

REQUEST FOR COMMENTS

The Council of The Institute of Cost and Works Accountants of India has approved the release of the Exposure Draft on Employee Cost as recommended by the Cost Accounting Standards Board (CASB), the standard-setting body of the Institute on December 11, 2008. The CASB's proposed standard may be modified in light of comments received before being issued as a standard in final form.

Please submit your comments, preferably by email, latest by **January 30, 2009**.

Comments should be addressed to:

The Secretary,
Cost Accounting Standards Board
The Institute of Cost and Works Accountants of India,
ICWAI Bhawan, 3rd Floor
3, Lodi Road, Institutional Area,
New Delhi

Email responses should be sent to: **casb@icwai.org**

Copies of this exposure draft may be downloaded from the ICWAI website at
<http://www.icwai.org>



ED CAS – 8
EXPOSURE DRAFT FOR
COST ACCOUNTING STANDARD ON EMPLOYEE COST

The following is the Exposure Draft of the COST ACCOUNTING STANDARD – 8 (CAS-8) issued by the Council of The Institute of Cost and Works Accountants of India on “EMPLOYEE COST”, for comments. In this Exposure Draft of the 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 Employee cost.

1.2 *This standard deals with the principles and methods of classification, measurement and assignment of Employee cost, 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 Employee cost with reasonable accuracy.

3 Scope

This standard should be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of Employee cost 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*

4.2 Abnormal Idle time: *An unusual or atypical employee idle time occurrence of which is usually, irregular and unexpected or due to some abnormal situations.*

¹ Adapted from CAS 1 Para 6.5.19



E.g.: Idle time due to a strike, lockout or a fire accident

4.3 Administrative overheads: *Expenses in the nature of indirect costs, incurred for general management of an organization².*

4.4 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 ascertained.³*

4.5 Direct Employee Cost: *The cost of employees which can be attributed to a Cost Object in an economically feasible way.⁴*

4.6 Employee cost: *The aggregate of all kinds of consideration paid or payable for the services rendered by employees of an enterprise (including temporary, part time and contract employees). Consideration includes wages, salary, contractual payments and benefits, as applicable or any payment made on behalf of employee. This is also known as Labour Cost.⁵*

Employee cost includes payment made in cash or kind. E.g.

- **Employee cost - Cash**
 - Salaries and wages.
 - Bonus.
 - Other cash benefits
- **Employee cost - Non-cash**
 - Bonus in kind.
 - Other non cash benefits.
- **Employee cost – Future benefits**
 - Gratuity.
 - Leave encashment.
 - Other retirement/separation benefits.
 - VRS/ other deferred Employee cost.
 - Other future benefits

² Adapted from CAS 1 Para 6.3.5

³ Adapted from CIMA Terminology

⁴ Adapted from CAS 1 Para 6.2.4 (Direct labour cost)

⁵ Adapted from CAS 1 Para 6.1.4



Benefits generally include:

- Paid holidays.
- Leave with pay.
- Insurance, such as employer's contribution to Employees State Insurance Scheme.
- Employer's contribution to provident fund or any contributory fund.
- Retirement benefits which include: Provident fund, Superannuation/ pension, Gratuity, Leave encashment benefit on retirement, Post-retirement health and welfare scheme.
- Statutory provisions for insurance against accident or health scheme.
- Statutory provisions for workman's compensation.
- Medical and surgical benefits to the Employees and dependents.
- Free or subsidised food.
- Free or subsidised housing.
- Free or subsidised education to children.
- Free or subsidised canteen, crèches and recreational facilities.
- Free or subsidised conveyance.
- Leave travel concession.
- Any other free or subsidised facility.

4.7 Idle time: *The difference between the time for which the employees are paid and the employees' time booked against the cost object.*

The time for which the employees are paid includes holidays, paid leave and other allowable time offs such as lunch, tea breaks.

4.8 Imputed Costs: *Hypothetical or notional costs, not involving cash outlay, computed only for the purpose of decision making.*⁶

4.9 Indirect Employee Cost: *The cost which can not be directly attributed to a particular cost object.*⁷

⁶ Adapted from CAS 1 Para 6.5.13

⁷ Adapted from CAS 1 Para 6.2.10



4.10 Overtime Premium: *Overtime is the time spent beyond the normal working hours which is usually paid at a higher rate than the normal time rate. The extra amount beyond the normal wages and salaries paid is called overtime premium.*

4.11 Production Overheads: *Indirect costs involved in the production process or in rendering service.⁸*

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

4.12 Standard Cost: *A predetermined norm applied as a scale of reference for assessing actual cost, whether these are more or less.*

The standard cost serves as a basis of cost control and as a measure of productive efficiency when ultimately posed with an actual cost. It provides management with a medium by which the effectiveness of current results is measured and responsibility for deviation is placed.⁹ Standard costs are used 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.

