



CAS – 13

COST ACCOUNTING STANDARD ON COST OF SERVICE COST CENTRE

The following is the COST ACCOUNTING STANDARD – 13 (CAS - 13) issued by the Council of The Institute of Cost Accountants of India on “**COST OF SERVICE COST CENTRE**”. 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 cost of Service Cost Centre.
- 1.2 This standard covers the Service Cost Centre as defined in paragraph 4.11 of this standard. It excludes Utilities and Repairs & Maintenance Services dealt with in CAS-8 and CAS-12 respectively.
- 1.3 ***This standard deals with the principles and methods of classification, measurement and assignment of Cost of Service Cost Centre, 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 Service Cost Centre with reasonable accuracy.

3. Scope

This standard should be applied to the preparation and presentation of cost statements, which require classification, measurement and assignment of Cost of Service Cost Centre, 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.¹***

¹ Adapted from CAS 1 paragraph 6.5.19



4.2 *Administrative Overheads: Cost of all activities relating to general management and administration of an entity.*

Administrative overheads shall exclude production overheads², marketing overheads³ and finance cost. Production overheads includes administration cost relating to production, factory, works or manufacturing.

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 *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.*

The cost of any non manufacturing operations such as packing, repacking, labelling, etc. at an intermediate storage location will be part of distribution cost.

4.5 *Imputed Cost: Notional cost, not involving cash outlay, computed for any purpose.*

4.6 *Interest and Finance charges: 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.*

This will include interest and commitment charges on bank borrowings, other short term and long term borrowings, amortisation of discounts or premium related to borrowings, amortisation of ancillary cost incurred in connection with the arrangements of borrowings, finance charges in respect of finance leases, other similar arrangements and exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest costs⁴. The terms Finance costs and Borrowing costs are used interchangeably.

4.7 *Marketing overheads: Marketing overheads comprise of selling overheads and distribution overheads.*

4.8 *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.*⁵

4.9 *Production Overheads: Indirect costs involved in the production of a product or in rendering service.*

The terms Production Overheads, Factory Overheads, Works Overheads and

² Paragraph reference 4.13 CAS -9

³ Paragraph reference 4.11 CAS -7

⁴ Adapted from CIMA Terminology

⁵ Adapted from CAS 2 paragraph 4.4



Manufacturing Overheads denote the same meaning and are used interchangeably.

- 4.10 *Selling Overheads: Selling overheads are the expenses related to sale of products or services and include all indirect expenses incurred in selling the products or services.***
- 4.11 *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.

- 4.12 *Stand-by service: Any facility created as backup against any failure of the main source of service.***
- 4.13 *Support-Service Cost Centre: The cost centre which primarily provides auxiliary services across the entity.***

The cost centre which provides services to Production, Operation or other Service Cost Centre but not directly engaged in manufacturing process or operation is a service cost centre. A service cost centre renders services to other cost centres / other units and in some cases to outside parties.

Examples of service cost centres are engineering, workshop, research & development, quality control, quality assurance, designing, laboratory, welfare services, safety, transport, Component, Tool stores, Pollution Control, Computer Cell, dispensary, school, crèche, township, Security etc.

Administrative Overheads include cost of administrative Service Cost Centre.

5. Principles of Measurement

- 5.1 *Each identifiable service cost centre shall be treated as a distinct cost object for measurement of the cost of services subject to the principle of materiality.***
- 5.2.1 *Cost of service cost centre shall be the aggregate of direct and indirect cost attributable to services being rendered by such cost centre.***
- 5.2.2 *Cost of in-house services shall include cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources used in such service.***

Cost of other resources includes related overheads.

- 5.2.3 *Cost of services rendered by contractors within the facilities of the entity shall include charges payable to the contractor and cost of materials, consumable***



stores, spares, manpower, equipment usage, utilities, and other resources provided to the contractors for such services.

- 5.2.4 Cost of services rendered by contractors at their premises shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discount), taxes and duties refundable or to be credited. This cost shall also include the cost of resources provided to the contractors.**
- 5.2.5 Cost of services for the purpose of inter unit transfers shall also include distribution costs incurred for such transfers.**
- 5.2.6 Cost of services for the purpose of inter-company transfers shall also include distribution cost incurred for such transfers and administrative overheads.**
- 5.2.7 Cost of services rendered to outside parties shall also include distribution cost incurred for such transfers, administrative overheads and marketing overheads.**
- 5.3 Finance costs incurred in connection with the Service Cost Centre shall not form part of the cost of Service Cost Centre.**
- 5.4 The cost of service cost centre shall not include imputed costs.**
- 5.5 Where the cost of service cost centre is accounted at standard cost, the price and usage variances related to the services cost Centre shall be treated as part of cost of services. Usage variances due to abnormal reasons shall be treated as part of abnormal cost.**
- 5.6 Any Subsidy / Grant / Incentive or any such payment received / receivable with respect to any service cost centre shall be reduced for ascertainment of the cost to which such amounts are related.**
- 5.7 The cost of production and distribution of the service 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 cost⁶. Cost of a Stand-by service shall include the committed costs of maintaining such a facility for the service.**
- 5.8 Any abnormal cost where it is material and quantifiable shall not form part of the cost of the service cost centre.**
- 5.9 Penalties, damages paid to statutory authorities or other third parties shall not form part of the cost of the service cost centre.**
- 5.10 Credits/recoveries relating to the service cost centre including charges for**

⁶ Adapted from Paragraph 5.7 of CAS 3



services rendered to outside parties, material and quantifiable, shall be reduced from the total cost of that service cost centre.

5.11 ***Any change in the cost accounting principles applied for the measurement of the cost of Service Cost Centre shall 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 enterprise.***

6. Assignment of Costs

6.1 ***While assigning cost of services, traceability to a cost object in an economically feasible manner shall be the guiding principle.***

6.2 ***Where the cost of services rendered by a service cost centre is not directly traceable to a cost object, it shall be assigned on the most appropriate basis.***

6.3 ***The most appropriate basis of distribution of cost of a service cost centre to the cost centres consuming services is to be derived from logical parameters which could be related to the usage of the service rendered. The parameter shall be equitable, reasonable and consistent.***

7. Presentation

7.1 ***Cost of service cost centre shall be presented as a separate cost head for each type of service in the cost statement, if material.***

8. Disclosures

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

- 1. *The basis of distribution of cost of each service cost centre to the consuming centres.***
- 2. *The cost of purchase, production, distribution, marketing and price of services with reference to sales to outside parties***
- 3. *Where the cost of service cost centre is disclosed at standard cost, the price and usage variances***
- 4. *The cost of services received from / rendered to related parties⁷.***
- 5. *Cost of service cost centre incurred in foreign exchange.***
- 6. *Any Subsidy/Grant/Incentive and any such payment reduced from cost of Service Cost Centre.***

⁷ Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement



- 7. Credits/ recoveries relating to the cost of Service Cost Centre**
 - 8. Any abnormal cost excluded from cost of Service Cost Centre**
 - 9. Penalties and damages paid excluded from cost of Service Cost Centre.**
- 8.2** *Any change in the cost accounting principles and methods applied for the measurement and assignment of the cost of service cost centre during the period covered by the cost statement which has a material effect on the cost of service cost centre shall be disclosed. Where the effect of such change is not ascertainable wholly or partly the fact shall be disclosed.*
- 8.3** *Disclosures shall be made only where material and significant.*
- 8.4** *Disclosures shall be made in the body of the Cost Statement or as a foot note or as a separate schedule prominently.*