



CAS-3 (REVISED 2015) COST ACCOUNTING STANDARD ON “PRODUCTION AND OPERATION OVERHEADS”

The following is the Cost Accounting Standard on **PRODUCTION AND OPERATION OVERHEADS** (CAS-3) (Revised 2015) issued by the Council of the Institute of Cost Accountants of India. This standard replaces CAS-3 (Revised 2011) on Overheads. In this Standard, the standard portions have been set in ***bold italic*** type. This standard shall 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 Production or Operation Overheads.

1.2 ***This standard deals with the principles and methods of classification, measurement and assignment of Production or Operation Overheads, for determination of the cost of goods produced or services provided and for 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 Production or Operation Overheads with reasonable accuracy.

3. Scope

This standard shall be applied to cost statements, which require classification, measurement, assignment, presentation and disclosure of Production or Operation Overheads 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 or due to some abnormal situation of the production or operation.***

4.2 ***Absorption of Production or Operation Overheads: Assigning of Production or Operation Overheads to cost objects by means of appropriate absorption rate.***

Overhead Absorption Rate = Production or Operation Overheads of the Activity divided by the volume of activity.



For example the rate obtained by dividing the overheads of a Machine Shop by machine hours.

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

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

4.4 *Cost Centre: Any unit of an entity selected with a view to accumulating all costs under that unit. The unit can be division, department, section, group of plant and machinery, group of employees or combination of several units.*

A cost centre includes a process, function, activity, location, item of equipment, group of persons or any other unit in relation to which costs are accumulated.

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

4.6 *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.*

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

4.8 *Indirect Employee Cost: Employee cost, which 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 *Indirect Material Cost: Material cost that cannot be directly attributed to a particular cost object.*

4.11 *Normal capacity: Normal capacity is the volume of production or services achieved or achievable on an average over a period under normal circumstances taking into account the reduction in capacity resulting from planned maintenance.¹*

4.12 *Production or Operation Overheads: Indirect costs involved in the production of a product or in providing service.*

The terms Production Overheads, Operation Overheads, Factory Overheads, Works Overheads and Manufacturing Overheads denote the same meaning and are used interchangeably.

¹ In line with paragraph 4.5 of CAS – 2 (Revised 2015)



Production or Operation Overheads include administration cost relating to production, factory, works or manufacturing and providing of services.

In addition Production or Operation Overheads shall also be classified on the basis of behaviour such as variable Production or Operation Overheads, semi-variable Production or Operation Overheads and fixed Production or Operation Overheads.

- Variable Production or Operation Overheads comprise of expenses which vary in proportion to the change of volume of production or activity or services provided.
- Semi Variable Costs are the costs that contain both fixed and variable elements. They partly change with the change in the level of activity.
- Fixed overhead are indirect costs which do not vary with the change in the volume of production or activity or service provided.

4.13 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 cost 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.

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

5. Principles of Measurement:

5.1 Production or Operation Overheads representing procurement of resources shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discounts), taxes and duties refundable or to be credited.

5.2 Production or Operation Overheads other than those referred to in paragraph 5.1 shall be determined on the basis of cost incurred in connection therewith.

In case of machinery spare fabricated internally or a repair job carried out internally, it will include cost incurred on material, employees and expenses.

5.3 Any abnormal cost where it is material and quantifiable shall not form part of the Production or Operation Overheads.

5.4 Production or Operation Overheads shall not include imputed cost.

5.5 Production or Operation Overhead variances attributable to normal reasons shall be treated as part of Production or Operation Overheads. Overhead variances attributable to abnormal reasons shall be excluded from Production or Operation Overheads.



- 5.6 Any subsidy, Grant, Incentive or amount of similar nature received or receivable with respect to Production or Operation Overheads shall be reduced for ascertainment of the cost of the cost object to which such amounts are related.**
- 5.7 Fines, penalties, damages and similar levies paid or payable to statutory authorities or other third parties shall not form part of the Production or Operation Overheads.**
- 5.8 Credits or recoveries relating to the Production or Operation Overheads, material and quantifiable, shall be deducted from the total Production or Operation overheads to arrive at the net Production or Operation Overheads. Where the recovery exceeds the total Production or Operation Overheads, the balance recovery shall be treated as other income.**
- 5.9 Any change in the cost accounting principles applied for the measurement of the Production or Operation Overheads 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 entity.**
- 6. Assignment**
- 6.1 While assigning Production or Operation Overheads, traceability to a cost object in an economically feasible manner shall be the guiding principle. The cost which can be traced directly to a cost object shall be directly assigned.**
- 6.2 Assignment of Production or Operation Overheads to the cost objects shall be based on either of the following two principles;**
- i) Cause and Effect - Cause is the process or operation or activity and effect is the incurrence of cost.**
 - ii) Benefits received – Production Overheads are to be apportioned to the various cost objects in proportion to the benefits received by them.**
- In case of facilities created on a standby or ready to serve basis, the cost shall be assigned on the basis of expected benefits instead of actual.
- 6.3 Absorption of Production or Operation Overheads shall be as follows:**
- 6.3.1 The variable Production or Operation Overheads shall be absorbed to products or services based on actual production.**
- 6.3.2 The fixed Production or Operation Overheads shall be absorbed based on the normal capacity.**



7. Presentation

- 7.1** *Production or Operation Overheads shall be presented as separate cost head.*
- 7.2** *If material, element wise and behaviour wise details of the Production or Operation Overheads shall be presented.*
- 7.3** *Any under-absorption or over-absorption of Production or Operation Overheads shall be presented in the reconciliation statement.*

8. Disclosures

8.1 *The cost statements shall disclose the following:*

- 1.** *The basis of assignment of Production or Operation Overheads to the cost objects.*
- 2.** *Production or Operation Overheads incurred in foreign exchange.*
- 3.** *Production or Operation Overheads relating to resources received from or supplied to related parties².*
- 4.** *Any Subsidy, Grant, Incentive or any amount of similar nature received or receivable reduced from Production or Operation Overheads.*
- 5.** *Credits or recoveries relating to the Production or Operation Overheads.*
- 6.** *Any abnormal cost not forming part of the Production or Operation Overheads.*
- 7.** *Any unabsorbed Production or Operation Overheads.*

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

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

8.4 *Any change in the cost accounting principles and methods applied for the measurement and assignment of the Production or Operation Overheads during the period covered by the cost statement which has a material effect on the Production or Operation Overheads shall be disclosed. Where the effect of such change is not ascertainable wholly or partly the fact shall be indicated.*

9. Effective date

This Cost Accounting Standard shall be effective from the period commencing on or after 1st April 2016 for being applied for the preparation and certification of General Purpose Cost Accounting Statement.

² *Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement*