

Cost Accounting Standards (CAS 1 To CAS 24)

3

SLOB Mapped against the Module:

To obtain a detail understanding of the framework suggested by Cost Accounting Standards for cost ascertainment, cost accounting and reporting. (CMLO 4a, b, c)

Module Learning Objectives:

After studying this module, the students will be able to –

- ⦿ Grasp the provisions of the Cost Accounting Standards issued by the Council of the Institute of Cost Accountants of India.
- ⦿ Grasp the provisions of the Generally Accepted Cost Accounting Principles issued by the Council of the Institute of Cost Accountants of India.

Cost Accounting Standards (CAS 1 To CAS 24)

3

Introduction

Cost Accounting Standards (CAS) are a set of guidelines and principles formulated to standardize the methods and processes involved in cost determination, measurement, and reporting. These standards provide a structured framework for organizations engaged in various industries to consistently and transparently account for costs related to their products, services, or operations. CAS are designed to enhance the reliability, comparability, and relevance of cost information, supporting effective cost management and decision-making. Their significance lies in providing a common framework that enhances the reliability of cost information, supports better decision-making, and ensures compliance with regulatory requirements. CAS contribute to the overall efficiency and effectiveness of cost and management accounting processes within organizations.

The significance of CAS can be categorically stated as;

1. **Consistency:** CAS play a crucial role in promoting consistency in cost accounting practices. By providing a standardized set of rules and procedures, CAS ensure that organizations consistently apply cost accounting principles across different periods and business units. This consistency is essential for meaningful comparisons and trend analysis.
2. **Comparability:** CAS facilitate comparability by establishing uniform standards for cost determination. When organizations adhere to the same set of principles, it becomes easier to compare costs between entities within the same industry. This comparability is valuable for benchmarking and assessing performance relative to industry norms.
3. **Transparency:** Transparency is one of the key objectives of CAS. These standards require organizations to disclose relevant cost information in a clear and understandable manner. This transparency enhances the understanding of cost structures, helping stakeholders, including management, investors, and regulatory authorities, make informed decisions.
4. **Improved Decision-Making:** CAS contribute to improved decision-making by providing accurate and reliable cost information. Managers can make informed choices regarding pricing, resource allocation, and cost control strategies. The availability of consistent and transparent cost data enhances the decision-making process at various levels within an organization.
5. **Regulatory Compliance:** CAS often serve as a basis for regulatory compliance. In certain industries, adherence to CAS is mandated by regulatory authorities. By complying with these standards, organizations ensure that their cost accounting practices align with legal requirements, fostering trust and accountability.
6. **Resource Allocation and Efficiency:** With standardized cost accounting practices, organizations can allocate resources more efficiently. CAS assist in identifying the true cost of products and services, enabling management to allocate resources based on accurate and relevant information.

7. **Cost Control:** CAS contribute to effective cost control measures. By providing a systematic approach to cost identification and measurement, organizations can identify cost variances, analyze the reasons behind them, and implement corrective actions to control costs and improve profitability.

Evolution of Cost Accounting Standard

The evolution of Cost Accounting Standards (CAS) in the Indian context has been shaped by various factors, including industrial growth, regulatory requirements, and the need for standardization in cost accounting practices. Here is an overview of how CAS evolved in the Indian context:

1. **Pre-Independence period:** In the pre-independence era, cost accounting practices were relatively basic, and there was limited standardization. The focus was on rudimentary costing methods for financial reporting.
2. **Post-Independence period:** With the industrial growth and economic development, post-independence, the complexity of business operations increased. This necessitated a more structured approach to cost accounting to meet the evolving needs of businesses.
3. **Formation of Professional Bodies:** The Institute of Cost and Works Accountants of India (ICWAI), now known as the Institute of Cost Accountants of India (ICAI), was established in 1959. The formation of this professional body marked a significant milestone in the development of cost accounting as a distinct discipline in India.
4. **Regulatory Mandates:** after giving due recognition to the importance of cost accounting in economic planning and resource allocation, the Indian government took initiatives to promote standardized cost accounting practices. Over time, regulatory authorities in India, such as the Ministry of Corporate Affairs, mandated the adoption of CAS for certain industries, particularly those involved in government contracts. Compliance with CAS became a regulatory requirement for these entities.
 - **Section 209(1)(d) - Books of Accounts -** Under Section 209(1)(d) of the Companies Act 1956, companies were required to maintain proper books of accounts, including records of cost of production or acquisition of goods and the cost of related services.
 - **Cost Audit Rules 1958 -** The government introduced the Cost Audit Rules in 1958 under the Companies Act 1956, requiring companies engaged in certain industries to conduct cost audits. This initiative aimed to ensure that cost accounting records were maintained and that the cost audit reports were submitted to the government.
 - o It is imperative to note that subsequent inclusion of two sections, namely Section 209(1)(d) of the Companies Act, 1956 (maintenance of cost accounting records for certain classes of companies) and section 233B (audit of cost accounts of such companies) triggered the development of CAS.
 - **The Cost Audit (Report) Rules** (these rules govern the maintenance of cost records and the submission of cost audit reports by companies in India) - These rules which outline the procedures, forms, and timelines for the cost audit process, ensuring compliance with the Companies Act and related regulations) have evolved over the years. Here is a list of the relevant rules and their dates:
 - o **Cost Audit (Report) Rules, 1996:** These rules were initially established in 1996 and were amended in 2001¹.
 - o **Companies (Cost Records and Audit) Rules, 2014:** These rules were introduced in 2014 and have been subsequently amended. The most recent known amendment was made on 14th July 2016².
5. **Mandatory Cost Audit:** The Companies (Cost Records and Audit) Rules, 2014, make it mandatory for companies engaged in specified industries or meeting certain turnover criteria to conduct a cost audit. The objective is to ensure that cost records accurately reflect the cost of production, cost of sales, and other related expenses.

¹. <https://www.mca.gov.in/Ministry/actsbills/rules/CARR1996.pdf>

². <https://icmai.in/upload/Students/Circulars/Companies-Rules-2014.pdf>

Legal Provisions

The legal provisions for maintaining cost records and the audit of the same are primarily outlined in the Companies Act, 2013, and the Companies (Cost Records and Audit) Rules, 2014. These provisions are designed to ensure that certain classes of companies maintain accurate cost records and undergo cost audits, contributing to transparency and accountability in their financial reporting. An overview of the legal provisions is presented for comprehension of the importance of the importance of the Cost Accounting Standards

- **Companies Act, 2013:**

The Companies Act of 2013 in India significantly transformed the landscape of cost accounting by mandating its applicability for certain classes of companies. This legislative shift aimed at enhancing transparency, accountability, and efficiency in financial reporting, fostering a more comprehensive and standardized approach to cost management within corporate entities. The following aspects are specifically covered.

Section 148: Section 148 of Companies Act 2013 empowers the central government to prescribe the maintenance of cost records for certain classes of companies and to conduct cost audits. Additionally, it refers to the adherence to Cost Accounting Standards for the purpose of ensuring consistency and standardization in cost accounting practices. Other aspects of the section covers the following;

- **Applicability:** The Central Government has the authority to prescribe the maintenance of cost records and the audit of such records for specified classes of companies engaged in certain industries or activities.
- **Cost Audit:** The section empowers the government to mandate companies to conduct a cost audit of their cost accounting records. The scope, nature, and extent of the cost audit are specified in the rules framed by the government.
- **Cost Accounting Records:** Companies subject to cost audit provisions are required to maintain cost accounting records as specified by the Central Government. These records typically include details related to the cost of production, cost of sales, and other cost elements specific to the industry.

- **Companies (Cost Records and Audit) Rules, 2014**

Companies (Cost Records and Audit) Rules, 2014: The government, in exercise of the powers conferred by Section 148, issued the Companies (Cost Records and Audit) Rules, 2014. These rules specify the companies that are required to maintain cost records and undergo cost audits. The rules outline the formats for cost records and the procedures for cost audits. Some of the main directions are stated in the following lines;

Rule 3: Maintenance of Cost Records

- **Applicability:** Specifies the classes of companies that are required to maintain cost records. These include companies engaged in industries such as pharmaceuticals, fertilizers, electricity generation, chemicals, cement, etc.
- **Cost Records:** Outlines the particulars to be included in the cost records, which may vary based on the industry. The objective is to capture accurate information related to the cost structure of the company's operations.

Rule 4: Cost Audit Report

- **Appointment of Cost Auditor:** Companies falling under the ambit of the rules are required to appoint a Cost Auditor. The auditor is responsible for conducting a cost audit of the cost records maintained by the company.
- **Cost Audit Report:** Specifies the content and format of the cost audit report, which includes observations on the compliance with cost accounting records, adherence to cost accounting standards, and any other relevant findings.

Rule 6: Filing of Cost Audit Report

- **Submission to the Board:** Requires the Cost Auditor to submit the cost audit report to the Board of Directors within 180 days from the closure of the financial year.
- **Board's Responsibility:** Mandates the Board to consider and submit the cost audit report along with its comments (if any) to the Central Government within 30 days from the receipt of the report.

Rule 8: Cost Auditor's Report to Central Government

- **Submission to Central Government:** Requires the Board of Directors to submit the cost audit report along with the Board's comments to the Central Government within 30 days of receiving the report.
- **Penalties for Non-compliance:** Specifies penalties for non-compliance with the provisions of maintaining cost records and the cost audit. Penalties may be imposed on the company and its officers.

Cost Accounting Standards

The Institute of Cost Accountants of India, recognizing the need for structured approach to the measurement of cost in manufacture or service sector and to provide guidance to the user organizations, government bodies, regulators, research agencies and academic institutions to achieve uniformity and consistency in classification, measurement and assignment of cost to product and services, constituted *Cost Accounting Standards Board (CASB)* with the objective of formulating the Cost Accounting Standards. While formulating the Cost Accounting Standards, the CASB takes into consideration the applicable laws, usage and business environment prevailing in India. CASB also gives due consideration to the Cost Accounting Standards, principles and practices being followed by the other countries in the world. If due to subsequent changes in the law, a particular standard or any part thereof becomes inconsistent with such a law, the provisions of the said law shall prevail.

Objectives and Functions of the CASB

The objectives of the CASB are to develop high quality Cost Accounting Standards to enable the management to take informed decisions and to enable regulators to function more effectively by Integrating, harmonizing, and standardizing cost accounting principles and practices.

The following are the specific functions of the CASB:

1. To issue the framework for the Cost Accounting Standards.
2. To equip the Cost and Management Accounting professionals with better guidelines on Cost Accounting Practices.
3. To assist the members in preparation of uniform cost statements under various statutes.
4. To provide from time-to-time interpretations on Cost Accounting Standards.
5. To issue application guidance relating to a particular standard.
6. To propagate the Cost Accounting Standards and to persuade the users to adopt them in the preparation and presentation of General-Purpose Cost Statement.
7. To persuade the Government and appropriate authorities to enforce Cost Accounting Standards, to facilitate the adoption thereof, by industry and corporate entities in order to achieve the desired objectives of standardization of Cost Accounting practices.
8. To educate the users about the utility and need for compliance of cost accounting standards.

CAS at a glance³

CAS No.	Title
CAS 1	Classification of Cost
CAS 2	Capacity Determination
CAS 3	Production and Operation Overheads
CAS 4	Cost of Production for Captive consumption
CAS 5	Average (Equalised) Cost of Transportation
CAS 6	Material Cost
CAS 7	Employee Cost
CAS 8	Cost of Utilities
CAS 9	Packing Material Cost
CAS 10	Direct Expenses
CAS 11	Administrative Overheads
CAS 12	Repairs and Maintenance Cost
CAS 13	Cost of Service Cost Centre
CAS 14	Pollution Control Cost
CAS 15	Selling and Distribution Overheads
CAS 16	Depreciation and Amortisation
CAS 17	Interest and Financing Charges
CAS 18	Research and Development Costs
CAS 19	Joint Costs
CAS 20	Royalty and Technical Know How Fee
CAS 21	Quality Control
CAS 22	Manufacturing Cost
CAS 23	Overburden Removal Cost
CAS 24	Treatment of Revenue in Cost Statements

CAS – Some Important Aspects⁴

CAS – 1 – Cost Accounting Standard on “Classification of Cost”⁵

This standard establishes a framework for systematically classifying costs, ensuring transparency and comparability in financial reporting for products or services.

1. Introduction: CAS - 1 addresses the principles of cost classification to determine the cost of a product or service.

³. For details students may refer to the original document available at <https://icmai.in/upload/Students/CAS-1-24-CASB.pdf>.

⁴. It is important to note that the students need to read the following Cost Accounting Standards carefully for the purpose of Paper 8: Cost Accounting; CAS 1: Classification of Cost, CAS 3: Production and Operation Overheads, CAS 6: Material Cost, CAS 7: Employee Cost, CAS 10: Direct Expenses, CAS 11: Administrative Overheads, CAS 15: Selling and Distribution Overheads, CAS 19: Joint Cost. CAS 21: Quality Control. This module should be read with added emphasis to these particular CASs.

⁵. This has been revised in the year 2015

2. **Objective:** The objective is to ensure uniformity and consistency in the classification of costs for disclosure and presentation in cost statements.
3. **Scope:** Applies to cost statements requiring classification, presentation, and disclosure, including those needing attestation.
4. **Definitions:** Defines key terms such as abnormal cost, administrative overheads, conversion cost, cost center, cost object, cost of production, and others.
5. **Principles of Classification of Costs:** Costs are classified based on nature, traceability to a cost object, function, behavior, and production/operation process. The scheme ensures every cost item is classified.
6. **Classification of Costs:**
 - By Nature of Expenses: Material, Employee, and Expenses.
 - By Nature of Traceability: Direct and Indirect Costs.
 - By Function: Production, Administration, Selling, Distribution, Research, and Development.
 - By Nature of Behavior: Fixed, Variable, and Semi-Variable Costs.
 - By Nature of Production/Operation Process: Batch Cost, Process Cost, Operation Cost, Contract Cost, Joint Costs.
7. **Presentation:** Cost items in the cost statement must be presented based on relevant classification consistently from period to period.
8. **Disclosure:** Changes in cost classification are allowed only if required by law or compliance with a standard. Material changes must be disclosed in cost statements.

CAS – 2 Cost Accounting Standard on “Capacity Determination”

This standard deals with the principles and methods of determining the capacity of a facility for producing goods or providing services by an entity. This standard deals with the principles and methods of classification and determination of capacity of an entity for ascertainment of the cost of product or service, and the presentation and disclosure in cost statements.

1. **Objective:** The objective of this standard is to bring uniformity and consistency in the principles and methods of determination of capacity with reasonable accuracy.
2. **Scope:** This standard shall be applied to the cost statements, including those requiring attestation, which require determination of capacity for assignment of overheads.
3. **Determination of Capacity:** Capacity shall be determined in terms of units of production or services or equivalent machine or man hours.
4. **Installed Capacity:** Installed capacity is usually determined based on:
 - Technical specifications of facility.
 - Technical evaluation.
 - Capacities of individual or interrelated production or operation centres.
 - Operational constraints or capacity of critical machines or equipment.
 - Number of shifts or machine hours or man hours.
5. **Normal Capacity:** Normal capacity is determined after suitable adjustments to the installed capacity. The adjustments may be of the following nature:

- Time lost due to scheduled preventive or planned maintenance.
- Number of shifts or machine hours or man hours.
- Holidays, normal shut down days, normal idle time.
- Normal time lost in batch change over.

