



**The Institute of Cost Accountants of India**  
(Statutory body under an Act of Parliament)

H.Q: CMA Bhawan, 12 Sudder Street, Kolkata – 700 016  
Delhi Office: CMA Bhawan, 3, Institutional Area, Lodhi Road, New Delhi – 110 003

## Limited Revision of CASs

### Limited Revision to CAS 6 Cost Accounting Standard on Material Cost

The following is the text of the limited revision to CAS 6, Cost Accounting Standard on Material Cost, issued by The Institute of Cost Accountants of India.

Existing	Modified/Added/Deleted
<b>Definitions</b>	
<i>4.5 Imputed Costs: Notional cost, not involving cash outlay, computed for any purpose.</i>	<b>Deleted</b>
<i>Para 4.6, Para 4.7, Para 4.8 and Para 4.9 renumbered as</i>	<i>Para 4.5, Para 4.6, Para 4.7, Para 4.8</i>
<b>Added</b>	<i>4.9 Property, plant and equipment are tangible assets that:  (a) are held for use in the production of goods or supply of services, for rental to others, for administrative, selling or</i>



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	<i>distribution purposes; and (b) are expected to be used during more than one accounting period.</i>
<b>Principles of Measurement</b>	
<i>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.</i>	<i>5.1.4 Items such as spare parts, stand-by equipment and servicing equipment are recognised as property, plant and equipment when they meet the definition of property, plant and equipment and depreciated accordingly. Otherwise, such items are classified as inventory and recognised in cost as and when these are consumed.</i>
<i>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.</i>	<b>Deleted</b>
<b>Disclosures</b>	
<b>8.8 Any cost imputed in arriving at the material cost shall be disclosed.</b>	<b>Deleted</b>
<i>Para 8.9 and Para 8.10 renumbered as</i>	<i>Para 8.8 and Para 8.9</i>



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## Limited Revision to CAS 7 Cost Accounting Standard on Employee Cost

The following is the text of the limited revision to CAS 7, Cost Accounting Standard on Employee Cost, issued by The Institute of Cost Accountants of India.

Existing	Modified/Added/Deleted
<b>Definitions</b>	
<p><b>4.7 Employee Cost: Benefit paid or payable for the service rendered by employees (including temporary, part time and contract employees) of an entity.</b></p> <p>Explanation:</p> <ol style="list-style-type: none"> <li>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.</li> <li>2. Compensation paid to employees for the past period on account of any dispute / court orders shall not form part of Employee Cost.</li> <li>3. Short provisions of prior period made up in current period shall not form part of the employee cost in the current period.</li> </ol> <p>Employee cost includes payment made in cash or kind.</p> <p>For example:</p> <ul style="list-style-type: none"> <li>● <b>Employee cost</b> <ul style="list-style-type: none"> <li>○ Salaries, wages, allowances and bonus/ incentives.</li> <li>○ Contribution to provident and other funds.</li> <li>○ Employee welfare</li> <li>○ Other benefits</li> </ul> </li> <li>● <b>Employee cost – Future benefits</b></li> </ul>	<p><b>4.7 Employee Cost: Employee Benefits paid or payable in all forms of consideration given for the service rendered by employees (including temporary, part time and contract employees) of an entity.</b></p> <p>Explanation:</p> <ol style="list-style-type: none"> <li>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.</li> <li>2. Compensation paid to employees for the past period on account of any dispute / court orders shall not form part of Employee Cost.</li> <li>3. Short provisions of prior period made up in current period shall not form part of the employee cost in the current period.</li> </ol> <p>Employee cost includes payment made in cash or kind.</p> <p>For example:</p> <ul style="list-style-type: none"> <li>● <b>Employee cost</b> <ul style="list-style-type: none"> <li>○ Salaries, wages, allowances and bonus/ incentives.</li> <li>○ Contribution to provident and other funds.</li> <li>○ Employee welfare</li> <li>○ Other benefits</li> </ul> </li> <li>● <b>Employee cost – Future benefits</b></li> </ul>



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- 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.

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- Free or subsidised education to children.
- Free or subsidised canteen, crèches and recreational facilities.
- Free or subsidised conveyance.
- Leave travel concession.
- Interest Free or subsidised Loans
- Any other free or subsidised facility.
- Cost of Employees' stock option.



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## Limited Revision to CAS 12

### Cost Accounting Standard on Repairs and Maintenance Cost

The following is the text of the limited revision to CAS 12, Cost Accounting Standard on Repairs and Maintenance Cost, issued by The Institute of Cost Accountants of India.

Existing	Modified/Added/Deleted
<b>Definitions</b>	
<b>Added</b>	<b>4.7 Property, plant and equipment are tangible assets that:</b>  <b>(a) are held for use in the production of goods or supply of services, for rental to others, for administrative, selling or distribution purposes; and</b>  <b>(b) are expected to be used during more than one accounting period.</b>
<b>Para 4.7 and 4.8 renumbered as</b>	<b>Para 4.8 and 4.9</b>
<b>Principles of Measurement</b>	
<b>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.</b>  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	<b>5.8 High value spare, when replaced by a new spare and is reconditioned, shall be recognised as property, plant and equipment when they meet the definition of property, plant and equipment and depreciated accordingly. Otherwise, such items are classified as inventory and recognised in cost as and when they are consumed.</b>  Example: A company purchased equipment for Rs. 10 crore and insurance spare for Rs. 1 crore. If the company is covered under IndAS, such spare is capitalized as Property, Plant & Equipment. After use for five years, the equipment broke down and a part was replaced with the aforesaid insurance spare. After five years, the depreciated value of equipment is Rs. 5 crore. As property, plant



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treated as repairs and maintenance cost.	<p>and equipment are depreciated when they are available for use, accordingly the depreciated value of new spare is Rs. 50 lakhs. The old spare was reconditioned and the cost of reconditioning is Rs. 10 lakh. As per estimated life of the old spare for future economic benefits, the current market value of the reconditioned old spare has been estimated at Rs. 25 lakhs. The amount to be treated in repairs and maintenance is Rs. 35 lakhs as follows:</p> <table><tr><td colspan="2">Rs. in Crore</td></tr><tr><td>A. Equipment Cost</td><td>10.00</td></tr><tr><td>B. Cost of New Spare</td><td><u>1.00</u></td></tr><tr><td><b>Total Cost (A+B)</b></td><td><b>11.00</b></td></tr><tr><td>Depreciation for 5 years</td><td><u>5.50</u></td></tr><tr><td>Depreciated value of Equipment &amp; Spare</td><td><u><b>5.50</b></u></td></tr><tr><td>Reconditioning cost of old Spare</td><td>0.10</td></tr><tr><td>Depreciated Value of old Spare</td><td><u>0.50</u></td></tr><tr><td><b>Book Value of Reconditioned spare</b></td><td><b>0.60</b></td></tr><tr><td>Current market value of reconditioned spare to be restated in Book of Account</td><td><u>0.25</u></td></tr><tr><td><b>Amount to be treated in Repairs and Maintenance</b></td><td><u><b>0.35</b></u></td></tr></table>	Rs. in Crore		A. Equipment Cost	10.00	B. Cost of New Spare	<u>1.00</u>	<b>Total Cost (A+B)</b>	<b>11.00</b>	Depreciation for 5 years	<u>5.50</u>	Depreciated value of Equipment & Spare	<u><b>5.50</b></u>	Reconditioning cost of old Spare	0.10	Depreciated Value of old Spare	<u>0.50</u>	<b>Book Value of Reconditioned spare</b>	<b>0.60</b>	Current market value of reconditioned spare to be restated in Book of Account	<u>0.25</u>	<b>Amount to be treated in Repairs and Maintenance</b>	<u><b>0.35</b></u>
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## Limited Revision to CAS 16

### Cost Accounting Standard on Depreciation and Amortisation

The following is the text of the limited revision to CAS 16, Cost Accounting Standard on Depreciation and Amortisation, issued by The Institute of Cost Accountants of India.

Existing	Modified/Added/Deleted
<b>Definitions</b>	
<p><b>4.7 Depreciable fixed and Intangible assets are assets which:</b></p> <ul style="list-style-type: none"> <li><i>(i) are expected to be used during more than one accounting period;</i></li> <li><i>(ii) have a limited useful life; and</i></li> <li><i>(iii) are held by an enterprise for use in the production or supply of goods and services, for rental to others, or for administrative purposes and not for the purpose of sale in the ordinary course of business.</i></li> </ul> <p>Land is not a depreciable asset as it does not have a defined useful life.</p>	<p><b>4.7 Depreciable property, plant and equipment are tangible assets that:</b></p> <ul style="list-style-type: none"> <li><i>(a) are held for use in the production of goods or supply of services, for rental to others, for administrative, selling or distribution purposes; and</i></li> <li><i>(b) are expected to be used during more than one accounting period.</i></li> </ul> <p>Land is not a depreciable asset as it does not have a defined useful life.</p>
<b>Added</b>	<b>4.8 Impairment Loss: An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.</b>
<b>Added</b>	<b>4.9 Intangible Asset: An intangible asset is an identifiable non-monetary asset without physical substance.</b>
<b>Para 4.8 and 4.9 renumbered as</b>	<b>Para 4.10 and 4.11</b>
<b>Principles of Measurement</b>	
<p><b>5.5 Depreciation shall be considered from the time when a depreciable asset is first put into use.</b></p> <p>An asset which is used only when the need arises but is always held ready for use. Example: fire extinguisher, stand by</p>	<p><b>5.5 Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.</b></p> <p>An asset which is used only when the need</p>



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<p>generator, safety equipment shall be considered to be an asset in use. Depreciable assets will be considered to be put into use when commercial production of goods and services commences.</p> <p>Depreciation on an asset which is temporarily retired from production of goods and services shall be considered as abnormal cost for the period when the asset is not in use.</p>	<p>arises but is always held ready for use.</p> <p>Example: fire extinguisher, stand by generator, safety equipment shall be considered to be an asset available for use.</p> <p>Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) or the date that the asset is de-recognized.</p>
<p><b>5.12</b><i>The method of amortisation of intangible asset shall reflect the pattern in which the economic benefits accrue to entity.</i></p>	<p><b>5.12.</b> <i>The method of amortisation of intangible asset shall reflect the pattern in which the economic benefits are expected to be consumed by the entity.</i></p>
<p><b>5.14</b> <i>Spares purchased specifically for a particular asset, or class of assets, and which would become redundant if that asset or class of asset was retired or use of that asset was discontinued, shall form part of that asset. The depreciable amount of such spares shall be allocated over the useful life of the asset.</i></p>	<p><b>5.14</b> <i>Items such as spare parts, stand-by equipment and servicing equipment are recognised as property, Plant and Equipment when they meet the definition of Property, Plant and Equipment and depreciated accordingly. Otherwise, such items are classified as inventory and recognised in cost as and when they are consumed.</i></p>
<p><b>Assignment of Costs</b></p>	
<p><b>Added</b></p>	<p><b>6.3</b> <i>Depreciation on an asset which if remains idle or temporarily retired from production of goods and services or remains idle shall be considered as abnormal cost for the period when the asset is not in use.</i></p>
<p><b>Added</b></p>	<p><b>6.4</b> <i>The depreciation charged for a period is usually recognised in cost of goods or services.</i></p>
<p><b>Added</b></p>	<p><b>6.5</b> <i>Similarly, wherever the property plant &amp; equipment are used for producing another asset, the related depreciation shall form part of cost of such asset.</i></p>



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**Limited Revision to CAS 17**  
**Cost Accounting Standard on Interest and Financing Charges**

The following is the text of the limited revision to CAS 17, Cost Accounting Standard on Interest and Financing Charges, issued by The Institute of Cost Accountants of India.

Existing	Modified/Added/Deleted
<b>Definitions</b>	
<p><b>4.7 Interest and Finance charges: Interest, including any payment in the nature of interest for use of non-equity funds and incidental cost that an entity incurs in arranging those funds.</b></p> <p><b>Examples are:</b></p> <ol style="list-style-type: none"> <li>1. interest and commitment charges on bank borrowings, other short term and long term borrowings:</li> <li>2. amortisation of discounts or premium related to borrowings.</li> <li>3. amortisation of ancillary cost incurred in connection with the arrangements of borrowings.</li> <li>4. Financing Charges in respect of finance leases and other similar arrangements.</li> <li>5. exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest costs.<sup>1</sup></li> <li>6. Cash discount allowed to customers.</li> </ol> <p>The terms Interest and financing charges, finance costs, and borrowing costs are used interchangeably.</p> <hr style="width: 30%; margin-left: 0;"/> <p><sup>1</sup>. Adapted from CIMA Terminology</p>	<p><b>4.7 Interest and Finance charges: Interest and Financing Charges are interest and other costs incurred by an entity in connection with the financing arrangements.</b></p> <p>Examples are:</p> <ol style="list-style-type: none"> <li>1. Interest and commitment charges on bank borrowings, other short term and long term borrowings:</li> <li>2. Financing Charges in respect of finance leases and other similar arrangements: and</li> <li>3. Exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest costs.</li> </ol> <p>The terms Interest and financing charges, finance costs, and borrowing costs are used interchangeably.</p>
<b>Principles of Measurement</b>	
<b>Added</b>	<b>5.1 Interest and Financing Charges shall be</b>



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	<i>measured in accordance with the Accounting Standards notified by the Central Government under the Companies (Accounting Standards) Rules 2006 or with the Indian Accounting Standards notified under the Companies (Indian Accounting Standards) Rules 2015, as applicable.</i>
<i>Para 5.1, Para 5.2, Para 5.3, Para 5.4, Para 5.5 and Para 5.6 renumbered as</i>	<i>Para 5.2, Para 5.3, Para 5.4, Para 5.5, Para 5.6 and Para 5.7</i>
<b>Effective date</b>	
<b>9 Effective date:</b>  This Cost Accounting Standard shall be effective from the period commencing on or after 1st April 2014 for being applied for the preparation and certification of General Purpose Cost Accounting Statements.	<b>Deleted</b>

## Consequential Changes in Cost Accounting Standards

1. Substitution of “**Profit on sale of fixed assets and investments**” with “**Profit on sale of property, plant and equipment and investments**” in CAS 24.
2. Substitution of Definition of “**Interest and Finance charges**” in the Cost Accounting Standards CAS-8, CAS-9, CAS-10, CAS-11, CAS-12, CAS-13, CAS-14, CAS-20, CAS-21 and CAS-23. The definition is already provided above.

***Effective date: The limited revision of the Cost Accounting Standards (CAS-6, CAS-7, CAS-12, CAS -16 and CAS 17) and consequential changes in other Cost Accounting Standards (CAS-8, CAS-9, CAS-10, CAS-11, CAS-12, CAS-13, CAS-14, CAS-20, CAS-21, CAS-23 and CAS-24) shall be effective for the cost statements prepared on or after 1st April 2017.***



**CAS-6**  
**(Limited Revision 2017)**  
**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 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.

**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<sup>1</sup>.*

**4.2 Administrative overheads:** *Cost of all activities relating to general management and administration of an entity.*

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

**4.4 Defectives:** *Materials, products or intermediate products 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 Intermediate Product:** *An intermediate product is a product that requires further processing before it is saleable.*

### 4.6 Materials:

**4.6.1 Direct Materials:** *Materials the costs of which can be attributed to a cost object in an economically feasible way<sup>2</sup>.*

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<sup>1</sup> Adapted from CAS-1 Para 6.5.19

<sup>2</sup> Adapted from CAS 1-6.2.3

**4.6.2 Indirect Materials: Materials, the costs of which cannot be directly attributed to a particular cost object<sup>3</sup>.**

**4.7 Material Cost: The cost of material used for the purpose of production of a product or rendering a service.**

**4.8 Production overheads: Indirect costs involved in the production of a product or in rendering service**

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

**4.9 Property, plant and equipment are tangible assets that:**

**(a) are held for use in the production of goods or supply of services, for rental to others, for administrative, selling or distribution purposes; and**

**(b) are expected to be used during more than one accounting period.**

**4.10 Scrap: Discarded material having no or insignificant value and which is usually either disposed off without further treatment (other than reclamation and handling) or reintroduced into the process in place of raw material.**

**4.11 Standard Cost: A predetermined cost of a product or service based on technical specifications and efficient operating conditions**

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.<sup>4</sup> 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.

**4.12 Waste and spoilage:**

**4.12.1 Waste: Material lost during production or storage and discarded material which may or may not have any value.**

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<sup>3</sup> Adapted from CAS 1– 6.2.8

<sup>4</sup> Adapted from CAS 1\_ Para 6.7.5

**4.12.2 Spoilage: *Production that does not meet the quality requirements or specifications and cannot be rectified economically.***

## **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.***

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 *Items such as spare parts, stand-by equipment and servicing equipment are recognised as property, plant and equipment when they meet the definition of property, plant and equipment and depreciated accordingly. Otherwise, such items are classified as inventory and recognised in cost as and when these are consumed.***

**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.**

**5.3 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 parties<sup>5</sup> shall be disclosed**

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

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

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<sup>5</sup> Related party as per the applicable legal requirements relating to the cost statement as on the date of statements



**CAS -7**  
**(Limited Revision 2017)**

**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 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.<sup>1</sup>***
- 4.2. ***Abnormal Idle time: An unusual or atypical idle time occurrence of which is irregular and unexpected or due to some abnormal situations.***  
E.g.: Idle time due to a strike, lockout or an accident
- 4.3. ***Administrative overheads: Cost of all activities relating to general management and administration of an entity.***
- 4.4. ***Cost Object: An activity, contract, cost centre, customer, process, product, project, service or any other object for which costs are ascertained.***

<sup>1</sup> Adapted from CAS 1 paragraph 6.5.19

**4.5. Direct Employee Cost:** *Employee cost, which can be attributed to a Cost object in an economically feasible way.<sup>2</sup>*

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

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

**4.7. Employee Cost:** *Employee Benefits paid or payable in all forms of consideration given for the service rendered by employees (including temporary, part time and contract employees) of an entity.*

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.

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.

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<sup>2</sup> Adapted from CAS 1 paragraph 6.2.4 (Direct labour cost)

- 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.
- Interest Free or subsidised Loans
- Any other free or subsidised facility.
- Cost of Employees' stock option.

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

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

**4.10. Indirect Employee Cost: Employee cost, which can not be directly attributed to a particular cost object.<sup>3</sup>**

**4.11. Marketing overheads: Marketing overheads comprise of selling overheads and distribution overheads.**

**4.12. Overtime Premium: The extra amount payable beyond the normal wages and salaries for beyond the normal working hours.**

**4.13. Production Overheads: Indirect costs involved in the production of a product or in rendering service.**

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 are the expenses related to sale of products or services and include all indirect expenses incurred in selling the products or services.**

**4.15. Standard Cost: A predetermined cost of a product or service based on 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

<sup>3</sup> Adapted from CAS 1 paragraph 6.2.10

variances and take proper measure to control them. Standard costs are also used for estimation.

## **5 Principles of Measurement**

**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 parties<sup>4</sup>.**
- 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.**

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<sup>4</sup> Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement



## CAS-8

(Limited Revision 2017)

### 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 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.<sup>1</sup>***

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<sup>1</sup> Adapted from CAS 1 paragraph 6.5.19



- 4.2 Committed Cost: The cost of maintaining stand-by utilities shall be the committed cost.**
- 4.3 Cost Object: An activity, contract, cost centre, customer, process, product, project, service or any other object for which costs are ascertained.**
- 4.4 Imputed Costs: Notional cost, not involving cash outlay, computed for any purpose.**
- 4.5 Interest and Finance charges: Interest and Financing Charges are interest and other costs incurred by an entity in connection with the financing arrangements.**
- Examples are:**
1. Interest and commitment charges on bank borrowings, other short term and long term borrowings:
  2. Financing Charges in respect of finance leases and other similar arrangements: and
  3. Exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest costs.
- The terms Interest and financing charges, finance costs, and borrowing costs are used interchangeably.
- 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.<sup>3</sup>**
- 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 a product or service based on 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 Stand-by utilities: Any utility created as backup against any failure of the main source of utilities.**
- 4.9 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.**

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<sup>2</sup> Adapted from CIMA Terminology

<sup>3</sup> Adapted from CAS 2 paragraph 4.4



**5. Principles of measurement**

**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 cost<sup>4</sup>. 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 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.*

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<sup>4</sup> Adapted from paragraph 5.7 of CAS 3



**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 parties<sup>5</sup>.**
- 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.**

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<sup>5</sup> Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement



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## CAS 9

(Limited Revision 2017)

### 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 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.<sup>1</sup>***

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.

4.2 ***Administrative Overheads: Cost of all activities relating to general management***

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<sup>1</sup> Adapted from CAS 1 Para 6.5.19



**and administration of an entity.** Administrative overheads shall exclude any overhead relating to production, operations and marketing.

- 4.3 **Cost Object: An activity, contract, cost centre, customer, process, product, project, service or any other object for which costs are ascertained.**
- 4.4 **Direct Employee Cost: Employee cost, which can be attributed to a cost object in an economically feasible way.<sup>2</sup>**
- 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<sup>3</sup>.** 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 in an economically feasible way.**
- 4.7 **Distribution Overheads: Distribution overheads, also known as distribution costs, are the costs incurred in handling a product or service from the time it is ready for despatch or delivery until it reaches the ultimate consumer including the units receiving the product or service in an inter-unit transfer.**

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

For example: packing material supplied by the customer.

- 4.9 **Interest and Finance charges: Interest and Financing Charges are interest and other costs incurred by an entity in connection with the financing arrangements.**

**Examples are:**

1. Interest and commitment charges on bank borrowings, other short term and

long term borrowings:

2. Financing Charges in respect of finance leases and other similar arrangements: and
3. Exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest costs.

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

4.10 **Marketing overheads: Marketing Overheads comprise of 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.**

4.11.1 **Defectives: Materials, products or intermediate products that do not meet quality standards. This may include reworks or rejects.**

4.11.1.1 **Reworks: Defectives which can be brought up to the standards by putting in additional resources.<sup>5</sup>**

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.<sup>6</sup>**

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 and preserve the product for its use by the customer.**

For example:

- 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 material having no or insignificant value and which is usually**

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<sup>4</sup> Adapted from CIMA Terminology

<sup>5</sup> Adapted from CAS 6 Para 4.4.1

<sup>6</sup> Adapted from CAS 6 Para 4.4.2



*either disposed off without further treatment (other than reclamation and handling) or reintroduced into the process in place of raw material.*

**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 of a product or in rendering service.**

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 are the expenses related to sale of products or services and include all indirect expenses incurred in selling the products or services.**

**4.15 Standard Cost: A predetermined cost of a product or service based on 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 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.

**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 Costs**
  - 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 parties<sup>7</sup>.***
  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.***

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



## CAS-10

(Limited Revision 2017)

### 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 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.<sup>1</sup>***

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

4.3 ***Direct Employee Cost: Employee cost, which can be directly attributed to a cost object in an economically feasible way.<sup>2</sup>***

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***

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<sup>1</sup> Adapted from CAS 1 paragraph 6.5.19

<sup>2</sup> Adapted from CAS 1 paragraph 6.2.4 (Direct labour cost)



**material cost and direct employee cost**<sup>3</sup>. 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**<sup>4</sup>.

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

**4.7 Interest and Finance charges: Interest and Financing Charges are interest and other costs incurred by an entity in connection with the financing arrangements.**

**Examples are:**

1. Interest and commitment charges on bank borrowings, other short term and long term borrowings:
2. Financing Charges in respect of finance leases and other similar arrangements: and
3. Exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest costs.

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

**4.8 Overheads: Overheads comprise costs of indirect materials, indirect employees and indirect expenses.**

**4.9 Standard Cost: A predetermined cost of a product or service based on 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 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.**

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<sup>3</sup> Adapted from CAS 1 paragraph 6.2.6

<sup>4</sup> Adapted from CAS 1-6.2.3

<sup>5</sup> Adapted from CIMA Terminology



**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 parties<sup>6</sup>.*
  - 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*

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



- 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.*



## CAS - 11

(Limited Revision 2017)

### COST ACCOUNTING STANDARD ON ADMINISTRATIVE OVERHEADS

The following is the COST ACCOUNTING STANDARD – (CAS-11) issued by the Council of The Institute of Cost 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.***<sup>1</sup>
- 4.2 ***Absorption of overheads: Assigning of overheads to cost objects by means of appropriate absorption rate.***  
Overhead Absorption Rate = Overheads of the Cost object / Quantum of base.
- 4.3 ***Administrative Overheads: Cost of all activities relating to general management and administration of an entity.***

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<sup>1</sup> Adapted from CAS 1 Para 6.5.19



Administrative overheads shall exclude production overheads<sup>2</sup>, marketing overheads<sup>3</sup> and finance cost. Production overheads includes administration cost relating to production, factory, works or manufacturing.

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

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

**4.6 Interest and Finance charges: Interest and Financing Charges are interest and other costs incurred by an entity in connection with the financing arrangements.**

**Examples are:**

1. Interest and commitment charges on bank borrowings, other short term and long term borrowings:
2. Financing Charges in respect of finance leases and other similar arrangements: and
3. Exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest costs.

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

**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.<sup>5</sup>**

**4.8 Overheads: Overheads comprise costs of indirect materials, indirect employees and indirect expenses.**

## **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.**

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.

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<sup>2</sup> Paragraph reference 4.13 CAS -9

<sup>3</sup> Paragraph reference 4.11 CAS -7

<sup>4</sup> Adapted from CIMA Terminology

<sup>5</sup> Adapted from CAS 2 Para 4.4



- 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 Costs**
- 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.<sup>6</sup>**

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 parties<sup>7</sup>.**
- **Any Subsidy / Grant / Incentive or any amount of similar nature received / receivable reduced from administrative overheads.**
- **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.**

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<sup>6</sup> Adapted from of CAS 3 Para 5.1

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

## CAS – 12

### (Limited Revision 2017)

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

**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.**

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

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

This will include interest and commitment charges on bank borrowings, other short term and long term borrowings, amortisation of discounts or premium related to borrowings, amortisation of ancillary cost incurred in connection with the arrangements of borrowings, finance charges in respect of finance leases, other similar arrangements and exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest costs<sup>1</sup>. The terms Finance costs and Borrowing costs are used interchangeably.

**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.<sup>2</sup>**

**4.6 Production overheads: Indirect costs involved in the production of a product or in rendering service.**

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

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<sup>1</sup> Adapted from CIMA Terminology

<sup>2</sup> Adapted from CAS 2 paragraph 4.4

Production overheads shall include administration cost relating to production, factory, works or manufacturing.

**4.7 Property, plant and equipment are tangible assets that:**

***(a) are held for use in the production of goods or supply of services, for rental to others, for administrative, selling or distribution purposes; and***

***(b) are expected to be used during more than one accounting period.***

**4.8 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.

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

**4.9 Standard Cost: A predetermined cost of a product or service based on 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.**

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, shall be recognised as property, plant and equipment when they meet the definition of property, plant and equipment and depreciated accordingly. Otherwise, such items are classified as inventory and recognised in cost as and when they are consumed.**

Example:

A company purchased equipment for Rs. 10 crore and insurance spare for Rs. 1 crore. If the company is covered under IndAS, such spare is capitalized as Property, Plant & Equipment. After use for five years, the equipment broke down and a part was replaced with the aforesaid insurance spare. After five years, the depreciated value of equipment is Rs. 5 crore. As property, plant and equipment are depreciated when they are available for use, accordingly the depreciated value of new spare is Rs. 50 lakhs. The old spare was reconditioned and the cost of reconditioning is Rs. 10 lakh. As per estimated life of the old spare for future economic benefits, the current market value of the reconditioned old spare has been estimated at Rs. 25 lakhs. The amount to be treated in repairs and maintenance is Rs. 35 lakhs as follows:

	Rs. In Crore
A. Equipment Cost	10.00
B. Cost of New Spare	<u>1.00</u>
Total Cost (A+B)	11.00
Depreciation for 5 years	<u>5.50</u>
Depreciated value of Equipment & Spare	<u>5.50</u>
Reconditioning cost of old Spare	0.10
Depreciated Value of old Spare	<u>0.50</u>
<b>Book Value of Reconditioned spare</b>	<b>0.60</b>
Current market value of reconditioned spare to be restated in Book of Account	<u>0.25</u>
<b>Amount to be treated in Repairs and Maintenance</b>	<b><u>0.35</u></b>

**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 parties<sup>3</sup>.*
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.**

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<sup>3</sup> Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement



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## CAS – 13

(Limited Revision 2017)

### 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 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.<sup>1</sup>***

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<sup>1</sup> Adapted from CAS 1 paragraph 6.5.19



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

Administrative overheads shall exclude production overheads<sup>2</sup>, marketing overheads<sup>3</sup> and finance cost. Production overheads includes administration cost relating to production, factory, works or manufacturing.

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

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

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

4.6 **Interest and Finance charges: Interest and Financing Charges are interest and other costs incurred by an entity in connection with the financing arrangements.**

**Examples are:**

1. Interest and commitment charges on bank borrowings, other short term and long term borrowings:
2. Financing Charges in respect of finance leases and other similar arrangements: and
3. Exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest costs.

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

4.7 **Marketing overheads: Marketing overheads comprise of selling overheads 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.<sup>5</sup>**

4.9 **Production Overheads: Indirect costs involved in the production of a product or in rendering service.**

The terms Production Overheads, Factory Overheads, Works Overheads and

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<sup>2</sup> Paragraph reference 4.13 CAS -9

<sup>3</sup> Paragraph reference 4.11 CAS -7

<sup>4</sup> Adapted from CIMA Terminology

<sup>5</sup> Adapted from CAS 2 paragraph 4.4



Manufacturing Overheads denote the same meaning and are used interchangeably.

4.10 ***Selling Overheads: Selling overheads are the expenses related to sale of products or services and include all indirect expenses incurred in selling the products or services.***

4.11 ***Standard Cost: A predetermined cost of a product or service based on 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.

4.12 ***Stand-by service: Any facility created as backup against any failure of the main source of service.***

4.13 ***Support-Service Cost Centre: The cost centre which primarily provides auxiliary services across the entity.***

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.

## 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.

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 cost<sup>6</sup>. Cost of a Stand-by service shall include the committed costs of maintaining such a facility for the service.**
- 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**

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<sup>6</sup> Adapted from Paragraph 5.7 of CAS 3



***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 Costs**

- 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***
- 4. *The cost of services received from / rendered to related parties<sup>7</sup>.***
- 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.***

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



- 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.***



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## CAS - 14

(Limited Revision 2017)

### COST ACCOUNTING STANDARD ON POLLUTION CONTROL COST

The following is the Cost Accounting Standard - 14 (CAS - 14) issued by the Council of The Institute of Cost Accountants of India on “**POLLUTION CONTROL 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

This standard deals with principles and methods of determining the Pollution control costs.

***This standard deals with the principles and methods of classification, measurement and assignment of pollution control costs, for determination of 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 Pollution Control Costs with reasonable accuracy.***

#### 3 Scope

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

#### 4 Definitions

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

4.1 ***Air Pollutant: Means any solid, liquid or gaseous substance (including noise) present in the atmosphere in such concentration as may be or tend to be injurious to human beings or other living creatures or plants or property or environment<sup>1</sup>.***

4.2 ***Air Pollution: Air pollution means the presence in the atmosphere of any air pollutant.<sup>2</sup>***

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

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<sup>1</sup> Section 2 (a) of The Air (Prevention and Control of Pollution) Act, 1981

<sup>2</sup> Section 2 (b) of The Air (Prevention and Control of Pollution) Act, 1981



- 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.<sup>3</sup>
- 4.5 **Environment:** Environment includes water, air and land and the inter-relationship which exists among and between water, air and land, and human beings, other living creatures, plants, micro-organism and property.<sup>4</sup>
- 4.6 **Environmental Pollutant:** Environmental Pollutant means any solid, liquid or gaseous substance present in such concentration as may be, or tend to be, injurious to environment.<sup>5</sup>
- 4.7 **Environment Pollution:** Environmental pollution means the presence in the environment of any environmental pollutant.<sup>6</sup>
- 4.8 **Imputed Costs:** Notional cost, not involving cash outlay, computed for any purpose.
- 4.9 **Interest and Finance charges:** Interest and Financing Charges are interest and other costs incurred by an entity in connection with the financing arrangements.  
**Examples are:**
1. Interest and commitment charges on bank borrowings, other short term and long term borrowings:
  2. Financing Charges in respect of finance leases and other similar arrangements: and
  3. Exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest costs.
- The terms Interest and financing charges, finance costs, and borrowing costs are used interchangeably.
- 4.10 **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<sup>8</sup>.
- 4.11 **Pollution Control:** Pollution Control means the control of emissions and effluents into environment. It constitutes the use of materials, processes, or practices to reduce, minimize, or eliminate the creation of pollutants or wastes. It includes practices that reduce the use of toxic or hazardous materials, energy, water, and / or other resources.

<sup>3</sup> Adapted from Paragraph 4.4 of CAS - 10

<sup>4</sup> Section 2 (a) of The Environment (Protection) Act, 1986

<sup>5</sup> Section 2 (b) of The Environment (Protection) Act, 1986

<sup>6</sup> Section 2 (c) of The Environment (Protection) Act, 1986

<sup>7</sup> Adapted from CIMA Terminology

<sup>8</sup> Adapted from CAS 2 paragraph 4.4



**4.12 *Production overheads: Indirect costs involved in the production of a product or in rendering service.***

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.

**4.13 *Soil Pollutant: Soil Pollutant is a substance which is the source of soil contamination.***

**4.14 *Soil Pollution: Soil pollution means the presence of any soil pollutant(s) in the soil which is harmful to the living beings when it crosses its threshold concentration level.***

**4.15 *Standard Cost: A predetermined cost of a product or service based on 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.

**4.16 *Water pollution: Water pollution means such contamination of water or such alteration of the physical, chemical or biological properties of water or such discharge of any sewage or trade effluent or of any other liquid, gaseous or solid substance into water (whether directly or indirectly) as may, or is likely to, create a nuisance or render such water harmful or injurious to public health or safety, or to domestic, commercial, industrial, agricultural or other legitimate uses, or to the life and health of animals or plants or of aquatic organisms.<sup>9</sup>***

## **5 Principles of Measurement**

**5.1 *Pollution Control costs shall be the aggregate of direct and indirect cost relating to Pollution Control activity.***

Direct cost includes the cost of materials, consumable stores, spares, manpower, equipment usage, utilities, resources for testing & certification and other identifiable resources consumed in activities such as waste processing, disposal, remediation and others.

Indirect cost includes the cost of resources common to various Pollution Control activities such as Pollution Control Registration and such like expenses.

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<sup>9</sup> Section 2 (e) of The Water (Prevention and Control of Pollution) Act, 1974



**5.2** *Costs of Pollution Control which are internal to the entity should be accounted for when incurred. They should be measured at the historical cost of resources consumed.*

**5.3** *Future remediation or disposal costs which are expected to be incurred with reasonable certainty as part of Onerous Contract or Constructive Obligation, legally enforceable shall be estimated and accounted based on the quantum of pollution generated in each period and the associated cost of remediation or disposal in future.*

For example future disposal costs of solid waste generated during the current period should be estimated on, say, a per tonne basis.

**5.4** *Contingent future remediation or disposal costs e.g. those likely to arise on account of future legislative changes on pollution control shall not be treated as cost until the incidence of such costs become reasonably certain and can be measured.*

External costs of pollution which are generally the costs imposed on external parties including social costs are difficult to estimate with reasonable accuracy and are excluded from general purpose cost statements.

Social costs of pollution are measured by economic models of cost measurement. The cost by way of compensation by the polluting entity either under future legislation or under social pressure cannot be quantified by traditional models of cost measurement. They are best kept out of general purpose cost statements.

**5.5** *Cost of in-house Pollution Control activity shall include cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources used in such activity.*

**5.6** *Cost of Pollution Control 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.*

**5.7** *Cost of Pollution Control 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.*

**5.8** *Cost of Pollution Control 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.*



- 5.9 *Each type of Pollution Control e.g. water, air, soil pollution shall be treated as a distinct activity, if material and identifiable.*
- 5.10 *Finance costs incurred in connection with the Pollution Control activities shall not form part of Pollution Control costs.*
- 5.11 *Pollution Control costs shall not include imputed costs.*
- 5.12 *Price variances related to Pollution Control, where standard costs are in use, shall be treated as part of Pollution Control cost. The portion of usage variances attributable to normal reasons shall be treated as part of Pollution Control cost. Usage variances attributable to abnormal reasons shall be excluded from Pollution Control cost.*
- 5.13 *Subsidy / Grant / Incentive or amount of similar nature received / receivable with respect to Pollution Control activity, if any, shall be reduced for ascertainment of the cost of the cost object to which such amounts are related.*
- 5.14 *Any Pollution Control cost resulting from abnormal circumstances, if material and quantifiable, shall not form part of the Pollution Control cost.*
- 5.15 *Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the Pollution Control cost.*
- 5.16 *Credits / recoveries relating to the Pollution Control activity, material and quantifiable, shall be deducted to arrive at the net Pollution Control cost.*
- 5.17 *Research and development cost to develop new process, new products or use of new materials to avoid or mitigate pollution shall be treated as research and development costs and not included under pollution control costs. Development costs incurred for commercial development of such product, process or material shall be included in pollution control costs.*
- 5.18 *Any change in the cost accounting principles applied for the measurement of the Pollution Control 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 *Pollution Control costs shall be traced to a cost object to the extent economically feasible.*

Direct costs of pollution control such as treatment and disposal of waste shall be assigned directly to the product, where traceable economically.



Where these costs are not directly traceable to the product but are traceable to a process which causes pollution, the costs shall be assigned to the products passing through the process based on the quantity of the pollutant generated by the product.

**6.2 Where the Pollution Control cost is not directly traceable to cost object, it shall be treated as overhead and 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.**

Typical of such costs are costs such as administration costs relating to pollution control activities, costs of certification such as ISO 14000 and registration fees payable to pollution control authorities

**6.3 If the Pollution Control 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 Pollution Control cost, if material, shall be presented in the cost statement as a separate item of cost.**

**7.2 Pollution control costs shall be presented duly classified as follows:**

- a) Direct and Indirect cost**
- b) Internal and External costs**
- c) Current and future costs**
- d) Domain area e.g. water, air and soil.**

**7.3 Activity wise details of Pollution Control cost, if material, shall be presented separately.**

## **8 Disclosures**

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

- 1. The basis of distribution of Pollution Control cost to the cost objects/ cost units.**
- 2. Where standard cost is applied in Pollution Control cost, the price and usage variances.**



- 3. Pollution Control cost of Jobs done in-house and outsourced separately.**
  - 4. Pollution Control cost paid/ payable to related parties<sup>10</sup>.**
  - 5. Pollution Control cost incurred in foreign exchange.**
  - 6. Any Subsidy / Grant / Incentive or any amount of similar nature received / receivable reduced from Pollution Control cost.**
  - 7. Any credits / recoveries relating to the Pollution Control cost.**
  - 8. Any abnormal portion of the Pollution Control cost.**
  - 9. Penalties and damages excluded from the Pollution Control cost.**
- 8.2 Disclosures shall be made only where material, significant and quantifiable.**
  - 8.3 Cost incurred on pollution control relating to prior periods and taken to reconciliation directly shall be disclosed separately.**
  - 8.4 Where estimates are made of future costs to be incurred on pollution control, the basis of estimate shall be disclosed separately.**
  - 8.5 If a descriptive note dealing with the social cost of pollution caused by the entity and the control of such pollution is contained in the same document as the cost statement, the cost Statement shall carry a reference to such descriptive note.**
  - 8.6 Disclosures shall be made in the body of the Cost Statement or as a foot note or as a separate schedule.**
  - 8.7 Any change in the cost accounting principles and methods applied for the measurement and assignment of the Pollution Control cost during the period covered by the cost statement which has a material effect on the Pollution Control cost shall be disclosed. Where the effect of such change is not ascertainable wholly or partly the fact shall be indicated.**

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<sup>10</sup> Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement



## CAS -16

(Limited Revision 2017)

### COST ACCOUNTING STANDARD ON DEPRECIATION AND AMORTISATION

The following is the COST ACCOUNTING STANDARD – 16 (CAS – 16) issued by the Council of The Institute of Cost Accountants of India on “**DEPRECIATION AND AMORTISATION**”. 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

This standard deals with the principles and methods of measurement and assignment of Depreciation and Amortisation 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 Depreciation and Amortisation with reasonable accuracy.***

#### 3. Scope

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

#### 4. Definitions

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

##### 4.1. ***Amortisation: Amortisation is the systematic allocation of the depreciable amount of an intangible asset over its useful life.***

It refers to expensing the acquisition cost minus the residual value of intangible assets such as Franchise, Patents and Trademarks or Copyrights in a systematic manner over their estimated useful economic life so as to reflect their consumption in the production of goods and services.

##### 4.2. ***Asset: An Asset is a resource;***

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

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

An asset is a resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise. In case of some assets which are acquired for safety or environmental reasons, the acquisition of such assets

may not provide future economic benefits directly but may be necessary for an entity to obtain the future economic benefits from other assets. Such items also qualify for recognition as assets.

- 4.3. Cost Object: An activity, contract, cost centre, customer, process, product, project, service or any other object for which costs are ascertained.**
- 4.4. Current asset: An entity shall classify an asset as current when :**
- (a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;**
  - (b) it holds the asset primarily for the purpose of trading;**
  - (c) it expects to realise the asset within twelve months after the reporting period; or**
  - (d) the asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.**
- 4.5. Depreciation: Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.**
- 4.6. Depreciable amount: The cost of an asset, or other amount substituted for cost in the financial statement, less its residual value.**
- 4.7. Depreciable property, plant and equipment are tangible assets that:**
- (a) are held for use in the production of goods or supply of services, for rental to others, for administrative, selling or distribution purposes; and**
  - (b) are expected to be used during more than one accounting period.**
- Land is not a depreciable asset as it does not have a defined useful life.
- 4.8. Impairment Loss: An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.**
- 4.9. Intangible Asset: An intangible asset is an identifiable non-monetary asset without physical substance.**
- 4.10. Residual (salvage) value: The estimated amount that an entity would currently obtain from disposal of an asset, after deducting the estimated costs of disposal, if the assets were already of the age and in the condition expected at the end of its useful life.**

**4.11. Useful life of asset: Useful life of asset is either:**

**(a) the period over which a asset is expected to be available for use by an entity ; or** 68

***(b) the number of production or similar units expected to be obtained from use of the asset by the entity.***

## **5. Principles of Measurement**

### ***5.1. Depreciation and Amortisation shall be measured based on the depreciable amount and the useful life.***

The residual value of an intangible asset shall be assumed to be zero unless:

- (a) there is a commitment by a third party to purchase the asset at the end of its useful life; or
- (b) there is an active market for the asset and:
  1. residual value can be determined by reference to that market; and
  2. it is probable that such a market will exist at the end of the asset's useful life.
  3. The residual value of a property, plant and equipment shall be considered as zero if the entity is unable to estimate the same with reasonable accuracy.

The minimum amount of depreciation to be provided shall not be less than the amount calculated as per principles and methods as prescribed by any law or regulations applicable to the entity and followed by it.

### ***5.2. In case of regulated industry the amount of depreciation shall be the same as prescribed by the concerned regulator.***

### ***5.3. While estimating the useful life of a depreciable asset, consideration shall be given to the following factors:***

- (a) Expected physical wear and tear;***
- (b) Obsolescence; and***
- (c) Legal or other limits on the use of the asset.***

### ***5.4. The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights, but may be shorter depending on the period over which the entity expects to use the asset.***

If the contractual or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost. The useful life of a re-acquired right recognised as an intangible asset in a business combination is the remaining contractual period of the contract in which the right was granted and shall not include renewal periods.

The useful life of an intangible asset, in any situation, shall not exceed 10 years from the date it is available for use.

**5.5. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.**

An asset which is used only when the need arises but is always held ready for use.

Example: fire extinguisher, stand by generator, safety equipment shall be considered to be an asset available for use.

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) or the date that the asset is de-recognized.

**5.6. Depreciation of any addition or extension to an existing depreciable asset which becomes an integral part of that asset shall be based on the remaining useful life of that asset.**

**5.7. Depreciation of any addition or extension to an existing depreciable asset which retains a separate identity and is capable of being used after the expiry of the useful life of that asset shall be based on the estimated useful life of that addition or extension.**

**5.8. The impact of higher depreciation due to revaluation of assets shall not be assigned to cost object.**

**5.9. Impairment loss on assets shall be excluded from cost of production.**

**5.10. The method of depreciation used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.**

**5.11. An entity can use any of the methods of depreciation to assign depreciable amount of an asset on a systematic basis over its useful life.**

For example:

- a) Straight-line method;
- b) Diminishing balance method; and
- c) Units of production method.

**5.12. The method of amortisation of intangible asset shall reflect the pattern in which the economic benefits are expected to be consumed by the entity.**

**5.13. The methods and rates of depreciation applied shall be reviewed at least annually and, if there has been a change in the expected pattern of consumption or loss of future economic benefits, the method applied shall be changed to reflect the changed pattern.**

- 5.14. *Items such as spare parts, stand-by equipment and servicing equipment are recognised as property, Plant and Equipment when they meet the definition of Property, Plant and Equipment and depreciated accordingly. Otherwise, such items are classified as inventory and recognised in cost as and when they are consumed.*
- 5.15. *Cost of small assets shall be written off in the period in which they were purchased as per the accounting policy of the entity.*
- 5.16. *Depreciation of an asset shall not be considered in case cumulative depreciation exceeds the original cost of the asset, net of residual value.*
- 5.17. *Where depreciation for an addition of an asset is measured on the basis of the number of days for which the asset was used for the preparation and presentation of financial statements, depreciation of the asset for assigning to cost of object shall be measured in relation to the period, the asset actually utilized.*

## 6. Assignment of Costs

- 6.1. *Depreciation shall be traced to the cost object to the extent economically feasible.*
- 6.2. *Where the depreciation 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 a process or operation or activity and effect is the incurrence of cost.*
  - ii. *Benefits received– depreciation is to be apportioned to the various cost objects in proportion to the benefits received by them.*
- 6.3. *Depreciation on an asset which if remains idle or temporarily retired from production of goods and services or remains idle shall be considered as abnormal cost for the period when the asset is not in use.*
- 6.4. *The depreciation charged for a period is usually recognised in cost of goods or services.*
- 6.5. *Similarly, wherever the property plant and equipment are used for producing another asset, the related depreciation shall form part of cost of such asset.*

## 7. Presentation

*Depreciation and Amortisation, if material, shall be presented in the cost statement as a separate item of cost.*

## 8. Disclosures

*8.1. The cost statement shall disclose the following:-*

- 1. The basis of distribution of Depreciation and Amortisation to the cost objects.**
- 2. Any credits / recoveries relating to Depreciation and Amortisation.**
- 3. Additional Depreciation on account of revaluation of asset, which is not included in cost.**
- 4. Amount of depreciation that is not included in cost because of temporary retirement of assets from production of goods and services.**

**8.2. Disclosure 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 in a separate schedule.**

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



**CAS-17**  
**(Limited Revision 2017)**

**COST ACCOUNTING STANDARD ON INTEREST AND FINANCING CHARGES**

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

**1 Introduction**

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

**2 Objective**

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

**3 Scope**

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

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

**4 Definitions**

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

**4.1. Asset:** *An Asset is a resource;*

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

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

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

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

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

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

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

*(d) the asset is cash or a cash equivalent unless the asset is restricted from being*

*exchanged or used to settle a liability for at least twelve months after the reporting period.*

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

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

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

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

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

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

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

**4.7. Interest and Finance charges: Interest and Financing Charges are interest and other costs incurred by an entity in connection with the financing arrangements.**

**Examples are:**

1. Interest and commitment charges on bank borrowings, other short term and long term borrowings:
2. Financing Charges in respect of finance leases and other similar arrangements: and
3. Exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest costs.

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

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

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

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

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

## **5 Principles of Measurement:**

- 5.1. Interest and Financing Charges shall be measured in accordance with the Accounting Standards notified by the Central Government under the Companies (Accounting Standards) Rules 2006 or with the Indian Accounting Standards notified under the Companies (Indian Accounting Standards) Rules 2015, as applicable.**
- 5.2. Interest and Financing Charges incurred shall be identified for:**
  - (a) acquisition / construction/ production of qualifying assets ; and**
  - (b) Other finance costs for production of goods/ operations or services rendered which cannot be classified as qualifying assets.**
- 5.3. Interest and Financing Charges directly attributable to the acquisition / construction/ production of a qualifying asset shall be included in the cost of the asset.**
- 5.4. Interest and Financing Charges shall not include imputed costs.**
- 5.5. Subsidy / Grant / Incentive or amount of similar nature received / receivable with respect to Interest and Financing Charges if any, shall be reduced to ascertain the net interest and financing charges.**
- 5.6. Penal Interest for delayed payment, Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the Interest and Financing Charges.**

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

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

## **6 Assignment of costs**

- 6.1. Assignment of Interest and Financing Charges to the cost objects shall be based on either of the following principles:**
  - (a) Cause and effect- cause is the process or operation or activity and effect is the incurrance of cost.**
  - (b) Benefits received- Interest and Financing Charges are to be apportioned to the various cost objects in proportion to the benefits received by them.**

## **7 Presentation**

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

## **8 Disclosures**

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

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

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

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

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

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



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## CAS-20

(Limited Revision 2017)

### **COST ACCOUNTING STANDARD ON ROYALTY AND TECHNICAL KNOW-HOW FEE**

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

#### **1. Introduction**

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

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

#### **2. Objective**

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

#### **3. Scope**

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

#### **4. Definitions**

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

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

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

4.3 ***Interest and Finance charges: Interest and Financing Charges are interest and other costs incurred by an entity in connection with the financing arrangements.***

***Examples are:***

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<sup>1</sup> Adapted from CIMA Terminology

1. Interest and commitment charges on bank borrowings, other short term and long term borrowings:
2. Financing Charges in respect of finance leases and other similar arrangements: and
3. Exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest costs.

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

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

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

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

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

**5. Principles of Measurement:**

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

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

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

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

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

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

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<sup>1</sup> Adapted from CIMA Terminology



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

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

## **6. Assignment of costs**

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

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

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

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

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

## **7. Presentation**

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

## **8. Disclosures**

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

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

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



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



## CAS-21

(Limited Revision 2017)

### COST ACCOUNTING STANDARD ON QUALITY CONTROL

The following is the Cost Accounting Standard (CAS -21 ) issued by the Council of The Institute of Cost Accountants of India for determination of “**QUALITY CONTROL** “. In this standard, the standard portions have been set in **bold italic** type. These are to be read in context of the background material which has been set in normal type.

#### 1. Introduction

*The standard deals with the principles and methods of measurement and assignment of Quality Control cost and the presentation and disclosure in cost statement.*

#### 2. Objective

*The objective of this standard is to bring uniformity, consistency in the principles, methods of determining and assigning Quality Control cost with reasonable accuracy.*

#### 3. Scope

*The standards shall be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of Quality Control 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.<sup>1</sup>*

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

**4.3 Defectives:** *Materials, products or intermediate products that do not meet quality standards. This may include reworks or rejects.*

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

Rework includes repairs, reconditioning and refurbishing.

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<sup>1</sup> Adapted from CAS 1 para 6.5.19



**4.3.2 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.

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

**4.5 Interest and Finance charges: Interest and Financing Charges are interest and other costs incurred by an entity in connection with the financing arrangements.**

**Examples are:**

1. Interest and commitment charges on bank borrowings, other short term and long term borrowings:
2. Financing Charges in respect of finance leases and other similar arrangements: and
3. Exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest costs.

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

**4.6 Overheads: Overheads comprise costs of indirect materials, indirect employees and indirect expenses.**

**4.7 Quality: Quality is the conformance to requirements or specifications.**

*The quality of a product or service is fitness of that product or service for meeting its intended use as required by customer.*

**4.8 Quality control: A procedure or a set of procedures exclusively designed to ensure that the manufactured products or performed service adhere to a defined set of quality criterion or meets requirement of the client or the customer.**

**4.9 Quality Control cost: Cost of resources consumed towards quality control procedures**

**4.10 Scrap: Discarded material having no or insignificant value and which is usually either disposed off without further treatment (other than reclamation and handling) or reintroduced into the process in place of raw material.**

**4.11 Waste and spoilage:**

**4.11.1 Waste: Material lost during production or storage and discarded material which may or may not have any value.**

**4.11.2 Spoilage: Production that does not meet the quality requirements or specifications and cannot be rectified economically.**

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<sup>2</sup> Adapted from CIMA Terminology

**5. Principles of Measurement:**

**5.1** *Quality Control cost incurred in-house shall be the aggregate of the cost of resources consumed in the Quality Control activities of the entity. The cost of resources 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 discounts), taxes and duties refundable or to be credited by the Tax Authorities.*

*Such cost shall include:*

- *Cost of conformance to quality: (a) prevention cost; and (b) appraisal cost.*

**5.2** *Identification of Quality Control costs shall be based on traceability in an economically feasible manner.*

**5.3** *Quality Control costs other than those referred to in paragraph 5.2 shall be determined on the basis of amount incurred in connection therewith.*

**5.4** *Finance costs incurred in connection with the self generated or procured resources shall not form part of Quality Control cost.*

**5.5** *Quality Control costs shall not include imputed costs.*

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

**5.7** *Any abnormal portion of the Quality Control cost where it is material and quantifiable shall not form part of the Cost of Quality Control.*

**5.8** *Penalties, damages paid to statutory authorities or other third parties shall not form part of the Quality Control cost.*

**5.9** *Any change in the cost accounting principles applied for the measurement of the Quality Control cost 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 organisation.*

**6. Assignment of costs**

**6.1** *Quality Control cost that is directly traceable to the cost object shall be assigned to that cost object.*

**6.2** *Assignment of Quality Control cost to the cost objects shall be based on benefits received by them.*



- i) Benefits received – Quality Control cost is to be apportioned to the various cost objects in proportion to the benefits received by them.**

*For example : On the basis of number of tests performed for a product.*

**7. Presentation**

- 7.1 Quality Control cost, if material, shall be presented as a separate cost head with suitable classification.**

**8. Disclosures**

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

**8.1.1 The basis of distribution of Quality Control cost to the cost objects/ cost units.**

**8.1.2 Quantity and Cost of resources used for Quality Control cost as applicable.**

**8.1.3 Quality Control cost paid/ payable to related parties<sup>3</sup>.**

**8.1.4 Quality Control cost incurred in foreign exchange.**

**8.1.5. Any abnormal portion of the Quality Control cost.**

**8.1.6 Penalties and damages excluded from the Quality Control 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 Quality Control cost during the period covered by the cost statement which has a material effect on the Quality Control cost shall be disclosed. Where the effect of such change is not ascertainable wholly or partly the fact shall be indicated.**

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<sup>3</sup> Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement



## CAS – 22

(Limited Revision 2017)

### COST ACCOUNTING STANDARD ON MANUFACTURING COST

The following is the COST ACCOUNTING STANDARD – 22 (CAS - 22) issued by the Council of The Institute of Cost Accountants of India for determination of “**MANUFACTURING 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 **Manufacturing Cost of excisable goods**.

1.2 ***This standard deals with the principles and methods of classification, measurement and assignment for determination of the Manufacturing Cost of excisable goods 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 Manufacturing Cost of excisable goods.***

#### 3. Scope

***This standard should be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of Manufacturing Cost of excisable goods.***

#### 4. Definitions

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

4.1 ***Abnormal and non-recurring 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.***

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

Administrative overheads need to be analysed in relation to production/manufacturing activities and other activities. Administrative overheads in relation to production/manufacturing activities shall be included in the manufacturing cost.

Administrative overheads in relation to marketing, projects management, corporate office or any other expense not related to the manufacturing activity shall be excluded from manufacturing cost.



**4.3 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), as defined in section 4(3) of the Central Excise Act, 1944.**

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

An intermediate product is a product that might require further processing before it is saleable to the ultimate consumer.

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

Rework includes repairs, reconditioning, retro-fitment 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 Depreciation: Depreciation is a measure of the wearing out, consumption or other loss of value of a depreciable asset arising from use, efflux of time or obsolescence through technology and market changes. Depreciation does not include impairment loss.**

*Depreciation is allocated so as to charge a fair proportion of the depreciable amount in each accounting period during the estimated useful life of the asset.*

*Depreciable amount of a depreciable asset is its historical cost, or other amount substituted for historical cost in the financial statements, less the estimated residual value.*

*Useful life of asset is either*

*(i) the period over which a depreciable asset is expected to be used by the enterprise; or*

*(ii) the number of production or similar units expected to be obtained from the use of the asset by the entity.*

Depreciation that is charged in audited financial statement should be considered.

**4.6 Direct Expenses: Expenses relating to manufacture of an excisable good, which can be identified to such excisable good other than direct material cost and direct employee cost.**

**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 amount paid or payable on behalf of employee. This is also known as Labour Cost.*

**4.7.1 Direct Employee Cost:** *The cost of employees which can be attributed to an excisable good in an economically feasible way.*

**4.7.2 Indirect Employee Cost:** *The cost of employees which cannot be directly attributed to a particular excisable good.*

**4.8 Interest and Finance charges:** *Interest and Financing Charges are interest and other costs incurred by an entity in connection with the financing arrangements.*

**Examples are:**

1. Interest and commitment charges on bank borrowings, other short term and long term borrowings:
2. Financing Charges in respect of finance leases and other similar arrangements: and
3. Exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest costs.

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

**4.9 Manufacturing Cost:** *Manufacturing cost of an excisable good is the aggregate of costs of all resources used in the process of its manufacturing.*

Manufacturing cost includes cost of Materials (including process materials), Employee Cost, Cost of Utilities, Packing Cost, Direct Expenses, Repairs & Maintenance Cost, Pollution Control Cost, Quality Control Cost, Research & Development Cost, Cost of Inputs received free of cost or received at concessional value from the buyer of the excisable good, Depreciation and Amortisation (including amortisation cost of free tools, patterns, dies, drawings, blue prints, technical maps, charts, engineering, development, art work, design work, plans, sketches, packaging material and the like necessary for production of excisable goods), Cost of Rework, reconditioning, retrofitment, Manufacturing Overheads, other costs allocable to such activity, adjustment for stock of work-in-process and recoveries for sales of scrap and wastages and the like but does not include expenses of the above nature incurred for post manufacturing purposes.

Manufacturing Cost and Cost of Production are used interchangeably.

**4.10 Manufacturing Overheads:** *Indirect costs involved in the manufacturing process*

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



Manufacturing Overheads shall be classified on the basis of behaviour as Variable Manufacturing Overheads and Fixed Manufacturing Overheads.

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

Fixed Manufacturing overheads comprise of expenses which does not change with the change in volume of production. For example, salaries, rent, repairs & maintenance, etc.



**4.11 Material Consumed: Material Consumed includes materials directly identified for production of excisable goods such as:**

- (a) Indigenous materials**
- (b) Imported materials**
- (c) Bought out items**
- (d) Self-manufactured items**
- (e) Process materials and other items**
- (f) Materials received free of cost or at concessional value from the buyer**
- (g) Accessories, on which cenvat credit is admissible, and which are cleared along with the final product**
- (h) goods used for providing free warranty for excisable goods**

**Cost of material consumed consists of cost of material, duties and taxes, freight inwards, insurance and other expenditure directly attributable to procurement. Trade discount, rebates and other similar items are 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 entity are also deducted.**

**4.12 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.**

Capacity may be determined in terms of units of production or equivalent machine or man hours.

**4.13 Packing Material Cost: The cost of material of any nature used for the purpose of packing of excisable good.**

**4.14 Quality Control Cost: The quality control cost is the expenses incurred relating to quality control activities for adhering to quality standard. These expenses include salaries & wages relating to employees engaged in quality control activity and other related expenses.**

**4.15 Repairs & 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.**

**4.16 Research and Development Cost: The research and development cost incurred for development and improvement of the process or the excisable good.**

**4.17 Royalty: Royalty is compensation/periodic payments for the use of asset (tangible**



*and/or intangible) to the owner for use of his asset in the production/manufacture, selling and distribution by an entity.*

**4.18** *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.*

**4.19** *Technical Know-how Fee: Technical Know-how Fee is a lump sum or periodical amount payable to provider of Technical Know-how in the form of design, drawings, training of personnel, or practical knowledge, skills or experience.*

**4.20** *Waste and Spoilage:*

**4.20.1** *Waste: Material lost 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 any value.*

**4.20.2** *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** *Manufacturing cost for each excisable good shall be measured separately.*

**5.2** *Manufacturing cost of each excisable good shall be the aggregate of direct and indirect cost relating to manufacturing activity.*

**5.3** *Material cost shall be measured separately for each type of material, that is, for indigenous material, imported material, bought out components and process materials, self-manufactured items, accessories for each type of excisable good.*

Cost of Inputs received free of cost or at concessional value from the buyer of the excisable good shall be considered for determination of manufacturing cost.

**5.4** *The material cost of normal scrap/defectives which are rejects shall be included in the material cost of excisable goods manufactured. The material cost of actual scrap/ defectives, not exceeding the normal quantity shall be adjusted in the material cost of good production. Realized or realizable value of scrap or waste shall be deducted for determination of manufacturing cost. Material Cost of abnormal scrap /defectives should not be included in material cost but treated as loss after deducting the realisable value of such scrap / defectives.*

**5.5** *Employee Cost for each excisable good shall be measured separately.*

**5.6.** *The cost of utilities consumed for manufacturing of excisable good shall be measured for each type of utility.*



**5.7 Packing material cost used for each type of excisable good shall be measured separately.**

If excisable goods are transferred/dispatched duly packed, the cost of such packing shall include cost of all types of packing in which the excisable goods are removed from the place of removal.

**5.8 The Direct Expenses for manufacturing of excisable goods shall be measured for each excisable good separately.**

**5.9 Repairs and maintenance cost for manufacturing of excisable goods shall be measured for each excisable good separately.**

**5.10 Depreciation and Amortisation cost for manufacturing of excisable goods shall be measured for each excisable good separately.**

**5.11 Research & Development cost for manufacturing of excisable goods shall be measured for each excisable good separately.**

**5.12 Cost incurred for manufacturing of excisable goods after split-off point shall be measured for each Joint/By-Product.**

In case the manufacturing process generates scrap or waste, realized or realizable value net of cost of disposal, of such scrap and waste shall be deducted from the cost of Joint Product.

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

Royalty paid on sales shall not form part of manufacturing cost of excisable good.

**5.14 Quality Control cost incurred in-house for manufacturing of excisable goods shall be the aggregate of the cost of resources used in the Quality Control activities in relation to each excisable good. The cost of resources procured from outside shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts, taxes and duties refundable or to be credited as input credit.**

**5.15 Manufacturing Overheads for excisable goods representing procurement of resources shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts; taxes and duties refundable or to be credited as input credit.**

Manufacturing Overheads other than those referred to above shall be determined on the basis of cost incurred in connection therewith.



- 5.16** *Any abnormal cost, where it is material and quantifiable, shall not form part of the manufacturing cost of excisable good.*
- 5.17** *Interest and other Finance costs are not part of manufacturing cost of excisable good.*
- 5.18** *Manufacturing cost of excisable good shall include cost of inputs received free of cost or at concessional value from the buyer of excisable good and amortisation cost of free tools, pattern, dies, drawings, blue prints, technical maps, charts, engineering, development, art work, design work, plans, sketches, and the like necessary for production of excisable good. It shall also include cost of rework, reconditioning, retro-fitment, Manufacturing Overheads and other costs allocable to such activity, adjustment for stock of work-in-process and recoveries from sales of scrap and wastages and the like necessary for production of excisable good.*
- In case any input material, whether of direct or indirect nature, including packing material, is supplied free of cost or at concessional value by the buyer of the excisable good, the cost of such material shall be included in the manufacturing cost.
- For example: Amortisation Cost of Moulds, Tools, Dies & Patterns and Cost of Packing Material etc. received free of cost or at concessional value from the buyer of excisable good shall be included in manufacturing cost.
- 5.19** *Any Subsidy/Grant/Incentive or any such payment received/receivable, from other entity, other than the buyer with respect to any manufacturing cost of excisable good shall be deducted for ascertainment of the manufacturing cost of excisable good to which such amounts are related.*
- 5.20** *The manufacturing cost of excisable good 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 cost.*
- 5.21** *Fines, penalties, damages, demurrage and similar levies paid to statutory authorities or other third parties shall not form part of the manufacturing cost of excisable good.*
- 5.22** *The forex component of imported material or other element of 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 manufacturing cost of excisable good.*
- 5.23** *Credits/recoveries relating to the manufacturing cost, which are material and quantifiable, shall be deducted from the total manufacturing cost to arrive at the net manufacturing cost of excisable good.*



**5.24 Work in process/progress stock shall be measured at cost computed for different stages of completion.**

Stock of work-in-process/progress shall be valued at cost on the basis of stages of completion as per cost accounting principles. Opening and closing stock of work-in-process/progress shall be adjusted for computation of manufacturing cost of an excisable good.

**6. Assignment of Cost**

**6.1 While assigning various elements of manufacturing cost of excisable goods, traceability to an excisable good in an economically feasible manner shall be the guiding principle. The cost which can be traced directly to each excisable good shall be directly assigned.**

**6.2 Assignment of manufacturing cost of excisable goods, which are not directly traceable to the excisable good shall be based on either of the following two principles;**

**6.2.1 Cause and Effect – Cause is the process or operation or activity and effect is the incurrence of cost.**

**6.2.2 Benefits received – to be apportioned to various cost objects in proportion to the benefits received by them.**

**6.3 The variable manufacturing/production overheads shall be absorbed based on actual production.**

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

**6.5 In case a production process results in more than one product being produced simultaneously, treatment of joint products and by-products shall be as under:**

**6.5.1 In case joint products are produced, joint costs are allocated between the products on a rational and consistent basis.**

**6.5.2 In case by-products are produced, the net realisable value of by-products is credited to the manufacturing cost of the main product.**

**6.6 Miscellaneous Income relating to production/manufacture shall be adjusted in the determination of manufacturing cost.**

For example, income from sale of empty containers used for procurement of raw material shall be deducted in determination of manufacturing cost.



**7 Presentation**

**7.1** *Cost statement as per Appendix 1 to this standard or as near thereto shall present following information:*

**7.1.1** *Actual capacity utilization in absolute terms and as a percentage of normal capacity.*

**7.1.2** *Cost information relating to various elements of Cost shall be presented separately.*

**8. Disclosures**

**8.1** *Disclosure shall be made only where material, significant and quantifiable.*

**8.2** *If there is any change in cost accounting principles and practices during the period under review which may materially affect the manufacturing cost of excisable good in terms of comparability with previous period(s), the same shall be disclosed.*

**9. Effective date**

This Cost Accounting Standard shall be effective from the period commencing on or after 1st April 2015 for being applied for the preparation and certification of Cost Accounting Statements for excisable goods.



**Appendix 1**

**Cost Statement showing Manufacturing Cost of (Name of excisable good) for the period:**

	Name of the Manufacturer	
	Address of the Manufacturer	
	Excise Registration Number	
	Name of the unit	
	Address of the unit	
	Central Excise Tariff Heading	
<b>A</b>	<b>Quantitative Information</b>	Unit      Quantity
1	Normal/Installed Capacity	
2	Production	
3	Captive Consumption	
4	Production as %age of Normal/Installed Capacity	

<b>B</b>	<b>Cost Information</b>	<b>Unit</b>	<b>Quantity</b>	<b>Rate</b>	<b>Amount</b>	<b>Cost per Unit</b>
	Materials (specify)					
1	A.					
	B.					
	C.					
	D.....					
	<b>Total Materials Consumed</b>					
2	Process Materials					
3	Utilities					
4	Direct Employee Cost					
5	Direct Expenses					
6	Consumable Stores and Spares					
7	Repairs and Maintenance Cost					
8	Quality Control Cost					
9	Research & Development Cost					
10	Technical Know-how Fee/Royalty, if any					
11	Depreciation/Amortization					
12	Other Manufacturing Overheads					



**Manufacturing Cost**

<b>B</b>	<b>Cost Information</b>	<b>Unit</b>	<b>Quantity</b>	<b>Rate</b>	<b>Amount</b>	<b>Cost per Unit</b>
13	Total (1 to 12)					
14	Add/Less Work-in-Progress Adjustments					
15	Less Credit for Recoveries, if any					
16	Packing Cost					
17	Cost of Inputs Received Free or at concessional value from the buyer of the excisable good					
18	Manufacturing Cost (13 to 17)					

Date: \_\_\_\_\_ Seal & Signature of the 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 and Cost Accounting Standards followed by the entity, I/we certify that the above cost data reflects true and fair view of the manufacturing cost of the above excisable good.

Date: \_\_\_\_\_ Seal & Signature of Cost Accountant

Place: \_\_\_\_\_ Membership No.: \_\_\_\_\_ Firm Regn. No.: \_\_\_\_\_

**Note: Separate Cost Statement(s) shall be prepared for each excisable good**



## CAS-23

(Limited Revision 2017)

### COST ACCOUNTING STANDARD ON OVERBURDEN REMOVAL COST

The following is the Cost Accounting Standard (CAS-23) on “**OVERBURDEN REMOVAL COST**” issued by the Council of the Institute of Cost Accountants of India. In this standard, the standard portions have been set in ***bold Italic*** type. These are to be read in context of the background material which has been set in normal type.

#### 1. Introduction

The standard deals with the principles and methods of measurement and assignment of Overburden Removal Cost and the presentation and disclosure in cost statements.

#### 2. Objective

***The objective of this standard is to bring uniformity, consistency in the principles, methods of determining and assigning Overburden Removal Cost with reasonable accuracy.***

#### 3. Scope

***The standard shall be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of Overburden Removal Cost including those requiring attestation.***

#### 4. Definitions

The following terms are being used in this standard with the meaning specified. Any term not defined in this Standard shall have the same meaning and expression as set out in the Glossary of Terms issued by the Council.

***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 operations.***

***4.2 Administrative overheads: Cost of all activities relating to general management and administration of an entity.***

***4.3 Amortization: Amortization is the systematic allocation of the depreciable amount of an intangible asset over its useful life.***

***4.4 Cost Object: An activity, contract, cost centre, customer, process, product, project, service or any other object for which costs are ascertained.<sup>1</sup>***

Activity includes mining operations also.

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<sup>1</sup> Adapted from CIMA Terminology



**4.5 Current Ratio: the ratio of overburden removed to mineral produced in a particular patch of mine during the year.**

Quantity of mineral includes production and mineable mineral lying exposed.

Quantity of overburden removed is the net quantity after adjustment of opening and closing advance stripping quantities.

**4.6 Depreciation: Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.**

**4.7 imputed Costs: Notional cost, not involving cash outlay, computed for any purpose.**

**4.8 Interest and Finance charges: Interest and Financing Charges are interest and other costs incurred by an entity in connection with the financing arrangements.**

**Examples are:**

1. Interest and commitment charges on bank borrowings, other short term and long term borrowings:
2. Financing Charges in respect of finance leases and other similar arrangements: and
3. Exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest costs.

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

**4.9 Mines overheads: indirect costs involved in the mining process for rendering services.**

This relates to the activities of both Mineral extraction and Overburden Removal.

**4.10 Mining Plan: It is the plan expected to provide information required to measure the stripping activity with reasonable consistency.**

**4.11 Overheads: Overheads comprise costs of indirect materials, indirect employees and indirect expenses.**

**4.12 Overburden: It is the overlying materials generally having no commercial value.**

**4.13 Overburden Removal cost: is the cost incurred to remove the overlying material from the mine site.**

**4.14 Ratio Variance: It is the variance between current ratio and standard /average stripping ratio in terms of quantity of mineral produced during the period.**

**4.15 Repair 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.**

**4.16 Stripping Activity: It is the activity of overburden removal that benefits the**



*identified component of an ore to be mined by the entity.*

**4.17 Stripping Ratio: Stripping ratio is ratio of excavation of overburden to ore.**

Generally overburden is measured in cubic metres and ore in tonnes. Therefore, the Stripping ratio is equal to Volume of overburden (m<sup>3</sup>)/ Weight of ore (in tonnes).

**4.18 Standard stripping ratio: this is the ratio between the total quantity of overburden to be removed (in cubic meters) and the total mineral to be extracted (in tonnes) during the Projected life of the project.**

The term Standard stripping ratio and Average stripping ratio denote the same meaning and are used interchangeably.

*The Ratio shall be reviewed periodically, at least every five years, to take into account changes in geological factors such as actual behavior of the soil and the Ore body. The ratio shall be reviewed immediately if the geological factors alter radically, for example due to earthquake.*

The reported quantity of Overburden is considered in cost statement where the variance between the reported quantity and the measured quantity is within the permissible limits. Reported quantity is the quantity of overburden that is necessary corresponding to actual quantity of mineral raised.

For example, 3:1 stripping ratio means that mining one Ton of ore will require mining three cubic meters of waste rock (overburden).

**4.19 Advance Stripping: Advance Stripping is the excess overburden removed in between the overburden bench and assumed angle of repose drawn from the starting of Mineral bench from the surface of Mineral than what is needed for extraction of Mineral.**

**5. Principles of Measurement**

**5.1. Overburden Removal Cost shall be the aggregate of direct and indirect cost relating to overburden removal activity.**

**5.2. Direct cost includes the cost of consumable stores, spares like machinery spares, explosives and detonators, manpower, equipment usage, utilities, payment made directly to contractors and other identifiable resources consumed in such activity.**

**5.3. Indirect cost includes the cost of resources common to various mining operation including overburden removal activity such as manpower, administrative overheads, loading and unloading equipment usage and other costs allocable to such activities.**

**5.4. The overburden removal cost attributable to a development phase of a mine area shall be capitalised as non-current asset when it is probable that future economic benefits to the area will flow to the entity and such cost can be identified and measured separately.**

**5.5. The overburden removal cost attributable to developed area of mine shall be charged to production of ore at the Standard stripping ratio.**

The cost of advance stripping activity whose economic benefit is likely to flow to the would result in a more appropriate preparation or presentation of cost statements of an enterprise.

If the removal of ore is more than the Standard stripping ratio, then the cost of short removal overburden shall be charged to the cost of production either by creating the reserve or by adjusting the earlier capitalized overburden removal cost.

**5.6. *Overburden shall be measured by multiplying the number of trips undertaken by equipment for Overburden removal or by any electronic mode. Measurement at regular intervals may be carried out by volume/ physical verification to arrive at fair quantity of overburden removed. Final assessment will be made based on scientific methodology.***

**5.7. *Current ratio is determined by dividing the actual overburden removed (net quantity after due adjustment for opening & closing advance stripping quantity) with the actual production of mineral including adjustment for mineable quantity of mineral lying exposed during the period.***

**5.8. *Cost of overburden removal activity carried out by outsourcing shall be determined at agreed price as per contract price including duties and taxes and other expenditure directly attributable thereto. The cost shall also include the cost of resources provided to the contractor by the company.***

**5.9. *Cost of overburden removal activity of each mine shall be computed and considered separately.***

**5.10. *Subsidy/ grant/ incentive or amount of similar nature received/ receivable with respect to overburden removal activity if any shall be reduced for ascertainment of the cost of the overburden removal for a patch/ plot to which the amounts are related.***

**5.11. *Any overburden removal cost resulting from some abnormal circumstances if material and quantifiable shall not form part of the overburden removal cost.***

*Examples are fire, cave-in, flooding and other similar events of abnormal circumstances.*

**5.12. *Fine, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the overburden removal cost.***

**5.13. *Interest & Finance charges incurred in connection with the overburden removal shall not form part of the overburden removal cost.***

**5.14. *Any change in the cost accounting principles applied for the determination of the overburden removal 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 *Direct cost of overburden removal shall be assigned to the overburden removal activity.***



- 6.2** *The cost for equipment shall be assigned in the ratio of machine hours actually engaged for mineral and overburden removal or any other appropriate method that apportions the cost in an equitable manner.*
- 6.3** *Administrative overheads and other indirect expenses shall be apportioned to mineral and overburden on the basis of ratio of actual mineral produced and overburden removed during the period or on the basis of actual machine hours engaged for mineral extraction, and overburden removal or any other appropriate basis.*
- 7. Presentation**
- 7.1.** *Overburden removal, absorption and cost details shall be presented separately for each mine.*
- 8. Disclosures**
- 8.1** *The cost statements shall disclose the following:*
- i) The basis of determining the overburden removal cost.*
  - ii) Where cost of removal is considered on the basis of standard ratio, any variation positive or negative from the current ratio.*
  - iii) Any subsidy grant/ incentive and any such payment reduced from the cost of overburden removal.*
  - iv) Credit/ recoveries relating to overburden removal.*
  - v) Any abnormal cost excluded from overburden removal cost.*
  - vi) Penalties and damages excluded from the overburden removal 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 overburden removal cost during the period*



***covered by the cost statement which has a material effect on the overburden removal cost shall be disclosed. Where the effect of such change is not ascertainable wholly or partly the fact shall be indicated.***

**9. Effective date:**

This Cost Accounting Standard shall be effective from the period commencing on or after 1st April, 2017 for being applied for the preparation and certification of the General Purpose Cost Statements.



## CAS - 24

(Limited Revision 2017)

### COST ACCOUNTING STANDARD ON TREATMENT OF REVENUE IN COST STATEMENTS

The following is the COST ACCOUNTING STANDARD on “**TREATMENT OF REVENUE IN COST STATEMENTS**”(CAS-24) issued by the Council of the Institute of Cost Accountants of India. In this Standard, the standard portions have been set in **bold italic** type. These are to be read in the context of the background material which has been set in normal type.

#### 1. Introduction

*This standard deals with the principles and methods of classification, measurement, treatment and assignment of revenue and its presentation and disclosure in cost statements.*

#### 2. Objective

*The objective of this standard is to bring uniformity and consistency in the principles and methods for treatment of revenue in cost statements with reasonable accuracy.*

#### 3. Scope

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

#### 4. Definitions

The following terms are being used in this standard with the meaning specified. Any term not defined in this Standard shall have the same meaning and expression as set out in the Glossary of Terms issued by the Council.

- 4.1 *By-product: Product with relatively low value produced incidentally in the manufacturing of the product or service.*
- 4.2 *Defectives: Materials, products or intermediate products that do not meet quality standards. This may include reworks or rejects.*
- 4.3 *Intermediate product: An intermediate product is a product that requires further processing before it is saleable.*
- 4.4 *Joint product: Products or services that are produced simultaneously, by the same process, identifiable at the end of the process and recognised as main products or services having sufficient value.*



**4.5 Net Sales Realization: is the revenue from operations net of discounts and indirect taxes.**

**4.6 Other Income: is the income that cannot be classified as revenue from operations.**

Examples:

- Profit on sale of property, plant and equipment and investments;
- Interest from investments or deposits outside the business;
- Insurance claims received, not adjusted against an item of cost;
- Penalties or liquidated damages received, not adjusted against an item of cost;
- Fees received, not adjusted against an item of cost;
- Rent or lease from properties leased (unless the primary activity itself is leasing);
- Grants received;
- Royalties received(unless it is a part of major activity of the entity);
- Credits for previous years' adjustments;
- Dividend income on investments(other than in a financial enterprise );
- Gain on foreign currency transaction and translation (other than considered as finance cost);
- Excess provisions written back;
- Credits on account of revaluation of capital assets;
- All items of abnormal revenue such as recoveries from book debts written off in the previous period; and
- Prior period income.

**4.7 Reporting Period: is the period for which the cost statements are prepared.**

**4.8 Revenue: The term Revenue will have the same meaning as assigned in the Accounting Standards notified by the Central Government under the Companies (Accounting Standards) Rules 2006 or in the Indian Accounting Standards notified under the Companies (Indian Accounting Standards) Rules 2015, as applicable.**

The terms Revenue and Sales Realisation denote the same meaning and are used interchangeably.

**4.9 Revenue from operations: is the income arising in the course of the ordinary activities of an entity from the sale of goods or rendering of services.**



Revenue from operations represents income arising from the sale of goods or rendering of services and includes other operating revenue, such as sale of scrap, government subsidies, or incentives received. Revenue from operations is generally recognised at the net value excluding indirect taxes. Sometime, revenue is presented at the gross value including excise duty and the excise duty is presented as deduction from such gross value of the revenue.

Other Operating Revenue is the incidental income arising in the course of ordinary activities of an entity but not arising from the sale of main goods or services, and it does not include Other Income.

Examples:

- Sale of By-products;
- Sale of manufacturing scrap;
- Export incentives received from Government; and
- Product related subsidies or grants received from Government.

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

**4.11 *Scrap: Discarded material having no or insignificant value and which is usually either disposed off without further treatment (other than reclamation and handling) or reintroduced into the process in place of raw material.***

**4.12 *Spoilage: Production that does not meet the quality requirements or specifications and cannot be rectified economically.***

**4.13 *Waste: Material lost during production or storage and discarded material which may or may not have any value.***

Example of waste is hard waste and soft waste in textile industry.

## **5. *Principles of Measurement***

**5.1 *Revenue from sale of goods or services provided during a reporting period shall be measured based on the net sales realization.***

**5.2 *Revenue from sale of joint products shall be measured separately for each main product or service sold.***

**5.3 *Revenue from sale of goods or services shall be measured separately for each unit or location of an entity for each type of goods sold or service provided. It shall be sub-classified into revenue from exports, domestic sales, manufactured goods, operations, and trading activities.***



- 5.4** Revenue from sale of goods or services shall be measured separately for sale of each type of by-products, defectives, second grade products, rejects, scrap, spoilage, or wastes.
- 5.5** If a by-product is further processed before sale, sales realisation of such by-product shall be net of further processing cost. Its net sales realisation shall be adjusted against the joint cost of production of relevant main products.
- 5.6** Net Sales realization of defectives, second-grade products, rejects, scrap, spoilage, and waste products shall be adjusted against the cost of production of related goods sold.
- 5.7** Revenue from sale of inputs, utilities, intermediate products, and shared or support services shall be adjusted against the cost of purchase or cost of production of the related input, utility, intermediate product and shared or support service.
- 5.8** Other income shall not be considered in determining profit or loss as per cost accounts.
- 5.9** Revenue generated from utilization of assets created under the CSR program shall not be considered in determining profit or loss as per cost accounts.
- 5.10** Product or service related subsidies, grants, or incentives, received or receivable on sale of goods or rendering of services shall be part of revenue from operations and shall be identified with each product sold or service rendered.
- 5.11** Any subsidy, grant, incentive or any such payment received or receivable to support the current operations of the entity other than those in the nature of capital grant and other than items referred in paragraph 5.10 above shall be treated as reduction in the related cost.

Reference:

- para 5.6 of CAS-3, Cost Accounting Standard on Production and Operation Overheads;
- para 5.1.9 of CAS-6, Cost Accounting Standard on Material Cost;
- para 5.8 of CAS-7, Cost Accounting Standard on Employee Cost;
- para 5.8 of CAS-8, Cost Accounting Standard on Cost of Utilities;
- para 5.1.8 of CAS-9, Cost Accounting Standard on Packing Material Cost;
- para 5.7 of CAS-10, Cost Accounting Standard on Direct Expenses;
- para 5.5 of CAS-11, Cost Accounting Standard on Administrative Overheads;
- para 5.13 of CAS-12, Cost Accounting Standard on Repair and Maintenance Cost;



- para 5.6 of CAS-13, Cost Accounting Standard on Cost of Service Cost Centre;
- para 5.13 of CAS-14, Cost Accounting Standard on Pollution Control Cost;
- para 5.5 of CAS-15, Cost Accounting Standard on Selling and Distribution Overheads;
- para 5.4 of CAS-17, Cost Accounting Standard on Interest and Financing Charges;
- para 5.2 of CAS-18, Cost Accounting Standard on Research and Development Costs;
- para 5.6 of CAS-19, Cost Accounting Standard on Joint Costs;
- para 5.3 of CAS-20, Cost Accounting Standard on Royalty and Technical Know-how Fee;
- para 5.6 of CAS-21, Cost Accounting Standard on Quality Control; and
- para 5.19 of CAS-22, Cost Accounting Standard on Manufacturing Cost.

**5.12 Any change in the cost accounting principles applied for the determination of revenue shall be made only if it is required by law or regulations or for compliance with the requirements of a cost accounting standard or the change would result in more appropriate preparation or presentation of cost statements of an entity.**

## **6. Assignment of Revenue**

**Revenue for each type of product or service shall be assigned directly to that product or service to the extent it is economically feasible.**

Economic feasibility implies that it is practically feasible to assign the revenue to a particular product or service with reasonable cost and efforts. Reasonable cost and efforts are matters of judgement.

## **7. Presentation**

**7.1 Net sales realization for each product or service shall be indicated separately for exports, domestic sales, manufactured goods, operations, and trading activities and matched against the cost of sales (net of duties) and margin of respective product or service.**

**7.2 The quantity of goods sold or services provided, where applicable, and selling price per unit shall be presented under each product or service.**

## **8. Disclosures**

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

- 1. Revenue from sale of goods or services made to each related party with basis of determining the selling price;**



2. Revenue from by-products and costs of further processing after split-off point, reduced from cost of relevant product;
  3. Amount and nature of any subsidy, grant or incentive received or receivable and included in the revenue.
- 8.2 Any change in the cost accounting principles and methods applied for the measurement and assignment of revenue during the period covered by the cost statement which has a material effect on the revenue 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 statements or as a foot note or as a separate schedule.
9. **Effective date:**

This Cost Accounting Standard shall be effective from the period commencing on or after 1st April, 2017 for being applied for the preparation and certification of Cost Accounting Statement for goods sold and services provided.