



**Exposure Draft**  
**CAS – 2 (Revised 2012)**  
**Cost Accounting Standard On**  
**Capacity Determination**

The following is the Exposure Draft of COST ACCOUNTING STANDARD - 2 (Revised 2012) issued by the Cost Accounting Standards Board of the Institute of Cost Accountants of India on “CAPACITY DETERMINATION”. 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 capacity of a plant of an entity.
- 1.2** This standard also covers the capacity related cost as defined in para 4.4 of this standard.
- 1.3** *This standard deals with the principles and methods of classification and determination of capacity of plant of an entity for ascertainment 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 determination of capacity and related cost with reasonable accuracy.*

**3. Scope**

- 3.1** *This standard shall be applied for capacity determination required to be carried out for any purpose.*
- 3.2** *This standard shall also be applied to the cost statements which require classification, measurement, assignment of capital related cost including those requiring attestation.*



#### 4. Definitions

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

- 4.1 Abnormal idle capacity:** *Abnormal idle capacity is the difference between normal capacity and actual capacity utilization provided the actual capacity is lower than the normal capacity.*
- 4.2 Actual Capacity Utilization:** *Actual Capacity Utilization is the volume of production achieved in a specified period, expressed as a percentage of installed capacity.*
- 4.3 Capacity related cost:** *Costs which are associated with the acquisition and retention of capacity.*
- 4.4 Cost Object:** *This includes a product, service, cost centre, activity, sub-activity, project, contract, customer or distribution channel or any other unit in relation to which costs are finally ascertained.<sup>1</sup>*
- 4.5 Normal Idle Capacity:** *Normal Idle Capacity is the difference between installed capacity and the normal capacity.*
- 4.6 Installed Capacity:** *Installed Capacity is the maximum productive capacity, according to the manufacturer's specifications.*
- 4.7 Licensed Capacity:** *Licensed Capacity is the productive capacity of the plant for which license has been issued by an appropriate authority.*  
In case there is no requirement of license for an industry, installed capacity shall be considered as Licensed Capacity.
- 4.8 Normal Capacity:** *Normal Capacity is the production achieved or achievable on an average over number of periods or seasons under normal circumstances taking into account the loss of capacity due to external factors.*  
In case normal capacity is not reasonably ascertainable, practical or achievable capacity shall be considered as normal capacity.

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



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

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

**5. Principles of Measurement**

**5.1 *Capacity shall be measured in terms of any one of the followings:***

- a) unit of production***
- b) machine hours***
- c) man hours***

In case similar products with different specifications and of different ranges in terms of size, type, variety etc. are produced, capacity shall be measured in equivalent units.

**5.2 Installed Capacity**

***5.2.1 Installed capacity shall be measured based on Manufacturers' Technical specifications.***

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

***5.2.3 In case any production facility is added or discarded the installed capacity shall be reassessed from the date of such addition or discard. In case the same is reassessed as per direction of the Government, it shall be in accordance with the principles laid down in the said directives.***

**5.3 Practical or Achievable Capacity**

***Practical capacity or achievable capacity shall be measured vis-a-vis installed capacity after carrying out following adjustments:***

- (i) Holidays, normal shut down days and normal idle time.***
- (ii) Normal time lost in batch change over***
- (iii) Time lost due to preventive maintenance and normal break downs of equipments***



- (iv) *Loss in efficiency due to ageing of the equipment*
- (v) *Number of shifts*
- (vi) *Any other factor*

#### 5.4 Normal Capacity

*Normal capacity shall be measured based on the capacity achieved over a period of time, say average of three normal years out of preceding five years or expected to be achieved over a period of time, say next three to five years, adjusted for external factors.*

#### 5.5 Capacity utilization

*Capacity utilization is actual production measured as a percentage of installed capacity.*

Actual production refers to in-house production.

#### 6. Assignment of costs

6.1 *Capacity related cost shall be assigned to the cost object on the basis of the normal capacity or actual capacity utilization of the plant whichever is higher.*

6.2 *Cost of normal idle capacity shall be assigned to cost objects.*

6.3 *Cost of abnormal idle capacity shall not be assigned to cost objects.*

#### 7. Presentation

7.1 *Cost Statements shall present Installed capacity in absolute terms.*

7.2 *Actual Capacity utilization shall be presented in absolute terms and as a percentage of installed capacity.*

#### 8. Disclosure

8.1 The cost statements shall disclose the following

1. *Basis for arriving at different types of capacity.*
2. *Change in the installed capacity due to modification, addition, disposal or impairment of an equipment.*
3. *Increase or decrease in capacity due to equipments taken on lease or leased out.*
4. *Details of production*
  - a) *Self Manufactured*



- b) *Produced under leasing arrangements*
  - c) *Produced on loan license / by third party on job work*
5. *Reasons for low capacity utilization.*
6. *Abnormal cost (unabsorbed capacity related cost) due to under-utilization of capacity.*
- 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 capacity determination and its impact during the period covered by the cost statement which has a material effect on the Capacity Determination. Where the effect of such change is not ascertainable wholly or partly the fact shall be indicated.*