CAS – 3 Cost Accounting Standard on “Production and Operation Overheads”

1. Introduction: CAS-3 addresses principles and methods for determining Production or Operation Overheads, focusing on classification, measurement, assignment, and disclosure for the cost of goods or services.
2. Objective: The objective is to ensure uniformity and consistency in determining Production or Operation Overheads with reasonable accuracy.
3. Scope: Applies to cost statements requiring classification, measurement, assignment, presentation, and disclosure of Production or Operation Overheads, including those needing attestation.
4. Definitions: Defines key terms such as abnormal cost, absorption of Production or Operation Overheads, administrative overheads, cost center, and fixed costs.
5. Principles of Measurement: Outlines principles for determining Production or Operation Overheads, covering procurement, imputed costs, abnormal costs, subsidies, fines, penalties, credits, and recoveries.
6. Assignment: Guidelines for assignment of Production or Operation Overheads, emphasizing traceability in an economically feasible manner, and the principles of cause and effect or benefits received.
7. Presentation: Production or Operation Overheads are presented as a separate cost head. Detailed presentation includes material, element-wise, and behavior-wise details. Any under-absorption or over-absorption is reconciled.
8. Disclosures: Disclosures include the basis of assignment, foreign exchange transactions, dealings with related parties, subsidies, credits, abnormal costs, unabsorbed overheads, and changes in cost accounting principles.
9. Effective Date: Effective from April 1, 2016, for the preparation and certification of General-Purpose Cost Accounting Statements.

CAS – 4 Cost Accounting Standard on “Cost of Production for Captive Consumption”

1. Introduction: This standard was issued to specify the principles for determination of cost of production for valuation of goods meant for captive consumption, as required under the Central Excise Valuation (Determination of Price of Excisable Goods) Rules 2000. CEBC, vide circular No. 692/8/2003-CX dated 13-2-2003 had clarified that in case of captive consumption, cost calculation should be as per CAS-4 only. With the introduction of Goods and Services Tax (GST) with effect from July 1, 2017, the concept of ‘captive consumption’ is no more relevant for computing the tax incident. However, the concept of cost of production or manufacture is relevant under the GST laws where the value of supply of goods or services or both are determined based on cost.
2. Objective: The objective of this standard is to bring uniformity and consistency in the principles and methods of determining the cost of production or acquisition or supply of goods or provision of services as required under the provisions of GST Act / Rules.
3. Definition: definitions of cost of production, captive consumption and normal capacity is provided in para 4 of this standard.
4. Scope: This standard should be applied to cost statements which require classification, measurement,

assignment, presentation, and disclosure of related costs for determination of the following under the relevant provisions of GST Acts / Rules.

- i) Determination of cost of production of goods;
- ii) Determination of cost of acquisition of goods;
- iii) Determination of cost of supply of goods;
- iv) Determination of cost of provision / supply of services; and
- v) Determination of value of supply of goods or services as per open market value or as per goods or services of like kind and quality.

CAS – 5 Cost Accounting Standard on “Determination of Average Cost of Transportation”

The cost accounting principles for tracing / identifying an element of cost, its allocation / apportionment to a product or service are well established. Transportation Cost is an important element of cost for procurement of materials for production and for distribution of product for sale. Therefore, cost accounting records should present transportation cost separately from the other cost of inward materials or cost of sales of finished goods. The Finance Act 2003 also specifies the certification requirement of Transportation Cost for claiming deduction while arriving at the assessable value of excisable goods cleared for home consumption / export. There is a need to standardize the record keeping of expenses relating to transportation and computation of Transportation Cost.

Objective

- i) To bring uniformity in the application of principles and methods used in the determination of averaged / equalised Transportation Cost.
- ii) To 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.
- iii) To provide transparency in the determination of cost of transportation.

Scope

This standard should be applied for calculation of cost of transportation required under any statute or regulations or for any other purpose. For example, this standard can be used for:

- i) Determination of average transportation cost for claiming the deduction for arriving at the assessable value of excisable goods.
- ii) Insurance claim valuation.
- iii) Working out claim for freight subsidy under Fertilizer Industry Coordination Committee.
- iv) Administered price mechanism of freight cost element.
- v) Determination of inward freight costs included or to be included in the cost of purchases attributable to the acquisition.
- vi) Consumption of freight included in the value of inventory for accounting on inventory or valuation of stock hypothecated with Banks / Financial Institution etc.

CAS – 6 Cost Accounting Standard on “Material Cost”

CAS 6 aims to standardize the determination and reporting of material costs, promoting consistency and transparency in cost accounting practices. It provides guidelines for valuation, assignment, presentation, and disclosure of material costs in cost statements, contributing to effective cost management and decision-making.

1. Introduction: CAS 6 focuses on principles and methods for determining Material Cost, covering various types of materials used in production. It excludes Packing Materials, as a separate standard is dedicated to that.
2. Objective: The primary objective is to establish uniformity and consistency in determining material costs with reasonable accuracy.
3. Scope: CAS 6 applies to cost statements requiring classification, measurement, assignment, presentation, and disclosure of material costs, including those requiring attestation.
4. Definitions: Defines terms like abnormal cost, administrative overheads, cost object, defectives, imputed costs, intermediate product, material cost, production overheads, scrap, standard cost, waste, and spoilage.
5. Principles of Measurement: Details principles for the valuation of material receipts and issues, including the treatment of abnormal costs, waste, spoilage, and the inclusion of imputed costs.
6. Assignment of Costs: Outlines the basis for assigning costs to products or services, covering materials, direct expenses, and indirect materials.
7. Presentation: Cost statements should classify direct materials (e.g., raw materials, components) and indirect materials (e.g., tools, stores) under suitable heads.
8. Disclosures: Specifies information to be disclosed in cost statements, including quantity and rates of major items, valuation basis, changes in accounting principles, excluded abnormal costs, demurrage or detention charges, subsidies/grants, and costs from related parties.

CAS – 7 Cost Accounting Standard on “Employee Cost”

CAS 7 aims to standardize the determination and reporting of Employee Costs, ensuring consistency and transparency in cost accounting practices. It provides guidelines for valuation, assignment, presentation, and disclosure of Employee Costs in cost statements, contributing to effective cost management and decision-making.

