	Production Department			Service Department	
	Machine	Assembly	Finishing	Stores	Repair
Ratio of apportionment from Stores	50%	20%	15%		15%
Ratio apportionment from Repair	40%	35%	15%	10%	
Distribution from					
Primary Distribution	35500.00	31900.00	14800.00	5000.00	6000.00
Stores Dept.	2500.00	1000.00	750.00	-5000.00	750.00
Total	38000.00	32900.00	15550.00	0.00	6750.00
Repairs & Maintenance Dept	2700.00	2362.50	1012.50	675.00	-6750.00
Total	40700.00	35262.50	16562.50	675.00	0.00
Stores Dept.	337.50	135.00	101.25	-675.00	101.25
Total	41037.50	35397.50	16663.75	0.00	101.25
Repairs & Maintenance Dept	40.50	35.44	15.19	10.13	-101.25
Total	41078.00	35432.94	16678.94	10.13	0.00
Stores Dept.	5.06	2.03	1.52	-10.13	1.52
Total	41083.06	35434.96	16680.46	0.00	1.52
Repairs & Maintenance Dept	0.61	0.53	0.23	0.15	-1.52
Total	41083.67	35435.49	16680.68	0.15	0.00
Stores Dept.	0.10	0.03	0.02	-0.15	0.00
Total	41083.77	35435.52	16680.71	0.00	0.00

Cost Accounting Standards

Exhibit 2 : Reciprocal Overhead Apportionment : Trial & Error Method

	Production Department			Service Department	
	Machine	Assembly	Finishing	Stores	Repair
Ratio of apportionment from Stores	50%	20%	15%		15%
Ratio of apportionment from Repair	40%	35%	15%	10%	
Distribution from					
Primary Distribution	35500.00	31900.00	14800.00	5000.00	6000.00
Distribution between service centres					
Stores Dept.				0.00	750.00
Total				5000.00	6750.00
Repairs & Maintenance To stores				675.00	0
Stores Dept. to Repair & Maint				0.00	101.25
Repairs & Maintenance To stores				10.13	0.00
Stores Dept. to Repair & Maint				0.00	1.52
Repairs & Maintenance To stores				0.15	0.00
Stores Dept. to Repair & Maint				0.00	0.02
Gross cost of service cost centres				5685.28	6852.79
Stores to Production cost centres	2842.63	1137.06	852.79	-5685.28	
Repairs & Maint to Production centres	2741.14	2398.46	1027.92		-6852.79
Total	41083.77	35435.52	16680.71	0	0

Exhibit 3 : Reciprocal Overhead Apportionment : Simultaneous Equation Method

	Production Departments			Service Departments	
	Machine	Assembly	Finishing	Stores	Repair
Ratio of apportionment from Stores	50%	20%	15%		15%
Ratio of apportionment from Repair	40%	35%	15%	10%	
Distribution from					
Primary Distribution	35500.00	31900.00	14800.00	5000.00	6000.00

Let x, y be Store Dept and Repair & Maintenance Dept expenses respectively.

$$x - 0.10y = 5000$$

$$-0.15x + y = 6000$$

$$\text{Solving } x = 5685.28, y = 6852.79$$

Now, distribution of expenses will be as follows :

	Production Departments			Service Departments	
	Machine	Assembly	Finishing	Stores	Repair
Ratio of apportionment from Stores	50%	20%	15%		15%
Ratio of apportionment from Repair	40%	35%	15%	10%	
Amounts from Primary Distribution	35500.00	31900.00	14800.00	5685.28	6852.79
Stores to Production cost centres	2842.63	1137.06	852.79	-5685.28	
Repairs & Maint to Production centres	2741.14	2398.46	1027.92		-6852.79
Total	41083.77	35435.52	16680.71	0	0

Cost Accounting Standards

Exhibit 4 : Non-Reciprocal Overheads Apportionment

Primary Distribution

Expenses	Basis of allocation / apportionment	Total (Rs.)	Production Departments			Service Departments	
			Machine Shop	Assembly Shop	Finishing Dept	Stores	Repairs & Maint.
Consumable stores	Direct Materials	15,400	5,200	6,000	2,000	600	1,600
Supervision	Direct Wages	22,800	7,900	5,100	6,100	2,200	1,500
Rent & Rates	Area	10,000	3,000	2,000	2,500	1,000	1,500
Insurance	Asset Value	2,000	800	900	200	50	50
Depreciation	Asset Value	30,000	12,000	13,500	3,000	750	750
Power	H.PxHoursx LF	9,000	5,400	3,600	-	-	-
Light & Heat	Area	4,000	1,200	800	1,000	400	600
Total		93,200	35,500	31,900	14,800	5,000	6,000

Secondary Distribution

Expenses	Basis of allocation / apportionment	Total (Rs.)	Production Departments			Service Departments	
			Machine Shop	Assembly Shop	Finishing Dept	Stores	Repairs & Maint.
Primary dist. (earlier Table)		93,200	35,500	31,900	14,800	5,000	6,000
Stores	Direct Material (9 : 6 :5)		2,250	1,500	1,250	- 5,000	
Repairs & Maint	Direct (2: 3: 1)		2,000	3,000	1,000		- 6,000
		93,200	39, 750	36,400	17,050	0	0

(CAS-4)
COST ACCOUNTING STANDARD ON
COST OF PRODUCTION FOR CAPTIVE CONSUMPTION

The following is the text of the COST ACCOUNTING STANDARD 4 (CAS-4) issued by the Council of the Institute of Cost and Works Accountants of India on “Cost of Production for Captive Consumption”. The standard deals with determination of cost of production for captive consumption. In this Standard, the standard portions have been set in bold italic type. These should be read in the context of the background material which has been set in normal type.

1. Introduction

The Cost Accounting principle for determination of cost of production is well established. Similarly, rules for levy of excise duty on goods used for captive consumption are also well defined. Captive Consumption means the consumption of goods manufactured by one division and consumed by another division(s) of the same organization or related undertaking for manufacturing another product(s). Liability of excise duty arises as soon as the goods covered under excise duty are manufactured but excise duty is collected at the time of removal or clearance from the place of manufacture even if such removal does not amount to sale. Assessable value of goods used for captive consumption is based on cost of production. According to the Central Excise Valuation (Determination of Price of Excisable Goods) Rules 2000, the assessable value of goods used for captive consumption is 115% of cost of production of such goods, and as may be prescribed by the Government from time to time.

2. Objective

- 2.1 The purpose of this standard is to bring uniformity in the principles and methods used for determining the cost of production of excisable goods used for captive consumption.
- 2.2 The cost statement prepared based on standard will be used for determination of assessable value of excisable goods used for captive consumption.
- 2.3 The standard and its disclosure requirement will provide better transparency in the valuation of excisable goods used for captive consumption.

3. Scope

- 3.1 The standard is to be followed for determining the cost of production to arrive at an assessable value of excisable goods used for captive consumption.
- 3.2 Cost of production will include various cost components. They are already defined in Cost Accounting Standard-1 (Classification of Cost – CAS-1). Thus, this standard has to be read in conjunction with CAS-1.

4. Definitions

4.1 Cost of Production: *Cost of production shall consist of Material Consumed, Direct Wages and Salaries, Direct Expenses, Works Overheads, Quality Control cost, Research and Development Cost, Packing cost, Administrative Overheads relating to production.*

To arrive at cost of production of goods dispatched for captive consumption, adjustment for Stock of work-in-Process, finished goods, recoveries for sales of scrap, wastage etc shall be made.

4.2 Captive Consumption: *Captive Consumption means the consumption of goods manufactured by one division or unit and consumed by another division or unit of the same organization or related undertaking for manufacturing another product(s).*

4.3 Normal Capacity *is the production achieved or achievable on an average over a period or season under normal circumstances taking into account the loss of capacity resulting from planned maintenance. (CAS-2)*

5. Determination of Cost of Production for Captive Consumption

To determine the cost of production for captive consumption, calculations of different cost components and adjustments are explained below:

5.1 Material Consumed

Material Consumed shall include materials directly identified for production of goods such as:

- (a) indigenous materials*
- (b) imported materials*
- (c) bought out items*
- (d) self manufactured items*
- (e) process materials and other items*

Cost of material consumed shall consist of cost of material, duties and taxes, freight inwards, insurance and other expenditure directly attributable to procurement. Trade discount, rebates and other similar items will be deducted for determining the cost of materials. Cenvat credit, credit for countervailing customs duty, Sales Tax set off, VAT, duty draw back and other similar duties subsequently recovered/ recoverable by the enterprise shall also be deducted.

5.2 Direct wages and salaries

Direct wages and salaries shall include house rent allowance, overtime and incentive payments made to employees directly engaged in the manufacturing activities.

Direct wages and salaries include fringe benefits such as:

- (i) Contribution to provident fund and ESIS
- (ii) Bonus/ ex-gratia payment to employees
- (iii) Provision for retirement benefits such as gratuity and superannuation
- (iv) Medical benefits
- (v) Subsidised food

- (vi) Leave with pay and holiday payment
- (vii) Leave encashment
- (viii) Other allowances such as children's education allowance, conveyance allowance which are payable to employees in the normal course of business etc.

5.3 Direct Expenses

Direct expenses are the expenses other than direct material cost and direct employees costs which can be identified with the product.

Direct expenses include:

- (i) Cost of utilities such as fuel, power, water, steam etc
- (i) Royalty based on production
- (ii) Technical Assistance / know-how fees
- (iii) Amortized cost of moulds, patterns, patents etc
- (iv) Job charges
- (v) Hire charges for tools and equipment
- (vi) Charges for a particular product designing etc

5.4 Works Overheads

Works overheads are the indirect costs incurred in the production process.

Works overheads include the following expenses:

- (i) Consumable stores and spares
- (ii) Depreciation of plant and machinery, factory building etc
- (iii) Lease rent of production assets
- (iv) Repair and maintenance of plant and machinery, factory building etc
- (v) Indirect employees cost connected with production activities
- (vi) Drawing and Designing department cost.
- (vii) Insurance of plant and machinery, factory building, stock of raw material & WIP etc
- (viii) Amortized cost of jigs, fixtures, tooling etc
- (ix) Service department cost such as Tool Room, Engineering & Maintenance, Pollution Control etc

5.5 Quality Control Cost

The quality control cost is the expenses incurred relating to quality control activities for adhering to quality standard. These expenses shall include salaries & wages relating to employees engaged in quality control activity and other related expenses.

5.6 Research and Development Cost

The research and development cost incurred for development and improvement of the process or the existing product shall be included in the cost of production.

5.7 Administrative Overheads

Administrative overheads need to be analysed in relation to production activities and other activities. Administrative overheads in relation to production activities shall be included in the cost of production. Administrative overheads in relation to activities other than manufacturing activities e.g. marketing, projects management, corporate office expenses etc. shall be excluded from the cost of production.

5.8 Packing Cost

If product is transferred/dispached duly packed for captive consumption, cost of such packing shall be included.

Packing cost includes both cost of primary and secondary packing required for transfer/dispatch of the goods used for captive consumption.

5.9 Absorption of overheads

Overheads shall be analysed into variable overheads and fixed overheads.

Variable Overheads are the items which change with the change in volume of production, such as cost of utilities etc.

Fixed overheads are the items whose value does not change with the change in volume of production such as salaries, rent etc.

The variable production overheads shall be absorbed in production cost based on actual capacity utilisation.

The fixed production overheads and other similar item of fixed costs such as quality control cost, research and development costs, administrative overheads relating to manufacturing shall be absorbed in the production cost on the basis of the normal capacity or actual capacity utilization of the plant, whichever is higher.

5.10 Valuation of Stock of work-in-progress and finished goods

Stock of work-in-progress shall be valued at cost on the basis of stages of completion as per the cost accounting principles. Similarly, stock of finished goods shall be valued at cost. Opening and closing stock of work-in-progress shall be adjusted for calculation of cost of goods produced and similarly opening and closing stock of finished goods shall be adjusted for calculation of goods despatched.

In case the cost of a shorter period is to be determined, where the figures of opening and closing stock are not readily available, the adjustment of figures of opening and closing stock may be ignored.

5.11 Treatment of Joint Products and By-Products

A production process may result in more than one product being produced simultaneously. In case joint products are produced, joint costs are allocated between the products on a rational and consistent basis. In case by-products are produced, the net realisable value of by-products is credited to the cost of production of the main product.

For allocation of joint cost to joint products, the sales values of products at the split off point i.e. when the products become separately identifiable may become the basis. Some other basis may be adopted. For example, in case of petroleum products, each product is assigned certain value based on its certain properties, may be calorific value and these values become the basis of apportionment of joint cost among petroleum products.

5.12 Treatment of Scrap and Waste

The production process may generate scrap or waste. Realized or realizable value of scrap or waste shall be credited to the cost of production.

In case, scrap or waste does not have ready market and it is used for reprocessing, the scrap or waste value is taken at a rate of input cost depending upon the stage at which such scrap or waste is recycled. The expenses incurred for making the scrap suitable for reprocessing shall be deducted from value of scrap or waste.

Illustration

A production process has three stages.

<u>Stage</u>	<u>Input material cost</u>	<u>Processing cost</u>	<u>Total</u>
	(Rs/ MT)	(Rs/MT)	(Rs/MT)
1	2000	500	2500
2	2500	1000	3500
3	3500	1000	4500

If during the production process at stage3, the scrap is produced and the same is recycled at stage2 after making an expenditure of Rs 200 per MT to make it suitable for re-processing at stage2, then scrap will be valued @ Rs (2500 – 200) i.e Rs 2300. If no expenditure is involved to make scrap re-usable, the scrap value will be @ Rs 2500. The scrap value for the scrap produced during a period calculated at the rate as explained above may be deducted to find out the cost of production for the period.

5.13 Miscellaneous Income

Miscellaneous income relating to production shall be adjusted in the calculation of cost of production, for example, income from sale of empty containers used for despatch of the captively consumed goods produced under reference.

5.14 Inputs received free of cost

In case any input material, whether of direct or indirect nature, including packing material is supplied free of cost by the user of the captive product, the landed cost of such material shall be included in the cost of production.

5.15 Moulds, Tools, Dies & Patterns etc received free of cost

The amortization cost of such items shall be included in the cost of production.

5.16 Interest and financial charges

Interest and financial charges being a financial charge shall not be considered to be a part of cost of production.

5.17 Abnormal and non-recurring cost

Abnormal and non-recurring cost arising due to unusual or unexpected occurrence of events, such as heavy break down of plants, accident, market condition restricting sales below normal level, abnormal idle capacity, abnormal process loss, abnormal scrap and wastage, payments like VRS, retrenchment compensation, lay-off wages etc. The abnormal cost shall not form the part of cost of production.

6. Cost Sheet

The cost sheet should be prepared in the format as par Appendix – 1 or as near thereto as possible. The manufacturer will be required to maintain cost records and other books of account in a manner, which would facilitate preparation and verification of the cost of production. For manufacturers covered under the ambit of Section 209(1)(d) of the Companies Act, 1956, i.e., where Cost Accounting Records are statutorily required to be maintained, the Cost Accountant certifying the cost of production for captive consumption shall verify the correctness of the cost from these records. However, for manufacturers not covered under Section 209(1)(d) of the Companies Act, 1956, it is desirable that they also maintain cost accounting records in line with the records so prescribed as to facilitate determination and certification of cost of production.

7. Disclosure

(i) If there is any change in cost accounting principles and practices during the concerned period which may materially affect the cost of production in terms of comparability with previous periods, the same should be disclosed.

(ii) If opening stock and closing stock of work -in-progress and finished goods are not readily available for certification purpose, the same should be disclosed.

Appendix – 1

Name of the Manufacturer :

Address of the Manufacturer:

Registration No of Manufacturer:

Description of product captively consumed:

Excise Tariff Heading:

Statement of Cost of Production of _____ manufactured / to be manufactured during the period _____

		Qty	
Q1	Quantity Produced (Unit of Measure)		
Q2	Quantity Despatched (Unit of Measure)		
	Particulars	Total Cost (Rs)	Cost/unit (Rs)
1.	Material Consumed		
2.	Direct Wages and Salaries		
3.	Direct Expenses		
4.	Works Overheads		
5.	Quality Control Cost		
6.	Research & Development Cost		
7.	Administrative Overheads (relating to production activity)		
8.	Total (1 to 7)		
9.	Add : Opening stock of Work - in –Progress		
10.	Less : Closing stock of Work -in- Progress		
11.	Total (8+9-10)		
12.	Less : Credit for Recoveries/Scrap/By-Products / misc income		
13.	Packing cost		
14.	Cost of production (11 - 12 + 13)		
15.	Add: Inputs received free of cost		
16.	Add: Amortised cost of Moulds, Tools, Dies & Patterns etc received free of cost		

Cost Accounting Standards

17.	Cost of Production for goods produced for captive consumption (14 + 15 + 16)		
18.	Add : Opening stock of finished goods		
19.	Less : Closing stock of finished goods		
20.	Cost of production for goods despatched (17 + 18 - 19)		

Seal & Signature of Company's
Authorised Representative

I/We, have verified above data on test check basis with reference to the books of account, cost accounting records and other records. Based on the information and explanations given to me/us, and on the basis of generally accepted cost accounting principles and practices followed by the industry, I /We certify that the above cost data reflect true and fair view of the cost of production.

Date :

Place :

Seal & Signature of Cost
Accountant
Membership No.

CAS-5
COST ACCOUNTING STANDARD
ON DETERMINATION OF
AVERAGE (EQUALIZED) COST OF TRANSPORTATION

The following is the text of the Cost Accounting Standard 5 (CAS-5) issued by the Council of the Institute of Cost & Works Accountants of India on "Determination of Average (Equalized) Cost of Transportation". This standard deals with the determination of average transportation cost of a product. 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 the normal type.

1. Introduction:

- 1.1 The cost accounting principles for tracing/identifying an element of cost, its allocation/apportionment to a product or service are well established. Transportation cost is an important element of cost for procurement of materials for production and for distribution of product for sale. Therefore, Cost Accounting Records should present transportation cost separately from the other cost of inward materials or cost of sales of finished goods. The Finance Act 2003 also specifies the certification requirement of transportation cost for claiming deduction while arriving at the assessable value of excisable goods cleared for home consumption/ export. There is a need to standardize the record keeping of expenses relating to transportation and computation of transportation cost.

2. Objective

- 2.1 To bring uniformity in the application of principles and methods used in the determination of averaged/equalized transportation cost.
- 2.2 To prescribe the system to be followed for maintenance of records for collection of cost of transportation, its allocation/apportionment to cost centres, locations or products.

For example, transportation cost needs to be apportioned among excisable, exempted, non-excisable and other goods for arriving at the average of transportation cost of each class of goods.

- 2.3 To provide transparency in the determination of cost of transportation.

3. Scope

- 3.1 This standard should be applied for calculation of cost of transportation required under any statute or regulations or for any other purpose. For example, this standard can be used for :
- (a) determination of average transportation cost for claiming the deduction for arriving at the assessable value of excisable goods
 - (b) Insurance claim valuation

Cost Accounting Standards

- (c) Working out claim for freight subsidy under Fertilizer Industry Coordination Committee
- (d) Administered price mechanism of freight cost element
- (e) Determination of inward freight costs included or to be included in the cost of purchases attributable to the acquisition.
- (f) Computation of freight included in the value of inventory for accounting on inventory or valuation of stock hypothecated with Banks / Financial Institution, etc.

4. Definitions

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

- 4.1 *Cost of Transportation comprises of the cost of freight, cartage, transit insurance and cost of operating fleet and other incidental charges whether incurred internally or paid to an outside agency for transportation of goods but does not include detention and demurrage charges.***

Explanation :

Cost of transportation is classified as inward transportation cost and outward transportation Cost.

- 4.2 *Inward Transportation cost is the transportation expenses incurred in connection with materials /goods received at factory or place of use or sale/removal.***

- 4.3 *Outward Transportation cost is the transportation expenses incurred in connection with the sale or delivery of materials or goods from factory or depot or any other place from where goods are sold /removed***

- 4.4 *Freight is the charges paid or payable to an outside agency for transporting materials/ goods from one place to another place.***

- 4.5 *Cartage is the expenses incurred for movement of goods covering short distance for further transportation for delivery to customer or storage.***

- 4.6 *Transit insurance cost is the amount of premium to be paid to cover the risk of loss /damage to the goods in transit.***

- 4.7 *Depot is the bounded premises /place managed internally or by an agent, including consignment agent and C & F agent, franchisee for storing of materials/goods for further dispatch including the premises of Consignment Agent and C&F Agent for the purpose .***

Depot includes warehouses, go-downs, storage yards, stock yards etc.

- 4.8 *Equalized transportation cost means average transportation cost incurred during a specified period.***

- 4.9 *Equalized freight means average freight.***

5. Maintenance of records for ascertaining Transportation Cost

- 5.1** *Proper records shall be maintained for recording the actual cost of transportation showing each element of cost such as freight, cartage, transit insurance and others after adjustment for recovery of transportation cost. Abnormal costs relating to transportation, if any, are to be identified and recorded for exclusion of computation of average transportation cost.*
- 5.2** *In case of a manufacturer having his own transport fleet, proper records shall be maintained to determine the actual operating cost of vehicles showing details of various elements of cost, such as salaries and wages of driver, cleaners and others, cost of fuel, lubricant grease, amortized cost of tyres and battery, repairs and maintenance, depreciation of the vehicles, distance covered and trips made, goods hauled and transported to the depot.*
- 5.3** *In case of hired transport charges incurred for despatch of goods, complete details shall be recorded as to date of despatch, type of transport used, description of the goods, destination of buyer, name of consignee, challan number, quantity of goods in terms of weight or volume, distance involved, amount paid, etc.*
- 5.4** *Records shall be maintained separately for inward and outward transportation cost specifying the details particulars of goods despatched, name of supplier / recipient, amount of freight etc.*
- 5.5** *Separate records shall be maintained for identification of transportation cost towards inward movement of material (procurement) and transportation cost of outward movement of goods removed /sold for both home consumption and export.*
- 5.6** *Records for transportation cost from factory to depot and thereafter shall be maintained separately.*
- 5.7** *Records for transportation cost for carrying any material / product to job-workers place and back should be maintained separately so as include the same in the transaction value of the product.*
- 5.8** *Records for transportation cost for goods involved exclusively for trading activities shall be maintained separately and the same will not be included for claiming any deduction for for calculating assessable value excisable goods cleared for home consumption.*
- 5.9** *Records of transportation cost directly allocable to a particular category of products should be maintained separately so that allocation in appendix –3 can be made.*
- 5.10** *For common transportation cost, both for own fleet or hired ones, proper records for basis of apportionment should be maintained.*
- 5.11** *Records for transportation cost for exempted goods, excisable goods cleared for export shall be maintained separately.*
- 5.12** *Separate records of cost for mode of transportation other than road like ship, air etc are to be maintained in appendix –2 which will be included in total cost of transportation.*

6. Treatment of cost:

- 6.1** *Inward transportation costs shall form the part of the cost of procurement of materials which are to be identified for proper allocation/ apportionment to the materials / products.*
- 6.2** *Outward transportation cost shall form the part of the cost of sale and shall be allocated / apportioned to the materials and goods on a suitable basis.*

Explanation :

Outward transportation cost of a product from factory to depot or any location of sale shall be included in the cost of sale of the goods available for sale.

6.3 *The following basis may be used, in order of priority, for apportionment of outward transportation cost depending upon the nature of products, unit of measurement followed and type of transport used :*

- i) Weight*
- ii) Volume of goods*
- iii) Tonne-Km*
- iv) Unit / Equivalent unit*
- v) Value of goods*
- vi) Percentage of usage of space*

Once a basis of apportionment is adopted , the same should be followed consistently.

