



## Glossary of Terms

### A

<b>Abnormal cost</b>	An unusual or atypical cost whose occurrence is usually irregular and unexpected and/or due to some abnormal situation of the production or operation.
<b>Abnormal idle capacity</b>	Abnormal idle capacity is the difference between normal capacity and actual capacity utilization where the actual capacity is lower than the normal capacity.
<b>Abnormal idle time</b>	An unusual or atypical idle time occurrence of which is irregular and unexpected or due to some abnormal situations.
<b>Absorption of overheads</b>	Assigning of overheads to cost objects by means of appropriate absorption rate.
<b>Actual capacity utilization</b>	Actual capacity utilization is the volume of production achieved or service provided in a specified period, expressed as a percentage of installed capacity.
<b>Administrative overheads</b>	Cost of all activities relating to general management and administration of an entity.
<b>Air pollutant</b>	Means any solid, liquid or gaseous substance (including noise) present in the atmosphere in such concentration as may be or tend to be injurious to human beings or other living creatures or plants or property or environment.
<b>Air pollution</b>	Air pollution means the presence in the atmosphere of any air pollutant.
<b>Allocation of overheads</b>	Allocation of overheads is assigning total amount of an item of cost directly to a cost object.
<b>Amortisation</b>	Amortisation is the systematic allocation of the depreciable amount of an intangible asset over its useful life.
<b>Apportionment of overhead</b>	Assigning of overhead is distribution of overheads to more than one cost objects on some equitable basis.
<b>Asset</b>	An Asset is a resource; (a) controlled by an entity as a result of past events; and (b) from which future economic benefits are expected to flow to the entity.



## Glossary of Terms

### B

**By-product** Product with relatively low value produced incidentally in the manufacturing of the product or service.

### C

**Captive consumption** Captive consumption means the consumption of goods manufactured by one division or unit and consumed by another division or unit of the same entity or related undertaking for manufacturing other product(s).

**Cartage** The expenses incurred for movement of goods covering short distance for further transportation for delivery to customer or storage.

**Collection of overheads** Collection of overheads means the pooling of items of indirect expenses from books of account and supportive/corroborative records in logical groups having regards to their nature and purpose.

**Conversion cost** Conversion cost is the production cost excluding the cost of direct materials.

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

**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.

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

**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.

**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.

**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.



## Glossary of Terms

<b>Current assets</b>	An entity shall classify an asset as current when : (a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle; (b) it holds the asset primarily for the purpose of trading; (c) it expects to realise the asset within twelve months after the reporting period; or (d) the asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.
<b>Current liabilities</b>	An entity shall classify a liability as current when : (a) it expects to settle the liability in its normal operating cycle; (b) it holds the liability primarily for the purpose of trading; (c) the liability is due to be settled within twelve months after the reporting period ; or (d) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.
<b>D</b>	
<b>Defectives</b>	Materials, products or intermediate products that do not meet quality standards. This may include reworks or rejects.
<b>Depreciable amount</b>	The cost of an asset, or other amount substituted for cost in the financial statement, less its residual value.
<b>Depreciation</b>	Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.
<b>Development</b>	Development is the 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 prior to the commencement of commercial production or use.
<b>Development cost</b>	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.
<b>Direct employee cost</b>	Employee cost, which can be attributed to a cost object in an economically feasible way.
<b>Direct expenses</b>	Expenses relating to manufacture of a product or rendering a service, which can be identified or linked with the cost object other than direct material cost or direct employee cost.
<b>Direct materials</b>	Materials, the costs of which can be attributed to a cost object in an economically feasible way.



## Glossary of Terms

**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 despatch or delivery until it reaches the ultimate consumer including the units receiving the product or service in an inter-unit transfer.

## E

**Employee cost**

Benefits paid or payable for the services rendered by employees (including temporary, part time and contract employees) of an entity.

**Environment pollution**

Environmental pollution means the presence in the environment of any environmental pollutant.

**Environment**

Environment includes water, air and land and the inter-relationship which exists among and between water, air and land, and human beings, other living creatures, plants, micro-organism and property.

**Environmental pollutant**

Environmental pollutant means any solid, liquid or gaseous substance present in such concentration as may be, or tend to be, injurious to environment.

**Excess capacity utilization**

Excess capacity utilization is the difference between installed capacity and the actual capacity utilization when actual capacity utilization is more than installed capacity.

## F

**Factory overheads**

Same as production overheads.

**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.

**Freight**

Freight is the charges paid or payable for transporting materials/ goods from one location to another.

## I

**Idle capacity**

Idle capacity is the difference between installed capacity and the actual capacity utilization when actual capacity utilization is less than installed capacity.

**Idle time**

The difference between the time for which employees are paid/payable to employees and the employees' time booked against cost objects.



## Glossary of Terms

<b>Imputed cost</b>	Notional cost, not involving cash outlay, computed for any purpose.
<b>Indirect employee cost</b>	Employee cost, which cannot be directly attributed to a particular cost object.
<b>Indirect expenses</b>	Expenses, which cannot be directly attributed to a particular cost object.
<b>Indirect material cost</b>	Material cost that cannot be directly attributed to a particular cost object.
<b>Indirect materials</b>	Materials, the costs of which cannot be directly attributed to a particular cost object.
<b>Installed capacity</b>	Installed capacity is the maximum capacity of producing goods or providing services, according to the manufacturer's specifications or determined through an expert study.
<b>Intangible asset</b>	An intangible asset is an identifiable non-monetary asset without physical substance.
<b>Interest and Finance charges</b>	Interest, including any payment in the nature of interest for use of non equity funds and incidental cost that an entity incurs in arranging those funds.
<b>Intermediate product</b>	An intermediate product is a product that requires further processing before it is saleable.
<b>J</b>	
<b>Joint costs</b>	Joint costs are the cost of common resources used to produce two or more products or services simultaneously.
<b>Joint product</b>	Products or services that are produced simultaneously, by the same process, identifiable at the end of the process and recognised as main products or services having sufficient value.
<b>M</b>	
<b>Manufacturing cost</b>	Same as cost of production.
<b>Manufacturing overheads</b>	Indirect costs involved in the manufacturing process.
<b>Marketing overheads</b>	Marketing overheads comprise of selling overheads and distribution overheads.



