COST ACCOUNTING STANDARDS

COST ACCOUNTING STANDARDS (CAS):

GENERAL PRINCIPLES

When an element of cost is accounted at standard cost, variances due to normal reasons are treated as a part of the element-wise cost. Variances due to abnormal reasons will not form part of the cost

Any Subsidy / Grant / Incentive and any such payment received / receivable with respect to the input cost is reduced from cost for ascertainment of the cost of the cost object to which such amount pertains

Any abnormal cost where it is material and quantifiable will not form part of the cost

Penalties, damages paid to statutory authorities or other third parties will not form part of the cost

Costs reported under various elements of cost will not include imputed costs

Any credits or recoveries from employees or suppliers or other parties towards costs incurred by the entity for a resource will be netted against such costs

Home

GENERAL PRINCIPLES

Finance costs incurred in connection with acquisition of resources such as materials, utilities and the like will not form part of the cost of such resources

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

Disclosures shall be made only where material, significant and quantifiable

A change in classification should be made only if :

- a)it is required by law or for compliance with a Cost Accounting Standard, or
- b)the change would result in a more appropriate preparation or presentation of cost statements of an enterprise

Disclosures shall be made in the body of the cost statement or as a foot note or as a separate schedule

COST ACCOUNTING STANDARD 1 (CAS 1)

CLASSIFICATION OF COST

Home

OBJECTIVE

Prescribe the classification of costs for ascertainment of cost of a product or service

Classification and its disclosure are aimed at providing better transparency in the cost statement

Better adoption of Uniform Costing and Inter-firm Comparison

SCOPE

Applied in assessment of cost of a product or service

Classify cost in order to prepare cost statement on uniform basis to make it relevant and understandable

Assessment of cost of production or valuation of product or stock to be certified for calculation of duties and taxes, tariffs

DEFINITIONS

Cost -

Measurement in monetary terms, of the amount of resources used for the purpose of production of goods or rendering services

Cost Centre -

Unit of Cost Accounting selected with a view to accumulate all cost under that unit

Cost unit –

Form of measurement of volume of production or service

BASIC RULES FOR CLASSIFICATION OF COST

Classification of cost:

Nature (subjective classification)

Purpose (objective classification)

Items should be classified by one characteristic

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

Cost is classified normally in terms of a managerial objective

Basis of classification

- Nature of expense
- Relation to object – traceability
- Functions / activities
- Behaviour fixed, semi-variable or variable
- Management decision making
- Time period
- Production Process

CLASSIFICATION OF COSTS

- Nature of expense
- Relation to Cost Centre
- Functions/ activities
- Behaviour
- Management Decision Making
- Nature of production process
- Classification by time

CLASSIFICATION OF COSTS

Nature of expense | Relation to Cost Centre | Functions/ activities | Behaviour | Management Decision Making | Nature of production process | Classification by time

Material

- Cost of material of any nature used for the purpose of production of a product or a service

Labour

- Payment made to the employees, permanent or temporary, for their services

Expenses

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

CLASSIFICATION OF COSTS

Nature of expense | **Relation to Cost Centre** | Functions/ activities | Behaviour | Management Decision Making | Nature of production process | Classification by time

Direct cost

Material - cost of material which can be directly allocated to a cost centre or a cost object in a economically feasible way

Labour - cost of wages of those workers who are readily identified or linked with a cost centre or cost object

Expenses - expenses other than direct material or direct labour which can be identified or linked with the cost centre or cost object

Indirect cost

Material - cost of material which cannot be directly allocable to a particular cost centre or cost object

Labour - wages of the employees which are not directly allocable to a particular cost centre

Expenses - expenses other than of the nature of material or labour and cannot be directly allocable to a particular cost centres

CLASSIFICATION OF COSTS

Nature of expense | Relation to Cost Centre | **Functions/ activities** | Behaviour | Management Decision Making | Nature of production process | Classification by time

- Production cost- Cost of all items involved in the production of a product or service. It includes all direct costs and all indirect costs related to the production.
- Administration cost - Expenses incurred for general management of an organization
- Selling cost - Indirect costs related to selling of products or services and include all indirect cost in sales management for the organization.
- Distribution cost - Cost incurred in handling a product from the time it is completed in the works until it reaches the ultimate consumer
- Research & development cost - Cost for undertaking research to improve quality of a present product or improve process of manufacture, develop a new product, market research etc and commercialization thereof

CLASSIFICATION OF COSTS

Nature of expense | Relation to Cost Centre | Functions/ activities | **Behaviour** | Management Decision Making | Nature of production process | Classification by time

Fixed cost –

Cost which does not vary with the change in the volume of activity in the short run

Variable cost –

Cost of elements which tends to directly vary with the volume of activity

Semi -variable cost -

Contain both fixed and variable elements and are partly affected by fluctuation in the level of activity

CLASSIFICATION OF COSTS

Nature of expense | Relation to Cost Centre | Functions/ activities | Behaviour | **Management Decision Making** | Nature of production process | Classification by time

Marginal Cost –

Aggregate of variable costs, i.e.

Marginal cost =prime cost +variable overhead

Differential Cost –

Change in cost due to change in activity from one level to another

Opportunity Cost –

Value of the alternatives foregone by adopting a particular strategy or employing resources in specific manner

Replacement Cost –

Cost of an asset in the current market for the purpose of replacement

Relevant Cost-

Costs relevant for a specific purpose or situation. In the context of decision making relating to a specific issue, only those costs which are relevant are considered

Sunk Cost –

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

Im**puted Cost –**

Hypothetical or notional costs, not involving cash outlay, computed only for the purpose of decision making

Normal Cost –

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

Abnormal Cost –

An unusual or a typical cost whose occurrence is usually irregular and unexpected and due to some abnormal situation of the production

Avoidable Cost –

Costs which under given conditions of performance efficiency should not have been incurred

Unavoidable Cost-

Inescapable costs which are essentially to be incurred, within the limits or norms provided for.

CLASSIFICATION OF COSTS

Nature of expense | Relation to Cost Centre | Functions/ activities | Behaviour | Management Decision Making | **Nature of production process** | Classification by time

Batch Cost	• Aggregate cost related to a cost unit consisting of a group of similar articles which maintain its identity throughout one or more stages of production
Process Cost	• When goods are produced from a sequence of continuous or repetitive operations or processes, the cost incurred during a period is considered as process cost
Operation Cost	• Cost of a specific operation involved in a production process or business activity
Operating Cost	• Cost incurred in conducting a business activity
Contract Cost	• Cost of a contract with some terms and condition of adjustment agreed upon between the contractee and the contractor

CLASSIFICATION OF COSTS

Nature of expense → Relation to Cost Centre → Functions/ activities → Behaviour → Management Decision Making → Nature of production process → **Classification by time**

Historical Cost-
Actual costs of acquiring assets or producing goods or services.

Pre-determined Cost-
Cost for a product computed in advance of production, on the basis of a specification of all the factors affecting cost and cost data.

COSTS

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

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

PRESENTATION/ DISCLOSURES

Classification of cost item should be done on ‘ basis of classification’ chosen with pre-determined objective

Classification of cost item should be followed consistently from period to period

COST ACCOUNTING STANDARD 2 (CAS 2)

CAPACITY DETERMINATION

Home

OBJECTIVE

Prescribe the method of determination of capacity to be applied uniformly and consistently

Help the management to identify the bottlenecks , imbalances and idle capacity for effective use of various resources

Help in proper allocation, apportionment and absorption of cost

SCOPE

Determination of capacity required to be carried out for any purpose

Maintaining cost records under the Cost Accounting Records Rules

Applicable for an undertaking, whether existing or new, whether there is expansion/reduction of more than 5% of the capacity due to introduction of new machines or productive resources/disposal or withdrawal or impairment of old machines or productive resources.

DEFINITIONS

Licensed capacity -

Production capacity of the plant for which license has been issued by an appropriate authority

Installed capacity –

Maximum productive capacity according to the manufacturer's specifications of machines/ equipment

Practical/achievable capacity –

Maximum productive capacity of a plant reduced by the predictable and unavoidable factors of interruption pertaining to internal causes

Normal capacity –

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

Actual capacity utilization –

volume of production achieved in relation to installed capacity

Idle capacity =installed capacity (-) actual capacity utilization when actual capacity utilization is less than installed capacity

Excess capacity utilization -

difference between installed capacity and the actual capacity utilization when actual capacity utilization is more than installed capacity

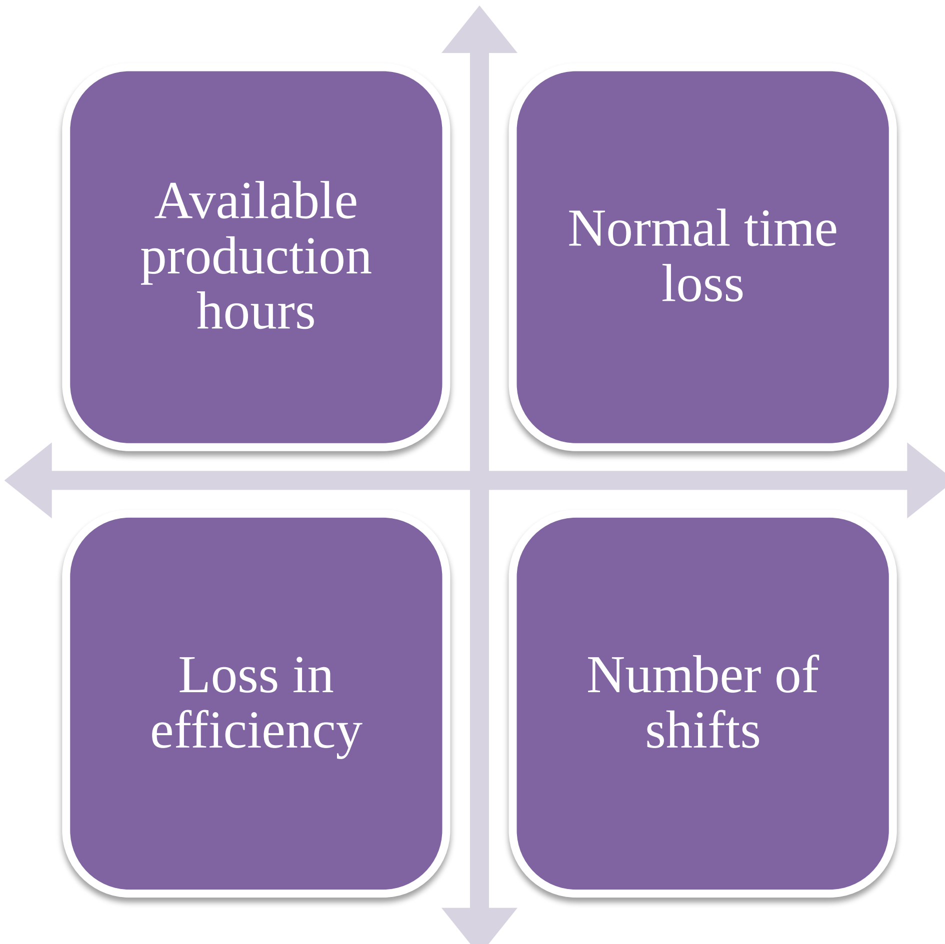
Abnormal idle capacity -

difference between practical capacity and normal capacity or actual capacity utilization whichever is higher

DETERMINATION OF INSTALL ED CAPACITY

- Manufacturer's technical specifications
- Capacities of individual or interrelated production centres.
- Operational constraints / capacity of critical machines
- Number of shifts

DETERMINATION OF PRACTICAL / ACHIEVABLE CAPACITY



DETERMINATION OF NORMAL CAPACITY

Productive capacity achieved over a period of time say average of three normal years out of preceding five years or expected to be achieved over a period of time, say next three to five years

Adjustment of external factors with practical capacity

DISCLOSURES

- Details of basis for arriving at capacity, variables used
- Change in installed capacity due to modifications in machines / equipment or addition of balancing equipment
- Licensed capacity and installed capacity in absolute term of production
- Practical capacity, normal capacity and actual capacity utilization in absolute term as well as in percentage of installed capacity
- Same products with different specifications
- Machines taken on lease or some machines are leased out, their impact in terms of increase / decrease in capacity
- Reasons for low capacity utilization as compared to the installed capacity

COST ACCOUNTING STANDARD 3 (CAS 3)

OVERHEADS

OBJECTIVE

Prescribe methods of collection , allocation, apportionment of overheads to different cost centres

Standardization of collection , allocation, apportionment and absorption of overheads

Facilitates in taking commercial and strategic management decisions

Ensure better disclosure requirement and transparency in the cost statement

SCOPE

For treatment of overheads by all enterprises including companies covered under Cost Accounting Records Rules

Applied in cost and management accounting practices relating to :

a) cost of products, services or activities

b) valuation of stock

c) transfer pricing

d) segment performance

e) excise / custom duty, VAT, Income Tax and other levies , duties and abatement fixation

f) cost statements for any other purpose

DEFINITIONS

Overheads – Indirect materials, indirect employee costs and indirect expenses .

Overheads can be classified as:

a) production overheads

b) administrative overheads

c) selling overheads

d) distribution overheads

Collection of overheads –

Pooling of indirect items of expenses from books of account and supportive/ collaborative records in logical groups

Allocation of overheads –

Assigning a whole item of cost directly to a cost centre

Apportionment of overheads –

Distribution of overheads to more than one cost centre on some equitable basis

Primary distribution of overheads –

Apportionment of the overheads to different cost centres

Secondary distribution of overheads –

Apportionment of the costs of service cost centres to production cost centres on equitable basis

Absorption of overheads –

Charging of overheads from cost centres to products or services by means of absorption rates for each cost center

APPORTIONMENT & ABSORPTION OF PRODUCTION OVERHEADS

Overheads are to be apportioned to different cost centres based on

Cause and Effect

Benefits received

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

APPORTIONMENT & ABSORPTION OF PRODUCTION OVERHEADS

Primary Distribution of overheads

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

APPORTIONMENT & ABSORPTION OF PRODUCTION OVERHEADS

Secondary Distribution of Overheads :

a) Reciprocal basis

b) Non-Reciprocal Basis

Secondary Apportionment of Overheads on Reciprocal Basis:

a) Repeated Distribution Method

b) Trial & Error Method

c) Simultaneous Equation Method

Secondary Apportionment of Overheads on Non-Reciprocal Basis:

a) The cost of first service cost centre is apportioned on a suitable basis to production cost centres

b) apportion the cost of second service centre to the production cost centres as indicated in stage (i)

c)process is to be continued till the costs of all service cost centres are apportioned

APPORTIONMENT & ABSORPTION OF PRODUCTION OVERHEADS

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

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

ABSORPTION OF PRODUCTIONOVERHEADS AND PRODUCTION CAPACITY

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

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

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

APPORTIONMENT AND ABSORPTION OF ADMINISTRATIVE OVERHEADS

Administrative overheads –

- Printing & stationery
- Employees cost
- Establishment expenses

Administrative overheads are to be collected in different cost pools -

- General office
- Personnel department
- Accounts department
- Legal department
- Secretarial department

APPORTIONMENT AND ABSORPTION OF ADMINISTRATIVE OVERHEADS

Administrative overheads can be further analysed into :

- Production activities: Costs collected under the cost pools are to be distributed to administrative overheads relating to production activities
- Sales & distribution activities:administrative overheads relating to selling and distribution activities on rational basis for each cost pool

Administrative overheads relating to production activities are to be apportioned to different production cost centres on the basis of conversion costs of production cost centres

The apportioned overheads are absorbed to products on the basis of the normal capacity or actual capacity, whichever is higher

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

APPORTIONMENT AND ABSORPTION OF SELLING AND DISTRIBUTION OVERHEADS

Selling overheads

- Sales employee cost
- Rent
- Travelling expenses
- Warranty claim
- Brokerage & commission
- Sales incentive
- Bad debt

Distribution overheads

- Secondary packaging
- Freight & forwarding
- Warehousing & storage
- Insurance

DISCLOSURES

Basis of collection, allocation, apportionment and absorption for different production cost centres shall be followed consistently and uniformly

Change in basis for collection, allocation, apportionment and absorption must be disclosed in cost records

COST ACCOUNTING STANDARD 4 (CAS 4)

COST OF PRODUCTION FOR CAPTIVE CONSUMPTION

Home

OBJECTIVE

a) Bring uniformity in the principles and methods used for determining the cost of production of excisable goods used for captive consumption

b) Cost statement can be used for determination of assessable value of excisable goods used for captive consumption

c) Provide better transparency in the valuation of excisable goods used for captive consumption

SCOPE

Determining the cost of production to arrive at an assessable value of excisable goods used for captive consumption

DEFINITIONS

Cost of production –

Material consumed, direct wages and salaries, direct expenses, works overheads, quality control cost, research and development cost, packing cost, administrative overheads relating to production

Captive consumption –

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)

DETERMINATION OF COST OF PRODUCTION FOR CAPTIVE CONSUMPTION

- Material consumed
- Direct wages and salaries
- Direct Expenses
- Works Overheads
- Quality Control Cost
- Research and Development Cost
- Administrative Overheads
- Packing Cost
- Absorption of overheads

- Treatment of Scrap and Waste
- Miscellaneous Income
- Inputs received free of cost
- Moulds, Tools, Dies & Patterns etc received free of cost
- Interest and financial charges
- Abnormal and non-recurring cost
- Valuation of Stock of work-in-progress and finished goods
- Treatment of Joint Products and By-Products

DETERMINATION OF COST OF PRODUCTION FOR CAPTIVE CONSUMPTION

Material consumed:

a) Indigenous materials

b) Imported materials

c) Bought out items

d) Self manufactured items

e) Process materials

Direct wages and salaries:

a) Contribution to provident fund and ESI

b) Bonus / ex-gratia payment

c) Retirement benefits

d) Medical benefits

e) Leave encashment

COST

Direct Expenses:

a) Cost of utilities royalty based on production

b) Technical Assistance / know –how fees

c) Amortized cost of moulds, patterns, patents

d)Job charges

e) Hire charges for tools and equipment

f) Charges for a particular product designing

Works Overheads:

a) Consumable stores & spares

b) Amortized cost- jigs, fixtures, tooling

c) Service department cost

d) Maintenance of P&M

e) Indirect employees cost

f) Insurance - P&M, factory building, stock of raw material & WIP etc

g)Depreciation of P&M

DETERMINATION OF COST OF PRODUCTION FOR CAPTIVE CONSUMPTION

COST

Quality Control:

Expenses incurred relating to quality control activities for adhering to quality standard

Research and Development:

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

Administrative Overheads:

a) Marketing,

b) projects management,

c) corporate office expenses etc.

Packing :

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

DETERMINATION OF COST OF PRODUCTION FOR CAPTIVE CONSUMPTION

Absorption of overheads:

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

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

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

Stock of work-in-progress shall be valued at cost on the basis of stages of completion as per the cost accounting principles and stock of finished goods shall be valued at cost

COST

Treatment of Joint Products and By-Products:

Joint costs are allocated between the products on a rational and consistent basis

Net realisable value of by-products is credited to the cost of production of the main product.

Treatment of Scrap and Waste:

Realized or realizable value of scrap or waste shall be credited to the cost of production

DETERMINATION OF COST OF PRODUCTION FOR CAPTIVE CONSUMPTION

Inputs received free of cost:

Input material, whether of direct or indirect nature, including packing material supplied free of cost by the user of the captive product, the landed cost of such material should be included in the cost of production

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

Amortization cost of such items shall be included in the cost of production

COST

Abnormal and non-recurring cost:

Abnormal and non-recurring cost arising due to unusual or unexpected occurrence of events should not form the part of cost of production

Interest and financial charges:

Being a financial charge should not be considered to be a part of cost of production

COST SHEET

		Qty	
Q1	Quantity Produced (Unit of Measure)		
Q2	Quantity Despatched (Unit of Measure)		
	Particulars	Total Cost (Rs)	Cost/unit (Rs)
1.	Material Consumed		
2.	Direct Wages and Salaries		
3.	Direct Expenses		
4.	Works Overheads		
5.	Quality Control Cost		
6.	Research & Development Cost		
7.	Administrative Overheads (relating to production activity)		
8.	Total (1 to 7)		
9.	Add : Opening stock of Work - in –Progress		
10.	Less : Closing stock of Work -in- Progress		
11.	Total (8+9-10)		
12.	Less : Credit for Recoveries/Scrap/By-Products / misc income		
13.	Packing cost		
14.	Cost of production (11 - 12 + 13)		
15.	Add: Inputs received free of cost		
16.	Add: Amortised cost of Moulds, Tools, Dies & Patterns etc received free of cost		
17.	Cost of Production for goods produced for captive consumption (14 + 15 + 16)		
18.	Add : Opening stock of finished goods		
19.	Less : Closing stock of finished goods		
20.	Cost of production for goods despatched (17 + 18 - 19)		

DISCLOSURES

Any change in cost accounting principles and practices during the concerned period which may materially affect the cost of production in terms of comparability with previous periods

Opening stock and closing stock of work -in-progress and finished goods are not readily available for certification purpose

COST ACCOUNTING STANDARD 5 (CAS 5)

DETERMINATION OF AVERAGE COST OF TRANSPORTATION

Home

OBJECTIVE

- Bring uniformity in the application of principles and methods used in the determination of averaged/equalized transportation cost
- Prescribe the system to be followed for maintenance of records for collection of cost of transportation, its allocation/apportionment to cost centres, locations or products
- Provide transparency in the determination of cost of transportation

SCOPE

Determination of inward freight costs included or to be included in the cost of purchases attributable to the acquisition

Computation of freight included in the value of inventory for accounting on inventory or valuation of stock hypothecated with Banks / Financial Institution

Determination of average transportation cost for claiming the deduction for arriving at the assessable value of excisable goods

Working out claim for freight subsidy under Fertilizer Industry Coordination

DEFINITIONS

Cost of Transportation -

freight, cartage, transit insurance and cost of operating fleet and other incidental charges

Inward Transportation cost -

Transportation expenses incurred in connection with materials /goods received at factory or place of use or sale/removal

Outward Transportation cost-

Transportation expenses incurred in connection with the sale or delivery of materials or goods from factory or depot or any other place from where goods are sold /removed

Freight -

Charges paid or payable to an outside agency for transporting materials/ goods from one place to another place

Transit insurance cost-

Amount of premium to be paid to cover the risk of loss/damage to the goods in transit

Depot –

Bounded premises /place managed internally or by an agent. It includes warehouses, go-downs, storage yards, stock yards

Equalized transportation cost –

Average transportation cost incurred during a specified period.

Equalized freight -

Average freight.

Cartage expenses -

Movement of goods covering short distance for further transportation for delivery to customer or storage

MAINTENANCE OF RECORDS FOR ASCERTAINING TRANSPORTATION COST

Actual cost of transportation showing each element of cost. Abnormal costs relating to transportation, if any, are to be identified and recorded for exclusion of computation of average transportation cost.

Manufacturer 's own transport records to determine the actual operating cost of vehicles showing details of various elements of cost

Hired transport charges incurred for despatch of goods

Inward and outward transportation cost specifying the details particulars of goods despatched

Identification of transportation cost towards inward movement of material (procurement) and transportation cost of outward movement of goods removed /sold for both home consumption and export

Transportation cost from factory to depot

Transportation cost for carrying any material / product to job-workers place and back

Transportation cost for goods involved exclusively for trading activities

Transportation cost directly allocable to a particular category of products

Common transportation cost, both for own fleet or hired ones,

Transportation cost for exempted goods, excisable goods cleared for export

Cost for mode of transportation other than road like ship, air.

TREATMENT OF COST

Inward transportation costs shall form the part of the cost of procurement of materials

Outward transportation cost shall form the part of the cost of sale

Transportation cost per unit, distance shall be factored in to arrive at weighted average cost.

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

Basis for apportionment of outward transportation cost

- Weight
- Volume of goods
- Tonne- Km
- Unit / Equivalent unit
- Value of goods
- Percentage of usage of space

COST SHEET

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

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

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

COST ACCOUNTING STANDARD 6 (CAS 6)

MATERIAL COST

OBJECTIVE

- Bring uniformity and consistency in the principles and methods of determining the material cost with reasonable accuracy

SCOPE

- Applied to cost statements which require: classification, measurement, assignment, presentation, and disclosure of material costs including those requiring attestation

DEFINITIONS

Administrative overheads:

Expenses in the nature of indirect costs, incurred for general management of an organization

Cost Object:

Product, service, cost centre, activity, sub-activity, project, contract, customer or distribution channel or any other unit

Defectives:

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

Reworks:

Defectives which can be brought up to the standards by putting in additional resources

Rejects:

Defectives which cannot meet the quality standards even after putting in additional resources

Material Cost:

The cost of material of any nature used for the purpose of production of a product or a service

Production overheads:

Indirect costs involved in the production process or in rendering service.

Scrap:

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

Waste:

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

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

PRINCIPLES OF MEASUREMENT

- Principle of valuation of receipt of materials
- Principle of valuation of issue of material
- Self manufactured components and sub-assemblies
- Material cost of normal scrap/ defectives

PRINCIPLES OF MEASUREMENT

- Principle of valuation of receipt of materials
- Principle of valuation of issue of material
- Self manufactured components and sub-assemblies
- Material cost of normal scrap/ defectives

PRINCIPLE OF VALUATION OF RECEIPT OF MATERIALS

Material receipt should be valued at landed price

Finance costs incurred shall not form part of material cost

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

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

PRINCIPLE OF VALUATION OF RECEIPT OF MATERIALS

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

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

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

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

PRINCIPLES OF MEASUREMENT

- Principle of valuation of receipt of materials
- Principle of valuation of issue of material
- Self manufactured components and sub-assemblies
- Material cost of normal scrap/ defectives

PRINCIPLE OF VALUATION OF ISSUE OF MATERIAL

Issues shall be valued using appropriate assumptions on cost flow. E.g. FIFO,LIFO, Weighted Average. The method of valuation shall be followed on a consistent basis

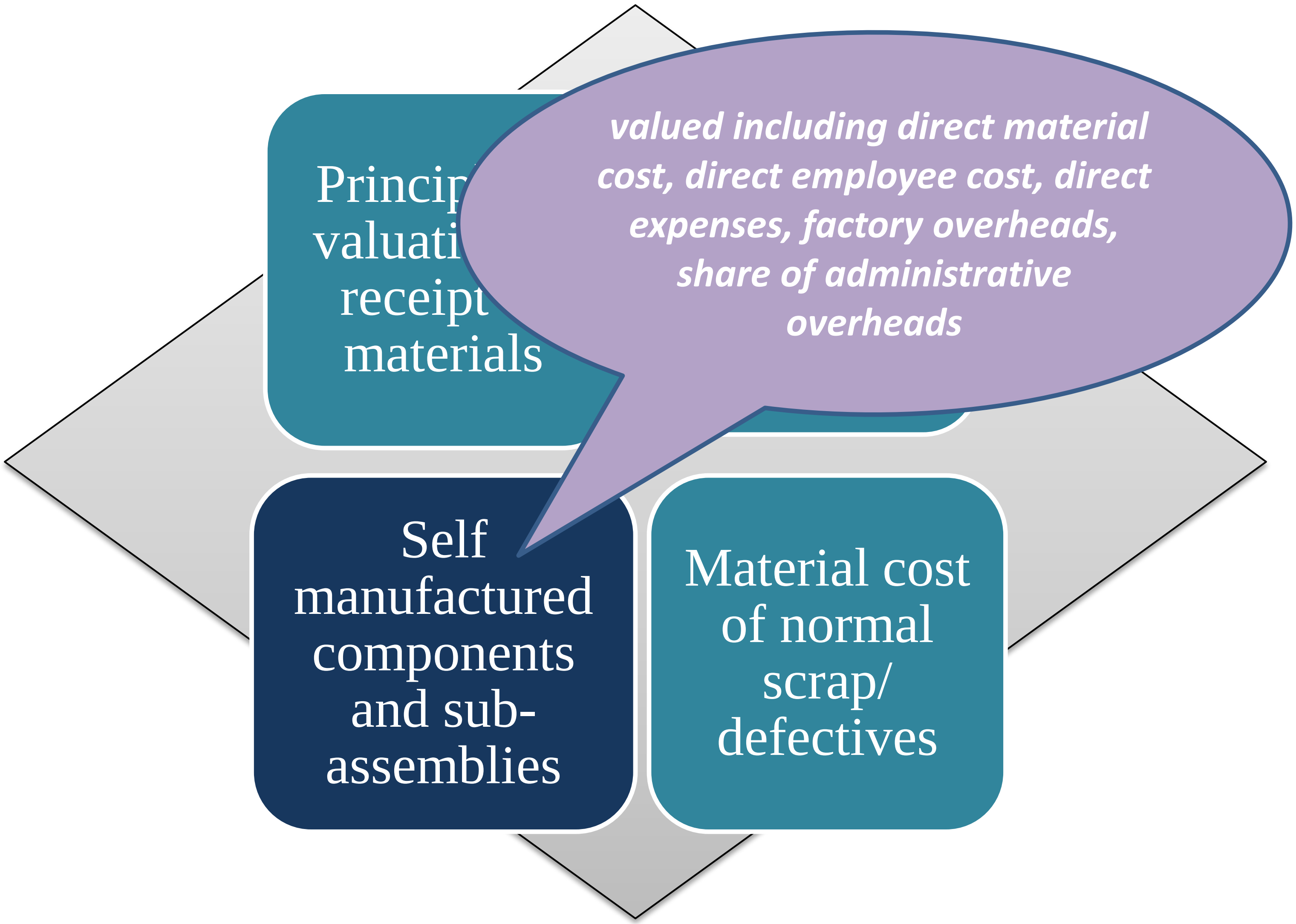
Price variances related to materials shall be treated as part of material cost where materials are accounted at standard cost

Abnormal cost shall be excluded from the material cost

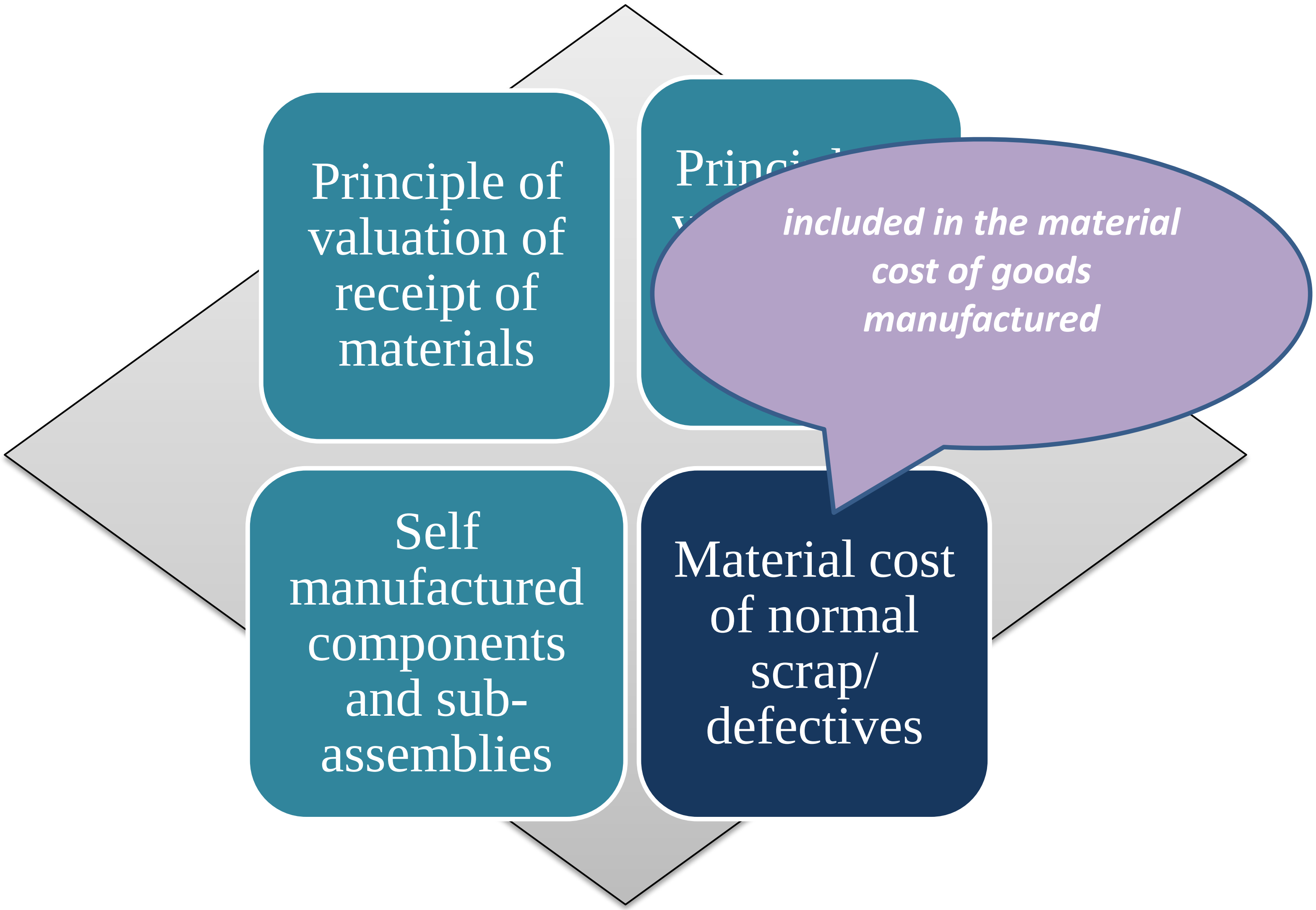
Determination of costs of transportation shall be governed by CAS 5 where material costs include transportation costs

Material cost may include imputed costs not considered in financial accounts

PRINCIPLES OF MEASUREMENT



PRINCIPLES OF MEASUREMENT



ASSIGNMENT OF COSTS

Assignment of costs - Materials

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

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

Assignment of costs – Direct Expenses

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

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

Assignment of costs – Indirect Materials

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

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

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

PRESENTATION

Direct Materials shall be classified in the cost statement

Direct Materials shall be classified as:

Purchased - indigenous, imported and self manufactured

Indirect Materials shall be classified in the cost statement under suitable heads:

tools,

stores and spares,

machinery spares,

jigs and fixtures,

consumable stores, etc., if they are significant

DISCLOSURES

Quantity and rates of major items of materials.

Major items are defined as those who form 5% of cost of materials.

Basis of valuation of materials

Change in cost accounting principles and methods applied for determination material cost

Demurrage or detention charges, penalty levied by transport or other authorities excluded from material

Cost of Materials procured from related parties

Cost imputed in arriving at material cost

COST ACCOUNTING STANDARD 7 (CAS 7)

EMPLOYEE COST

OBJECTIVE

- Bring uniformity and consistency in the principles and methods of determining the employee cost

SCOPE

- Cost statements which require:
- Classification
- Measurement
- Assignment
- Presentation and
- Disclosure of employee cost

DEFINITIONS

Abnormal idle time –

Unusual or a typical employee idle time occurrence of which is usually irregular and unexpected

Distribution Overheads –

Costs incurred in handling a product from the time it is ready for despatch until it reaches the ultimate consumer

Direct Employee Cost –

Cost of employees which can be attributed to a Cost Object in an economically feasible way

Employee cost –

Aggregate of all kinds of consideration paid, payable and provisions made for future payments

Idle time –

Difference between the time for which the employees are paid and the time booked against cost object

Indirect employee cost –

Cost which cannot be directly attributed to a particular cost object

Marketing overheads –

Marketing Overheads comprises selling overheads and distribution overheads

Overtime premium-

Time spent beyond the normal working hours which is usually paid at a higher rate than the normal time rate. extra amount beyond the normal rate is called overtime premium.

Selling Overheads –

Expenses related to sale of products and include all Indirect Expenses in sales management for the organization

PRINCIPLES OF MEASUREMENT

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

Bonus shall be treated as part of employee cost

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

Separation costs shall be amortised over the period benefiting from such costs

Cost of idle time = idle hours * hourly rate

Variances shall be treated as part of employee cost where employee cost is accounted at standard cost

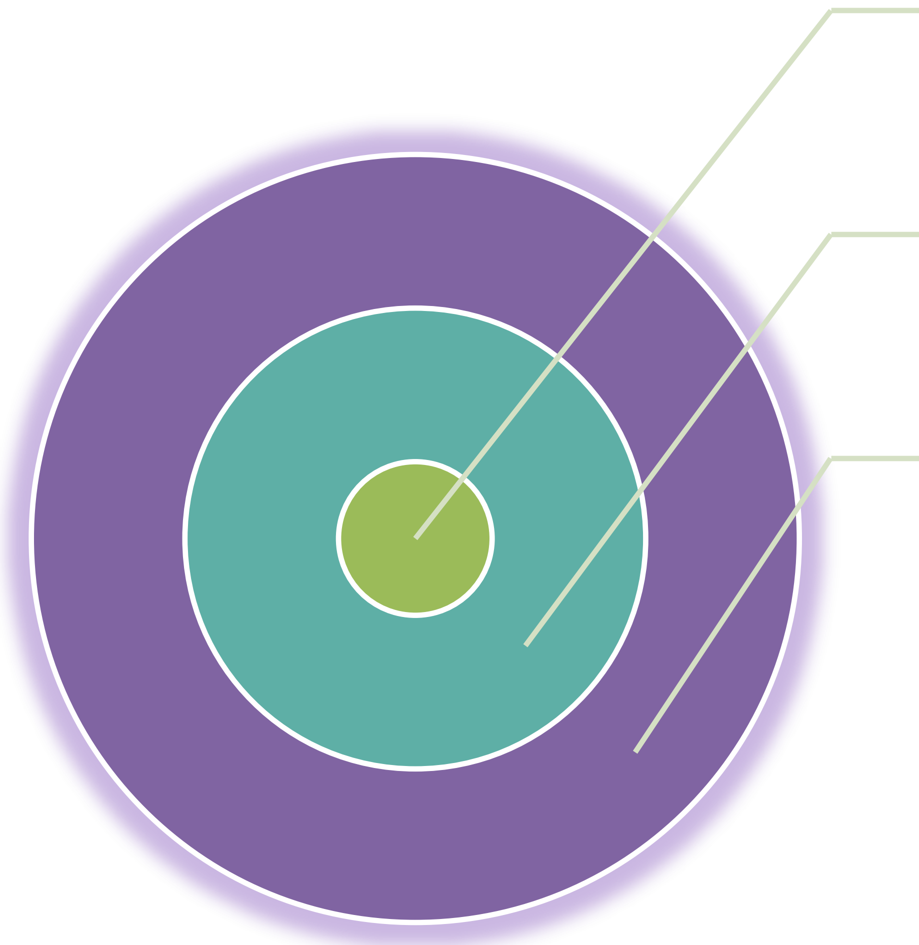
Cost of free housing, free conveyance shall be determined at total cost of all resources consumed in providing such benefits

Recovery from the employee towards any benefit provided shall be reduced from employee cost

ASSIGNMENT OF COSTS

- Employee's cost shall be assigned to cost object
- Principle of materiality shall be used while determining employee cost
- Employee cost may be assigned on suitable basis where not directly traceable to the cost object
- Amortised costs shall be treated as indirect cost. Unamortized amount relating to discontinued operations not to form part of employee costs
- Recruitment costs, training cost shall be treated as overheads
- Overtime premium shall be assigned directly to cost object/overheads depending on the economic feasibility
- Idle time (normal)cost shall be assigned direct to cost object/overheads depending on economic feasibility

PRESENTATION



DISCLOSURES

- Employee cost attributable to capital works in nature of deferred revenue expenditure
- Separation costs payable to employees
- Employee cost paid to related parties
- Employee cost incurred in foreign exchange

COST ACCOUNTING STANDARD 8 (CAS 8)

COST OF UTILITIES

OBJECTIVE

- Bring uniformity and consistency in the principles and methods of determining the cost of utilities with reasonable accuracy

SCOPE

- Cost statements which require :classification, measurement, assignment, presentation and disclosure of cost of utilities
- Cost of production to arrive at an assessable value of excisable utilities used for captive consumption, CAS 4 will apply

DEFINITIONS

Committed Cost:

Cost of maintaining stand-by utilities

Finance Costs:

Costs incurred by an enterprise in connection with the borrowing of funds

Utilities:

Significant inputs which are used for manufacturing process but do not form part of the final product

Stand-by utilities:

Utility created to safeguard against the failure of the main source of inputs

PRINCIPLES OF MEASUREMENT

Utility shall be treated as a distinct cost object

Cost of utilities purchased shall be measured at landed cost

Cost of self generated utilities shall comprise direct material cost, direct employee cost, direct expenses and factory overheads

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

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

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

PRINCIPLES OF MEASUREMENT

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

Price variances related to utilities shall be treated as part of cost of utilities where cost of utilities is accounted at standard cost

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

Credits/ recoveries relating to utilities shall be deducted from the total cost of utility to arrive at net cost of utility

ASSIGNMENT OF COSTS

Cost of utilities, traceability to a cost object in an economically feasible manner shall be the guiding principle

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

Appropriate basis of distribution of cost of a utility to the departments consuming services is to be derived from usage parameters

PRESENTATION

Utilities costs shall be presented as a separate cost head for each type of utility in the cost statement

Cost of utilities shall be classified as purchased or generated where separate cost statements are prepared for utilities

DISCLOSURES

- Basis of distribution of Cost of Utility to consuming centres
- Cost of purchase, production, distribution, marketing and price with reference to sales to outside parties
- Where cost of utilities is disclosed at standard cost, the price and usage variances.
- Cost and price of Utility received from/supplied to related parties
- Cost and price of Utility received from/supplied as inter unit transfers and inter company transfers
- Cost of utilities incurred in foreign exchange
- Credits/recoveries relating to the Cost of utilities

COST ACCOUNTING STANDARD 9 (CAS 9)

PACKING MATERIAL COST

Home

OBJECTIVE

Bring uniformity and consistency in the principles and methods of determining the packing material cost with reasonable accuracy

SCOPE

Applied to cost statements, which require :

Classification, Measurement, Assignment,

Presentation and

Disclosure of Packing Material Cost

DEFINITIONS

Packing Material –

Materials used to:

- hold
- identify
- describe
- store
- protect
- display
- transport
- promote and
- make the product marketable

Primary Packing Material -

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

Secondary Packing Material –

Packing material that enables to:

- store
- transport
- inform the customer
- promote and
- otherwise make the product marketable

Packing Material Development Cost –

Cost of evaluation of packing material such as:

- pilot test,
- field test,
- consumer research,
- feedback, and
- final evaluation cost

Reusable Packing Material -

Packing materials that are used more than once to pack the product

PRINCIPLES OF MEASUREMENT

(Principle of valuation of receipts of packing material)

The packing material receipts should be valued at landed price

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

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

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

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

PRINCIPLES OF MEASUREMENT

(Principle of valuation of issue of packing material)

Issues shall be valued using appropriate assumptions on cost flow

- First In First Out,
- Last In First Out,
- Weighted Average Rate

Wherever, packing material costs include transportation costs, determination of costs of transportation shall be governed by CAS 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

Normal loss arising from issue or consumption of packing materials shall be included in the packing materials cost

ASSIGNMENT OF COST

- Assignment of packing material costs to cost objects to the extent it is economically feasible
- Cost of primary packing materials shall form part of the cost of production
- 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
- Cost of secondary packing materials shall form part of distribution overheads
- 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

PRESENTATION

Packing Materials shall be classified as primary and secondary

Cost of packing materials consumed shall be presented in terms of type of packing in which materials are used where separate cost statements are prepared for packing costs

DISCLOSURES

- Basis of valuation of packing materials
- Packing material if, disclosed at Standard Cost, price and usage variance
- The cost and price of Packing Materials received from/supplied to related parties
- Packing material cost incurred in foreign exchange

COST ACCOUNTING STANDARD 10 (CAS 10)

DIRECT EXPENSES

Home

OBJECTIVE

- Bring uniformity and consistency in the principles and methods of determining the Direct Expenses with reasonable accuracy

SCOPE

- Cost statements which require:
- Classification
- Measurement
- Assignment
- Presentation and
- Disclosure of Direct Expenses

DEFINITIONS

Direct Material Cost –

Cost of material which can be attributed to a cost object in an economically feasible way

Direct Labour Cost –

Cost of wages of those workers who are readily identified or linked with a cost centre or cost object

Overheads –

Overheads comprise of:

Indirect materials, Indirect employee costs and Indirect expenses which are not directly identifiable or allocable to a cost object

DEFINITIONS

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

Direct expenses shall be determined on the basis of amount incurred in connection therewith.

Example:

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

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

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.