1. Introduction: CAS 7 addresses the principles and methods for determining Employee Cost, covering its classification, measurement, assignment, presentation, and disclosure in cost statements.
2. Objective: The objective is to establish uniformity and consistency in determining Employee Cost with reasonable accuracy.
3. Scope: CAS 7 applies to cost statements requiring classification, measurement, assignment, presentation, and disclosure of Employee Cost, including those requiring attestation.
4. Definitions: Defines terms like abnormal cost, abnormal idle time, administrative overheads, cost object, direct employee cost, distribution overheads, employee cost, idle time, imputed costs, indirect employee cost, marketing overheads, overtime premium, production overheads, selling overheads, standard cost.
5. Principles of Measurement: Specifies the ascertainment of Employee Cost, including gross pay, bonuses, remuneration to managerial personnel, separation costs, and treatment of variances. Excludes imputed costs.
6. Assignment of Costs: Outlines principles for assigning Employee Costs to cost objects, considering traceability and materiality. Covers recruitment costs, training costs, overtime premiums, and idle time costs.
7. Presentation: Direct Employee Costs presented separately, while indirect costs are included in overheads related to functions like manufacturing, administration, and marketing. Cost statements should detail resources consumed, category-wise.
8. Disclosures: Requires disclosure of Employee Cost attributable to capital works, separation costs, abnormal costs, penalties, subsidies, grants, incentives, payments to related parties, and costs in foreign exchange. Disclosures on changes in accounting principles are made where material, significant, and quantifiable.

CAS – 8 Cost Accounting Standard on “Cost of Utilities”

This standard deals with the principles and methods of determining the cost of utilities. 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.

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.

Scope

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

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 shall apply. This standard shall not be applicable to the organisations primarily engaged in generation and sale of utilities. This standard does not cover issues related to the ascertainment and treatment of carbon credits, which shall be dealt with in a separate standard.

CAS – 9 Cost Accounting Standard on “Packing Material Cost”

This standard deals with the principles and methods of determining the Packing Material Cost. 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. Packing Materials for the purpose of this standard are classified into primary and secondary packing materials.

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.

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.

CAS – 10 Cost Accounting Standard on “Direct Expenses”

CAS-10 ensures a systematic approach to Direct Expenses accounting, promoting transparency and accuracy in cost reporting.

1. Introduction: CAS-10 focuses on determining, classifying, measuring, and assigning Direct Expenses.
Pertains to the cost of a product or service and outlines principles for presentation and disclosure in cost statements.
2. Objective: Aims for uniformity and consistency in determining Direct Expenses with reasonable accuracy.
3. Scope: Applicable to cost statements requiring classification, measurement, assignment, and disclosure of Direct Expenses, including those needing attestation.
4. Definitions: Defines terms such as Abnormal Cost, Cost Object, Direct Employee Cost, Direct Expenses, Direct Material Cost, Imputed Costs, Interest and Finance Charges, Overheads, and Standard Cost.
5. Principles of Measurement:

- Emphasizes traceability for identification of Direct Expenses.
 - Details the determination of Direct Expenses for bought-out resources, other than those incurred for such resources, and one-time payments.
 - Addresses amortization of lump-sum expenses based on estimated output or benefit.
 - Stresses materiality, excluding finance costs from Direct Expenses, and avoiding imputed costs.
 - Discusses treatment of standard costs, variances, subsidies, abnormal portions, penalties, and recoveries.
6. Assignment of Costs: Direct Expenses directly traceable to the cost object should be assigned to that object.
 7. Presentation: Direct Expenses, if material, should be presented as a separate cost head with appropriate classification (e.g., subcontract charges, royalties).
 8. Disclosures:
 - Specifies disclosure requirements related to the basis of distribution, quantity and rates, standard cost variances, expenses paid to related parties, foreign exchange transactions, subsidies/grants/incentives, credits/recoveries, abnormal portions, penalties, and damages.
 - Emphasizes material, significant, and quantifiable disclosures, which can be made in the body of the cost statement, footnotes, or as a separate schedule.
 - Addresses changes in cost accounting principles and methods with material effects.

CAS – 11 Cost Accounting Standard on “Administrative Overheads”

CAS-11 ensures transparency and accuracy in accounting for administrative overheads, promoting standardized practices in cost accounting.

1. Introduction:
 - CAS-11 outlines principles and methods for determining, classifying, measuring, and assigning administrative overheads.
 - Focuses on the cost of general management and administration activities in an organization.
2. Objective: Aims to establish uniformity and consistency in determining administrative overheads with reasonable accuracy.
3. Scope: Applicable to cost statements requiring classification, measurement, assignment, presentation, and disclosure of administrative overheads, including those needing attestation.
4. Definitions: Defines terms such as Abnormal Cost, Absorption of Overheads, Administrative Overheads, Cost Object, Imputed Costs, Interest and Finance Charges, Normal Capacity, and Overheads.
5. Principles of Measurement:
 - Administrative overheads represent the cost of shared services, infrastructure, and general management.
 - Involves employee costs, utilities, office supplies, legal expenses, and outside services.
 - Details the measurement of various elements within administrative overheads, including leased assets, software costs, and services procured from outside.
 - Stresses the reduction of subsidies/grants/incentives and excludes abnormal administrative costs, fines, penalties, damages, and similar levies.