5 Principles of Measurement

5.1 Employee Cost shall be ascertained taking into account the gross pay including all allowances payable along with the cost to the employer of all the benefits.

5.2 Bonus whether payable as a Statutory Minimum or on a sharing of surplus shall be treated as part of employee cost. Ex gratia payable in lieu of or in addition to Bonus shall also be treated as part of the employee cost.

5.3 Remuneration payable to Managerial Personnel i.e. Directors and other officers of a corporate body under a statute will be considered as part of the Employee Cost whether the whole part of the remuneration is computed as a percentage of profits.

5.4 Employee cost may include imputed costs not considered in financial accounts.

Such costs which are not recognized in financial accounts may be determined by imputing a cost to the usage or by measuring the benefit from an alternate use of the resource.

⁸ Adapted from CAS 1 Para 6.3.3

⁹ Adapted from CAS 1 Para 6.7.5



5.5 Cost of Idle time is ascertained by the number of hours of idle time multiplied by the hourly rate applicable to the idle employee or a group of employees.

5.6 Where Employee cost is accounted at standard cost, the portion of variances due to normal reasons related to Employee cost shall be treated as part of Employee cost. Variances due to abnormal reasons shall be treated as part of abnormal cost.

5.7 Any Subsidy/Grant/Incentive or any such payment received/receivable with respect to any Employee cost shall be reduced for ascertainment of the cost of the cost object to which such amounts are related.

5.8 Any abnormal cost where it is material and quantifiable shall not form part of the Employee cost.

5.9 Penalties, damages paid to statutory authorities or other third parties shall not form part of the Employee cost.

5.10 Any recovery from the employee towards any benefit provided e.g. housing shall be reduced from the employee cost.

5.11 Any change in the cost accounting principles applied for the determination of the Employee cost 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 enterprise.

6 Assignment of costs :

6.1 Where the Employee services are traceable to a cost object, such Employees' cost shall be assigned to the cost object on the basis such as time consumed or number of employees engaged etc or similar identifiable measure.

6.2 While determining whether a particular Employee cost is chargeable to a separate cost object, the principle of materiality shall be adhered to.

6.3 Where the Employee costs are not directly traceable to the cost object, these may be assigned on suitable basis like time spent.



6.4 The amortized voluntary retirement cost for the period shall be treated as indirect cost and assigned to the cost objects in an appropriate manner. However such a cost, if associated with discontinued operations, shall not be treated as cost.

6.5 Recruitment costs, training cost, labour turnover cost and other such costs should be treated as overheads and dealt with accordingly.

6.6 Overtime premium shall be assigned directly to the cost object or treated as overheads depending on the economic feasibility and the specific circumstance requiring such overtime.

6.7 Idle time cost shall be assigned direct to the cost object or treated as overheads depending on the economic feasibility and the specific circumstances causing such idle time.

Cost of idle time for reasons anticipated like normal lunchtime, holidays etc is normally loaded in the Employee cost while arriving at the cost per hour of an Employee/a group of Employees whose time is attributed direct to cost objects.

7 Presentation

7.1 Direct Employee costs shall be presented as a separate cost head in the cost statement.

7.2 Indirect Employee costs shall be presented in cost statements as a part of overheads relating to respective functions e.g. manufacturing, administration, marketing etc.

7.3 The cost statement shall furnish the resources consumed on account of Employee cost, category wise such as wages salaries to permanent / temporary contract /outsourced employees, piece rate payments, overtime payments, Employee benefits (category wise)etc wherever such items form a material part of the total Employee cost.

8 Disclosures

8.1 Any change in the cost accounting principles and methods applied for the determination of the Employee cost during the period covered by the cost statement which has a material effect on the cost of the employees shall be disclosed. Where the effect of such change is not ascertainable wholly or partly the fact shall be indicated.



8.2 Employee cost attributable to capital works or jobs in the nature of deferred revenue expenditure shall be disclosed indicating the method followed in determining the cost of such capital work.

8.3 Cost of termination benefit payable to employees shall be disclosed. The cost of termination benefit due to special schemes not treated as cost shall be disclosed. E.g. Voluntary Retirement Schemes

8.4 Any abnormal cost excluded from Employee cost shall be disclosed.

8.5 Penalties and damages paid etc excluded from Employee cost shall be disclosed.

8.6 Any Subsidy/Grant/Incentive and any such payment reduced from Employee cost shall be disclosed.

8.7 The Employee cost paid to related parties¹⁰ shall disclosed

8.8 Any cost imputed in arriving at the Employee cost shall be disclosed.

8.9 Employee cost incurred in foreign exchange shall be disclosed separately.

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

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

¹⁰ Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement.