

# **Guidance Note on Cost Accounting Standard on Cost of Service Cost Centre (CAS-13)**



Issued by

**THE INSTITUTE OF COST ACCOUNTANTS OF INDIA**

(A Statutory Body under an Act of Parliament)

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**FOREWORD**

It is pleasure to note that the Cost Accounting Standards Board, standards setting body of the Institute, has approved the Guidance Note on CAS-13 on Service Cost Centre in its 90<sup>th</sup> meeting held on 12<sup>th</sup> December 2017 for release to stakeholders. The Guidance Note provides guidance on principles and methods on practical aspects of Service Cost Centre and I am happy that it has come out in the present shape. I congratulate the Chairman and Members of the Board for taking all necessary steps in the development of this Guidance Note.

In the fast changing economic scenario, the professionals need to upgrade their domain expertise and capacity building to discharge their duties and responsibilities both as practitioners and in employment. As an Institute, we need to come out with as many inputs and technical papers as may be required by the members and industry. The Institute, in its endeavor of capacity building of the members and others, is giving full support to its Technical Committees and Boards.

I appreciate the efforts of the CASB headed by CMA P Raju Iyer in bringing out timely technical outputs for guidance of the members of the Profession. I wish CASB all the success and assure full support to its activities.

I sincerely hope that the members will find this Guidance Note useful and continue to support the activities of the Institute by providing constructive suggestions.

With regards,

**CMA Sanjay Gupta**



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### PREFACE

I am pleased to present the **Guidance Note on Cost Accounting Standard on Service Cost Centre (CAS-13)** as approved by the Cost Accounting Standards Board in its 90<sup>th</sup> meeting held on 12<sup>th</sup> December 2017. CAS-13 lays down broad principles and methods of classification, measurement and assignment of cost of Service Cost Centre for determination of cost of product or service and the presentation and disclosure in the cost statements. Guidance Note on CAS-13 deals with explaining these principles and methods besides touching upon the practical aspects which shall help the members in practice and employment.

The Guidance Note travelled a long way before this finally approved by the CASB on 12<sup>th</sup> December 2017. I am grateful to the members of the earlier Board (2016-17) chaired by CMA Balwinder Singh, Council Member for their efforts in finalising the guidance note. My thanks is also due to CMA D.V. Joshi, Former President of the Institute for his valuable inputs and other members of previous Board. I take this opportunity to thank the members of the current Board (2017-18) also for approving the Guidance Note in its present shape. I will be failing in my duties if I don't express my gratitude to CMA Sanjay Gupta, President of the Institute for his support to the activities of the CASB.

I thankfully acknowledge the contribution of the CASB Secretariat headed by CMA J.K. Budhiraja, Senior Director (Technical) and CMA M.L. Mehta, Ex-Adviser (CASB) in preparation of the initial draft of the Guidance Note. I also place on records my appreciation to the efforts of members of the profession and other stakeholders for providing comments/suggestions on the Exposure Draft of the Guidance Note. It really helped us in giving the final shape to the Guidance Note.

As you know that setting up of Cost Accounting Standards and Guidance Notes thereon is a continuous process and as the time progresses and experience gained, we need to improve these documents accordingly. I request the members to go through the Guidance Note and give their constructive suggestions to the CASB Secretariat for further improvement of Guidance Note.

I sincerely hope that the Guidance Note will fulfil the expectations of its intended readers.

Kind regards,

CMA P Raju Iyer

Date: 2<sup>nd</sup> January 2018



**Guidance Note on  
Cost Accounting Standard on Cost of Service Cost Centre (CAS-13)**

The Council of the Institute of Cost Accountants of India has issued the Cost Accounting Standard -13 (CAS-13) on Cost of Service Cost Centre which lays down a set of principles and methods of classification, measurement and assignment of cost of Service Cost Centre for determination of the cost of product or service and the presentation and disclosure in the cost statements. The Cost Accounting Standard has been set in bold italic type and reference number of the standard has been retained.

The Guidance Note deals with principles and methods as provided in the CAS-13 and practical aspects in connection with the determination of cost of Service Cost Centre for a product or service. In the preparation of cost statement and its attestation, cost of Service Cost Centre should be determined with reference to CAS-13.

