CAS1
Classification of Cost

Introduction:-

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

Objectives:-

The objective of this Standard is to prescribe the classification of costs for ascertainment of cost of a product or service and preparation of Cost Statements on a consistent and uniform basis with better transparency taking a view to effect the comparability of the same of an enterprise with that of previous periods and of other enterprises. It also helps in Uniformity and Inter-Firm Comparison of Cost Statements.

Scope:-

The standard on classification of cost should be applied in assessment of cost of a product or service, application of costing technique & in case of management decision making by the manufacturing industries in India. It has to be followed by an enterprise whether or not it is covered under Section 209(1)(d) of the Companies Act, 1956. In preparation of Cost Statement on Uniform basis to make it relevant and understandable for effective cost management. It helps in assessment of different form of Tax & also helps in different valuation of an enterprise.

Definitions:-

Cost:- Cost is a measurement, in monetary terms, of the amount of resources used for the purpose of production of goods or rendering services.
Cost Centre:- Any unit with a view to accumulating all cost under that unit. The unit may be a Products, Services, Divisions, Departments, Sections, Groups of plant and machinery or of employees or a combination of several units. This may also be a budget center.
Cost Unit:- It is a form of measurement of volume of production or service. This unit is generally adopted on the basis of convenience and practice in the industry concerned.

Basic Rules of Classification of Costs:-

Classification of cost is the arrangement of items of costs in logical groups having regard to their nature (Subjective Classification) or purpose (Objective Classification).

Basis of Classification:-

- Nature of Expenses
- Relation to Object – Traceability
- Functions/Activities
- Behavioral Aspect – Fixed OR
- Management Decision Making
- Production Process
- Time Period

Presentation & Disclosure:-

The classification of Cost items should be on the "Basis of Classification" chosen with Pre-Determined objectives. It should be followed consistently from PERIOD to PERIOD and Preparation of Cost statements should be made with reference to a period of time.

A change in classification should only be made if it is required by law or any compliance due to change in Cost Accounting Standard or any change appropriate in Preparation OR Presentation of Cost Statements of an enterprise. Any change incorporated in Classification of Cost which has a material effect of the product should be disclosed in the Cost Statements by way of Disclosure.