



CAS-8 COST ACCOUNTING STANDARD ON COST OF UTILITIES

The following is the COST ACCOUNTING STANDARD – 8 (CAS-8) issued by the Council of The Institute of Cost Accountants of India on “**COST OF UTILITIES**”, for comments. 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

- 1.1 This standard deals with the principles and methods of determining the cost of utilities.
- 1.2 ***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.***

2. 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.

3. Scope

- 3.1 ***This standard shall be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of cost of utilities including those requiring attestation.***
- 3.2 ***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 (CAS 4) shall apply.***
- 3.3 ***This standard shall not be applicable to the organizations primarily engaged in generation and sale of utilities.***
- 3.4 ***This standard does not cover issues related to the ascertainment and treatment of carbon credits, which shall be dealt with in a separate standard.***

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.¹***

¹ Adapted from CAS 1 paragraph 6.5.19



- 4.2 Committed Cost: The cost of maintaining stand-by utilities shall be the committed cost.**
- 4.3 Cost Object: An activity, contract, cost centre, customer, process, product, project, service or any other object for which costs are ascertained.**
- 4.4 Imputed Costs: Notional cost, not involving cash outlay, computed for any purpose.**
- 4.5 Interest and Finance charges: Interest and Financing Charges are interest and other costs incurred by an entity in connection with the financing arrangements.**

Examples are:

1. Interest and commitment charges on bank borrowings, other short term and long term borrowings:
2. Financing Charges in respect of finance leases and other similar arrangements: and
3. Exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest costs.

The terms Interest and financing charges, finance costs, and borrowing costs are used interchangeably.

- 4.6 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.³**

In case of any standby utility the normal capacity will be the same as actual production of the utility.

The normal capacity of a utility meant for captive consumption would be based on the normal capacity for the production facility of the end product of the consuming unit.

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

Standard costs are used as scale of reference to compare the actual costs with the standard cost with a view to determine the variances, if any, and analyse the causes of variances and take proper measure to control them. Standard costs are also used for estimation.

- 4.8 Stand-by utilities: Any utility created as backup against any failure of the main source of utilities.**

- 4.9 Utilities: Significant inputs such as power, steam, water, compressed air and the like which are used for manufacturing process but do not form part of the final product.**

² Adapted from CIMA Terminology

³ Adapted from CAS 2 paragraph 4.4



5. Principles of measurement

- 5.1 Each type of utility shall be treated as a distinct cost object.**
- 5.2 Cost of utilities purchased shall be measured at cost of purchase including duties and taxes, transportation cost, insurance and other expenditure directly attributable to procurement (net of trade discounts, rebates, taxes and duties refundable or to be credited) that can be quantified with reasonable accuracy at the time of acquisition.**
- 5.3.1 Cost of self generated utilities for own consumption shall comprise direct material cost, direct employee cost, direct expenses and factory overheads.**
- 5.3.2 In case of Utilities generated for the purpose of inter unit transfers, the distribution cost incurred for such transfers shall be added to the cost of utilities determined as per paragraph 5.3.1.**
- 5.3.3 Cost of Utilities generated for the inter company transfers shall comprise direct material cost, direct employee cost, direct expenses, factory overheads, distribution cost and share of administrative overheads.**
- 5.3.4 Cost of Utilities generated for the sale to outside parties shall comprise direct material cost, direct employee cost, direct expenses, factory overheads, distribution cost, share of administrative overheads and marketing overheads.**
- The sale value of such utilities will also include the margin.
- 5.4 Finance costs incurred in connection with the utilities shall not form part of cost of utilities.**
- 5.5 The cost of utilities shall include the cost of distribution of such utilities.**
- The cost of distribution will consist of the cost of delivery of utilities up to the point of consumption.
- 5.6 Cost of utilities shall not include imputed costs.**
- 5.7 Where cost of utilities is accounted at standard cost, the price variances related to utilities shall be treated as part of cost of utilities and the portion of usage variances due to normal reasons shall be treated as part of cost of utilities. Usage variances due to abnormal reasons shall be treated as part of abnormal cost.**
- 5.8 Any Subsidy/Grant/Incentive or any such payment received/receivable with respect to any cost of utilities shall be reduced for ascertainment of the cost to which such amounts are related.**



- 5.9** *The cost of production and distribution of utilities shall be determined based on the normal capacity or actual capacity utilization whichever is higher and unabsorbed cost, if any, shall be treated as abnormal cost⁴. Cost of a Stand-by Utility shall include the committed costs of maintaining such a utility.*
- 5.10** *Any abnormal cost where it is material and quantifiable shall not form part of the cost of utilities.*
- 5.11** *Penalties, damages paid to statutory authorities or other third parties shall not form part of the cost of utilities.*
- 5.12** *Credits/recoveries relating to the utilities including cost of utilities provided to outside parties, material and quantifiable, shall be deducted from the total cost of utility to arrive at the net cost of utility.*
- 5.13** *Any change in the cost accounting principles applied for the measurement of the cost of utilities should be made only if, it is required by law or for compliance with the requirements of a cost accounting standard, or a change would result in a more appropriate preparation or presentation of cost statements of an organisation.*
- 6. Assignment of costs**
- 6.1** *While assigning cost of utilities, traceability to a cost object in an economically feasible manner shall be the guiding principle.*
- 6.2** *Where the cost of utilities is not directly traceable to cost object, it shall be assigned on the most appropriate basis.*
- 6.3** *The most appropriate basis of distribution of cost of a utility to the departments consuming services is to be derived from usage parameters.*
- 7. Presentation**
- 7.1** *Utilities costs shall be presented as a separate cost head for each type of utility in the cost statement, if material.*
- 7.2** *Where separate cost statements are prepared for utilities, cost of utilities shall be classified as purchased or generated. Such statement shall also include cost of utilities consumed along with quantitative information by individual consuming units, inter unit transfers, inter company transfers and sale to outside parties wherever applicable.*

⁴ Adapted from paragraph 5.7 of CAS 3



8. Disclosures

8.1 The cost statements shall disclose the following:

- 1. The basis of distribution of Cost of Utility to the consuming centres.**
- 2. The cost of purchase, production, distribution, marketing and price with reference to sales to outside parties.**
- 3. Where cost of utilities is disclosed at standard cost, the price and usage variances.**
- 4. The cost and price of Utility received from/supplied to related parties⁵.**
- 5. The cost and price of Utility received from/supplied as inter unit transfers and inter company transfers**
- 6. Cost of utilities incurred in foreign exchange.**
- 7. Any Subsidy/Grant/Incentive and any such payment reduced from Cost of utilities.**
- 8. Credits/recoveries relating to the Cost of utilities.**
- 9. Any abnormal cost excluded from Cost of utilities.**
- 10. Penalties and damages paid etc excluded from cost of utilities.**

8.2 Any change in the cost accounting principles and methods applied for the measurement and assignment of the Cost of utilities during the period covered by the cost statement which has a material effect on the Cost of utilities. 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.

⁵ Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement