REQUEST FOR COMMENTS

The Council of The Institute of Cost and Works Accountants of India has approved the release of Exposure Draft Cost Accounting Standards on Cost of Service Cost Centres as recommended by the Cost Accounting Standards Board (CASB), the standard-setting body of the Institute on March 27, 2010. The CASB's proposed standard may be modified in light of comments received before being issued as a standard in final form.

Please submit your comments on the proposed ED, preferably by email, latest by May 14, 2010.

Comments should be addressed to:

The Secretary,
Cost Accounting Standards Board
The Institute of Cost and Works Accountants of India,
ICWAI Bhawan, 3rd Floor
3, Lodi Road, Institutional Area,
New Delhi

Email responses should be sent to: **casb@icwai.org**

Copies of this exposure draft may be downloaded from the ICWAI website at **http://www.icwai.org.**

EXPOSURE DRAFT OF **CAS –**

COST ACCOUNTING STANDARD ON COST OF SERVICE COST CENTRE

The following is the Exposure Draft of COST ACCOUNTING STANDARD (CAS) on "COST OF SERVICE COST CENTRE" for comments. The standard deals with methods of determining the 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 centres.

1.2 This standard covers the service cost centres other than utilities as defined in CAS-8.

1.3 ***This standard deals with the principles and methods of classification, measurement and assignment of Cost of Service Cost Centres, 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 Centres with reasonable accuracy.

3. Scope

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

4. Definitions

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

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

4.2 Administrative overheads: ***Cost of all activities relating to general management and administration of an organisation.*** Administrative overheads shall exclude any overhead relating to production, operations and marketing.[2]

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

4.4 Direct Materials: ***Materials the costs of which can be attributed to a cost object.***[4]

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

4.6 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***[6]***.*** Examples of Direct Expenses are royalties charged on production, 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.

4.7 Distribution Overheads: Distribution Overheads: ***Distribution overheads, also known as Distribution Cost, are the costs incurred in handling a product from the time it is ready for despatch until it reaches the ultimate consumer.***[7]

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

---

[1] Adapted from CAS 1 paragraph 6.5.19
[2] Adapted from CAS 9 paragraph 4.2
[3] Adapted from CIMA Terminology
[4] Adapted from CAS 1-6.2.3
[5] Adapted from CAS 1 Para 6.2.4 (Direct labour cost)
[6] Adapted from CAS 1 Para 6.2.6
[7] Adapted from CAS 1 Para 6.3.9

4.8 Finance Costs: ***Costs incurred by an enterprise in connection with the borrowing of funds.*** This will include interest and commitment charges on bank borrowings, other short term and long term borrowings, amortisation of discounts or premium related to borrowings, amortisation of ancillary cost incurred in connection with the arrangements of borrowings, finance charges in respect of 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[8]. The terms Finance costs and Borrowing costs are used interchangeably.

4.9 Imputed Costs: ***Hypothetical or notional costs, not involving cash outlay, computed for any purpose.***[9]

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

4.11 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.***[10]

4.12 Production Overheads: ***Indirect costs involved in the production process or in rendering service.***[11]
The terms Production Overheads, Factory Overheads, Works Overheads and Manufacturing Overheads denote the same meaning and are used interchangeably.

4.13 Selling Overheads: ***Selling Overheads, also known as Selling Costs, are the expenses related to sale of products and include all Indirect Expenses in sales management for the organization.***[12]

4.14 Service Cost Centre: ***The cost centre which provides auxiliary services across the organization.***

---

[8] Adapted from CIMA Terminology
[9] Adapted from CAS 1 paragraph 6.5.13
[10] Adapted from CAS 2 paragraph 4.4
[11] Adapted from CAS 1 paragraph 6.3.3
[12] Adapted from CAS 1 paragraph 6.3.7

The cost centre which provides services to Production, Operation or other service cost centres but not directly engaged in manufacturing process or operation is a service cost centre.

Explanation:
A service cost centre renders services to other cost centres / other units / related parties of an enterprise and in some cases to outside parties. Examples of service cost centres are laboratory, welfare services, safety, transport, dispensary, school, crèche, township etc.

4.15 Standard Cost: ***A predetermined cost of resource inputs for the cost object computed with reference to set of technical specifications and efficient operating conditions.***[13]
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 Stand-by service: ***Any facility created to safeguard against the failure of the main source of services.***

5. Principles of Measurement

5.1 Each identifiable and quantifiable service cost centre shall be treated as a distinct cost object for measurement of the cost of services rendered by the cost centre.

5.2.1 Cost of services for own production shall comprise direct material cost, direct employee cost, direct expenses and factory overheads.

5.2.2 Cost of services for the purpose of inter unit transfers shall comprise direct material cost, direct employee cost, direct expenses, factory overheads and distribution overheads.

[13] Adapted from CAS 6 Para 4.15

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

5.2.4 Cost of services rendered to outside parties shall comprise direct material cost, direct employee cost, direct expenses, production overheads, distribution overheads, share of administrative overheads and marketing overheads.

5.3 Finance costs directly incurred in connection with the service cost centres shall not form part of the service department cost.

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

5.5 Where the cost of service cost centres is accounted at standard cost, the price and usage variances related to the services cost centres 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 centres shall be reduced for ascertainment of the cost to which such amounts are related.

5.8 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[14]. Cost of a Stand-by service shall include the committed costs of maintaining such a facility for the service.

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

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

[14] Adapted from Para 5.7 of CAS 3

5.11 Credits/recoveries relating to the service cost centre including charges for services rendered to outside parties, if not material, shall be reduced from the total cost of that service cost centre.

5.12 Any change in the cost accounting principles applied for the measurement of the cost of service cost centres shall be made only if, it is required by law or for compliance with the requirements of a cost accounting standard, or a change would result in a more appropriate preparation or presentation of cost statements of an enterprise.

6. Assignment of Cost

6.1 ***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.***

6.2 ***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[15].***
5. ***Cost of service cost centre incurred in foreign exchange.***

[15] Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement

6. ***Any Subsidy/Grant/Incentive and any such payment reduced from cost of service cost centres.***
7. ***Credits/ recoveries relating to the cost of service cost centres***
8. ***Any abnormal cost excluded from cost of service cost centres***
9. ***Penalties and damages paid excluded from cost of service cost centres.***

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.***