

## REQUEST FOR COMMENTS

The Council of The Institute of Cost and Works Accountants of India has approved the release of the Exposure Draft on Cost of Utilities 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.

In the proposed ED CASB has recommended the inclusion of finance cost as a part of cost of utilities produced. The relevant paragraph is reproduced below:

***“5.4 Finance costs directly incurred in connection with the self generated utilities shall form part of cost of utilities. “***

Please submit your comments specifically on paragraph 5.4 of the proposed ED, 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, 3<sup>rd</sup> Floor  
3, Lodi Road, Institutional Area,  
New Delhi

Email responses should be sent to: **[casb@icwai.org](mailto:casb@icwai.org)**

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



**EXPOSURE DRAFT**  
**CAS - 9**  
**COST ACCOUNTING STANDARD ON COST OF UTILITIES**

The following is the COST ACCOUNTING STANDARD – 9 (CAS-9) issued by the Council of The Institute of Cost and Works 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**

*This standard should be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of cost of utilities 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.<sup>1</sup>*

**4.2 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.<sup>2</sup>*

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<sup>1</sup> Adapted from CAS 1 Para 6.5.19

<sup>2</sup> Adapted from CIMA Terminology



**4.3 Finance Costs: *Costs incurred by an enterprise in connection with the borrowing of 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 costs<sup>3</sup>.

**4.4 Imputed Costs: *Hypothetical or notional costs, not involving cash outlay, computed for any purpose.***<sup>4</sup>

**4.5 Normal capacity: *Normal Capacity is the production achieved or achievable on an average over a period or season under normal circumstances taking into account the loss of capacity resulting from planned maintenance.***<sup>5</sup>

*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.*

**4.6 Standard Cost: *A predetermined norm applied as a scale of reference for assessing actual cost, whether these are more or less.***<sup>6</sup>

*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.*<sup>6</sup>

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.

**4.7 Utilities: *Significant inputs such as power, steam, water, compressed air and the like which do not go into the final product but are essential for manufacturing process.***

**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 up to the point of delivery as per the agreement with the suppliers but excluding any cash discount.***

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<sup>3</sup> Adapted from CIMA Terminology

<sup>4</sup> Adapted from CAS 1 Para 6.5.13

<sup>5</sup> Adapted from CAS 2 Para 4.4

<sup>6</sup> Adapted from CAS 1 Para 6.7.5



**5.3.1 Cost of self generated utilities for own production shall be valued including direct material cost, direct employee cost, direct expenses and factory overheads.**

**5.3.2 Utilities generated for the purpose of inter unit transfers shall be valued including direct material cost, direct employee cost, direct expenses, factory overheads and distribution cost.**

**5.3.3 Utilities generated for the inter company transfers shall be valued including direct material cost, direct employee cost, direct expenses, factory overheads, distribution cost and share of administrative overheads.**

**5.3.4 Utilities generated for the sale to outside parties shall be valued including direct material cost, direct employee cost, direct expenses, factory overheads, distribution cost, share of administrative overheads and marketing overheads.**

**5.4 Finance costs directly incurred in connection with the self generated utilities shall form part of cost of utilities.**

**5.5 Finance costs directly incurred in connection with the utilities purchased shall not form part of cost of utilities.**

**5.6 The cost of utilities shall include the cost of distribution of such utilities.**

**5.7 The cost of utilities shall include the taxes and levies, net of those refundable or to be credited by the taxing authorities as applicable.**

**5.8 Cost of utilities may include imputed costs.**

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.

**5.9 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.**

**5.10 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.**



**5.11 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 cost<sup>7</sup>. Cost of a Stand-by Utility shall include the committed costs of maintaining such a facility.**

**5.12 Any abnormal cost where it is material and quantifiable shall not form part of the cost of utilities.**

**5.13 Penalties, damages paid to statutory authorities or other third parties shall not form part of the cost of utilities.**

**5.14 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.**

**5.15 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 enterprise.**

## **6. Assignment of costs**

**6.1 Where the cost of utilities is not directly traceable to cost object, it shall be assigned on the most appropriate basis.**

**6.2 The most appropriate basis of distribution of cost of a utility to the departments consuming services is to be derived from usage parameters.** E.g. power in Kilowatt-Hours, water in Kilo Litres, steam in Tonnes and air in Cubic Metres.

## **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**

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<sup>7</sup> Adapted from Para 5.7 of CAS 3



*with quantitative information by individual consuming units, inter unit transfers, inter company transfers and sale to outside parties wherever applicable.*

## **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 parties<sup>8</sup>.**
- 5. Any cost imputed in arriving at the cost of utilities.**
- 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.**

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<sup>8</sup> Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement