



EXPOSURE DRAFT
CAS – 2 (REVISED 2015)
COST ACCOUNTING STANDARD ON CAPACITY DETERMINATION

The following is the Cost Accounting Standard - 2 (Revised 2015) on “Capacity Determination” issued by the Cost Accounting Standards Board of the Institute of Cost Accountants of India. 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 capacity of a facility for producing goods or providing services by an entity.

1.2 This standard deals with the principles and methods of classification and determination of capacity of an entity for ascertainment 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 determination of capacity with reasonable accuracy.

3. Scope

This standard shall be applied to the cost statements, including those requiring attestation, which require determination of capacity for assignment of overheads.

4. Definitions

The following terms are being used in this standard with the meaning specified.

4.1 Abnormal Idle Capacity: Abnormal idle capacity is the difference between normal capacity and actual capacity utilization where the actual capacity is lower than the normal capacity.



4.2 Actual capacity utilization: Actual capacity utilization is measured in terms of volume of production achieved or service provided in a specified period.

Volume may be measured in terms of units produced or services provided or equivalent machine or man hours, as applicable.

Actual capacity utilization is usually expressed as a percentage of installed capacity.

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

4.4 Installed capacity: Installed capacity is the maximum capacity of producing goods or providing services, determined either based on technical specification of the facility or through a technical evaluation.

4.5 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.

4.6 Normal Idle Capacity: Normal idle capacity is the difference between installed and normal capacity.

5. Determination of Capacity:

5.1 Capacity shall be determined in terms of units of production or services or equivalent machine or man hours.

5.2 Installed capacity

Installed capacity is usually determined based on:

- i) Technical specifications of facility.**
- ii) Technical evaluation. .**
- iii) Capacities of individual or interrelated production or operation centres.**
- iv) Operational constraints or capacity of critical machines or equipment.**



v) *Number of shifts or machine hours or man hours.*

In case technical specifications of facility are not available, the estimates by technical experts on capacity under ideal conditions shall be considered for determination of installed capacity.

In case the installed capacity is assessed or reassessed as per direction of the Government or regulator it shall be in accordance with the said directives.

In case of any change in installed capacity due to addition, deletion or modification, the same shall be reassessed from the date of such change.

5.3 Normal Capacity:

Normal capacity is determined after suitable adjustments to the Installed Capacity.

The adjustments may be of the following nature:

- (i) Time lost due to scheduled preventive or planned maintenance
- (ii) Number of shifts or machine hours or man hours.
- (iii) Holidays, normal shut down days, normal idle time,
- (iv) Normal time lost in batch change over

6. Presentation

6.1 Cost Statements shall present Installed capacity, normal capacity and actual production of goods or services provided, in absolute terms.

6.2 Actual Capacity utilization shall be presented as a percentage of installed capacity.

7. Disclosure:

7.1 The cost statements shall disclose the following:

- 1. Basis for arriving at different types of capacity.***
- 2. Changes in the installed capacity or normal capacity with reason thereof.***
- 3. Capacity enhanced through outsourcing.***
- 4. Capacity outsourced to others.***



- 5. Details of actual production of goods or services provided.**
 - a) Self-Manufactured goods or services provided through in-house facility**
 - b) Goods Produced or services provided through outsourcing**
- 6. Reasons for low capacity utilization.**
- 7. Abnormal cost due to under-utilization of capacity.**

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

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

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