The Ministry of Corporate Affairs has notified The Companies (Cost Records and Audit) Rules, 2014. As per rule 3, for the purposes of sub-section (1) of Section 148 of the Companies Act, 2013, the class of companies including foreign companies defined in clause (42) of Section 2 of the Companies Act, 2013 (18 of 2013), engaged in the production of the goods or providing services as specified in the Table A and Table B to the above referred Rules, has to maintain cost records as per the principles enunciated in Form CRA-1 annexed to the above Rules if the companies meet the threshold limit as specified in the Rules.

Form CRA-1 annexed to the “Companies (Cost Records and Audit) Rules, 2014” specifies various items of costs which are to be included in the books of account. Paragraph 14 of Form CRA-1 deals with Service Cost Centres.

As per proviso to Section 148 (3) of the Companies Act 2013, the auditor conducting the cost audit shall comply with the Cost Auditing Standards issued by the Institute of Cost Accountants of India with the approval of Central Government.

As per Objective of the *Cost Auditing Standard 103 on Overall Objective of the Independent Cost Auditor and conduct of an audit in accordance with Cost Auditing Standards*, the cost auditor conducting cost audit shall comply with the Cost Accounting Standards (CAS) and Generally Accepted Cost Accounting Principles (GACAP) issued by the Institute of Cost Accountants of India from time to time.



**Chapter 1**

**Introduction**

The cost centre which provides services to Production / Manufacturing, Operation or other Service Cost Centre but not directly engaged in production/ manufacturing process or operation, is a service cost centre. A service cost centre renders services to other cost centres / other units and in some cases to outside parties.

Examples of service cost centres are:

- a) Production Planning and Control (PPC),
- b) Research & Development,
- c) Designing,
- d) Engineering,
- e) Workshop,
- f) Safety,
- g) Pollution Control,
- h) Quality control, quality assurance,
- i) Information Technology (IT),
- j) Human Resources (HR),
- k) Finance,
- l) Internal Audit,
- m) Sales, Marketing,
- n) Canteen,
- o) Security Services,
- p) Dispensary,
- q) Help Desk,
- r) School, Crèche,
- s) Stores, Tools,
- t) Township,
- u) Transport,
- v) Welfare services,
- w) Power house,
- x) Maintenance,
- y) Legal services.

Cost of a Service cost centre is charged with all the costs that relate to it. The purpose of accumulating and ascertaining the cost of service cost centre is to control cost and charge to the user departments. The person in charge of a service cost centre is held responsible for the control of cost of that cost centre.



**Chapter 2**

**Definitions**

- 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 Administrative Overheads:** *Cost of all activities relating to general management and administration of an entity.*
- 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 Distribution Overheads:** *Distribution overheads, also known as distribution costs, are the costs incurred in handling a product or service from the time it is ready for despatch or delivery until it reaches the ultimate consumer including the units receiving the product or service in an inter-unit transfer.*
- 4.5 Imputed Cost:** *Notional cost, not involving cash outlay, computed for any purpose.*
- 4.6 Interest and Finance charges:** *Interest, including any payment in the nature of interest for use of non-equity funds and incidental cost that an entity incurs in arranging those funds.*
- 4.7 Marketing overheads:** *Marketing overheads comprise of selling overheads and distribution overheads.*
- 4.8 Normal capacity:** *Normal capacity is the production achieved or achievable on an average over a number of periods or seasons under normal circumstances taking into account the loss of capacity resulting from planned maintenance.*<sup>2</sup>
- 4.9 Production Overheads:** *Indirect costs involved in the production of a product or in rendering service.*
- 4.10 Selling Overheads:** *Selling overheads are the expenses related to sale of products or services and include all indirect expenses incurred in selling the products or services.*
- 4.11 Standard Cost:** *A predetermined cost of a product or service based on technical specifications and efficient operating conditions.*

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

<sup>2</sup> Adapted from CAS 2 paragraph 4.4



- 4.12 Stand-by service: Any facility created as backup against any failure of the main source of service.**
- 4.13 Support-Service Cost Centre: The cost centre which primarily provides auxiliary services across the entity.**

**Chapter 3****Principles of Measurement****5.1 Each identifiable service cost centre shall be treated as a distinct cost object for measurement of the cost of services subject to the principle of materiality.**

Costs of distinct and identifiable services are collected by treating such services as separate service cost centres. However, certain services may not be material, either in terms of its nature (in the context of the industry) or the cost of the service in relation to the total cost. It may not be economically feasible to treat those services as individual cost centres. For practical reasons costs of those services are collected under a separately identified cost centre or those services are aggregated and treated as a separate cost centre. For example, if the cost of dispensary services is not material, the same can be aggregated under staff welfare service cost centre.

**5.2.1 Cost of service cost centre shall be the aggregate of direct and indirect cost attributable to services being rendered by such cost centre.**

Direct Cost are easily identifiable and include the cost of materials, consumable stores, spares, manpower, equipment usage, utilities and other identifiable resources consumed in such activity. Indirect cost includes cost of resources common to various services provided like manpower, consumable stores and spares and other cost allocable to such activities.

For measuring the cost of service cost centre the aggregate cost of both direct and indirect resources consumed for the service rendered by such cost centre has to be considered.

The measurement of these resources consumed is to be determined in terms of relevant cost accounting standards, viz. for material cost, CAS-6, for employees cost CAS-7 and for utilities CAS-8, and so on.

**5.2.2 Cost of in-house services shall include cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources used in such service.**

In-house service centres are set up to provide services internally. These service centres are created to cater to in-house service requirements, such as laboratory test, canteen facilities, medical facilities etc.

The cost of in-house services will consist of:

- a) Employees cost of manpower engaged in-house services;



- b) Materials consumed – direct and indirect.
- c) Consumable stores;
- d) Direct Expenses
- e) Equipment usage – depreciation and amortization of fixed assets identified with a service cost centre;
- f) Utilities consumed – power, water, coal etc.;
- g) Other Overheads.

The above elements of cost (viz. materials, consumable stores, spares, employees cost, equipment usage, utilities and so on) are to be measured as stated in paragraph 5.2.1 above.

**5.2.3 Cost of services rendered by contractors within the facilities of the entity shall include charges payable to the contractor and cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources provided to the contractors for such services.**

Contractors are engaged for providing services. They render specified services as per agreement/purchase order. Materials, consumable stores, spares, manpower, equipment usage & utilities etc. required by the contractor are provided by the entity. Cost of such services will be the charges paid to contractors as per agreement including duties and taxes and other materials, consumable, spares, manpower, equipment usage, and utilities charges supplied to contractors. In such cases a work order is generally issued and cost is accumulated under such work order. Various Elements of cost are to be measured as detailed under paragraph 5.1.

**5.2.4 Cost of services rendered by contractors at their 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 resources provided to the contractors.**

This paragraph deals with a situation when a contractor is engaged to provide services from his premises and is paid the charges as per agreement/purchase order. He will be paid the agreed price including duties and taxes and other expenditure attributable to such agreement or purchase order net of discount (other than cash discount), taxes and duties refundable or to be credited. For example, if GST/VAT/Import duty is refundable on any imported spare parts, then it



will be adjusted against the payment to be made to him. If any other resources are provided by the entity to him, the cost of service will be measured in terms of payment made to contractors plus the cost of any other resources supplied by the entity. Measurement of other resources will be as detailed under paragraphs 5.2.1 and 5.2.2.

**5.2.5 Cost of services for the purpose of inter unit transfers shall also include distribution costs incurred for such transfers.**

If services of service cost centre are transferred inter units, the cost of distribution incurred for transfer of services to other units is to be included in the cost of services transferred to be determined as detailed above. It will comprise of cost of service centres and cost of distribution facility. Distribution may be through a pipe line/or any other mode of transfer. Such distribution cost for inter unit transfer of services will be added to the cost of service cost centre as determined under paragraph 5.2.2 as exhibited in Annexure 1.

**5.2.6 Cost of services for the purpose of inter-company transfers shall also include distribution cost incurred for such transfers and administrative Overheads.**

Inter-company means related party.

As per Section 76 of the Companies Act, 2013 “related party”, with reference to a company, means—

- (i) a director or his relative;
- (ii) a key managerial personnel or his relative;
- (iii) a firm, in which a director, manager or his relative is a partner;
- (iv) a private company in which a director or manager is a member or director;
- (v) a public company in which a director or manager is a director or holds along with his relatives, more than two per cent of its paid-up share capital;
- (vi) any body corporate whose Board of Directors, managing director or manager is accustomed to act in accordance with the advice, directions or instructions of a director or manager;
- (vii) any person on whose advice, directions or instructions a director or manager is accustomed to act:

Provided that nothing in sub-clauses (vi) and (vii) shall apply to the advice, directions or instructions given in a professional capacity;

(viii) any company which is—

- a) a holding, subsidiary or an associate company of such company; or



- b) a subsidiary of a holding company to which it is also a subsidiary;
- (ix) such other person as may be prescribed;

In case of inter-company transfer, cost of service transferred shall comprise of direct materials, consumable stores and spares, direct expenses, equipment usage, share of factory indirect cost, distribution cost and share of administrative overheads. Cost of a service determined as per paragraph 5.2.5 plus share of administrative overheads is to be charged as exhibited in Annexure 1.