6.4 *For determining the transportation cost per unit, distance shall be factored in to arrive at weighted average cost.*

6.5 *Abnormal and non recurring cost shall not be a part of transportation cost.*

Explanation

Penalty, detention charges, demurrage and cost related to abnormal break down will not be included in transportation cost.

7. Cost Sheet

The cost sheets shall be prepared and presented in a form as per Appendices 1,2 and 3 or as near thereto. Appendix 1 and Appendix 2 show the details of information to be maintained for compilation of transport cost for own fleet and hired transportation charges respectively. Appendix 1 is applicable where the organization is having its own fleet.

The directly allocable cost of own fleet (outward) shall be identified against different categories of products as shown in Appendix 3 and same shall be indicated there. Similarly, total common cost of own fleet (outward) shall be apportioned to different categories of products as shown in Appendix 3 on a basis which should be specified. The basis of apportionment may be adopted depending on the nature of product as indicated in para 6.3. Similar approach shall also be applied for hired outward transport charges.

More columns may be required to be shown in Appendix 3 specifying different types of transactions. For example : Sale on specific rate basis, sale of waste, scrap, return from customer, goods sent for job work, goods received after job work etc.

Unit of Measurement (UM) may vary depending upon the nature of the product. For example, Number, MT, Meter, Litre etc.

Proper records shall be maintained to show separately the Transportation Cost relating to sending of jobs to job contractors/convertors and receipt back of processed jobs/converted materials.

An enterprise shall be required to maintain cost records and other books of account in a manner which would facilitate preparation and verification of cost of transportation and other related charges and its apportioning to various products.

8. Transaction value :

'Transaction value' shall have the meaning assigned to it in Section 4 of The Central Excise Act, 1944 or Section 14 of The Customs Act , 1962 or as defined in any other Act or Regulations as the case may be.

9. The standard will be operative from the date of issue.

Cost Accounting Standards

Appendix 1

Name of the Manufacturer:

Address of the Manufacturer:

Statement of Operating Cost of own Fleet for the period.....

Sl No		
A	QUANTITATIVE INFORMATION	
A1.	Number of Vehicles	
A2.	Number of trips	
A3.	Goods Transported – inward (UM)	
A4.	Goods transported – outward (UM)	
A5.	Goods transported – inward – Km	
A6.	Goods transported – outward – Km	
A7.	Total Goods transported inward – basis of apportionment (Specify)	
A8.	Total Goods transported outward – basis of apportionment (Specify)	
A9	Total (A7+A8)	
B	COST INFORMATION	(Rs)
	Cost of Operation	
	Variable Cost	
B1.	Salaries & Wages of Drivers, Cleaners and others	
B2.	Fuel & Lubricants	
B3.	Consumables	
B4.	Amortized cost of Tyre, Tube & Battery	
B5.	Spares	
B6.	Repair & Maintenance	
B7.	Other Variable Cost (specify)	
B8.	Total Variable Cost (B1 to B7)	
	Fixed Cost	
B9.	Insurance	
B10.	Licence Fee, Permit Fee and Taxes	
B11.	Depreciation	
B12.	Other Fixed Costs (Specify)	
B13.	Total Fixed Cost (B9 to B12)	
B14.	Total Operating Cost (B8+B13)	
C	APPORTIONMENT (Basis to be specified) - usage	
C1.	Inward Transport Cost (B14 * A7/ A9)	
C2.	Outward Transport Cost (B14 * A8/A9)	
C3.	Transit insurance for inward movement	
C4.	Transit insurance for outward movement	
C5.	Total transportation cost for inward movement (C1+C3)	
C6.	Total transportation cost for outward movement (C2+C4)	

Cost Accounting Standards

Note :

1. Cost of Battery, and Tyres and Tubes shall to be amortised over its useful life.
2. Asset Register shall be maintained for determination of depreciation and amortization cost.
3. Separate Cost Sheet shall be prepared for different types of vehicles.

Appendix 2

Name of the Manufacturer:

Address of the Manufacturer:

Statement of Hired Outward Transportation Cost for the period ending.....

A	Quantitative Information	
A1	Quantity of goods transported – outward (UM)	
B	COST INFORMATION)	(Rs)
B1	Hired Transport Charges	
B2	Transit Insurance	
B3	Other (specify)	
B4	Total Transportation cost (B1 to B3)	

Cost Accounting Standards

Appendix -3

Name of the Manufacturer:

Address of the Manufacturer:

Statement of apportionment of Outward Transportation Cost to different goods and Determination of Averaged Outward Transport Cost for the period ending.....

A	Quantitative Information	Total	Excisable goods			Specific Rated goods	Goods cleared for Export	Exempted goods	Goods Cleared on MRP Basis	Goods cleared from factory to customer	Goods cleared from Depot to Customer	Others (specify)
			Product group 1	Product group 2	Product group 3							
A1	Goods transported Outwards(UM *)											
A2	Goods Transported Outward (KM)											
B	Outward Transport Cost (Rs)											
B1	Directly allocated own fleet transportation cost (Rs)											
B2	Basis of Apportionment of own fleet cost (Specify)											
B3	Common own fleet transport cost to be apportioned											
B4	Directly allocated hired transportation charges (Rs)											
B5	Basis of Apportionment of hired transportation cost (Specify)											
B6	Common hired transport charges to be apportioned											
B7	Total Transport Cost (B1+ B3+B4+B6)											
B8	Averaged transport cost per unit (Rs) (B7/A1)											

* UM is the Unit of measurement

Seal and signature of Company's
authorized representative

Cost Accounting Standards

I /We, have verified above data and calculation in the appendix 1, 2 and 3 on test check basis with reference to the books of account, cost accounting records and other records. Based on the information and explanations given to me/us, and on the basis of generally accepted cost accounting principles and practices followed by the industry, I /We certify that the above cost data reflect true and fair view of averaged transport cost.

Date :

Place :

(CAS-6)

COST ACCOUNTING STANDARD ON MATERIAL COST

The following is the COST ACCOUNTING STANDARD 6 (CAS 6) issued by the Council of The Institute of Cost and Works Accountants of India on "MATERIAL COST". 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 principles and methods of determining the Material Cost.

Material for the purpose of this standard includes raw materials, process materials, additives, manufactured / bought out components, sub-assemblies, accessories, semi finished goods, consumable stores, spares and other indirect materials. This standard does not deal with Packing Materials as a separate standard is being issued on the subject.

1.2 This standard deals with the principles and methods of classification, measurement and assignment of material cost, for determination of the Cost of product or service, and the presentation and disclosure in cost statements.

1.3 The Standard deals with the following issues.

- Principle of Valuation of receipt of materials.
- Principle of Valuation of issue of materials.
- Assignment of material cost to cost objects.

2. Objective

The objective of this standard is to bring uniformity and consistency in the principles and methods of determining the material cost with reasonable accuracy.

3. Scope

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

4. Definitions

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

Cost Accounting Standards

4.1 Abnormal cost: *An unusual or atypical cost whose occurrence is usually irregular and unexpected and/ or due to some abnormal situation of the production or operation¹.*

4.2 Administrative overheads: *Expenses in the nature of indirect costs, incurred for general management of an organization².*

4.3 Cost Object: *This includes a product, service, cost centre, activity, sub-activity, project, contract, customer or distribution channel or any other unit in relation to which costs are ascertained.³*

4.4 Defectives: *End Product and/or intermediate product units that do not meet quality standards. This may include reworks or rejects.*

4.4.1 Reworks: *Defectives which can be brought up to the standards by putting in additional resources.*

Rework includes repairs, reconditioning and refurbishing.

4.4.2 Rejects: *Defectives which cannot meet the quality standards even after putting in additional resources.*

Rejects may be disposed off as waste or sold for salvage value or recycled in the production process.

4.5 Imputed Costs: *Hypothetical or notional costs, not involving cash outlay, computed only for the purpose of the decision making⁴.*

4.6 Materials:

4.6.1 Direct Materials: *Materials the costs of which can be attributed to a cost object in an economically feasible way⁵.*

4.6.2 Indirect Materials: *Materials, the costs of which cannot be directly attributed to a particular cost object⁶.*

4.7 Material Cost: *The cost of material of any nature used for the purpose of production of a product or a service⁷.*

¹ Adapted from CAS-1 Para 6.5.19

² Adapted from CAS-1 Para 6.3.5

³ Adapted from CIMA Terminology

⁴ CAS 1- Para 6.5.13

⁵ Adapted from CAS 1-6.2.3

⁶ Adapted from CAS 1- 6.2.8

⁷ CAS-1-6.1.2

4.8 Production overheads: *Indirect costs involved in the production process or in rendering service*⁸.

The terms Production Overheads, Factory Overheads, Works Overheads and Manufacturing Overheads denote the same meaning and are used interchangeably.

4.9 Scrap: *Discarded material having some value in few cases and which is usually either disposed of without further treatment (other than reclamation and handling) or reintroduced into the production process in place of raw material*⁹.

4.10 Standard Cost: *A predetermined norm applied as a scale of reference for assessing actual cost, whether these are more or less.*

The standard cost serves as a basis of cost control and as a measure of productive efficiency when ultimately posed with an actual cost. It provides management with a medium by which the effectiveness of current results is measured and responsibility for deviation is placed.¹⁰ Standard costs are used to compare the actual costs with the standard cost with a view to determine the variances, if any, and analyse the causes of variances and take proper measure to control them.

4.11 Waste and spoilage:

4.11.1 Waste: *Material loss during production or storage due to various factors such as evaporation, chemical reaction, contamination, unrecoverable residue, shrinkage, etc., and discarded material which may or may not have value*¹¹.

4.11.2 Spoilage: *Production that does not meet with dimensional or quality standards in such a way that it cannot be rectified economically and is sold for a disposal value. Net Spoilage is the difference between costs accumulated up to the point of rejection and the salvage value.*

5. Principles of Measurement

5.1. Principle of valuation of receipt of materials:

5.1.1 *The material receipt should be valued at purchase price including duties and taxes, freight inwards, insurance, and other expenditure directly attributable to procurement (net of trade discounts, rebates, taxes and duties refundable or to be credited by the taxing authorities) that can be quantified with reasonable accuracy at the time of acquisition.*

⁸ Adapted from CAS-1 Para 6.3.3 and 6.3.4

⁹ Adapted from Glossary of Management Accounting Terms- Page 62

¹⁰ Adapted from CAS 1_ Para 6.7.5

¹¹ Adopted from Glossary of Management Accounting Terms page 70

Cost Accounting Standards

Examples of taxes and duties to be deducted from cost are cenvat credits, credit for countervailing customs duty, sales tax set off/ vat credits and other similar items of credit recovered/ recoverable.

5.1.2 Finance costs incurred in connection with the acquisition of materials shall not form part of material cost.

5.1.3 Self manufactured materials shall be valued including direct material cost, direct employee cost, direct expenses, factory overheads, share of administrative overheads relating to production but excluding share of other administrative overheads, finance cost and marketing overheads. In case of captive consumption, the valuation shall be in accordance with Cost Accounting Standard 4.

5.1.4 Spares which are specific to an item of equipment shall not be taken to inventory, but shall be capitalized with the cost of the specific equipment. Cost of capital spares and/or insurance spares, whether procured with the equipment or subsequently, shall be amortised over a period, not exceeding the useful life of the equipment.

5.1.5 Normal loss or spoilage of material prior to reaching the factory or at places where the services are provided shall be absorbed in the cost of balance materials net of amounts recoverable from suppliers, insurers, carriers or recoveries from disposal.

5.1.6 Losses due to shrinkage or evaporation and gain due to elongation or absorption of moisture etc., before the material is received shall be absorbed in material cost to the extent they are normal, with corresponding adjustment in the quantity.

The adjustment for moisture will depend on whether dry weight is used for measurement.

5.1.7 The forex component of imported material cost shall be converted at the rate on the date of the transaction. Any subsequent change in the exchange rate till payment or otherwise shall not form part of the material cost.

Explanation: The date on which a transaction (whether for goods or services) is recognised in accounting in conformity with generally accepted accounting principles

5.1.8 Any demurrage or detention charges, or penalty levied by transport or other authorities shall not form part of the cost of materials.

