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## CAS -18

# COST ACCOUNTING STANDARD ON RESEARCH AND DEVELOPMENT COSTS

The following is the Cost Accounting Standard-18 (CAS-18) issued by the Council of The Institute of Cost Accountants of India for determination of “**RESEARCH AND DEVELOPMENT COSTS**”. In this Standard, the standard portions have been set in *bold italic* type. This standard should be read in the context of the background material which has been set in normal type.

### 1. Introduction

*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.*

### 2. 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.*

### 3. 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.*

### 4. Definitions

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

- 4.1 *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.<sup>1</sup>*
- 4.2 *Cost Object: An activity, contract, cost centre, customer, process, product, project, service or any other object for which costs are ascertained.*
- 4.3 *Direct Employee Cost: Employee cost, which can be attributed to a Cost Object in an economically feasible way.<sup>2</sup>*
- 4.4 *Direct Expenses: Expenses relating to manufacture of a product or rendering a*

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<sup>1</sup> Adapted from CAS 1 paragraph 6.5.19

<sup>2</sup> Adapted from CAS 1 Para 6.2.4 (Direct labour cost)



***service, which can be identified or linked with the cost object other than direct material or direct employee cost<sup>3</sup>.***

Examples of Direct Expenses are royalties charged on production, hire charges for use of specific equipment for a specific job, cost of special designs or drawings for a job, software services specifically required for a job, travelling Expenses for a specific job.

- 4.5 Direct Materials: Materials, the cost of which can be attributed to a cost object in an economically feasible way.<sup>4</sup>***
- 4.6 Imputed Costs: Notional cost, not involving cash outlay, computed for any purpose.***
- 4.7 Indirect Employee Cost: Employee cost, which cannot be directly attributed to a particular cost object.***
- 4.8 Indirect Material Cost: Material cost that cannot be directly attributed to a particular cost object.***
- 4.9 Indirect expenses: Expenses which cannot be directly attributed to a particular cost object.***
- 4.10 Overheads: Overheads comprise costs of indirect materials, indirect employees and indirect expenses.***
- 4.11 Research and Development:***
  - 4.11.1 Research: Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding<sup>5</sup>.***
  - 4.11.2 Development cost: Development cost is the cost for application of research finding 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.***
  - 4.11.3 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.***
- 5. Principles of Measurement***
  - 5.1 Research, and Development Costs shall include all the costs that are directly traceable to research and/or development activities or that can be assigned to***

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<sup>3</sup> Adapted from CAS 1 Para 6.2.6

<sup>4</sup> Adapted from CAS 1 Para 6.2.3

<sup>5</sup> Adapted AS 26



**research and development activities strictly on the basis of a) cause and effect or b) benefits received. Such costs shall include the following elements:**

- 1 The cost of materials and services consumed in Research, and Development activities.
- 2 Cost of bought out materials and hired services as per invoice or agreed price including duties and taxes directly attributable thereto net of trade discounts, rebates, taxes and duties refundable or to be credited.
- 3 The salaries, wages and other related costs of personnel engaged in Research, and Development activities;
- 4 The depreciation of equipment and facilities, and other tangible assets, and amortisation of intangible assets to the extent that they are used for Research, and Development activities;
- 5 Overhead costs, other than general administrative costs, related to Research, and Development activities.
- 6 Costs incurred for carrying out Research, and Development activities by other entities and charged to the entity; and
- 7 Expenditure incurred in securing copyrights or licences
- 8 Expenditure incurred for developing computer software
- 9 Costs incurred for the design of tools, jigs, moulds and dies
- 10 Other costs that can be directly attributed to Research, and Development activities and can be identified with specific projects.

**5.2 Subsidy / Grant / Incentive or amount of similar nature received / receivable with respect to Research, and Development Activity, if any, shall be reduced from the cost of such Research, and Development Activity.**

**5.3 Any abnormal cost where it is material and quantifiable shall not form part of the Research, and Development Cost.**

**5.4 Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the Research, and Development Cost.**

**5.5 The amortisation of an intangible asset arising from the development activity shall be treated as set out in the CAS 16 relating to Depreciation and Amortisation.**

**5.6 Research, and Development costs shall not include imputed costs.**

**5.7 Credits/recoveries relating to Research, and Development cost, if material and**



***quantifiable, including from the sale of output produced from the Research and Development activity shall be deducted from the Research and Development cost.***

**6. Assignment of costs**

**6.1 *Research, and Development costs attributable to a specific cost object shall be assigned to that cost object directly.***

Research, development costs that are not attributable to a specific product or process shall not form part of the product cost.

**6.2 *Development cost which results in the creation of an intangible asset shall be amortised over its useful life***

**6.3 *Assignment of Development Costs shall be based on the principle of “benefits received”.***

**6.4 *Research and Development Costs incurred for the development and improvement of an existing process or product shall be included in the cost of production.***

In case the Research and Development activity related to the improvement of an existing process or product continues for more than one accounting period, the cost of the same shall be accumulated and amortised over the estimated period of use of the improved process or estimated period over which the improved product will be produced by the entity after the commencement of commercial production, as the case may be, if the improved process or product is distinctly different from the existing process or product and the product is marketed as a new product. The amount allocated to a particular period shall be included in the cost of production of that period. If the expenditure is only to improve the quality of the existing product or minor modifications in attributes, the principle shall not be applied.

**6.5 *Development costs attributable to a saleable service e.g providing technical know-how to outside parties shall be accumulated separately and treated as cost of providing the service.***

**7. Presentation**

**7.1 *Research and Development costs relating to improvement of the process or products or services shall be presented as a separate item of cost in the cost statement under cost of production.***

**7.2 *Research, and Development costs which are not related to improvement of the process, materials, devices, processes, systems, product or services shall be***

*presented as a part of the reconciliation statement.*

**8. Disclosures**

**8.1 The cost statements shall disclose the following:**

- 1. The basis of accumulation and assignment of Research and Development costs.**
- 2. The Research, and Development costs paid to related parties<sup>6</sup>.**
- 3. Credit/recoveries from related parties**
- 4. Research, and Development cost incurred in foreign exchange.**
- 5. Any Subsidy/Grant/Incentive and any such payment reduced from Research, and Development cost.**
- 6. Credits/recoveries deducted from the Research, and Development cost.**
- 7. Any abnormal cost excluded from Research, and Development cost including cost of abandoned projects and research activities considered abnormal.**
- 8. Penalties and damages paid etc. excluded from Research, and Development cost.**

**8.2 Any change in the cost accounting principles and methods applied for the measurement and assignment of the Research, and Development cost during the period covered by the cost statement that has a material effect on the Research, and Development cost shall be disclosed. Where the effect of such change is not ascertainable wholly or partly the fact shall be indicated.**

**8.3 Disclosures shall be made only where material, significant and quantifiable.**

**8.4 Disclosures shall be made in the body of the Cost Statement or as a foot note or as a separate schedule.**

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<sup>6</sup> Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement