Cost Accounting Standards Board (CASB)

Introduction:
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, has constituted Cost Accounting Standards Board (CASB) with the objective of formulating the Cost Accounting Standards.

Keeping in view latest legal and contemporary developments, the Cost Accounting Standards Board develops Cost Accounting Standards. To explain the requirements of Standards and provide the guidance with practical examples and illustrations on technical issues relating to Cost Accounting Standards issued by the Institute, CASB also issues Guidance Notes. Further, there may also be other technical issues relating to topics of importance for which the Cost Accounting Standards are not necessary but these technical issues need guidance to members and industry with respect to measurement, classification, assignment and presentation of cost in cost statements, the CASB issues Guidance Notes on such topics. The Institute/Board has so far issued 24 Cost Accounting Standards, Generally Accepted Cost Accounting Principles, 9 Guidance Notes on Cost Accounting Standards and two Guidance Notes on “Treatment of Costs Relating to Corporate Social Responsibility (CSR) Activities” and “Maintenance of Cost Accounting Records for Construction Industry Including Real Estate and Property Development Activity”.


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.

Starting from 2001-02 CASB has met 84 times as on date. Under the Chairmanship of various Chairmen, it has covered a lot of distance and some of the major achievements are given below;

Major announcements by the Board:

- Issued 24 Cost Accounting Standards;
- Issued Generally Accepted Cost Accounting Principles (GACAP);
- Issued Guidance Notes on CAS-2 (Revised 2015), CAS-4, CAS-6, CAS-7, CAS-8, CAS-
Introduction:

Cost Accounting Standard - 1 (CAS - 1) was revised in 2015 and is issued by the Council of the Institute of Cost Accountants of India for determination of “CLASSIFICATION OF COST”.

This standard deals with the principles of Classification of Cost for determining the cost of product or service.

Objective:

The objective of this standard is to bring uniformity and consistency in the principles of Classification of Cost for disclosure and presentation in the cost statements of a product or service.

Scope:

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

Definitions:

Following terms are defined in this standard:

1] **Abnormal Cost**: An unusual or atypical cost whose occurrence is usually irregular and unexpected and/ or due to some abnormal situation of the production or operation.
2] **Administrative Overheads**: Cost of all activities relating to general management and administration of an entity.

3] **Classification of cost**: Classification of cost is the arrangement of items of costs in logical groups having regard to their nature (subjective classification) and purpose (objective classification).

4] **Conversion cost**: Conversion cost is the production cost excluding the cost of direct materials.

5] **Cost**: Cost is a measurement, in monetary terms, of the amount of resources used for the purpose of production of goods or rendering services.

6] **Cost Centre**: Any unit of an entity selected with a view to accumulating all cost under that unit. The unit can be division, department, section, group of plant and machinery, group of employees or combination of several units.

7] **Cost Object**: An activity, contract, cost centre, customer, process, product, project, service or any other object for which costs are ascertained.

8] **Cost of Production**: Cost of production of a product or a service consists of cost of materials consumed, direct employee costs, direct expenses, production overheads, quality control costs, packing costs, research and development costs and administrative overheads relating to production.

9] **Cost of Transportation**: Cost of Transportation comprises of the cost of freight, cartage, transit insurance and cost of operating fleet and other incidental charges whether incurred internally or paid to an outside agency for transportation of goods but does not include detention and demurrage charges.

10] **Cost Unit**: Cost Unit is a form of measurement of volume of production of a product or a service. Cost Unit is generally adopted on the basis of convenience and practice in the industry concerned.

11] **Development Cost**: Development cost is the cost for application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.

12] **Direct Employee Cost**: Employee costs, which can be attributed to a cost object in an economically feasible way.

13] **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 materials.
cost and direct employee cost.

14] **Direct Materials:** Materials, the costs of which can be attributed to a cost object in an economically feasible way.

15] **Distribution Overheads:** Distribution overheads, also known as distribution costs, are the costs incurred in handling a product or service from the time it is ready for dispatch or delivery until it reaches the ultimate consumer including the units receiving the product or service in an inter-unit transfer.

16] **Employee Cost:** Benefits paid or payable for the services rendered by employees (including temporary, part time and contract employees) of an entity.

17] **Fixed Costs:** Fixed costs are costs which do not vary with the change in the volume of activity. Fixed indirect costs are termed fixed overheads.

18] **Indirect Employee Cost:** Employee cost, which cannot be directly attributed to a particular cost object.

19] **Indirect Expenses:** Expenses, which cannot be directly attributed to a particular cost object.

20] **Indirect Materials:** Materials, the costs of which cannot be directly attributed to a particular cost object.

21] **Marketing overheads:** Marketing Overheads comprise of selling overheads and distribution overheads.

22] **Material Cost:** The cost of material used for the purpose of production of a product or rendering a service.

23] **Normal capacity:** Normal Capacity is the production achieved or achievable on an average over a number of periods or seasons under normal circumstances taking into account the loss of capacity resulting from planned maintenance.

24] **Overheads:** Overheads comprise costs of indirect materials, indirect employees and indirect expenses.

25] **Packing Material Cost:** The cost of material of any nature used for the purpose of packing of a product.

26] **Prime cost:** Prime cost is the aggregate of direct material cost, direct Employee cost and direct expenses.

27] **Production Overheads:** Indirect costs involved in the production of a product or in rendering service.
28] **Research Cost:** Research cost is the cost of original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

29] **Selling Overheads:** Selling overheads are the expenses related to sale of products or services and include all indirect expenses incurred in selling the products or services.

30] **Semi Variable Costs:** Semi Variable Costs are the costs that contain both fixed and variable elements. They partly change with the change in the level of activity.

31] **Support-Service Cost Centre:** The cost centre which primarily provides auxiliary services across the entity.

32] **Standard Cost:** A predetermined cost of a product or service based on technical specifications and efficient operating conditions.

33] **Variable Costs:** Variable costs are the cost which tends to directly vary with the volume of activity.

**Principles of Classification of Costs:**

Costs shall be classified by the process of grouping the components of cost under a common designation on the basis of similarities of nature, attributes or relations. Items grouped together under common heads shall be further classified according to their fundamental differences.

It is the process of identification of each item and the systematic placement of like items together according to their common features. The same costs may appear in several different classifications depending on the purpose of classification.

Cost is classified normally in terms of managerial objective. Its presentation normally requires sub-classification. Such sub-classification may be according to nature of the cost elements, functional lines, areas of responsibility, or some other useful break-up. The appropriate sub-classification depends upon the uses to be made of the cost report.

Cost may be classified with reference to the nature of expense, its traceability to a cost object (direct/ indirect), its relation to functions /activities, its behaviour (fixed, semi-variable or variable) and its relationship to production process.

**Classification of Cost:**

1] **By Nature of expenses:**
Items of costs differ on the basis of their nature. Costs shall be gathered together in their natural groupings such as material, employee and expenses. The elements of cost can be classified in the following three categories:
i) Material

ii) Labour

iii) Expenses

**Material Costs** are cost of materials used for the purpose of production of a product or rendering of a service, net of trade discounts, rebates, taxes and duties refundable that can be quantified with reasonable accuracy.

**Employee Costs** are consideration, including benefits paid or payable to employees, permanent or temporary, for the purpose of production of a product or rendering of a service.

**Expenses** are costs other than material cost and employee cost for the purpose of production of a product or rendering of a service.

**2] By nature of traceability to a cost object:**

Classification shall be done on the basis of method of assigning cost to a cost object. If a cost can be assigned to a cost object in an economically feasible way, it shall be termed as direct to that cost object. A cost that cannot be assigned directly shall be indirect cost.

**Direct Material Costs** are the cost of materials which can be assigned to a cost object in an economically feasible way.

**Direct Employee Cost** are employee costs, which can be assigned to a cost object in an economically feasible way.

**Direct Expenses** are expenses, which can be assigned to a cost object.

**Indirect Material Costs** are cost of materials, which cannot be directly assigned to a particular cost object in an economically feasible way.

**Indirect Employee costs** are employee costs, which cannot be directly assigned to a particular cost object in an economically feasible way.

**Indirect Expenses** are expenses, which cannot be directly assigned to a particular cost object in an economically feasible way.

**3] By functions:**

Costs shall be classified according to major functions viz:

- Production/ Project;
• Administration;
• Selling;
• Distribution;
• Research;
• Development;

4] **By nature of behaviour:**
Costs shall be classified based on behaviour in response to the changes in the activity levels such as, fixed cost, variable cost and semi-variable cost.

5] **By nature of production or operation process:**

Costs shall also be classified on the basis of nature of production or operation process.

**Batch Cost** shall be the aggregate cost related to a cost unit which consist of a group of similar articles or services which maintain its identity throughout one or more stages of production or operation.

**Process cost** shall be the cost of production or operation process where goods are produced or services rendered from a sequence of continuous or repetitive operations or processes during a period.

**Operation Cost** shall be the cost a specific operation involved in production of goods or rendering of services.

**Contract cost** shall be the cost of a contract agreed upon between the contractee and the contractor.

**Joint costs** are the costs of common resources used for producing two or more products or rendering two or more services simultaneously.

**Presentation:**
The cost items in the cost statement shall be presented on ‘basis of relevant classification’. The classification of cost items shall be followed consistently from period to period.

**Disclosure:**
Any change in classification of cost shall be made only if it is required by law or for
compliance with a Cost Accounting Standard or such change would result in a more appropriate preparation or presentation of cost statements of an entity.

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

**********************************************************************