



Practical Aspects of Cost Accounting Standards

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Executive Summary

- Cost Accounting Standards: The Relevance
- Cost Accounting Standards: The Structure
- CAS 10: Cost Accounting Standard on Direct Expenses
- CAS 12: Cost Accounting Standard on Repairs and Maintenance Cost
- CAS 16: Cost Accounting Standard on Depreciation and Amortisation



Cost Accounting Standards: The Relevance

- **Section 138: Central Government to Specify Audit of Items of Cost in Respect of Certain Companies**
- Provided further that the auditor conducting the cost audit shall comply with the cost auditing standards.
- Explanation.—For the purposes of this sub-section, the expression “cost auditing standards” mean such standards as are issued by the [Institute of Cost Accountants of India], constituted under the Cost and Works Accountants Act, 1959, with the approval of the Central Government.
- **No Mention of Cost Accounting Standards in the Companies Act/ Rules**
- **Government of India, Ministry of Corporate Affairs, vide their letter no. 52/33/CAB/2013 dated 10th September, 2015 has, under section 148(3) of the Companies Act, 2013, granted Central Government’s approval to the following Cost Auditing Standards:**



Cost Accounting Standards: The Relevance

- Cost Auditing Standard-101 on Planning an audit of Cost Statements;
- Cost Auditing Standard-102 on Cost Audit Documentation;
- Cost Auditing Standard-103 on Overall objectives of the independent cost auditor and the Conduct of an Audit in Accordance with Cost Auditing Standards; and
- Cost Auditing Standard-104 on Knowledge of business, its processes and the business environment



Cost Accounting Standards: The Relevance

- **Cost Auditing Standard – 102 on Cost Audit Documentation prescribes Cost Audit compliance with:-**
 1. The Rules, regarding maintenance of Cost Records, as prescribed under the Companies Act,
 2. The Cost Accounting Standards (CAS) as prescribed by the Institute
 3. The Generally Accepted Cost Accounting Principles (GACAP) as prescribed by the Institute



Cost Accounting Standards: The Structure

- Para 1: Introduction
- Para 2: Objective
- Para 3: Scope
- Para 4: Definitions
- Para 5: Principles of Measurement (The Heart – Man, Material and Machine. Money?)
- Para 6: Assignment of Costs
- Para 7: Presentation (Checklist)
- Para 8: Disclosures (Checklist)



CAS 10: Direct Expenses (Definition)

- **Para 4.4** *Expenses relating to manufacture of a product or rendering a service, which can be identified or linked with the cost object other than direct material cost and direct employee cost*
- Examples
 1. Royalties charged on production,
 2. Job-work charges, Subcontract charges
 3. hire charges for use of specific equipment for a specific job,
 4. cost of special designs or drawings for a job,
 5. software services specifically required for a job,
 6. travelling Expenses for a specific job
 7. contractual labour



CAS 10: Direct Expenses (Specific Paras)

- **Para 5.1** *Identification of Direct Expenses shall be based on traceability in an economically feasible manner.*
- **Para 5.3** *If an item of Direct Expenses does not meet the test of materiality, it can be treated as part of overheads.*
- The Materiality Concept
- **Para 5.2.1** *Direct expenses incurred for the use of bought out resources shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of trade discounts, rebates, taxes and duties refundable or to be credited.*
- Tax Credits not to form part of cost of Direct Expenses



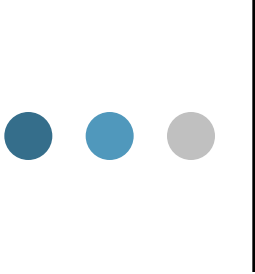
CAS 10: Direct Expenses (Generic Paras)

- **Para 5.4** Finance costs incurred in connection with the self generated or procured resources shall not form part of Direct Expenses.
- **Para 5.5** Direct Expenses shall not include imputed costs.
- **Para 5.6** Where direct expenses are accounted at standard cost, variances due to normal reasons shall be treated as part of the Direct Expenses. Variances due to abnormal reasons shall not form part of the Direct Expenses.
- **Para 5.8** Any abnormal portion of the direct expenses where it is material and quantifiable shall not form part of the Direct Expenses.
- **Para 5.7** Any Subsidy/Grant/Incentive or any such payment received/receivable with respect to any Direct Expenses shall be reduced for ascertainment of the cost of the cost object to which such amounts are related.
- **Para 5.10** Credits/ recoveries relating to the Direct Expenses, material and quantifiable, shall be deducted to arrive at the net Direct Expenses.



CAS 10: Direct Expenses (Generic Paras)

- **Para 5.9** Penalties, damages paid to statutory authorities or other third parties shall not form part of the Direct Expenses.
- **Para 5.11** Any change in the cost accounting principles applied for the measurement of the Direct Expenses 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 organisation.
- **Para 6.1** Direct Expenses that are directly traceable to the cost object shall be assigned to that cost object.
- **Para 7** Direct Expenses, if material, shall be presented as a separate cost head with suitable classification. Eg. Subcontract charges, contractual labour, etc.



CAS 10: Direct Expenses (Some Practical Aspects)

- Whether company is having proper control on the material or goods lying at job workers premises?
- Whether job work rejections are within the standards/ limits fixed by the company?



CAS 12: Repairs and Maintenance (Definition)

- ***Para 4.8** Cost of all activities which have the objective of maintaining or restoring an asset in or to a state in which it can perform its required function at intended capacity and efficiency.*
- *Repairs and Maintenance activities for the purpose of this standard include routine or preventive maintenance, planned (predictive or corrective) maintenance and breakdown maintenance.*
- *The repair or overhaul of an asset which results in restoration of the asset to intended condition would also be a part of Repairs and Maintenance activity.*
- *Major overhaul is a periodic (generally more than one year) repair work carried out to substantially restore the asset to intended working condition.*



CAS 12: Repairs and Maintenance (Specific Paras)

- **Para 5.1** Repairs and maintenance cost shall be the aggregate of direct and indirect cost relating to repairs and maintenance activity.
- **Direct cost includes** the cost of materials, consumable stores, spares, manpower, equipment usage, utilities and other identifiable resources consumed in such activity.
- **Indirect cost includes** the cost of resources common to various repairs and maintenance activities such as manpower, equipment usage and other costs allocable to such activities.
- **Para 5.2 Cost of in-house repairs and maintenance activity** shall include cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources used in such activity.
- **Para 5.3 Cost of repairs and maintenance activity carried out by outside contractors** inside the entity shall include charges payable to the contractor and cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other costs incurred by the entity for such jobs.



CAS 12: Repairs and Maintenance (Specific Paras)

- **Para 5.4 Cost of repairs and maintenance jobs carried out by contractor** at its 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 other resources provided to the contractors.
- Tax Credits not to form part of cost of Repairs and Maintenance
- **Para 5.5 Cost of repairs and maintenance jobs carried out by outside contractors** shall include charges made by the contractor and cost of own materials, consumable stores, spares, manpower, equipment usage, utilities and other costs used in such jobs.
- **Para 5.6.1** Each type of repairs and maintenance shall be treated as a distinct activity, if material and identifiable.
- For example, routine or preventive maintenance, planned (predictive or corrective) maintenance and breakdown maintenance should be identified separately.



CAS 12: Repairs and Maintenance (Specific Paras)

- **Para 5.6.2** *Cost of repairs and maintenance activity shall be measured for each major asset category separately.*
- **Para 5.7** *Cost of spares replaced which do not enhance the future economic benefits from the existing asset beyond its previously assessed standard of performance shall be included under repairs and maintenance cost.*
- **Para 5.9** *The cost of major overhaul shall be amortized on a rational basis*



CAS 12: Repairs and Maintenance (Generic Paras)

- **Para 5.10** Finance costs incurred in connection with the repairs and maintenance activities shall not form part of Repairs and maintenance costs.
- **Para 5.11** Repairs and maintenance costs shall not include imputed costs.
- **Para 5.12** Price variances related to repairs and maintenance, where standard costs are in use, shall be treated as part of repairs and maintenance cost. The portion of usage variances attributable to normal reasons shall be treated as part of repairs and maintenance cost. Usage variances attributable to abnormal reasons shall be excluded from repairs and maintenance cost.
- **Para 5.14** Any repairs and maintenance cost resulting from some abnormal circumstances, if material and quantifiable, shall not form part of the repairs and maintenance cost



CAS 12: Repairs and Maintenance (Generic Paras)

- **Para 5.13** *Subsidy / Grant / Incentive or amount of similar nature received / receivable with respect to repairs and maintenance activity, if any, shall be reduced for ascertainment of the cost of the cost object to which such amounts are related.*
- **Para 5.16** *Credits/ recoveries relating to the repairs and maintenance activity, material and quantifiable, shall be deducted to arrive at the net repairs and maintenance cost.*
- **Para 5.15** *Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the repairs and maintenance cost.*
- **Para 5.17** *Any change in the cost accounting principles applied for the measurement of the repairs and maintenance 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 organisation.*



CAS 12: Repairs and Maintenance (Generic Paras)

- **Para 6.1** *Repairs and maintenance costs shall be traced to a cost object to the extent economically feasible.*
- **Para 6.2** *Where the repairs and maintenance cost is not directly traceable to cost object, it shall be assigned based on either of the following two principles:*
 1. *Cause and Effect - Cause is the process or operation or activity and effect is the incurrence of cost.*
 2. *Benefits received - overheads are to be apportioned to the various cost objects in proportion to the benefits received by them.*



CAS 12: Repairs and Maintenance (Generic Paras)

- **Para 6.3** *If the repairs and maintenance cost (including the share of the cost of reciprocal exchange of services) is shared by several cost objects, the related cost shall be measured as an aggregate and distributed among the cost objects as per principles laid down in Cost Accounting Standard – 3.*
 - *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*



CAS 12: Repairs and Maintenance (Generic Paras)

- **Para 7.1** *Repairs and maintenance cost, if material, shall be presented in the cost statement as a separate item of cost.*
- **Para 7.2** *Asset category wise details of repairs and maintenance cost, if material, shall be presented separately.*
- **Para 7.3** *Activity wise details of repairs and maintenance cost, if material, shall be presented separately.*



CAS 12: Repairs and Maintenance (Some Practical Aspects)

- Whether Company has proper schedule of preventive and corrective maintenance for plant and machinery?
- Whether Company has Standard Procedures for maintenance of office building and residential quarters?



Practical Aspects of Cost Governance

Practice: Make or Buy Decision Making

Type: Cost Performance

Industry/ Company Examples: Healthcare and oil and gas

Detailed Analysis

- *In order to cut down the costs, this analysis helps in improving the better allocation of resources i.e. whether to utilise the resources in-house or outsource the same.*



CAS 16: Depreciation and Amortisation (Definition)

- **Para 4.1 Amortisation:** *Amortisation is the systematic allocation of the depreciable amount of an intangible asset over its useful life.*
- *It refers to expensing the acquisition cost minus the residual value of intangible assets such as Franchise, Patents and Trademarks or Copyrights in a systematic manner over their estimated useful economic life so as to reflect their consumption in the production of goods and services.*
- **Para 4.5 Depreciation:** *Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.*
- **Para 4.6 Depreciable amount:** *The cost of an asset, or other amount substituted for cost in the financial statement, less its residual value.*



CAS 16: Depreciation and Amortisation (Specific Paras)

- **Para 5.2** *In case of regulated industry the amount of depreciation shall be the same as prescribed by the concerned regulator.*
- Whether the amount of depreciation provided in case of regulated industry is same as that prescribed by the concerned regulator?
- **Para 5.4** *The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights, but may be shorter depending on the period over which the entity expects to use the asset.*
- **Para 5.8** *The impact of higher depreciation due to revaluation of assets shall not be assigned to cost object.*
- **Para 5.9** *Impairment loss on assets shall be excluded from cost of production.*
- Whether Impairment loss on assets has been excluded from cost of production?



CAS 16: Depreciation and Amortisation (Generic Paras)

- **Para 6.1** *Depreciation shall be traced to the cost object to the extent economically feasible.*
- **Para 6.2** *Where the depreciation is not directly traceable to cost object, it shall be assigned based on either of the following two principles:*
 1. *Cause and Effect - Cause is the process or operation or activity and effect is the incurrence of cost.*
 2. *Benefits received - depreciation is to be apportioned to the various cost objects in proportion to the benefits received by them.*
- **Para 6.4** *The depreciation charged for a period is usually recognised in cost of goods or services.*
- **Para 7** *Depreciation and Amortisation, if material, shall be presented in the cost statement as a separate item of cost.*



CAS 16: Depreciation and Amortisation (Specific Paras)

- **Para 6.3** *Depreciation on an asset which if remains idle or temporarily retired from production of goods and services or remains idle shall be considered as abnormal cost for the period when the asset is not in use.*



CAS 16: Depreciation and Amortisation (Specific Paras)

- Whether fixed assets register in the Company is being maintained Cost Center-wise by the Company?



Practical Aspects of Cost Governance

Practice: Asset Utilisation Analysis

Type: Cost Performance

Industry/ Company Examples: Healthcare and Capital-Intensive

Detailed Analysis

- *Categorisation of asset into performing and non-performing assets facilitates better control.*
- *Tracking assets utilisation helps in maximum resource utilisation.*
- *Computing pay-back period*



Thank You

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