**5.2.7 Cost of services rendered to outside parties shall also include distribution cost incurred for such transfers, administrative overheads and marketing overheads.**

Outside parties means other than related party.

The services provided to outside parties shall include cost of services as computed under paragraph 5.2.6 plus marketing overheads as exhibited in Annexure 1.

**5.3 Finance costs incurred in connection with the Service Cost Centre shall not form part of the cost of Service Cost Centre.**

While determining the cost of service cost centre as paragraph 5.2.1 to 5.2.7 above, finance cost i.e. interest related cost will not be considered as an item of cost.

**5.4 The cost of service cost centre shall not include imputed costs.**

Imputed cost does not involve any cash payment, and it shall not be included in the cost of service cost centre.

**5.5 Where the cost of service cost centres accounted at standard cost, the price and usage variances related to the services cost Centre shall be treated as part of cost of services. Usage variances due to abnormal reasons shall be treated as part of abnormal cost.**

An organization may use standard costs for estimating, accumulating, and reporting cost of service cost centre. While computing such standard cost the following may be taken into consideration:

1. Both standard and actual costs are recorded into the books of account;
2. Standard costs are compared to actual costs at the end of each accounting period and variances shall also be determined;
3. Standard costs and related variances are appropriately accounted for each service centre;
4. Disposition of variances shall be as under:



- a) Price variances related to cost of service centre shall form the part of cost of service cost centre;
- b) Usage variances attributable to normal reasons shall form the part of cost of service centre; and
- c) Usage variances attributable to abnormal reasons shall be excluded from cost of service centre.

**5.6 Any Subsidy / Grant / Incentive or any such payment received / receivable with respect to any service cost centre shall be reduced for ascertainment of the cost to which such amounts are related.**

Subsidy or grant or incentive and any such payment received or receivable with respect to any service cost centre cost is to be reduced from cost of the cost object in the financial year when such subsidy or grant or incentive and any such payment is recognised as income. Subsidy and grant received/receivable shall be recognized on a systematic basis. These should be reconciled with the related cost for which these are intended to compensate over the period.

Illustration:

Subsidy may be receivable for running up a medical facility for a plant located in backward area. Subsidy receivable for this purpose may be reduced from the cost of such services, while ascertaining the cost of the service cost centre.

**5.7 The cost of production and distribution of the service 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>3</sup>. Cost of a Stand-by service shall include the committed costs of maintaining such a facility for the service.**

Where service cost centres are created for captive consumption, these are operated based on the production plan of end product. Normal capacity of end product is considered to be normal capacity for the service cost centre. There may be a situation when end product itself may be operated at below normal capacity in adverse market conditions and recession. In such situation the normal capacity adopted for end product shall be treated as normal capacity for the service cost centre. The cost of production and distribution of service cost centres shall be determined based on the normal capacity or actual utilization whichever is higher. The unabsorbed cost is to be treated as abnormal cost.

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<sup>3</sup>Adapted from Paragraph 5.7 of CAS 3



The committed cost of maintaining a stand-by service centre facility shall be included in the cost of standby service cost centre. All related cost of the standby service cost centre is to be absorbed irrespective of its level of utilization. For example fire service.

Where service cost centres have capacity to cater to plant requirement and for sale to other parties, the cost of service cost centre is to be determined based on the normal capacity of the service cost centre. If it is operating below normal capacity, unabsorbed cost is to be treated as abnormal cost.

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

Due to certain abnormal events, such as major fire, explosion, flood etc. service cost centre facility is badly damaged and major repairs and maintenance cost is to be incurred to restore it to the working condition. It is to be excluded from the cost of service centre, if material and quantifiable. Materiality depends on the size and nature of the item, judged in particular circumstances of its misstatement. Materiality provides a threshold or cut off point rather than being a primary qualitative characteristic for which the information must have to be useful.