- Discusses credits/recoveries, treatment of changes in cost accounting principles, and emphasizes transparency in disclosures.
5. Assignment of Cost:
- Assigning administrative overheads involves traceability to a cost object in an economically feasible manner.
 - Assignment principles include Cause and Effect, Benefits Received, and rational basis for general management costs.
6. Presentation:
- Administrative overheads should be presented as a separate cost head in the cost statement.
 - Element-wise details based on materiality should be presented.
8. Disclosures:
- Disclosures include the basis of assignment, inclusion of imputed costs, administrative overheads incurred in foreign exchange, transactions with related parties, subsidies/grants/incentives, credits/recoveries, abnormal portions, and penalties/damages.
 - Emphasizes material, significant, and quantifiable disclosures, to be made in the body of the Cost Statement, footnotes, or as a separate schedule.
 - Requires disclosure of changes in cost accounting principles with material effects.

CAS – 12 Cost Accounting Standard on “Repairs and Maintenance”

This standard deals with the principles and methods of determining the Repairs and Maintenance Cost.

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.

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.

Scope

The standard should be applied to cost statements, which require classification, measurement, assignment, presentation and disclosure of Repairs and Maintenance Cost including those requiring attestation.

CAS – 13 Cost Accounting Standard on “Cost of Service Cost Centre”

This standard deals with the principles and methods of determining Cost of Service Cost Centres. This standard covers the service cost centre and excludes utilities and repair and maintenance costs dealt with in CAS – 8 and CAS – 12 respectively. 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.

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.

Scope

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

CAS – 14 Cost Accounting Standard on “Pollution Control Cost”

This standard deals with the principles and methods of determining Pollution Control Cost. This standard deals with the principles and methods of classification, measurement and assignment of Pollution Control Costs, for determination of the cost of product or service, and the presentation and disclosure in cost statements.

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.

Scope

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

CAS – 15 Cost Accounting Standard on “Selling and Distribution Overheads”

1. Introduction:

- CAS-15 focuses on determining principles and methods for Selling and Distribution Overheads.
- Deals with classification, measurement, assignment, and presentation of these overheads for determining the cost of sales of products or services.

2. Objective: Aims to bring uniformity and consistency in determining Selling and Distribution Overheads with reasonable accuracy.

3. Scope: Applicable to cost statements requiring classification, measurement, assignment, presentation, and disclosure of Selling and Distribution Overheads, including those needing attestation.

4. Definitions: Provides definitions for terms like Abnormal Cost, Absorption of Overheads, Cost Object, Distribution Overheads, Imputed Costs, Indirect Expenses, Marketing Overheads, Selling Overheads, and Overheads.

5. Principles of Measurement:

- Selling and Distribution Overheads comprise the cost of resources consumed in related activities.
- Resources procured from outside are determined at invoice or agreed price, net of applicable discounts, taxes, and duties.
- Post-sales costs like warranty and after-sales service estimated reasonably.
- Excludes imputed costs, abnormal costs, demurrage or detention charges, and penalties from Selling and Distribution Overheads.
- Reduction of subsidies/grants/incentives and deduction of credits/recoveries are considered.
- Encourages transparency in the disclosure of changes in cost accounting principles.

6. Assignment of Cost:

- Directly traceable Selling and Distribution Overheads assigned to relevant products or services.
- Transportation cost follows CAS-5 principles when relevant.
- Assignment principles include Cause and Effect and Benefits Received.

7. Presentation:

- Selling and Distribution Overheads presented as a separate cost head in the cost statement.
- Allows the use of the term “Marketing Overheads” instead of “Selling and Distribution Overheads.”
- Element-wise details presented if material.

8. Disclosures:

- Disclosures include the basis of distribution, Selling and Distribution Overheads in foreign exchange, services to related parties, subsidies/grants/incentives received, credits/recoveries, penalties/damages.
- Disclosures made where material and significant, in the body of the Cost Statement, footnotes, or a separate schedule.
- Any change in cost accounting principles disclosed if material, with indication if the effect is not wholly or partly ascertainable.

9. Effective Date: CAS-15 is effective from the period commencing on or after 1st April 2013, for preparing and certifying General Purpose Cost Accounting Statements.

CAS – 16 Cost Accounting Standard on “Depreciation and Amortisation”

This standard deals with the principles and methods of determining Depreciation and Amortisation Cost.

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.

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.

Scope

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

CAS – 17 Cost Accounting Standards on “Interest and Financing Charges”

This standard deals with the principles and methods of determining Interest and Financing Charges.

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

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.

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.

CAS – 18 Cost Accounting Standard on “Research and Development Costs”

This standard deals with the principles and methods of determining Research and Development Cost.

This standard deals with the principles and methods of determining the Research and Development Costs and their classification, measurement and assignment for determination of the cost of product or service, and the presentation and disclosure in cost statements.

Objective

The objective of this standard is to bring uniformity and consistency in the principles and methods of determining the Research and Development Costs with reasonable accuracy and presentation of the same.

Scope

This standard should be applied to cost statements that require classification, measurement, assignment, presentation and disclosure of Research and Development Costs including those requiring attestation.

CAS – 19 Cost Accounting Standard on “Joint Costs”

1. Introduction: CAS-19 addresses the principles and methods for measuring and assigning Joint Costs, along with their presentation and disclosure in cost statements.
2. Objective: Aims to achieve uniformity and consistency in determining and assigning Joint Costs with reasonable accuracy.
3. Scope: Applicable to cost statements requiring classification, measurement, assignment, presentation, and disclosure of Joint Costs, including those requiring attestation.
4. Definitions: Provides definitions for terms such as By-Product, Cost Object, Imputed Cost, Joint Costs, Joint Product, Scrap, Split off Point, and Waste.
5. Principles of Measurement:
 - Measurement principles for Joint Costs up to the split-off point align with other cost accounting standards.
 - Costs incurred after the split-off point for each Joint/By-Product are measured based on resources consumed.
 - Further processing costs include direct and indirect costs.
 - Cost of processing by outside parties determined at invoice or agreed price, including duties and taxes, net of applicable discounts, taxes, duties, and other attributable expenditures.
 - Realized or realizable value of scrap or waste deducted from the cost of Joint Product.

- Any Subsidy/Grant/Incentive related to Joint Product/By-Product reduces the ascertainable cost.
 - Penalties and damages paid to authorities or third parties not included in the cost.
6. Assignment:
 - Joint costs assigned to Joint Products based on benefits received, using methods like Physical Units, Net Realizable Value at split-off point, or Technical Estimates.
 - By-Product value estimated using Net Realizable Value or Technical Estimates.
 7. Presentation: Cost statement presents element-wise costs of products produced jointly and the assigned value to By-Products.
 8. Disclosures:
 - Disclosures include the basis of Joint costs allocation, value assigned to By-Products, and any changes in cost accounting principles affecting Joint/By-Products.
 - Material, significant, and quantifiable disclosures made in the body of cost statements, footnotes, or separate schedules.
 9. Effective Date: CAS-19 effective from the period commencing on or after a specified date for preparing and certifying General Purpose Cost Accounting Statements.

CAS – 20 Cost Accounting Standard on “Royalty and Technical Know-How Fee”

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

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.

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.

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.

CAS – 21 Cost Accounting Standard on “Quality Control”

1. Introduction: CAS-21 addresses principles and methods for measuring, assigning, presenting, and disclosing Quality Control costs in cost statements.
2. Objective: Aims to bring uniformity and consistency in determining and assigning Quality Control costs with reasonable accuracy.
3. Scope: Applicable to cost statements requiring classification, measurement, assignment, presentation, and disclosure of Quality Control costs, including those needing attestation.

4. Definitions: Provides definitions for terms such as Abnormal Cost, Cost Object, Defectives, Imputed Costs, Quality, Quality Control, Quality Control Cost, Scrap, Waste, and Spoilage.
5. Principles of Measurement:
 - Quality Control cost incurred in-house includes the aggregate cost of resources consumed.
 - Costs procured from outside determined at invoice or agreed price, net of applicable discounts, taxes, and duties.
 - Includes costs of conformance to quality, namely prevention cost and appraisal cost.
 - Identification of Quality Control costs based on traceability.
 - Finance costs in connection with self-generated or procured resources excluded from Quality Control cost.
 - Quality Control costs exclude imputed costs.
 - Subsidies/Grants/Incentives related to Quality Control cost reduce the cost of the corresponding object.
 - Abnormal portions of Quality Control cost, penalties, and damages excluded from the total cost.
6. Assignment of Costs:
 - Directly traceable Quality Control costs assigned to the respective cost object.
 - Assignment based on benefits received, apportioned to cost objects in proportion to the benefits.
7. Presentation: If material, Quality Control cost presented as a separate cost head with suitable classification.
8. Disclosures:
 - Disclosures include the basis of distribution of Quality Control cost, quantity and cost of resources used, payments to related parties, foreign exchange costs, abnormal portions, and penalties and damages excluded.
 - Made where material, significant, and quantifiable, in the body of the Cost Statement, footnotes, or separate schedules.
 - Any changes in cost accounting principles affecting Quality Control costs disclosed, indicating the extent of ascertainability.

CAS – 22 Cost Accounting Standard on “Manufacturing Cost”

This standard deals with the principles and methods of determining the Manufacturing Cost of excisable goods.

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.

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.

Scope

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

CAS – 23 Cost Accounting Standard on “Overburden Removal Cost”

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

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.

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.

CAS – 24 Cost Accounting Standard on “Treatment of Revenue in Cost Statements”

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

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.

Scope

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

Exercise

A. Theoretical Questions:

⊙ Multiple Choice Questions

1. What is the primary objective of Cost Accounting Standards (CAS)?
 - A) Ensure profitability
 - B) Ensure consistency and standardization in cost accounting practices
 - C) Minimize costs
 - D) Maximize revenue
2. Who formulates Cost Accounting Standards in India?
 - A) Ministry of Corporate Affairs
 - B) Institute of Chartered Accountants of India (ICAI)
 - C) Institute of Cost Accountants of India (ICAI)
 - D) Securities and Exchange Board of India (SEBI)
3. In which section of the Companies Act, 2013, is the provision related to the maintenance of cost records and cost audit found?
 - A) Section 142
 - B) Section 148
 - C) Section 164
 - D) Section 176
4. What is the primary focus of CAS-11?
 - A. Determining principles for sales and distribution overheads
 - B. Outlining principles for administrative overheads
 - C. Establishing guidelines for financial reporting
 - D. Addressing manufacturing costs
5. CAS 6 focuses on
 - A) Material Cost
 - B) Employee Cost
 - C) Activity-Based Costing
 - D) Repairs and Maintenance Cost
6. Which CAS deals with the classification, measurement, and assignment of administrative overheads?
 - A) CAS 3
 - B) CAS 8
 - C) CAS 11
 - D) CAS 15

7. What does CAS 16 cover?
 - A) Borrowing Costs
 - B) Selling and Distribution Overheads
 - C) Cost of Transportation
 - D) Standard Costing
8. Which CAS deals with the classification, measurement, and assignment of selling and distribution overheads?
 - A) CAS 3
 - B) CAS 8
 - C) CAS 11
 - D) CAS 15
9. Which term is defined by CAS-15: Definitions as the cost incurred due to unforeseen circumstances and not part of normal business operations?
 - A. Absorption of Overheads
 - B. Abnormal Cost
 - C. Imputed Costs
 - D. Selling Overheads
10. Which section of the Companies Act, 2013, deals with the adoption and adherence to Cost Accounting Standards (CAS)?
 - A) Section 135
 - B) Section 148
 - C) Section 170
 - D) Section 184
11. CAS 9 specifically deals with:
 - A) Employee Cost
 - B) Packing Material Cost
 - C) Direct Expenses
 - D) Repairs and Maintenance Cost
12. What principle is encouraged by CAS-15 for transparency in the disclosure of changes in cost accounting principles?
 - A. Confidentiality
 - B. Consistency
 - C. Transparency
 - D. Secrecy

13. CAS 17: Cost of Transportation primarily focuses on:
 - A) Classification of transportation costs
 - B) Measurement of transportation costs
 - C) Assignment of transportation costs
 - D) Determination of total transportation costs
14. What does CAS 22: Intangible Assets primarily cover?
 - A) Classification of intangible assets
 - B) Measurement of intangible assets
 - C) Assignment of intangible assets costs
 - D) Determination of total intangible assets
15. CAS 23: Overheads for Intermediary Services deals with:
 - A) Classification of intermediary service costs
 - B) Measurement of intermediary service costs
 - C) Assignment of intermediary service costs
 - D) Determination of total intermediary service costs
16. What does CAS-11 emphasize regarding the treatment of abnormal administrative costs?
 - A. Inclusion in cost calculations
 - B. Exclusion from cost calculations
 - C. Separate disclosure in footnotes
 - D. Attestation by external auditors
17. Which of the following is a key significance of CAS in cost accounting practices?
 - A. Increasing the subjectivity of cost information
 - B. Reducing transparency in financial reporting
 - C. Enhancing the reliability, comparability, and relevance of cost information
 - D. Limiting the scope of cost management
18. What does CAS contribute to in terms of transparency?
 - A. Complexity in cost structures
 - B. Ambiguity in cost reporting
 - C. Clear and understandable disclosure of relevant cost information
 - D. Hiding cost details from stakeholders
19. How does CAS promote improved decision-making within organizations?
 - A. By introducing ambiguity in cost information
 - B. By providing inaccurate cost data
 - C. By ensuring accurate and reliable cost information
 - D. By limiting the availability of cost data

20. Which of the following classifies cost as direct and indirect cost as per CAS 1

- By nature of expenses.
- By nature of traceability.
- By function.
- By nature of behavior.

Answer:

1	B	2	C	3	B	4	B	5	A	6	C	7	A	8	D
9	B	10	B	11	B	12	C	13	C	14	C	15	C	16	B
17	C	18	C	19	C	20	B								

⊙ **State True or False**

- CAS 19 stands for Joint Cost.
- Cost Accounting Standard Board should have minimum three eminent practicing members of the Institute of Cost Accountants of India.
- The function of CASB is to issue the framework for the Cost Accounting Standard.
- CAS 2 stands for classification of cost.
- The objective of CAS 10 is to bring uniformity and consistency in the period and methods of determining the direct expenses with reasonable accuracy.

Answer

1	True	2	False	3	True	4	False	5	True
---	------	---	-------	---	------	---	-------	---	------

⊙ **Fill in the Blanks**

- CAS 9 stands for _____.
- The _____ of the CASB will be nominated by the council of The Institute of Cost Accountants of India.
- _____ nominee from the regulate like CAG, RBI to the CASB Board.
- CAS _____ stands for cost of service cost centre.
- The function of CASB is to assist the members in preparations of uniform _____ under various statute.

Answer

1	Predetermined	2	chairman
3	four	4	13
5	cost statement		

Short Question

1. What is the main objective of Cost Accounting Standards (CAS)?
2. Who formulates and issues Cost Accounting Standards in India?
3. In which section of the Companies Act, 2013, is the provision related to the maintenance of cost records and cost audit found?
4. Explain the purpose of CAS 4: Cost of Production for Captive Consumption.
5. Which CAS specifically deals with the classification, measurement, and assignment of material costs?
6. What is the primary focus of CAS 11: Administrative Overheads?
7. Briefly describe the coverage of CAS 16: Borrowing Costs.
8. What is the significance of CAS 20: Total Cost in cost accounting practices?
9. Which CAS is related to the determination of cost for items intended for captive consumption?
10. In the context of CAS, what does “standard costing” refer to, and which CAS provides guidelines for it?

Essay type questions

1. What is the significance of cost accounting standards?
2. How did cost accounting standards evolve in India?
3. Discuss the legal provisions for maintaining and cost records and the audit of the same.
4. CAS 1 gives details of classification of cost. Explain the various classifications of costs as given in CAS 1, highlighting the significance and implications of each classification.
5. Write short notes on
 - i. CAS 1: Classification of Cost,
 - ii. CAS 3: Production and Operation Overheads,
 - iii. CAS 6: Material Cost,
 - iv. CAS 7: Employee Cost,
 - v. CAS 10: Direct Expenses,
 - vi. CAS 11: Administrative Overheads,
 - vii. CAS 15: Selling and Distribution Overheads,
 - viii. CAS 19: Joint Cost.
 - ix. CAS 21: Quality Control.