



CAS – 2 (REVISED 2012) **COST ACCOUNTING STANDARD ON CAPACITY DETERMINATION**

The following is the Cost Accounting Standard - 2 (Revised 2012) issued by the Cost Accounting Standards Board of the Institute of Cost Accountants of India 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 manufacturing facility of an entity.
- 1.2 Capacity is determined for assignment of overheads to cost objects. Principles of assignment of overheads have been stipulated in Cost Accounting Standard – 3 (Revised 2011) on Overheads.
- 1.3 ***This standard deals with the principles and methods of classification and determination of capacity of a plant of an entity for ascertainment of the cost of product, 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.

4. Definitions:

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

- 4.1 ***Abnormal Idle Capacity: Abnormal idle capacity is the difference between normal capacity and actual capacity utilization where the actual capacity is lower than the normal capacity.***
- 4.2 ***Actual Capacity Utilization: Actual Capacity Utilization is the volume of production achieved in a specified period, expressed as a percentage of installed capacity.***



4.3 Cost Object: *This includes a product, service, cost centre, activity, sub-activity, project, contract, customer or distribution channel or any other unit in relation to which costs are finally ascertained.*¹

4.4 Installed Capacity: *Installed Capacity is the maximum productive capacity, according to the manufacturer's specifications or determined through an expert study.*

4.5 Normal Capacity: *Normal Capacity is the production achieved or achievable on an average over a period or season under normal circumstances taking into account the loss of capacity resulting from planned maintenance.*

Normal capacity is sometimes referred to as practical or achievable capacity.

4.6 Normal Idle Capacity: *Normal Idle Capacity is the difference between installed capacity and normal capacity.*

5. Determination of Capacity:

5.1 Capacity shall be determined in terms of units of production or equivalent machine or man hours.

5.2 Installed Capacity:

Installed capacity is determined based on:

- i) Manufacturers' Technical specifications*
- ii) Capacities of individual or interrelated production centres.*
- iii) Operational constraints / capacity of critical machines*
- iv) Number of shifts*

In case manufacturers' technical specifications are not available, the estimates by technical experts on capacity under ideal conditions shall be considered for determination of installed capacity.

In case any production facility is added or discarded the installed capacity shall be reassessed from the date of such addition or discard. In case the same is reassessed as per direction of the Government, it shall be in accordance with the principles laid down in the said directives.

In case of improvement in the production process, the installed capacity shall be

¹ Adapted from CIMA Terminology



reassessed from the date of such improvement.

5.3 Normal Capacity:

Normal capacity shall be determined vis-a-vis installed capacity after carrying out following adjustments:

- (i) *Holidays, normal shut down days and normal idle time,*
- (ii) *Normal time lost in batch change over,*
- (iii) *Time lost due to preventive maintenance and normal break downs of equipments,*
- (iv) *Loss in efficiency due to ageing of the equipment,*
- (v) *Number of shifts.*

5.4 Capacity utilization:

Capacity utilization is actual production measured as a percentage of installed capacity.

Actual production refers to in-house production.

6. Presentation:

6.1 *Cost Statements shall present Installed capacity in absolute terms.*

6.2 *Actual Capacity utilization shall be presented in absolute terms and as a percentage of installed capacity.*

7. Disclosure:

7.1 The cost statements shall disclose the following:

1. ***Basis for arriving at different types of capacity.***
2. ***Change in the installed capacity or normal capacity with reasons thereof.***
3. ***Increase or decrease in capacity due to equipments taken on lease or leased out.***
4. ***Details of production***
 - a) ***Self Manufactured***
 - b) ***Produced under leasing arrangements***
 - c) ***Produced on loan license / by third party on job work***
5. ***Reasons for low capacity utilization.***
6. ***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.*
- 7.4** *Any change in the principles and methods applied for capacity determination and its impact during the period covered by the cost statement which has a material effect on the capacity determination. Where the effect of such change is not ascertainable wholly or partly the fact shall be indicated.*