



**CAS – 2 (REVISED 2024)**  
**COST ACCOUNTING STANDARD ON CAPACITY DETERMINATION**

The following is the Cost Accounting Standard - 2 (Revised 2024) on “**CAPACITY DETERMINATION**” issued by the Council of the Institute of Cost Accountants of India. This standard replaces CAS-2 (Revised 2015) on Capacity Determination. In this Standard, the standard portions have been set in ***bold italic*** type. These are to be read in the context of the background material, which has been set in normal type.

**1. Introduction**

- 1.1 This standard deals with the principles and methods of determining the capacity of a facility for producing goods or providing services by an entity.
- 1.2 ***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.***

**2. Objective**

***The objective of this standard is to bring uniformity and consistency in the principles and methods of determination of capacity with reasonable accuracy.***

**3. Scope**

***This standard shall be applied to the cost statements, including those requiring attestation, which require determination of capacity for assignment of overheads. The standard may be applied for determination of capacity for any other purpose.***

**4. Definitions**

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

- 4.1 ***Achievable or Practical Capacity: ‘Practical or Achievable Capacity’ is the maximum productive capacity reduced by the predictable and unavoidable factors of interruption pertaining to internal causes.***

Thus, practical capacity is the installed capacity minus the inevitable interruptions due to time lost for preventive maintenance, repairs, set ups, normal delays, weekly off-days and holidays etc. Practical capacity does not consider the external factors causing reduction in production e.g. lack of orders.

- 4.2 ***Actual capacity utilization: Actual capacity utilization is the volume of production achieved or service provided in a specified period, expressed as a percentage of installed capacity.***



Volume may be measured in terms of units produced or services provided or equivalent machine or man hours, as applicable.

Actual capacity utilization is usually expressed as a percentage of installed capacity.

- 4.3 ***Bottleneck: refers to an obstruction that hinders or restricts the flow of workflow processes, thereby constraining capacity of production / rendering of services within a business.***

A process step that becomes a congestion point or a blockage for flow of work; It is like the neck of the bottle – smaller (in diameter) – that restricts the flow of contents from the bottle.

For example: a manufacturing plant wherein a particular machine has a lower processing capacity as compared to the machines before and after it in the production line. As a result this machine becomes overwhelmed with work, causing a backlog of items waiting to be processed, slowing down the entire production process, and potentially delaying the delivery of finished products to customers.

- 4.4 ***Excess Capacity Utilization: is the difference between installed capacity and the actual capacity utilization when actual capacity utilization is more than installed capacity.***
- 4.5 ***Idle Capacity: is the difference between installed capacity and the actual capacity utilization when actual capacity utilization is less than installed capacity.***
- 4.6 ***Installed capacity: is the maximum capacity of producing goods or providing services, according to the manufacturer's specifications or determined through an expert study.***
- 4.7 ***Licensed Capacity: is the capacity of producing goods or providing services for which licence has been issued by an appropriate authority.*** Licensed Capacity is sometimes termed as Allowed or Allotted Capacity.
- 4.8 ***Normal Capacity: is the capacity achieved or achievable for goods or services on an average over a number of periods or seasons under normal circumstances.***

## **5. Determination of Capacity:**

- 5.1 ***Capacity shall be determined in terms of units of production or services or equivalent machine or man hours.***
- 5.2 ***Installed capacity: Installed capacity is usually determined based on:***
- i) ***Technical specifications of facility.***



- ii) **Technical evaluation.**
- iii) **Capacities of individual or interrelated production or operation Centres.**
- iv) **Operational constraints or capacity of critical machines or equipment.**
- v) **Number of shifts or machine hours or man hours.**
  - a) In case technical specifications of facility are not available, the estimates by technical experts on capacity under ideal conditions shall be considered for determination of installed capacity.
  - b) In case the installed capacity is assessed as per direction of the Government or regulator it shall be in accordance with the said directives.
  - c) Bottlenecks are to be given due consideration while determining the Installed capacity.

**5.3 Achievable or Practical Capacity: Achievable or Practical Capacity is determined after suitable adjustments to the Installed Capacity.**

- i) **Time lost due to scheduled preventive or planned maintenance**
- ii) **Number of shifts or machine hours or man hours.**
- iii) **Holidays and Weekly Offs, normal shut down days, normal idle time,**
- iv) **Normal time lost in batch change over, setup, etc.**
- v) **Loss in efficiency due to ageing of the machines/ equipment**
- vi) **Any other normal Internal Factor**

**5.4 Reassessment of Installed Capacity: Installed capacity shall be reassessed in case of any change due to addition, deletion, modification or for any other reason from the date of such change.**

In case the installed capacity is reassessed as per direction of the Government or regulator it shall be in accordance with the said directives.

**5.5 Determination of Normal Capacity: Normal capacity is determined based on the actual capacity achieved or expected to be achieved over a period of time, or average of achievable capacity over a period of time. Average of three to five normal years may be considered for this calculation.**

The periods influenced by abnormalities should be excluded for this purpose.

Explanation:

1. In case the same products with different specifications and of different ranges in terms of size, type, variety, etc. are manufactured, then there is a



need to determine equivalence among them in order to determine the capacity.

2. In case some intermediate products / components etc. are also produced, the production thereof should also be considered in determination of capacity, concept of equivalence may be used.
3. In case some machines are leased out/let out or some machines are taken on lease, resulting decrease / increase in capacity should also be considered.

## **6. Presentation**

- 6.1 *Cost Statements shall present Installed capacity, normal capacity and actual production of goods or services provided, in absolute terms.*
- 6.2 *Actual Capacity utilization shall be presented as a percentage of installed capacity.*

## **7. Disclosures**

- 7.1 *The cost statements shall disclose the following:*
  - a. *Basis for arriving at different types of capacity.*
  - b. *Changes in the installed capacity or normal capacity with reason thereof.*
  - c. *Capacity enhanced through outsourcing.*
  - d. *Capacity outsourced to others.*
  - e. *Details of actual production of goods or services provided.*
    - i. *Self-Manufactured goods or services provided through in-house facility*
    - ii. *Goods Produced or services provided through outsourcing*
  - f. *Reasons for low capacity utilization.*
  - g. *Abnormal cost due to under-utilization of capacity.*
- 7.2 *Disclosures shall be made only where material, significant and quantifiable.*
- 7.3 *Disclosures shall be made in the body of the Cost Statement or as a foot note or as a separate schedule.*

## **8. Effective date**

This Cost Accounting Standard shall be effective from the period commencing on or after 1<sup>st</sup> April 2024 for being applied for the preparation and certification of General Purpose Cost Accounting Statement.

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