## Glossary of Terms

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

## N

**Net current asset** Net current asset is the excess of current assets over current liabilities.

**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.

**Normal idle capacity** Normal idle capacity is the difference between installed capacity and normal capacity.

## O

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

**Overtime premium** The extra amount payable beyond the normal wages and salaries for beyond the normal working hours.

## P

**Packing materials** Materials used to hold, identify, describe, store, protect, display, transport, promote and make the product marketable.

**Packing material cost** The cost of material of any nature used for the purpose of packing of a product.

**Pollution control** Pollution control means the control of emissions and effluents into environment. It constitutes the use of materials, processes, or practices to reduce, minimize, or eliminate the creation of pollutants or wastes. It includes practices that reduce the use of toxic or hazardous materials, energy, water, and / or other resources.

**Primary packing material** Packing material which is essential to hold and preserve the product for its use by the customer.

**Prime cost** Prime cost is the aggregate of direct material cost, direct employee cost and direct expenses.

**Production overheads** Indirect costs involved in the production of a product or in rendering service.



## Glossary of Terms

### Q

<b>Qualifying asset</b>	An asset that necessarily takes a substantial period of time to get ready for its intended use or sale.
<b>Quality</b>	Quality is the conformance to requirements or specifications.
<b>Quality control</b>	A procedure or a set of procedures exclusively designed to ensure that the manufactured products or performed services adhere to a defined set of quality criterion or meet requirements of the client or the customer.
<b>Quality control cost</b>	Cost of resources consumed towards quality control procedures.

### R

<b>Rejects</b>	Defectives which cannot meet the quality standards even after putting in additional resources.
<b>Repairs and maintenance cost</b>	Cost of all activities which have the objective of maintaining or restoring an asset in or to a state in which it can perform its required function at intended capacity and efficiency.
<b>Research</b>	Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.
<b>Research cost</b>	Research cost is the cost of original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding,
<b>Residual(salvage) value</b>	The estimated amount that an entity would currently obtain from disposal of an asset, after deducting the estimated costs of disposal, if the assets were already of the age and in the condition expected at the end of its useful life.
<b>Rework</b>	Defectives which can be brought up to the standards by putting in additional resources.
<b>Royalty</b>	Royalty is any consideration for the use of asset (tangible and/or intangible) to the owner.



## Glossary of Terms

### S

<b>Scrap</b>	Discarded material having no or insignificant value and which is usually either disposed off without further treatment (other than reclamation and handling) or reintroduced into the process in place of raw material.
<b>Secondary packing material</b>	Packing material that enables to store, transport, inform the customer, promote and otherwise make the product marketable.
<b>Selling overheads</b>	Selling overheads are the expenses related to sale of products or services and include all indirect expenses incurred in selling the products or services.
<b>Semi variable costs</b>	Semi variable costs are the costs that contain both fixed and variable elements. They partly change with the change in the level of activity.
<b>Soil pollutant</b>	Soil pollutant is a substance which is the source of soil contamination.
<b>Soil pollution</b>	Soil pollution means the presence of any soil pollutant(s) in the soil which is harmful to the living beings when it crosses its threshold concentration level.
<b>Split off point</b>	The point in the production process at which joint products become separately identifiable.
<b>Spoilage</b>	Production that does not meet the quality requirements or specifications and cannot be rectified economically.
<b>Standard cost</b>	A predetermined cost of a product or service based on technical specifications and efficient operating conditions.
<b>Stand-by service</b>	Any facility created as backup against any failure of the main source of service.
<b>Stand-by utilities</b>	Any utility created as backup against any failure of the main source of utilities.
<b>Support- Service Cost centre</b>	The cost centre which primarily provides auxiliary services across the entity.

### T

<b>Technical service fee</b>	Technical service fee is any consideration payable to provider of technical or managerial services.
<b>Transit insurance cost</b>	Transit insurance cost is the amount of premium to be paid to cover the risk of loss/damage to the goods in transit.



## Glossary of Terms

### U

**Useful life of the asset**

Useful life of asset is either :  
(a) the period over which a asset is expected to be available for use by an entity; or  
(b) the number of production or similar units expected to be obtained from use of the asset by the entity.

**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.

### V

**Variable costs**

Variable costs are the cost which tends to directly vary with the volume of activity.

### W

**Waste**

Material lost during production or storage and discarded material which may or may not have any value.

**Water pollution**

Water pollution means such contamination of water or such alteration of the physical, chemical or biological properties of water or such discharge of any sewage or trade effluent or of any other liquid, gaseous or solid substance into water (whether directly or indirectly) as may, or is likely to, create a nuisance or render such water harmful or injurious to public health or safety, or to domestic, commercial, industrial, agricultural or other legitimate uses, or to the life and health of animals or plants or of aquatic organisms.

**Works overheads**

Same as production overheads.