5.1.9 Subsidy/Grant/Incentive and any such payment received/receivable with respect to any material shall be reduced from cost for ascertainment of the cost of the cost object to which such amounts are related.

5.2. Principle of valuation of issue of material

5.2.1 Issues shall be valued using appropriate assumptions on cost flow.

E.g. First In First Out, Last In First Out, Weighted Average Rate.

The method of valuation shall be followed on a consistent basis.

5.2.2 Where materials are accounted at standard cost, the price variances related to materials shall be treated as part of material cost.

5.2.3 Any abnormal cost shall be excluded from the material cost.

5.2.4 Wherever, material costs include transportation costs, determination of costs of transportation shall be governed by CAS 5 – Cost Accounting Standard on Determination of Average (Equalized) Cost of Transportation.

5.2.5 Material cost may include imputed costs not considered in financial accounts. Such costs which are not recognized in financial accounts may be determined by imputing a cost to the usage or by measuring the benefit from an alternate use of the resource.

5.3 Self manufactured components and sub-assemblies shall be valued including direct material cost, direct employee cost, direct expenses, factory overheads, share of administrative overheads relating to production but excluding share of other administrative overheads, finance cost and marketing overheads. In case of captive consumption, the valuation shall be in accordance with Cost Accounting Standard 4.

5.4 The material cost of normal scrap/ defectives which are rejects shall be included in the material cost of goods manufactured. The material cost of actual scrap / defectives, not exceeding the normal shall be adjusted in the material cost of good production. Material Cost of abnormal scrap /defectives should not be included in material cost but treated as loss after giving credit to the realisable value of such scrap / defectives.

6. Assignment of costs

The basis of assignment of costs to the cost of product or service is dealt within this section.

6.1 Assignment of costs – Materials

6.1.1 Assignment of material costs to cost objects: Material costs shall be directly traced to a Cost object to the extent it is economically feasible and /or shall be assigned to the cost object on the basis of material quantity consumed or similar identifiable measure and valued as per the principles laid under Paragraph 5.

6.1.2 *Where the material costs are not directly traceable to the cost object, these may be assigned on a suitable basis like technical estimates.*

6.2 Assignment of costs – Direct Expenses

6.2.1 *Where a material is processed or part manufactured by a third party according to specifications provided by the buyer, the processing/ manufacturing charges payable to the third party shall be treated as part of the material cost.*

6.2.2 *Wherever part of the manufacturing operations / activity is subcontracted, the subcontract charges related to materials shall be treated as direct expenses and assigned directly to the cost object.*

6.3 Assignment of costs– Indirect materials

6.3.1 *The cost of indirect materials shall be assigned to the various Cost objects based on a suitable basis such as actual usage or technical norms or a similar identifiable measure.*

6.3.2 *The cost of materials like catalysts, dies, tools, moulds, patterns etc, which are relatable to production over a period of time shall be amortized over the production units benefited by such cost.*

6.3.3 *The cost of indirect material with life exceeding one year shall be included in cost over the useful life of the material.*

7. Presentation

Cost Statements governed by this standard, shall present material costs as detailed below:

7.1 *Direct Materials shall be classified in the cost statement under suitable heads.*

E.g.

- Raw materials,
- Components,
- Semi finished goods and
- Sub-assemblies

7.2 *Direct Materials shall be classified as Purchased - indigenous, imported and self manufactured.*

7.3 *Indirect Materials shall be classified in the cost statement under suitable heads.*

Indirect materials may be grouped under major heads like tools, stores and spares, machinery spares, jigs and fixtures, consumable stores, etc., if they are significant.

8. Disclosures

The following information should be disclosed in the cost statements dealing with determination of material cost.

8.1 *Quantity and rates of major items of materials shall be disclosed. Major items are defined as those who form 5% of cost of materials.*

8.2 *The basis of valuation of materials shall be disclosed.*

8.3 *Any change in the cost accounting principles and methods applied for the determination of the material cost during the period covered by the cost statement which has a material effect on the cost of the material shall be disclosed. Where the effect of such change is not ascertainable wholly or partly, the fact shall be indicated.*

8.4 *Any abnormal cost excluded from the material cost shall be disclosed.*

8.5 *Any demurrage or detention charges, penalty levied by transport or other authorities excluded from the material cost shall be disclosed.*

8.6 *Any Subsidy/Grant/Incentive or any such payment reduced from material cost shall be disclosed.*

8.7 *Cost of Materials procured from related parties¹² shall be disclosed*

8.8 *Any cost imputed in arriving at the material cost shall be disclosed.*

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

8.10 *Disclosures may be made in the body of the Cost statement or as a footnote or as a separate schedule.*

¹² Related party as per the applicable legal requirements relating to the cost statement as on the date of statements

CAS – 7

COST ACCOUNTING STANDARD ON EMPLOYEE COST

The following is the COST ACCOUNTING STANDARD 7 (CAS - 7) issued by the Council of The Institute of Cost and Works Accountants of India on “EMPLOYEE COST”. 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 Employee cost.

1.2 This standard deals with the principles and methods of classification, measurement and assignment of Employee cost, for determination of the Cost of product or service, and the 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 Employee cost with reasonable accuracy.

3 Scope

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

4 Definitions

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

4.1 Abnormal cost: An unusual or atypical cost whose occurrence is usually irregular and unexpected and/ or due to some abnormal situation of the production or operation.¹

4.2 Abnormal Idle time: An unusual or atypical employee idle time occurrence of which is usually irregular and unexpected or due to some abnormal situations.

¹ Adapted from CAS 1 paragraph 6.5.19

E.g.: Idle time due to a strike, lockout or an accident

4.3 Administrative overheads: *Expenses in the nature of indirect costs, incurred for general management of an organization².*

4.4 Cost Object: *This includes a product, service, cost centre, activity, sub-activity, project, contract, customer or distribution channel or any other unit in relation to which costs are finally ascertained.³*

4.5 Distribution Overheads: *Distribution overheads, also known as Distribution Cost, are the costs incurred in handling a product from the time it is ready for despatch until it reaches the ultimate consumer.⁴*

The cost of any non manufacturing operations such as packing, repacking, labelling, etc. at an intermediate storage location will be part of distribution cost.

4.6 Direct Employee Cost: *The cost of employees which can be attributed to a Cost Object in an economically feasible way.⁵*

4.7 Employee cost: *The aggregate of all kinds of consideration paid, payable and provisions made for future payments for the services rendered by employees of an enterprise (including temporary, part time and contract employees). Consideration includes wages, salary, contractual payments and benefits, as applicable or any payment made on behalf of employee. This is also known as Labour Cost.⁶*

Explanation:

- 1 Contract employees include employees directly engaged by the employer on contract basis but does not include employees of any contractor engaged in the organisation.
- 2 Compensation paid to employees for the past period on account of any dispute / court orders shall not form part of Employee Cost.
- 3 Short provisions of prior period made up in current period shall not form part of the employee cost in the current period.

² Adapted from CAS 1 paragraph 6.3.5

³ Adapted from CIMA Terminology

⁴ Adapted from CAS 1 paragraph 6.3.9

⁵ Adapted from CAS 1 paragraph 6.2.4 (Direct labour cost)

⁶ Adapted from CAS 1 paragraph 6.1.4

Employee cost includes payment made in cash or kind.

For example:

- **Employee cost**
 - Salaries, wages, allowances and bonus / incentives.
 - Contribution to provident and other funds.
 - Employee welfare
 - Other benefits
- **Employee cost – Future benefits**
 - Gratuity.
 - Leave encashment.
 - Other retirement/separation benefits.
 - VRS/ other deferred Employee cost.
 - Other future benefits

Benefits generally include

- Paid holidays.
- Leave with pay.
- Statutory provisions for insurance against accident or health scheme.
- Statutory provisions for workman's compensation.
- Medical benefits to the Employees and dependents.
- Free or subsidised food.
- Free or subsidised housing.
- Free or subsidised education to children.
- Free or subsidised canteen, crèches and recreational facilities.
- Free or subsidised conveyance.
- Leave travel concession.
- Any other free or subsidised facility.
- Cost of Employees' stock option.

4.8 Idle time: *The difference between the time for which the employees are paid and the employees' time booked against the cost object.*

The time for which the employees are paid includes holidays, paid leave and other allowable time offs such as lunch, tea breaks.

4.9 Imputed Costs: *Hypothetical or notional costs, not involving cash outlay, computed for any purpose.*⁷

4.10 Indirect Employee Cost: *The cost which can not be directly attributed to a particular cost object.*⁸

4.11 Marketing overheads: *Marketing Overheads are also known as Selling and Distribution Overheads.*

4.12 Overtime Premium: *Overtime is the time spent beyond the normal working hours which is usually paid at a higher rate than the normal time rate. The extra amount beyond the normal wages and salaries paid is called overtime premium.*

4.13 Production Overheads: *Indirect costs involved in the production process or in rendering service.*⁹

The terms Production Overheads, Factory Overheads, Works Overheads and Manufacturing Overheads denote the same meaning and are used interchangeably.

4.14 Selling Overheads: *Selling Overheads, also known as Selling Costs, are the expenses related to sale of products and include all Indirect Expenses in sales management for the organization.*¹⁰

4.15 Standard Cost: *A predetermined cost of resource inputs for the cost object computed with reference to set of technical specifications and efficient operating conditions.*

Standard costs are used as scale of reference to compare the actual costs with the standard cost with a view to determine the variances, if any, and analyse the causes of variances and take proper measure to control them. Standard costs are also used for estimation.

5 Principles of Measurement

⁷ Adapted from CAS 1 paragraph 6.5.13

⁸ Adapted from CAS 1 paragraph 6.2.10

⁹ Adapted from CAS 1 paragraph 6.3.3

¹⁰ Adapted from CAS 1 paragraph 6.3.7

5.1 Employee Cost shall be ascertained taking into account the gross pay including all allowances payable along with the cost to the employer of all the benefits.

5.2 Bonus whether payable as a Statutory Minimum or on a sharing of surplus shall be treated as part of employee cost. Ex gratia payable in lieu of or in addition to Bonus shall also be treated as part of the employee cost.

5.3 Remuneration payable to Managerial Personnel including Executive Directors on the Board and other officers of a corporate body under a statute will be considered as part of the Employee Cost of the year under reference whether the whole or part of the remuneration is computed as a percentage of profits.

Explanation: Remuneration paid to non executive directors shall not form part of Employee Cost but shall form part of Administrative Overheads.

5.4 Separation costs related to voluntary retirement, retrenchment, termination etc. shall be amortised over the period benefitting from such costs.

5.5 Employee cost shall not include imputed costs.

5.6 Cost of Idle time is ascertained by the idle hours multiplied by the hourly rate applicable to the idle employee or a group of employees.

5.7 Where Employee cost is accounted at standard cost, variances due to normal reasons related to Employee cost shall be treated as part of Employee cost. Variances due to abnormal reasons shall be treated as part of abnormal cost.

5.8 Any Subsidy, Grant, Incentive or any such payment received or receivable with respect to any Employee cost shall be reduced for ascertainment of cost of the cost object to which such amounts are related.

5.9 Any abnormal cost where it is material and quantifiable shall not form part of the Employee cost.

5.10 Penalties, damages paid to statutory authorities or other third parties shall not form part of the Employee cost.

5.11 The cost of free housing, free conveyance and any other similar benefits provided to an employee shall be determined at the total cost of all resources consumed in providing such benefits.

5.12 Any recovery from the employee towards any benefit provided e.g. housing shall be reduced from the employee cost.

5.13 Any change in the cost accounting principles applied for the determination of the Employee cost 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 enterprise.

6 Assignment of costs

6.1 Where the Employee services are traceable to a cost object, such Employees' cost shall be assigned to the cost object on the basis such as time consumed or number of employees engaged etc or similar identifiable measure.

6.2 While determining whether a particular Employee cost is chargeable to a separate cost object, the principle of materiality shall be adhered to.

6.3 Where the Employee costs are not directly traceable to the cost object, these may be assigned on suitable basis like estimates of time based on time study.

6.4 The amortised separation costs related to voluntary retirement, retrenchment, and termination etc. for the period shall be treated as indirect cost and assigned to the cost objects in an appropriate manner. However unamortised amount related to discontinued operations, shall not be treated as employee cost.

6.5 Recruitment costs, training cost and other such costs shall be treated as overheads and dealt with accordingly.

6.6 Overtime premium shall be assigned directly to the cost object or treated as overheads depending on the economic feasibility and the specific circumstance requiring such overtime.

6.7 Idle time cost shall be assigned direct to the cost object or treated as overheads depending on the economic feasibility and the specific circumstances causing such idle time.

Cost of idle time for reasons anticipated like normal lunchtime, holidays etc is normally loaded in the Employee cost while arriving at the cost per hour of an Employee/a group of Employees whose time is attributed direct to cost objects.

7 Presentation

7.1 Direct Employee costs shall be presented as a separate cost head in the cost statement.

7.2 Indirect Employee costs shall be presented in cost statements as a part of overheads relating to respective functions e.g. manufacturing, administration, marketing etc.

7.3 The cost statement shall furnish the resources consumed on account of Employee cost, category wise such as wages salaries to permanent, temporary, part time and contract employees piece rate payments, overtime payments, Employee benefits (category wise)etc wherever such items form a material part of the total Employee cost.

8 Disclosures

8.1 The cost statements shall disclose the following:

- 1. Employee cost attributable to capital works or jobs in the nature of deferred revenue expenditure indicating the method followed in determining the cost of such capital work.**
- 2. Separation costs payable to employees.**
- 3. Any abnormal cost excluded from Employee cost.**
- 4. Penalties and damages paid etc excluded from Employee cost.**
- 5. Any Subsidy, Grant, Incentive and any such payment reduced from Employee cost**

6. *The Employee cost paid to related parties¹¹.*

7. *Employee cost incurred in foreign exchange.*

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

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

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

¹¹ Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement

(CAS-8)
COST ACCOUNTING STANDARD ON COST OF UTILITIES

The following is the COST ACCOUNTING STANDARD – 8 (CAS-8) issued by the Council of The Institute of Cost and Works Accountants of India on “COST OF UTILITIES”, for comments. 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 cost of utilities.

1.2 *This standard deals with the principles and methods of classification, measurement and assignment of cost of utilities, for determination of the cost of product or service, and the 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 cost of utilities with reasonable accuracy.

3. Scope

3.1 *This standard shall be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of cost of utilities including those requiring attestation.*

3.2 *For determining the cost of production to arrive at an assessable value of excisable utilities used for captive consumption, Cost Accounting Standard 4 on Cost of Production for Captive Consumption (CAS 4) shall apply.*

3.3 This standard shall not be applicable to the organizations primarily engaged in generation and sale of utilities.

3.4 This standard does not cover issues related to the ascertainment and treatment of carbon credits, which shall be dealt with in a separate standard.

4. Definitions

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

4.1 Abnormal cost: An unusual or atypical cost whose occurrence is usually irregular and unexpected and/ or due to some abnormal situation of the production or operation.¹

4.2 Committed Cost: The cost of maintaining stand-by utilities shall be the committed cost.

4.3 Cost Object: This includes a product, service, cost centre, activity, sub-activity, project, contract, customer or distribution channel or any other unit in relation to which costs are ascertained.²

4.4 Finance Costs: Costs incurred by an enterprise in connection with the borrowing of 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 costs³. The terms Finance costs and Borrowing costs are used interchangeably.

¹ Adapted from CAS 1 paragraph 6.5.19

² Adapted from CIMA Terminology

³ Adapted from CIMA Terminology

4.5 Imputed Costs: *Hypothetical or notional costs, not involving cash outlay, computed for any purpose.*⁴

4.6 Normal capacity: *Normal Capacity is the production achieved or achievable on an average over a number of periods or seasons under normal circumstances taking into account the loss of capacity resulting from planned maintenance.*⁵

In case of any standby utility the normal capacity will be the same as actual production of the utility.

The normal capacity of a utility meant for captive consumption would be based on the normal capacity for the production facility of the end product of the consuming unit.

4.7 Standard Cost: *A predetermined cost of resource inputs for the cost object computed with reference to set of technical specifications and efficient operating conditions.*

Standard costs are used as scale of reference to compare the actual costs with the standard cost with a view to determine the variances, if any, and analyse the causes of variances and take proper measure to control them. Standard costs are also used for estimation.

4.8 Utilities: *Significant inputs such as power, steam, water, compressed air and the like which are used for manufacturing process but do not form part of the final product.*

4.9 Stand-by utilities: *Any utility created to safeguard against the failure of the main source of inputs.*

5. Principles of measurement

⁴ Adapted from CAS 1 paragraph 6.5.13

⁵ Adapted from CAS 2 paragraph 4.4

5.1 Each type of utility shall be treated as a distinct cost object.

5.2 Cost of utilities purchased shall be measured at cost of purchase including duties and taxes, transportation cost, insurance and other expenditure directly attributable to procurement (net of trade discounts, rebates, taxes and duties refundable or to be credited) that can be quantified with reasonable accuracy at the time of acquisition.

5.3.1 Cost of self generated utilities for own consumption shall comprise direct material cost, direct employee cost, direct expenses and factory overheads.

5.3.2 In case of Utilities generated for the purpose of inter unit transfers, the distribution cost incurred for such transfers shall be added to the cost of utilities determined as per paragraph 5.3.1.

5.3.3 Cost of Utilities generated for the inter company transfers shall comprise direct material cost, direct employee cost, direct expenses, factory overheads, distribution cost and share of administrative overheads.

5.3.4 Cost of Utilities generated for the sale to outside parties shall comprise direct material cost, direct employee cost, direct expenses, factory overheads, distribution cost, share of administrative overheads and marketing overheads.

The sale value of such utilities will also include the margin.

5.4 Finance costs incurred in connection with the utilities shall not form part of cost of utilities.

5.5 The cost of utilities shall include the cost of distribution of such utilities.

The cost of distribution will consist of the cost of delivery of utilities up to the point of consumption.

5.6 Cost of utilities shall not include imputed costs.

5.7 Where cost of utilities is accounted at standard cost, the price variances related to utilities shall be treated as part of cost of utilities and the portion of usage variances due to normal reasons shall be treated as part of cost of utilities. Usage variances due to abnormal reasons shall be treated as part of abnormal cost.

5.8 Any Subsidy/Grant/Incentive or any such payment received/receivable with respect to any cost of utilities shall be reduced for ascertainment of the cost to which such amounts are related.

5.9 The cost of production and distribution of utilities shall be determined based on the normal capacity or actual capacity utilization whichever is higher and unabsorbed cost, if any, shall be treated as abnormal cost⁶. Cost of a Stand-by Utility shall include the committed costs of maintaining such a utility.

5.10 Any abnormal cost where it is material and quantifiable shall not form part of the cost of utilities.

5.11 Penalties, damages paid to statutory authorities or other third parties shall not form part of the cost of utilities.

5.12 Credits/recoveries relating to the utilities including cost of utilities provided to outside parties, material and quantifiable, shall be deducted from the total cost of utility to arrive at the net cost of utility.

5.13 Any change in the cost accounting principles applied for the measurement of the cost of utilities 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

⁶ Adapted from paragraph 5.7 of CAS 3

more appropriate preparation or presentation of cost statements of an organisation.

6. Assignment of costs

6.1 While assigning cost of utilities, traceability to a cost object in an economically feasible manner shall be the guiding principle.

6.2 Where the cost of utilities is not directly traceable to cost object, it shall be assigned on the most appropriate basis.

6.3 The most appropriate basis of distribution of cost of a utility to the departments consuming services is to be derived from usage parameters.

7. Presentation

7.1 Utilities costs shall be presented as a separate cost head for each type of utility in the cost statement, if material.

7.2 Where separate cost statements are prepared for utilities, cost of utilities shall be classified as purchased or generated. Such statement shall also include cost of utilities consumed along with quantitative information by individual consuming units, inter unit transfers, inter company transfers and sale to outside parties wherever applicable.

8. Disclosures

8.1 The cost statements shall disclose the following:

- 1. The basis of distribution of Cost of Utility to the consuming centres.*
- 2. The cost of purchase, production, distribution, marketing and price with reference to sales to outside parties.*
- 3. Where cost of utilities is disclosed at standard cost, the price and usage variances.*

4. *The cost and price of Utility received from/supplied to related parties⁷.*
5. *The cost and price of Utility received from/supplied as inter unit transfers and inter company transfers*
6. *Cost of utilities incurred in foreign exchange.*
7. *Any Subsidy/Grant/Incentive and any such payment reduced from Cost of utilities.*
8. *Credits/recoveries relating to the Cost of utilities.*
9. *Any abnormal cost excluded from Cost of utilities.*
10. *Penalties and damages paid etc excluded from cost of utilities.*

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

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

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

⁷ Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement

(CAS 9)

COST ACCOUNTING STANDARD ON PACKING MATERIAL COST

The following is the COST ACCOUNTING STANDARD - (CAS - 9) issued by the Council of The Institute of Cost and Works Accountants of India on "PACKING MATERIAL COST", for comments. 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 Packing Material Cost.

1.2 This standard deals with the principles and methods of classification, measurement and assignment of Packing Material Cost, for determination of the cost of product, and the presentation and disclosure in cost statements.

1.3 Packing Materials for the purpose of this standard are classified into primary and secondary packing materials.

2. Objective

The objective of this standard is to bring uniformity and consistency in the principles and methods of determining the packing material cost with reasonable accuracy.

3. Scope

This standard should be applied to cost statements, which require classification, measurement, assignment, presentation and disclosure of Packing Material Cost including those requiring attestation.

4. Definitions

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

4.1 Abnormal cost: An unusual or atypical cost whose occurrence is usually irregular and unexpected and/ or due to some abnormal situation of the production or operation.¹

For example: the cost of packing material which is rejected after issue due to abnormal causes such as misprinting, use of material of wrong specification etc. (net of realisable value) may be treated as abnormal cost.

¹ Adapted from CAS 1 Para 6.5.19

4.2 Administrative Overheads: *Cost of all activities relating to general management and administration of an organisation.* Administrative overheads shall exclude any overhead relating to production, operations and marketing.

4.3 Cost Object: *This includes a product, service, cost centre, activity, sub-activity, project, contract, customer or distribution channel or any other unit in relation to which costs are ascertained.*²

4.4 Direct Employee Cost: *The cost of employees which can be attributed to a Cost Object in an economically feasible way.*³

4.5 Direct Expenses: *Expenses relating to manufacture of a product or rendering a service, which can be identified or linked with the cost object other than direct material or direct employee cost*⁴. Examples of Direct Expenses are royalties charged on production, job charges, hire charges for use of specific equipment for a specific job, cost of special designs or drawings for a job, software services specifically required for a job, travelling Expenses for a specific job.

4.6 Direct Materials: *Materials the costs of which can be attributed to a cost object.*⁵

4.7 Distribution Overheads: *Distribution overheads, also known as Distribution Cost, are the costs incurred in handling a product from the time it is ready for despatch until it reaches the ultimate consumer.*⁶

For example:

- Secondary packing
- Transportation cost
- Warehousing cost
- Cost of delivering the products to customers etc.
- Clearing and forwarding charges
- Cost of mending or replacing packing materials at distribution point.

4.8 Finance Costs: *Costs incurred by an enterprise in connection with the borrowing of 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

² Adapted from CIMA Terminology

³ Adapted from CAS 7 Para 4.6

⁴ Adapted from CAS 1 Para 6.2.6 and also proposed in the CAS on Direct Expenses

⁵ Adapted from CAS 6 Para 4.6.1

⁶ Adapted from CAS 1 Para 6.3.9

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 costs⁷. The terms Finance costs and Borrowing costs are used interchangeably.

4.9 Imputed Costs: *Hypothetical or notional costs, not involving cash outlay, computed for any purpose.*⁸

For example: packing material supplied by the customer.

4.10 Marketing overheads: *Marketing Overheads comprises selling overheads and distribution overheads.*

4.11 Packing Materials: Materials used to hold, identify, describe, store, protect, display, transport, promote and make the product marketable and communicate with the consumer.

4.11.1 Defectives: *Packing materials that do not meet quality standards. This may include reworks or rejects.*⁹

4.11.1.1 Reworks: *Defectives which can be brought up to the standards by putting in additional resources.*¹⁰

Rework includes repairs, reconditioning and refurbishing.

4.11.1.2 Rejects: *Defectives which can not meet the quality standards even after putting in additional resources.*¹¹

Rejects may be disposed off as waste or sold for salvage value or recycled in the production process.

4.11.2 Packing Material Cost: The cost of material of any nature used for the purpose of packing of a product.

4.11.3 Primary Packing Material: Packing material which is essential to hold the product and bring it to a condition in which it can be used by or sold to a customer.

For example:

⁷ Adapted from CIMA Terminology

⁸ Adapted from CAS 1 Para 6.5.13

⁹ Adapted from CAS 6 Para 4.4

¹⁰ Adapted from CAS 6 Para 4.4.1

¹¹ Adapted from CAS 6 Para 4.4.2

Cost Accounting Standards

- Pharmaceutical industry: Insertions related to product, Foils for strips of tablets/capsules, vials.
- Industrial gases: Cylinders / bottles used for filling the gaseous products
- Confectionary Industry: Butter paper and wrappers.

4.11.4 Reusable Packing Material: *Packing materials that are used more than once to pack the product.*

4.11.5 Scrap: *Discarded packing material having some value in a few cases and which is usually either disposed of without further treatment or reintroduced into the production of packing material.*¹²

4.11.6 Secondary Packing Material: *Packing material that enables to store, transport, inform the customer, promote and otherwise make the product marketable.*

For example:

- Pharmaceutical industry: Cartons used for holding strips of tablets and card board boxes used for holding cartons.
- Textile industry: Card board boxes used for holding cones on which yarn is woven.
- Confectionary Industry: Jars for holding wrapped chocolates, Cartons containing packs of biscuits.

4.12 Packing Material Development Cost: *Cost of evaluation of packing material such as pilot test, field test, consumer research, feed back, and final evaluation cost.*

4.13 Production overheads: *Indirect costs involved in the production process or in rendering service*¹³.

The terms Production Overheads, Factory Overheads, Works Overheads and Manufacturing Overheads denote the same meaning and are used interchangeably. Production overheads shall include administration cost relating to production, factory, works or manufacturing.

4.14 Selling Overheads: *Selling Overheads, also known as Selling Costs, are the expenses related to sale of products and include all Indirect Expenses in sales management for the organization.*¹⁴

4.15 Standard Cost: *A predetermined cost of resource inputs for the cost object computed with reference to set of technical specifications and efficient operating conditions.*¹⁵

¹² Adapted from Para 4.9 of CAS 6

¹³ Adapted from CAS-1 Para 6.3.3 and 6.3.4

¹⁴ Adapted from CAS 1 Para 6.3.7

Cost Accounting Standards

Standard costs are used as scale of reference to compare the actual costs with the standard cost with a view to determine the variances, if any, and analyse the causes of variances and take proper measure to control them. Standard costs are also used for estimation.

5. Principles of Measurement

5.1 Principle of valuation of receipts of packing material:

5.1.1 *The packing material receipts should be valued at purchase price including duties and taxes, freight inwards, insurance, and other expenditure directly attributable to procurement (net of trade discounts, rebates, taxes and duties refundable or to be credited) that can be quantified at the time of acquisition.*

Examples of taxes and duties to be deducted from cost are CENVAT credits, credit for countervailing customs duty, sales tax set off/ vat credits and other similar items of credit recovered/ recoverable.

5.1.2 *Finance costs directly incurred in connection with the acquisition of Packing Material shall not form part of Packing Material Cost.*

5.1.3 *Self manufactured packing materials shall be valued including direct material cost, direct employee cost, direct expenses, job charges, factory overheads including share of administrative overheads comprising factory management and administration and share of research and development cost incurred for development and improvement of existing process or product.*

5.1.4 *The valuation of captive consumption of packing materials shall be in accordance with paragraph 5 of Cost Accounting Standard 4.*

5.1.5 *Normal loss or spoilage of packing material prior to receipt in the factory shall be absorbed in the cost of balance materials net of amounts recoverable from suppliers, insurers, carriers or recoveries from disposal.*

5.1.6 *The forex component of imported packing material cost shall be converted at the rate on the date of the transaction. Any subsequent change in the exchange rate till payment or otherwise shall not form part of the packing material cost.*

Explanation: The date on which a transaction (whether for goods or services) is recognised in accounting in conformity with generally accepted accounting principles.

¹⁵ Adapted from CAS 6 Para 4.15

5.1.7 Any demurrage, detention charges or penalty levied by the transport agency or any authority shall not form part of the cost of packing materials.

5.1.8 Any Subsidy/Grant/Incentive or any such payment received/receivable with respect to packing material shall be reduced for ascertainment of the cost to which such amounts are related.

5.2. Principle of valuation of issue of packing material

Issues shall be valued using appropriate assumptions on cost flow.

For example: First In First Out, Last In First Out, Weighted Average Rate.

The method of valuation shall be followed on a consistent basis.

5.3 Wherever, packing material costs include transportation costs, determination of costs of transportation shall be governed by CAS 5 – Cost Accounting Standard on determination of average (equalized) cost of transportation.

5.4 Packing Material Costs shall not include imputed costs. However in case of Cost of Production of Excisable Goods for Captive Consumption the computation of cost shall be as per CAS 4.

5.5 Where packing materials are accounted at standard cost, the price variances related to such materials shall be treated as part of packing material cost and the portion of usage variances due to normal reasons shall be treated as part of packing material cost. Usage variances due to abnormal reasons shall be treated as part of abnormal cost.

5.6 The normal loss arising from the issue or consumption of packing materials shall be included in the packing materials cost.

5.7 Any abnormal cost where it is material and quantifiable shall be excluded from the packing material cost.

5.8 The credits/recoveries in the nature of normal scrap arising from packing materials if any, should be deducted from the total cost of packing materials to arrive at the net cost of packing materials.

6. Assignment of Cost

6.1 Assignment of packing material costs to cost objects: Packing material costs shall be directly traced to a cost object to the extent it is economically feasible.

6.2 Where the packing material costs are not directly traceable to the cost object, these may be assigned on the basis of quantity consumed or similar measures like technical estimates.

6.3 The packing material cost of reusable packing shall be assigned to the cost object taking into account the number of times or the period over which it is expected to be reused.

6.4 Cost of primary packing materials shall form part of the cost of production.

6.5 Cost of secondary packing materials shall form part of distribution overheads.

7. Presentation

7.1 Packing Materials shall be classified as primary and secondary and within this classification as purchased – indigenous, imported and self manufactured.

7.2 Where separate cost statements are prepared for packing costs, the cost of packing materials consumed shall be presented in terms of type of packing in which the materials are used (For example; Bale, Bag, Carton, Pallet). Such statements shall also include cost and quantitative information, wherever it is found material and quantifiable.

8. Disclosures

8.1 The cost statements shall disclose the following:

- 1. The basis of valuation of Packing Materials.*
- 2. Where Packing Materials Cost is disclosed at standard cost, the price and usage variances.*
- 3. The cost and price of Packing Materials received from/supplied to related parties¹⁶.*
- 4. Packing Materials cost incurred in foreign exchange.*
- 5. Any Subsidy/Grant/Incentive and any such payment reduced from Packing Materials Costs.*
- 6. Credits/recoveries relating to the Packing Materials Costs.*
- 7. Any abnormal cost excluded from Packing Materials Costs.*
- 8. Penalties and damages paid etc. excluded from Packing Materials Costs.*

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

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

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

¹⁶ Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement

(CAS-10)

COST ACCOUNTING STANDARD ON DIRECT EXPENSES

The following is the COST ACCOUNTING STANDARD – 10 (CAS-10) issued by the Council of The Institute of Cost and Works Accountants of India on “DIRECT EXPENSES”, for comments. 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 Direct Expenses.

1.2 *This standard deals with the principles and methods of classification, measurement and assignment of Direct Expenses, for determination of the cost of product or service, and the 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 Direct Expenses with reasonable accuracy.

3. Scope

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

4. Definitions

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

4.1 Abnormal cost: *An unusual or atypical cost whose occurrence is usually irregular and unexpected and/ or due to some abnormal situation of the production or operation.¹*

4.2 Cost Object: *This includes a product, service, cost centre, activity, sub-activity, project, contract, customer or distribution channel or any other unit in relation to which costs are ascertained.²*

4.3 Direct Employee Cost: *The cost of employees which can be attributed to a cost object in an economically feasible way.³*

¹ Adapted from CAS 1 paragraph 6.5.19

² Adapted from CIMA Terminology

³ Adapted from CAS 1 paragraph 6.2.4 (Direct labour cost)

4.4 Direct Expenses: *Expenses relating to manufacture of a product or rendering a service, which can be identified or linked with the cost object other than direct material cost and direct employee cost*⁴. Examples of Direct Expenses are royalties charged on production, job charges, hire charges for use of specific equipment for a specific job, cost of special designs or drawings for a job, software services specifically required for a job, travelling Expenses for a specific job.

4.5 Direct Material Cost: *The cost of material which can be attributed to a cost object in an economically feasible way*⁵.

4.6 Finance Costs: *Costs incurred by an enterprise in connection with the borrowing of 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 costs⁶. The terms Finance costs and Borrowing costs are used interchangeably.

4.7 Imputed Costs: *Hypothetical or notional costs, not involving cash outlay, computed for any purpose.*⁷

4.8 Overheads: *Overheads comprise of indirect materials, indirect employee costs and indirect expenses which are not directly identifiable or allocable to a cost object.*⁸

4.9 Standard Cost: *A predetermined cost of resource inputs for the cost object computed with reference to set of technical specifications and efficient operating conditions.*

Standard costs are used as scale of reference to compare the actual costs with the standard cost with a view to determine the variances, if any, and analyse the causes of variances and take proper measure to control them. Standard costs are also used for estimation.

⁴ Adapted from CAS 1 paragraph 6.2.6

⁵ Adapted from CAS 1-6.2.3

⁶ Adapted from CIMA Terminology

⁷ Adapted from CAS 1 paragraph 6.5.13

⁸ Adapted from CAS 3 paragraph 4.1

5. Principles of Measurement:

5.1 Identification of Direct Expenses shall be based on traceability in an economically feasible manner.

5.2.1 Direct expenses incurred for the use of bought out resources shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of trade discounts, rebates, taxes and duties refundable or to be credited.

5.2.2 Direct expenses other than those referred to in paragraph 5.2.1 shall be determined on the basis of amount incurred in connection therewith.

Examples: in case of dies and tools produced internally, the cost of such dies and tools will include direct material cost, direct employee cost, direct expenses, factory overheads including share of administrative overheads relating to production comprising factory management and administration.

In the case of research and development cost, the amount traceable to the cost object for development and improvement of the process for the existing product shall be included in Direct Expenses.

5.2.3 Direct Expenses 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 such direct expenses.

Examples: Royalty or Technical know-how fees, or drawing designing fees, are paid for which the benefit is ensued in the future period. In such case, the production / service volumes shall be estimated for the effective period and based on volume achieved during the Cost Accounting period, the charge for amortisation be determined.

5.3 If an item of Direct Expenses does not meet the test of materiality, it can be treated as part of overheads.

5.4 Finance costs incurred in connection with the self generated or procured resources shall not form part of Direct Expenses.

5.5 Direct Expenses shall not include imputed costs. In case of goods produced for captive consumption, treatment of imputed cost shall be in accordance with Cost Accounting Standard – 4 (CAS-4).

5.6 *Where direct expenses are accounted at standard cost, variances due to normal reasons shall be treated as part of the Direct Expenses. Variances due to abnormal reasons shall not form part of the Direct Expenses.*

5.7 *Any Subsidy/Grant/Incentive or any such payment received/receivable with respect to any Direct Expenses shall be reduced for ascertainment of the cost of the cost object to which such amounts are related.*

5.8 *Any abnormal portion of the direct expenses where it is material and quantifiable shall not form part of the Direct Expenses.*

5.9 *Penalties, damages paid to statutory authorities or other third parties shall not form part of the Direct Expenses.*

5.10 *Credits/ recoveries relating to the Direct Expenses, material and quantifiable, shall be deducted to arrive at the net Direct Expenses.*

5.11 *Any change in the cost accounting principles applied for the measurement of the Direct Expenses 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 *Direct Expenses that are directly traceable to the cost object shall be assigned to that cost object.*

7. Presentation

7.1 *Direct Expenses, if material, shall be presented as a separate cost head with suitable classification. e.g.*

- Subcontract charges
- Royalty on production

8. Disclosures

8.1 *The cost statements shall disclose the following:*

- 1.** *The basis of distribution of Direct Expenses to the cost objects/ cost units.*
- 2.** *Quantity and rates of items of Direct Expenses, as applicable.*
- 3.** *Where Direct Expenses are accounted at standard cost, the price and usage variances.*

4. *Direct expenses representing procurement of resources and expenses incurred in connection with resources generated.*
5. *Direct Expenses paid/ payable to related parties⁹.*
6. *Direct Expenses incurred in foreign exchange.*
7. *Any Subsidy/Grant/Incentive and any such payment reduced from Direct Expenses.*
8. *Credits/recoveries relating to the Direct Expenses.*
9. *Any abnormal portion of the Direct Expenses.*
10. *Penalties and damages excluded from the Direct Expenses*

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

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

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

⁹ Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement

CAS - 11

COST ACCOUNTING STANDARD ON ADMINISTRATIVE OVERHEADS

The following is the COST ACCOUNTING STANDARD – (CAS-11) issued by the Council of The Institute of Cost and Works Accountants of India on “ADMINISTRATIVE OVERHEADS”. 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 administrative overheads.

1.2 *This standard deals with the principles and methods of classification, measurement and assignment of administrative overheads, for determination of the Cost of product or service, and the 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 administrative overheads with reasonable accuracy.

3. Scope

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

4. Definitions

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

4.1 Abnormal cost: *An unusual or atypical cost whose occurrence is usually irregular and unexpected and/ or due to some abnormal situation of the production or operation.*¹

4.2 Absorption of overheads: *Absorption of overheads is charging of overheads to Cost Objects by means of appropriate absorption rate.*²

Overhead Absorption Rate = Overheads of the Cost object / Quantum of base.

¹ Adapted from CAS 1 Para 6.5.19

² Adapted from CAS 3 Para 4.6

4.3 Administrative Overheads: *Cost of all activities relating to general management and administration of an organisation.*

Administrative overheads shall exclude production overheads³, marketing overheads⁴ and finance cost. Production overheads includes administration cost relating to production, factory, works or manufacturing.

4.4 Cost Object: *This includes a product, service, cost centre, activity, sub-activity, project, contract, customer or distribution channel or any other unit in relation to which costs are ascertained.*⁵

4.5 Finance Costs: *Costs incurred by an enterprise in connection with the borrowing of 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 costs⁶. The terms Finance costs and Borrowing costs are used interchangeably.

4.6 Imputed Costs: *Hypothetical or notional costs, not involving cash outlay, computed for any purpose.*⁷

4.7 Normal capacity: *Normal Capacity is the production achieved or achievable on an average over a number of periods or seasons under normal circumstances taking into account the loss of capacity resulting from planned maintenance.*⁸

4.8 Overheads: *Overheads comprise of indirect materials, indirect employee costs and indirect expenses which are not directly identifiable or allocable to a cost object.*⁹

5. Principles of Measurement

5.1 Administrative overheads shall be the aggregate of cost of resources consumed in activities relating to general management and administration of an organisation.

³ Paragraph reference 4.13 CAS -9

⁴ Paragraph reference 4.11 CAS -7

⁵ Adapted from CIMA Terminology

⁶ Adapted from CIMA Terminology

⁷ Adapted from CAS 1 Para 6.5.13

⁸ Adapted from CAS 2 Para 4.4

⁹ Adapted from CAS 3 Para 4.1

Cost Accounting Standards

It usually represents the cost of shared services, cost of infrastructure and general management costs. Administrative overheads comprise items such as employee costs, utilities, office supplies, legal expenses and outside services. The principles of measurement of Material Cost, Employee Costs, Utilities, Repairs and Maintenance and Depreciation found in the respective standards will apply to these elements included in administrative overheads.

5.2 In case of leased assets, if the lease is an operating lease, the entire rentals shall be included in the administrative overheads. If the lease is a financial lease, the finance cost portion shall be segregated and treated as part of finance costs.

5.3 The cost of software (developed in house, purchased, licensed or customised), including up-gradation cost shall be amortised over its estimated useful life.

When hardware requires up-gradation along with software up-gradation, it is recommended that compatible estimated lives be used for the two sets of cost.

5.4 The cost of administrative services procured from outside shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discount), taxes and duties refundable or to be credited.

5.5 Any Subsidy/Grant/Incentive or any amount of similar nature received/receivable with respect to any Administrative overheads shall be reduced for ascertainment of the cost of the cost object to which such amounts are related.

5.6 Administrative overheads shall not include any abnormal administrative cost.

Example: Expense incurred in a situation of natural calamity.

5.7 Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the administrative overheads.

5.8 Credits/ recoveries relating to the administrative overheads including those rendered without any consideration, material and quantifiable, shall be deducted to arrive at the net administrative overheads.

5.9 Any change in the cost accounting principles applied for the measurement of the administrative overheads 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 Cost

6.1 *While assigning administrative overheads, traceability to a cost object in an economically feasible manner shall be the guiding principle.*

6.2 *Assignment of administrative overheads to the cost objects shall be based on either of the following two principles;*

- i) Cause and Effect - Cause is the process or operation or activity and effect is the incurrence of cost.*
- ii) Benefits received – overheads are to be apportioned to the various cost objects in proportion to the benefits received by them.¹⁰*

The costs of shared services should be assigned to user activities on the basis of actual usage.

Where the resources by way of infrastructure are shared the cost should be assigned on a readiness to serve basis.

General management costs should be assigned on rational basis.

For example: Number of employees, turnover, investment size etc.

7. Presentation

7.1 *Administrative overheads shall be presented as a separate cost head in the cost statement.*

7.2 *Element wise details of the administrative overheads based on materiality shall be presented.*

8. Disclosures

8.1 *The cost statements shall disclose the following:*

- The basis of assignment of administrative overheads to the cost objects.*
- Any imputed cost included as a part of administrative overheads.*
- Administrative overheads incurred in foreign exchange.*
- Cost of administrative activities received from or supplied to related parties¹¹.*
- Any Subsidy/Grant/Incentive or any amount of similar nature received/receivable reduced from administrative overheads.*

¹⁰ Adapted from of CAS 3 Para 5.1

¹¹ Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement

Cost Accounting Standards

- *Credits/recoveries relating to the administrative overheads.*
- *Any abnormal portion of the administrative overheads.*
- *Penalties and damages excluded from the administrative overheads.*

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

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

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

(CAS – 12)

COST ACCOUNTING STANDARD ON REPAIRS AND MAINTENANCE COST

The following is the COST ACCOUNTING STANDARD – 12 (CAS - 12) issued by the Council of The Institute of Cost and Works Accountants of India on “REPAIRS AND MAINTENANCE COST”. 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 repairs and maintenance cost.

1.2 *This standard deals with the principles and methods of classification, measurement and assignment of repairs and maintenance cost, for determination of the Cost of product or service, and the 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 repairs and maintenance cost with reasonable accuracy.

3. Scope

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

4. Definitions

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

4.1 Cost Object: *This includes a product, service, cost centre, activity, sub-activity, project, contract, customer or distribution channel or any other unit in relation to which costs are ascertained.¹*

4.2 Direct Expenses: *Expenses relating to manufacture of a product or rendering a service, which can be identified or linked with the cost object other than direct material cost and direct employee cost.*

¹ Adapted from CIMA Terminology

Cost Accounting Standards

Examples of Direct Expenses are royalties charged on production, job charges, hire charges for use of specific equipment for a specific job, cost of special designs or drawings for a job, software services specifically required for a job, travelling Expenses for a specific job.

4.3 Finance Costs: *Costs incurred by an enterprise in connection with the borrowing of 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 costs². The terms Finance costs and Borrowing costs are used interchangeably.

4.4 Imputed Costs: *Hypothetical or notional costs, not involving cash outlay, computed for any purpose.*³

4.5 Normal capacity: Normal Capacity is the production achieved or achievable on an average over a number of periods or seasons under normal circumstances taking into account the loss of capacity resulting from planned maintenance.⁴

4.6 Production overheads: *Indirect costs involved in the production process or in rendering service*⁵. The terms Production Overheads, Factory Overheads, Works Overheads and Manufacturing Overheads denote the same meaning and are used interchangeably. Production overheads shall include administration cost relating to production, factory, works or manufacturing.

4.7 Repairs and maintenance cost: *Cost of all activities which have the objective of maintaining or restoring an asset in or to a state in which it can perform its required function at intended capacity and efficiency.*

Repairs and Maintenance activities for the purpose of this standard include routine or preventive maintenance, planned (predictive or corrective) maintenance and breakdown maintenance.

The repair or overhaul of an asset which results in restoration of the asset to intended condition would also be a part of Repairs and Maintenance activity.

² Adapted from CIMA Terminology

³ Adapted from CAS 1 Para 6.5.13

⁴ Adapted from CAS 2 paragraph 4.4

⁵ Adapted from CAS-1 Para 6.3.3 and 6.3.4

Cost Accounting Standards

Major overhaul is a periodic (generally more than one year) repair work carried out to substantially restore the asset to intended working condition.

4.8 Standard Cost: A predetermined cost of resource inputs for the cost object computed with reference to set of technical specifications and efficient operating conditions.

Standard costs are used as scale of reference to compare the actual costs with the standard cost with a view to determine the variances, if any, and analyse the causes of variances and take proper measure to control them. Standard costs are also used for estimation.

5. Principles of Measurement:

5.1 Repairs and maintenance cost shall be the aggregate of direct and indirect cost relating to repairs and maintenance activity.

Direct cost includes the cost of materials, consumable stores, spares, manpower, equipment usage, utilities and other identifiable resources consumed in such activity. Indirect cost includes the cost of resources common to various repairs and maintenance activities such as manpower, equipment usage and other costs allocable to such activities.

5.2 Cost of in-house repairs and maintenance activity shall include cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources used in such activity.

5.3 Cost of repairs and maintenance activity carried out by outside contractors inside the entity shall include charges payable to the contractor and cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other costs incurred by the entity for such jobs.

5.4 Cost of repairs and maintenance jobs carried out by contractor at its premises shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discount), taxes and duties refundable or to be credited. This cost shall also include the cost of other resources provided to the contractors.

5.5 Cost of repairs and maintenance jobs carried out by outside contractors shall include charges made by the contractor and cost of own materials, consumable stores, spares, manpower, equipment usage, utilities and other costs used in such jobs.

5.6.1 Each type of repairs and maintenance shall be treated as a distinct activity, if material and identifiable.

Cost Accounting Standards

For example, routine or preventive maintenance, planned (predictive or corrective) maintenance and breakdown maintenance should be identified separately.

5.6.2 Cost of repairs and maintenance activity shall be measured for each major asset category separately.

5.7 Cost of spares replaced which do not enhance the future economic benefits from the existing asset beyond its previously assessed standard of performance shall be included under repairs and maintenance cost.

5.8 High value spare, when replaced by a new spare and is reconditioned, which is expected to result in future economic benefits, the same shall be taken into stock. Such a spare shall be valued at an amount that measures its service potential in relation to a new spare which amount shall not exceed the cost of reconditioning the spare. The difference between the total of the cost of the new spare and the reconditioning cost and the value of the reconditioned spare should be treated as repairs and maintenance cost.

Example: The cost of new spare is Rs. 1 crore and the value of the existing spare after reconditioning is estimated at Rs. 20 lacs, the difference of Rs. 80 lacs should be treated as repairs and maintenance cost.

5.9 The cost of major overhaul shall be amortized on a rational basis.

5.10 Finance costs incurred in connection with the repairs and maintenance activities shall not form part of Repairs and maintenance costs.

5.11 Repairs and maintenance costs shall not include imputed costs.

5.12 Price variances related to repairs and maintenance, where standard costs are in use, shall be treated as part of repairs and maintenance cost. The portion of usage variances attributable to normal reasons shall be treated as part of repairs and maintenance cost. Usage variances attributable to abnormal reasons shall be excluded from repairs and maintenance cost.

5.13 Subsidy / Grant / Incentive or amount of similar nature received / receivable with respect to repairs and maintenance activity, if any, shall be reduced for ascertainment of the cost of the cost object to which such amounts are related.

5.14 Any repairs and maintenance cost resulting from some abnormal circumstances, if material and quantifiable, shall not form part of the repairs and maintenance cost.

Example: Major fire, explosions, flood and similar events are abnormal circumstances referred above.

5.15 Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the repairs and maintenance cost.

Example: A penalty imposed by a regulatory authority for wrongful construction or damages paid to third party for the loss caused due to improper working of property, plant & equipment, should not be included in repairs and maintenance cost.

5.16 Credits/ recoveries relating to the repairs and maintenance activity, material and quantifiable, shall be deducted to arrive at the net repairs and maintenance cost.

5.17 Any change in the cost accounting principles applied for the measurement of the repairs and maintenance cost 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 Repairs and maintenance costs shall be traced to a cost object to the extent economically feasible.

6.2 Where the repairs and maintenance cost is not directly traceable to cost object, it shall be assigned based on either of the following two principles;

i) Cause and Effect - Cause is the process or operation or activity and effect is the incurrence of cost.

ii) Benefits received – overheads are to be apportioned to the various cost objects in proportion to the benefits received by them.

6.3 If the repairs and maintenance cost (including the share of the cost of reciprocal exchange of services) is shared by several cost objects, the related cost shall be measured as an aggregate and distributed among the cost objects as per principles laid down in Cost Accounting Standard – 3.

7. Presentation

7.1 Repairs and maintenance cost, if material, shall be presented in the cost statement as a separate item of cost.

7.2 Asset category wise details of repairs and maintenance cost, if material, shall be presented separately.

7.3 Activity wise details of repairs and maintenance cost, if material, shall be presented separately.

8. Disclosures

8.1 The cost statements shall disclose the following:

- 1. The basis of distribution of repairs and maintenance cost to the cost objects/ cost units.**
- 2. Where standard cost is applied in repairs and maintenance cost, the price and usage variances.**
- 3. Repairs and maintenance cost of Jobs done in-house and outsourced separately.**
- 4. Cost of major overhauls, asset category wise and the basis of amortisation.**
- 5. Repairs and maintenance cost paid/ payable to related parties⁶.**
- 6. Repairs and maintenance cost incurred in foreign exchange.**
- 7. Any Subsidy / Grant / Incentive or any amount of similar nature received / receivable reduced from repairs and maintenance cost.**
- 8. Any credits / recoveries relating to the repairs and maintenance cost.**
- 9. Any abnormal portion of the repairs and maintenance cost.**
- 10. Penalties and damages excluded from the repairs and maintenance cost.**

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

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

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

⁶ Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement

CAS – 13

COST ACCOUNTING STANDARD ON COST OF SERVICE COST CENTRE

The following is the COST ACCOUNTING STANDARD – 13 (CAS - 13) issued by the Council of The Institute of Cost and Works Accountants of India on “Cost of Service Cost Centre”. 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

1.1 This standard deals with the principles and methods of determining the cost of Service Cost Centre.

1.2 This standard covers the Service Cost Centre as defined in paragraph 4.11 of this standard. It excludes Utilities and Repairs & Maintenance Services dealt with in CAS-8 and CAS-12 respectively.

1.3 This standard deals with the principles and methods of classification, measurement and assignment of Cost of Service Cost Centre, for determination of the Cost of product or service, and the 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 Cost of Service Cost Centre with reasonable accuracy.

3. Scope

This standard should be applied to the preparation and presentation of cost statements, which require classification, measurement and assignment of Cost of Service Cost Centre, including those requiring attestation.

4. Definitions

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

4.1 Abnormal cost: An unusual or atypical cost whose occurrence is usually irregular and unexpected and / or due to some abnormal situation of the production or operation.¹

4.2 Administrative Overheads: Cost of all activities relating to general management and administration of an organisation.

¹ Adapted from CAS 1 paragraph 6.5.19

Cost Accounting Standards

Administrative overheads shall exclude production overheads², marketing overheads³ and finance cost. Production overheads includes administration cost relating to production, factory, works or manufacturing.

4.3 Cost Object: *This includes a product, service, cost centre, activity, sub-activity, project, contract, customer or distribution channel or any other unit in relation to which costs are finally ascertained.*⁴

4.4 Distribution Overheads: *Distribution Overheads, also known as Distribution Cost, are the costs incurred in handling a product / service from the time it is ready for despatch until it reaches the ultimate consumer including the units receiving the product / service in an inter-unit transfer.*⁵

The cost of any non manufacturing operations such as packing, repacking, labelling, etc. at an intermediate storage location will be part of distribution cost.

4.5 Finance Costs: *Costs incurred by an enterprise in connection with the borrowing of 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 costs⁶. The terms Finance costs and Borrowing costs are used interchangeably.

4.6 Imputed Costs: *Hypothetical or notional costs, not involving cash outlay, computed for any purpose.*⁷

4.7 Marketing overheads: *Marketing Overheads are also known as Selling and Distribution Overheads.*

4.8 Normal capacity: *Normal Capacity is the production achieved or achievable on an average over a number of periods or seasons under normal circumstances taking into account the loss of capacity resulting from planned maintenance.*⁸

4.9 Production Overheads: *Indirect costs involved in the production process or in rendering service.*⁹

² Paragraph reference 4.13 CAS -9

³ Paragraph reference 4.11 CAS -7

⁴ Adapted from CIMA Terminology

⁵ Adapted from CAS 1 Paragraph 6.3.9

⁶ Adapted from CIMA Terminology

⁷ Adapted from CAS 1 paragraph 6.5.13

⁸ Adapted from CAS 2 paragraph 4.4

⁹ Adapted from CAS 1 paragraph 6.3.3

Cost Accounting Standards

The terms Production Overheads, Factory Overheads, Works Overheads and Manufacturing Overheads denote the same meaning and are used interchangeably.

4.10 Selling Overheads: *Selling Overheads, also known as Selling Costs, are the expenses related to sale of products and include all Indirect Expenses in sales management for the organization.*¹⁰

4.11 Service Cost Centre: *The cost centre which primarily provides auxiliary services across the enterprise.*

The cost centre which provides services to Production, Operation or other Service Cost Centre but not directly engaged in manufacturing process or operation is a service cost centre. A service cost centre renders services to other cost centres / other units and in some cases to outside parties.

Examples of service cost centres are engineering, workshop, research & development, quality control, quality assurance, designing, laboratory, welfare services, safety, transport, Component, Tool stores, Pollution Control, Computer Cell, dispensary, school, crèche, township, Security etc.

Administrative Overheads include cost of administrative Service Cost Centre.

4.12 Standard Cost: *A predetermined cost of resource inputs for the cost object computed with reference to set of technical specifications and efficient operating conditions.*¹¹

Standard costs are used as scale of reference to compare the actual costs with the standard cost with a view to determine the variances, if any, and analyse the causes of variances and take proper measure to control them. Standard costs are also used for estimation.

4.13 Stand-by service: *Any facility created to safeguard against the failure of the main source of service.*

5. Principles of Measurement

5.1 *Each identifiable service cost centre shall be treated as a distinct cost object for measurement of the cost of services subject to the principle of materiality.*

5.2.1 *Cost of service cost centre shall be the aggregate of direct and indirect cost attributable to services being rendered by such cost centre.*

5.2.2 *Cost of in-house services shall include cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources used in such service.*

Cost of other resources includes related overheads.

¹⁰ Adapted from CAS 1 paragraph 6.3.7

¹¹ Adapted from CAS 6 Paragraph 4.15

Cost Accounting Standards

5.2.3 Cost of services rendered by contractors within the facilities of the entity shall include charges payable to the contractor and cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources provided to the contractors for such services.

5.2.4 Cost of services rendered by contractors at their premises shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discount), taxes and duties refundable or to be credited. This cost shall also include the cost of resources provided to the contractors.

5.2.5 Cost of services for the purpose of inter unit transfers shall also include distribution costs incurred for such transfers.

5.2.6 Cost of services for the purpose of inter-company transfers shall also include distribution cost incurred for such transfers and administrative overheads.

5.2.7 Cost of services rendered to outside parties shall also include distribution cost incurred for such transfers, administrative overheads and marketing overheads.

5.3 Finance costs incurred in connection with the Service Cost Centre shall not form part of the cost of Service Cost Centre.

5.4 The cost of service cost centre shall not include imputed costs.

5.5 Where the cost of service cost centre is accounted at standard cost, the price and usage variances related to the services cost Centre shall be treated as part of cost of services. Usage variances due to abnormal reasons shall be treated as part of abnormal cost.

5.6 Any Subsidy / Grant / Incentive or any such payment received / receivable with respect to any service cost centre shall be reduced for ascertainment of the cost to which such amounts are related.

5.7 The cost of production and distribution of the service shall be determined based on the normal capacity or actual capacity utilization whichever is higher and unabsorbed cost, if any, shall be treated as abnormal cost¹². Cost of a Stand-by service shall include the committed costs of maintaining such a facility for the service.

¹² Adapted from Paragraph 5.7 of CAS 3

5.8 Any abnormal cost where it is material and quantifiable shall not form part of the cost of the service cost centre.

5.9 Penalties, damages paid to statutory authorities or other third parties shall not form part of the cost of the service cost centre.

5.10 Credits/recoveries relating to the service cost centre including charges for services rendered to outside parties, material and quantifiable, shall be reduced from the total cost of that service cost centre.

5.11 Any change in the cost accounting principles applied for the measurement of the cost of Service Cost Centre shall 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 enterprise.

6. Assignment of Cost

6.1 While assigning cost of services, traceability to a cost object in an economically feasible manner shall be the guiding principle.

6.2 Where the cost of services rendered by a service cost centre is not directly traceable to a cost object, it shall be assigned on the most appropriate basis.

6.3 The most appropriate basis of distribution of cost of a service cost centre to the cost centres consuming services is to be derived from logical parameters which could be related to the usage of the service rendered. The parameter shall be equitable, reasonable and consistent.

7. Presentation

7.1 Cost of service cost centre shall be presented as a separate cost head for each type of service in the cost statement, if material.

8. Disclosures

8.1 The cost statements shall disclose the following:

- 1. The basis of distribution of cost of each service cost centre to the consuming centres.**
- 2. The cost of purchase, production, distribution, marketing and price of services with reference to sales to outside parties**
- 3. Where the cost of service cost centre is disclosed at standard cost, the price and usage variances**

Cost Accounting Standards

4. *The cost of services received from / rendered to related parties¹³.*
5. *Cost of service cost centre incurred in foreign exchange.*
6. *Any Subsidy/Grant/Incentive and any such payment reduced from cost of Service Cost Centre.*
7. *Credits/ recoveries relating to the cost of Service Cost Centre*
8. *Any abnormal cost excluded from cost of Service Cost Centre*
9. *Penalties and damages paid excluded from cost of Service Cost Centre.*

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

8.3 Disclosures shall be made only where material and significant.

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

¹³ Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement

