

Queries relating to CAS-2

Query no. 1 by CMA Srinivasarao Gudi

Clarification on computation of Abnormal cost due to under-utilization of capacity as per CAS – 2

“As per CAS-2, if there is an underutilization of capacity of plant, we have to compute Abnormal cost and shown under reconciliation between profit as per Cost records and financial records.

Suppose Company ‘X’ has only one power plant and within the plant there are 4 sub-units which are equal capacity generation whereas utilities like water plants, Coal handling and handling and supporting services are common for all sub-units. During the year due lack of demand from customers the 2 sub units were idle for entire year balance two units are run at normal captivity.

In this case what type of expenses is to be considered to compute the abnormal cost and we have considered the following fixed expenses as abnormal cost:

- 1. Depreciation of particular sub-units which are not utilized*
- 2. Proportionate of O&M Expenses (Monthly Fixed charges paying for 4 units to Contractor irrespective of capacity utilization as per agreement)*
- 3. Proportionate of Factory overheads*

And whether we can consider the proportionate of admin overheads of Head office and Interest and Financial cost since company have only one production plant and no other business and these are the major fixed expenses incurred during the year.”

Proposed reply:

Abnormal Idle Capacity as defined in CAS-2 is the difference between Normal Capacity and Actual Capacity Utilization where the Actual Capacity is lower than the Normal Capacity. In this case two sub-units of the power plant are idle due to lack of demand for the entire year and two units are running at normal capacity. They are determining the abnormal idle cost considering the above mentioned items. This appears to be the correct procedure as the items mentioned are related to the cost of generation activity. It is assumed that Normal Capacity has been determined as per paragraph 4.5 of CAS-2.

The second query is relating to consideration of the Administrative Overheads of the Head Office and the Interest and Finance Cost. Administration Overheads of the Head Office [not related to production] are to be absorbed during the year of incurrence as period costs. Interest and finance expenses are not treated as item of production / generation cost in the cost statement. Therefore those costs should be charged as period cost in the cost statements. As such the above mentioned items will not form part of the underutilization of the capacity.

Query no. 2 by Shri Keyur Shah

Effect of Auxiliary Consumption in Cost Sheet

“The main reason behind the query is due to provision of Auxiliary consumption in power purchase agreement. In PPA there is a provision that while raising the sales we have to gross up sales by

normative auxiliary consumption. Now the question is how to quantify effect of auxiliary consumption in absolute number in cost sheet i.e. cost of auxiliary consumption?"

Proposed reply:

While working out cost of power per unit, units of Auxiliary power consumption are adjusted from the gross units generated. Cost of power per unit is arrived at by dividing the total cost of generation by the net quantity of power generated and no cost is assigned to Auxiliary consumption. Only quantitative details of auxiliary consumption are indicated.

Query no. 3 by Shri Abhijeet Deshmukh

Installed Capacity - Construction Industry

"How should installed capacity be defined for cost audit report purpose in case of construction industry involved in residential and commercial construction activities? Please consider aspect that these companies can scale-up/ scale-down resources in different years depending upon number of projects in hand and their completion stage. Also consider aspect that reporting of installed capacity and per unit (unit of measure - sq.ft.) of cost are to be reported mandatorily in XBRL.

We simply cannot report "Not Applicable" in case of installed capacity, as some numerical number is expected for the concerned field in XBRL; otherwise it will throw validation error."

Proposed reply:

Installed capacity in terms of units for construction industry cannot be defined due to its peculiar nature where companies can scale up scale down resources in different years depending upon number of projects in hand and their completion stage. The adopting of per unit measure of sq. ft. of area may be appropriate due to different specification of each project and unit. However, some other appropriate unit of measurement can be taken by construction industry for the purpose of XBRL, such as number of projects /Number of Residential or Commercial units, as the case may be.