Example: Royalty or Technical know-how fees

PRINCIPLES OF MEASUREMENT

Identification of Direct Expenses shall be based on traceability

Direct expenses incurred for the use of bought out resources to 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

An item of Direct Expenses can be treated as part of overheads if it does not meet the test of materiality

Variances shall be treated as part of the Direct Expenses where direct expenses are accounted at standard cost

Abnormal portion of direct expenses shall not form part of the Direct Expenses

ASSIGNMENTS OF COSTS

- Direct expenses that are directly traceable to the cost object shall be assigned to that cost object

PRESENTATION

Direct expenses, if material shall be presented as a separate cost head with suitable classification :

•Subcontract charges

•Royalty on production

DISCLOSURES

- Basis of distribution of Direct Expenses to the cost objects/ cost units
- Quantity and rates of items of Direct Expenses
- Direct Expenses accounted at standard cost, the price and usage variances
- Direct expenses representing procurement of resources and expenses incurred in connection with resources generated
- Direct Expenses paid/ payable to related parties
- Direct Expenses incurred in foreign exchange
- Credits/recoveries relating to the Direct Expenses

COST ACCOUNTING STANDARD 11 (CAS 11)

ADMINISTRATIVE OVERHEADS

Home

OBJECTIVE

Bring uniformity and consistency in the principles and methods of determining the administrative overheads with reasonable accuracy

SCOPE

Cost statements which require:

Classification

Measurement

Assignment

Presentation and

Disclosure of administrative overheads

DEFINITION

Administrative Overheads

- Cost of all activities relating to general management and administration of an organisation
- It includes administration cost relating to production, factory, works or manufacturing

PRINCIPLES OF MEASUREMENT

- Administrative overheads shall be the aggregate of cost of resources consumed in activities relating to general management & administration of an organization
- In case of leased assets, if the lease is an operating lease, entire rentals shall be included in administrative overheads. In case of operating lease, finance cost portion to be segregated.
- Cost of software including up-gradation cost shall be amortised over useful life
- Cost of administrative services procured from outside shall be determined at landed price
- Administrative overheads shall not include any abnormal administrative cost
- Credits/recoveries relating to administrative overheads shall be deducted to arrive at the net administrative overheads

ASSIGNMENT OF COST

Traceability to a cost object in an economically feasible manner

Based on two principles

- Cause & effect
- Benefits received

PRESENTATION

Administrative overheads as a separate cost head in cost statement

Element wise details of the administrative overheads based on materiality

DISCLOSURES

- Basis of assignment of administrative overheads to the cost objects
- 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
- Abnormal portion of the administrative overheads

COST ACCOUNTING STANDARD 12 (CAS 12)

REPAIRS & MAINTENANCE COST

Home

OBJECTIVE

Bring uniformity and consistency in the principles and methods of determining the repairs and maintenance cost with reasonable accuracy

SCOPE

Cost statements which require

- Measurement
- Assignment
- Presentation and
- Disclosure of repairs & maintenance

DEFINITIONS

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

Examples:

Routine or preventive maintenance,

Planned (predictive or corrective) maintenance,

Breakdown maintenance,

the repair or overhaul of an asset which results in restoration of the asset to intended condition

PRINCIPLES OF MEASUREMENT

Repair and maintenance cost shall be the aggregate of Direct & Indirect cost relating to repairs & maintenance activity

Cost of in-house repairs & maintenance activity to include cost of materials, consumable store, spares, manpower, equipment usage, utilities & other resources used in such activity

Cost of repair and maintenance jobs carried out by contractor at its premises shall be determined at landed price

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

Each type of repairs and maintenance shall be treated as a distinct activity

Cost of repairs and maintenance activity should be measured for each major asset category separately

Cost of spares replaced shall be included under repairs and maintenance cost

PRINCIPLES OF MEASUREMENT

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

- **Example:** The cost of new spare is Rs. 10 crores and the value of the existing spare after reconditioning is estimated at Rs. 2 crores, the difference of Rs. 8 crores should be treated as repairs and maintenance cost

Cost of major overhaul shall be amortized on a rational basis

Price variances related to repairs and maintenance, where standard costs are in use, should be treated as part of repairs and maintenance cost

ASSIGNMENT OF COSTS

Repair and maintenance costs shall be traced to a cost object

Repair and maintenance cost, if shared by several cost objects, related cost shall be measured as an aggregate

Repair and maintenance cost, if not directly traceable shall be assigned based on :

- Cause & effect
- Benefits received

PRESENTATION

- Repairs and maintenance cost, if material, shall be presented in cost statement
- Asset category wise details of repairs and maintenance cost, if material, shall be presented separately
- Activity wise details of repairs and maintenance cost, if material, shall be presented separately

DISCLOSURES

- Basis of distribution of repairs & maintenance cost to the cost objects
- Price and usage variances where standard cost is applied in repairs & maintenance cost
- Repairs & maintenance cost paid/payable to related parties related parties
- Repairs & maintenance cost incurred in foreign exchange
- Cost of major overhauls, asset category wise and the basis of amortisation
- Abnormal portion of the repairs & maintenance cost

COST ACCOUNTING STANDARD 13 (CAS 13)

COST OF SERVICE COST CENTRE

Home

OBJECTIVE

Bring uniformity and consistency in the principles and methods of determining the Cost of Service Cost Centre with reasonable accuracy

SCOPE

Preparation and presentation of cost statements which require :

Classification

Measurement and

Assignment of Cost of Service Cost Centre

DEFINITIONS

Distribution Overheads –

Costs incurred in handling a product / service from the time it is ready for despatch until it reaches the ultimate consumer including the units receiving the product / service in an inter-unit transfer

Service Cost Centre –

Cost centre which primarily provides auxiliary services across the enterprise.**Examples :**engineering, workshop, quality control, safety, transport, tool stores, Pollution Control, Computer Cell, etc.

Stand-by service –

Facility created to safeguard against the failure of the main source of service

PRINCIPLES OF MEASUREMENT

Each identifiable service cost centre shall be treated as a distinct cost object

Cost of service cost centre shall be the aggregate of direct and indirect cost

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 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

PRINCIPLES OF MEASUREMENT

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.
- Also include the cost of resources provided to the contractors.

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

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

Cost of services rendered to outside parties shall also include:

- Distribution cost incurred for such transfers,
- Administrative overheads and
- Marketing overheads

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

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

ASSIGNMENTS OF COSTS

- Traceability to a cost object in an economically feasible manner shall be the guiding principle while assigning cost of services
- 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
- 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

PRESENTATION

- Cost of service cost centre shall be presented as a separate cost head for each type of service in the cost statement

DISCLOSURES

- Basis of distribution of cost of each service cost centre to consuming centres
- Cost of purchase, production, distribution, marketing and price of services
- Price and usage variances where the cost of service cost centre is disclosed at standard cost
- Cost of services received from / rendered to related parties
- Cost of service cost centre incurred in foreign exchange
- Change in the cost accounting principles and methods applied for measurement