Expenditures incurred in above situations may also be classified in terms of its normality. If the expenditure is above the level of normal cost incurred at a given level of output in conditions in which that level of output is normally attained, it shall be treated as abnormal cost and shall not form part of cost of service cost centre. The rationale of exclusion of abnormal cost is that inclusion of such items in the cost will make the cost not comparable with a normal situation. Such an aberration is avoided to understand the cost in a better perspective for any purpose.

For determining the abnormal cost following conditions shall be satisfied:

- a) costs were never envisaged; and
- b) they are not likely to recur during an accounting period.

Such Abnormal cost of service cost centre shall not form part of the cost of service cost centre and shall be dealt with in the profit and loss account reconciliation statement.

If the damaged property, plant and equipment of the service cost centre are insured against such abnormal events, claims may have been lodged with insurance company. Any shortfall between expenditure incurred on repairs and maintenance and insurance claim received should be treated as abnormal cost and shall be dealt with in the profit and loss account reconciliation statement. In case of non-insurance of property, plant and



equipment, the cost incurred, if material and quantifiable, shall not be included in cost of service cost centre and treated as abnormal cost.

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

Penalties/damages are levied by the statutory authorities for non-compliance of statutory requirements/delays. Damages may be paid to third party for loss caused due to improper working of property, plant and equipment.

For Example:

1. Non-compliance of inspection regulations of equipment or non-compliance of safety norms for a plant/machinery.
2. Damages paid to third party for loss caused due to improper working of property building damage.

The above expenses shall not be included in the cost of service cost centre and shall be dealt with in the reconciliation statement.

**5.10 Credits/recoveries relating to the service cost centre including charges for services rendered to outside parties, material and quantifiable, shall be reduced from the total cost of that service cost centre.**

If services are rendered to outside parties, sales realization shall be reduced from the total cost of that service cost centre. Credit for miscellaneous receipt, etc. if any, related to a service cost centre shall be reduced from the total cost of that service cost centre if material and quantifiable.

For example:

An enterprise operates a medical service centre for its employees. If services are also provided to outside parties, receipt from such services shall be reduced from the cost of medical centre if material and quantifiable. If it is not a regular feature and service is provided in extreme emergency, such receipt shall be treated as miscellaneous income since it is not material. Materiality is to be determined with reference to criteria discussed earlier under paragraph 5.1.

**5.11 Any change in the cost accounting principles applied for the measurement of the cost of Service Cost Centre shall 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.**



Cost of a Service Cost centre consists of materials, stores and spares, consumables, employees cost, utilities and usage of equipment etc. Principles applied for measurement of these resources are to be as per relevant cost accounting standard and are to be followed consistently. However, change in principle of measurement of cost of a service cost centre shall be applied 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 entity.

**Chapter 4****Assignment of Costs****6.1 While assigning cost of services, traceability to a cost object in an economically feasible manner shall be the guiding principle.**

Direct tracing of cost of Service cost centres is the process of identifying and assigning cost that is specifically or physically associated with cost object economically. It involves establishing a suitable procedure to directly tracing/ identifying the cost and recording the same to the cost objects. Cost Object is a logical sub-unit for collection of cost. Thus cost object may be any activity, contract, cost centre, customer, process or any other work unit for which a separate cost measurement is desired.

Cost is assignable or chargeable to one or more cost objects on the basis of relative benefits received or other equitable relationship. Assigning of costs shall be done on a reasonable and consistent basis. Testing reasonableness shall take into account the purpose of the cost information and the economic feasibility of accumulating and assigning the same.

**6.2 Where the cost of services rendered by a service cost centre is not directly traceable to a cost object, it shall be assigned on the most appropriate basis.**

Service cost centre provides services to Production/ Manufacturing, Operation or other Service Cost Centres. It is not directly engaged in production/manufacturing process or operation. Various items of cost are first accumulated according to nature of expenditure. This is the method of primary distribution. The expenses which are capable of being identified with a specific service centre are directly assigned. The expenses which cannot be assigned directly to specific service cost centres are assigned on suitable basis.

Service Cost centres cost may be assigned by appropriate basis to cost object. The following table gives example of the basis to be adopted for distribution of cost of service cost centres to user cost centres:



Service Cost Centre	Basis of assignment to Production /cost object
Designing,	Man hours for a design
Laboratory,	No. of tests
Welfare services,	No. of employees
Transport	Volume/weight of material handled For Manpower - No of man power transported
Computer Cell	Computer hours
Dispensary	No. of patients attended cost centre wise
Industrial Engineering	Man hour
Production Planning Department	Man hour
Purchase Department	Value of materials purchased/ number of purchase orders placed for various departments.
Inspection Department	Man hour
Quality Control	No. of tests / No. of Testing Hours
HRD/ Industrial relation Department	Number of employees.
Welfare Department (canteen, crèche, medical, etc.)	Number of employees/Employees cost.
Laboratory	No. of testing hours spent.
Security Services	No. of employees/Units produced / Production Cost
Crane service	Through put handled.
Data Centre	Man hour

**6.3 The most appropriate basis of distribution of cost of a service cost centre to the cost centres consuming services is to be derived from logical parameters which could be related to the usage of the service rendered. The parameter shall be equitable, reasonable and consistent.**

The cost of a service cost centre is to be distributed to the cost centres consuming services of the service cost centres. The basis selected should be rational and equitable. It should be based on logical parameters taking into account the services rendered.



**Chapter 5**

**Presentation**

**7.1 Cost of service cost centre shall be presented as a separate cost head for each type of service in the cost statement, if material.**

Cost of each service cost centre shall be indicated as a separate item in the cost statement, if material. What is considered material or immaterial depends on the situation. The materiality of a particular cost is important in classifying costs. The less significant a cost, the less likely will it be traced to a cost object. The criteria that can be applied for determining the materiality has been explained under Paragraph 5.1 and is equally applicable in this regard.

**Chapter 6****Disclosures****8.1 The cost statements shall disclose the following:**

- 1. The basis of distribution of cost of each service cost centre to the consuming centres.**
- 2. The cost of purchase, production, distribution, marketing and price of services with reference to sales to outside parties**
- 3. Where the cost of service cost centre is disclosed at standard cost, the price and usage variances**
- 4. The cost of services received from / rendered to related parties<sup>1</sup>.**
- 5. Cost of service cost centre incurred in foreign exchange.**
- 6. Any Subsidy/Grant/Incentive and any such payment reduced from cost of Service Cost Centre.**
- 7. Credits/ recoveries relating to the cost of Service Cost Centre**
- 8. Any abnormal cost excluded from cost of Service Cost Centre**
- 9. Penalties and damages paid excluded from cost of Service Cost Centre.**

8.1 Disclosure means measuring the consistency and compliance of requirement of Cost Accounting standards. Disclosure is to be made relating to the basis of distribution of cost of a service cost centre.

8.1.1 The basis of distribution of cost of service cost centre is to be disclosed in the cost statement. Normally it will be based on services provided to user cost centres.

8.1.2 The cost of purchase, production, distribution, marketing and price of services sold to outside parties is to be disclosed indicating the type of service and its cost.

8.1.3 If the organization is using standard costing, cost statement of a service cost centre shall disclose price and usage variance separately relating to various inputs.

8.1.4 The cost of services received from / rendered to related parties is also to be disclosed. The related parties are as defined under Section 2(76) of the Companies Act, 2013. If any service is received/ rendered to related parties, its relationship, nature of transactions viz. quantity, rate, other terms/ conditions of procurement or rendering of services are to be disclosed. The objective of disclosure is to ascertain that the transaction is at arm's length and purely on commercial terms.

8.1.5 Cost of Service cost centre incurred in foreign exchange:

<sup>1</sup> Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement



Payment made in foreign exchange are incurred for import of special spare parts and/or for technical services required for a service cost centre. Details of such expenditure are to be disclosed.

- 8.1.6 Subsidy or grant or incentive and any such payment received or receivable with respect to any service cost centre is to be reduced from cost of the cost object. For example Service cost centre such as school, medical facility etc. in certain backward areas is set up and if any subsidy is received, the same shall be adjusted against the relevant cost of service centre and its impact is to be disclosed separately.
- 8.1.7 If any credit or recovery is considered while determining the cost of service centre, the same shall be disclosed. For Example: certain service cost is recovered from inter-company transfer shall be adjusted against the relevant service cost centre.
- 8.1.8 Any abnormal portion of the service cost centres is to be excluded as the same has not contributed to the cost object. Disclosure is to be made by way of foot note in the cost statement.
- 8.1.9 Penalties and damages are to be excluded from the service cost centres as these are not an item of cost and are levied for non-compliance with regulatory/contractual requirements and disclosure is to be made.

**8.2 *Any change in the cost accounting principles and methods applied for the measurement and assignment of the cost of service cost centre during the period covered.***

Cost Accounting principles and methods applied for the measurement and assignment of cost of service cost centre are to be followed consistently between one period to another and uniformly for different elements of service cost. If there is any change in these cost accounting principles and methods during the period resulting in material effect on the cost of product, the same shall be disclosed in the cost statement or by way of a foot note. In case the impact of change in principles and methods of cost accounting is not ascertainable, the fact is to be disclosed by way of a note to the cost statements.

**Annexure 1**

Illustration of Inter unit transfer/ Inter Company and outside parties:

Example: *If a crane service is used by inter unit it shall be charged as under:*

S.No	Cost	Per hr
1.	Operation cost of crane	Rs 470
2.	Distribution cost /Transport of crane to other unit	Rs 60
3.	Total Service centre cost for inter unit transfer	Rs 530

Example: *Inter Company transfer of Service*

S.No	Cost	Per hr
1.	Operation cost of crane	Rs 470
2.	Distribution cost /Transport of crane to inter-company site	Rs 60
3.	Administrative Overheads	Rs 50
4.	Total Service centre cost for intercompany transfer	Rs 580

Example: *Services provided to outside parties*

S.No	Cost	Per hr
1.	Operation cost of crane	Rs 470
2.	Distribution cost /Transport of crane to outside party 's site	Rs 60
3.	Administrative Overheads	Rs 50
4.	Marketing overheads	Rs 50
5.	Total Service centre cost for outside parties	Rs 630

*The above cost is calculated net of input tax credit, if available.*



**Annexure 2**

**CAS – 13**

**COST ACCOUNTING STANDARD ON COST OF SERVICE COST CENTRE**

The following is the COST ACCOUNTING STANDARD – 13 (CAS - 13) issued by the Council of The Institute of Cost Accountants of India on “**COST OF SERVICE COST CENTRE**”. 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 cost of Service Cost Centre.

1.2 This standard covers the Service Cost Centre as defined in paragraph 4.13 of this standard. It excludes Utilities and Repairs & Maintenance Services dealt with in CAS-8 and CAS-12 respectively.

**1.3 This standard deals with the principles and methods of classification, measurement and assignment of Cost of Service Cost Centre, 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 Service Cost Centre with reasonable accuracy.**

**3. Scope**

**This standard should be applied to the preparation and presentation of cost statements, which require classification, measurement and assignment of Cost of Service Cost Centre, 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>2</sup>**

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<sup>2</sup> Adapted from CAS 1 paragraph 6.5.19



**4.2 Administrative Overheads: Cost of all activities relating to general management and administration of an entity.**

Administrative overheads shall exclude production overheads<sup>3</sup>, marketing overheads<sup>4</sup> and finance cost. Production overheads includes administration cost relating to production, factory, works or manufacturing.

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

**4.4 Distribution Overheads: Distribution overheads, also known as distribution costs, are the costs incurred in handling a product or service from the time it is ready for despatch or delivery until it reaches the ultimate consumer including the units receiving the product or service in an inter-unit transfer.**

The cost of any non-manufacturing operations such as packing, repacking, labelling, etc. at an intermediate storage location will be part of distribution cost.

**4.5 Imputed Cost: Notional cost, not involving cash outlay, computed for any purpose.**

**4.6 Interest and Finance charges: Interest, including any payment in the nature of interest for use of non-equity funds and incidental cost that an entity incurs in arranging those 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>5</sup>. The terms Finance costs and Borrowing costs are used interchangeably.

**4.7 Marketing overheads: Marketing overheads comprise of selling overheads and distribution overheads.**

**4.8 Normal capacity: Normal Capacity is the production achieved or achievable on an average over a number of periods or seasons under normal circumstances taking into account the loss of capacity resulting from planned maintenance.<sup>6</sup>**

<sup>3</sup> Paragraph reference 4.13 CAS -9

<sup>4</sup> Paragraph reference 4.11 CAS -7

<sup>5</sup> Adapted from CIMA Terminology

<sup>6</sup> Adapted from CAS 2 paragraph 4.4



**4.9 Production Overheads: Indirect costs involved in the production of a product or in rendering service.**

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

**4.10 Selling Overheads: Selling overheads are the expenses related to sale of products or services and include all indirect expenses incurred in selling the products or services.**

**4.11 Standard Cost: A predetermined cost of a product or service based on technical specifications and efficient operating conditions.**

Standard costs are used as scale of reference 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. Standard costs are also used for estimation.

**4.12 Stand-by service: Any facility created as backup against any failure of the main source of service.**

**4.13 Support-Service Cost Centre: The cost centre which primarily provides auxiliary services across the entity.**

The cost centre which provides services to Production, Operation or other Service Cost Centre but not directly engaged in production process or operation is a service cost centre. A service cost centre renders services to other cost centres / other units and in some cases to outside parties.

Examples of service cost centres are engineering, workshop, research & development, quality control, quality assurance, designing, laboratory, welfare services, safety, transport, Component, Tool stores, Pollution Control, Computer Cell, dispensary, school, crèche, township, Security etc.

Administrative Overheads include cost of administrative Service Cost Centre.

## **5. Principles of Measurement**

**5.1 Each identifiable service cost centre shall be treated as a distinct cost object for measurement of the cost of services subject to the principle of materiality.**

**5.2.1 Cost of service cost centre shall be the aggregate of direct and indirect cost attributable to services being rendered by such cost centre.**



**5.2.2 Cost of in-house services shall include cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources used in such service.**

Cost of other resources includes related overheads.

**5.2.3 Cost of services rendered by contractors within the facilities of the entity shall include charges payable to the contractor and cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources provided to the contractors for such services.**

**5.2.4 Cost of services rendered by contractors at their 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 resources provided to the contractors.**

**5.2.5 Cost of services for the purpose of inter unit transfers shall also include distribution costs incurred for such transfers.**

**5.2.6 Cost of services for the purpose of inter-company transfers shall also include distribution cost incurred for such transfers and administrative overheads.**

**5.2.7 Cost of services rendered to outside parties shall also include distribution cost incurred for such transfers, administrative overheads and marketing overheads.**

**5.3 Finance costs incurred in connection with the Service Cost Centre shall not form part of the cost of Service Cost Centre.**

**5.4 The cost of service cost centre shall not include imputed costs.**

**5.5 Where the cost of service cost centre is accounted at standard cost, the price and usage variances related to the services cost Centre shall be treated as part of cost of services. Usage variances due to abnormal reasons shall be treated as part of abnormal cost.**

**5.6 Any Subsidy / Grant / Incentive or any such payment received / receivable with respect to any service cost centre shall be reduced for ascertainment of the cost to which such amounts are related.**

**5.7 The cost of production and distribution of the service 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 service shall include the committed costs of maintaining such a facility for the service.***

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

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

***5.10 Credits/recoveries relating to the service cost centre including charges for services rendered to outside parties, material and quantifiable, shall be reduced from the total cost of that service cost centre.***

***5.11 Any change in the cost accounting principles applied for the measurement of the cost of Service Cost Centre shall 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 Cost**

***6.1 While assigning cost of services, traceability to a cost object in an economically feasible manner shall be the guiding principle.***

***6.2 Where the cost of services rendered by a service cost centre is not directly traceable to a cost object, it shall be assigned on the most appropriate basis.***

***6.3 The most appropriate basis of distribution of cost of a service cost centre to the cost centres consuming services is to be derived from logical parameters which could be related to the usage of the service rendered. The parameter shall be equitable, reasonable and consistent.***

## **7. Presentation**

***7.1 Cost of service cost centre shall be presented as a separate cost head for each type of service in the cost statement, if material.***

## **8. Disclosures**

***8.1 The cost statements shall disclose the following:***

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



- 1. The basis of distribution of cost of each service cost centre to the consuming centres.**
- 2. The cost of purchase, production, distribution, marketing and price of services with reference to sales to outside parties**
- 3. Where the cost of service cost centre is disclosed at standard cost, the price and usage variances**
- 4. The cost of services received from / rendered to related parties<sup>8</sup>.**
- 5. Cost of service cost centre incurred in foreign exchange.**
- 6. Any Subsidy/Grant/Incentive and any such payment reduced from cost of Service Cost Centre.**
- 7. Credits/ recoveries relating to the cost of Service Cost Centre**
- 8. Any abnormal cost excluded from cost of Service Cost Centre**
- 9. Penalties and damages paid excluded from cost of Service Cost Centre.**

**8.2 Any change in the cost accounting principles and methods applied for the measurement and assignment of the cost of service cost centre during the period covered by the cost statement which has a material effect on the cost of service cost centre shall be disclosed. Where the effect of such change is not ascertainable wholly or partly the fact shall be disclosed.**

**8.3 Disclosures shall be made only where material and significant.**

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

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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