

## **PREFACE TO COST ACCOUNTING STANDARD BOARD**

### **1. Introduction**

Due to open competition for globalization, the Cost Management has gained special importance in the business activities. Cost Accounting Standard Board ( hereinafter called CASB) set up by the Council of the Institute of Cost and Works Accountants of India ( ICWAI ) and following statements are issued to define the objectives, operating procedures, scope and applicability and authority of CASB.

### **2. Constitution**

2.1 The CASB will have a Chairman as appointed and nominated by the Council of the Institute and other members will also be appointed and nominated by the Council.

2.2 The terms and period of appointment will also be decided by the council of the Institute.

2.3 The Director( Technical ) will be the Secretary of the CASB.

2.4 The CASB will prepare a report of its work each year and send it to the Council.

### **3. Objective**

The work of CASB is to develop Cost Accounting Standard on important issues/topics relating to Cost and Management Accounting with the following objectives :

3.1 To equip the profession with better guidelines on standard cost accounting practices

- 3.2 To assist the Cost Accountants in preparation of uniform cost statements
- 3.3 To provide guidelines to Cost Accountants to make standard approach towards maintenance of Cost Accounting Record Rules and Undertaking Cost Audit under section 209 (1) (d) and section 233B of Companies Law respective and various other Acts like Income Tax Act, Central Excise Act, Customs Act, Sales Tax Act, etc.
- 3.4 To assist the management to follow the standard cost accounting practices in the matter of compliance of statutory obligations.
- 3.5 To help Indian industry and the Government towards better cost management

#### **4. Operating Procedure and policies of CASB**

- 4.1 Organizing and initiating discussion and deliberation at national level to identify the areas/topics in respect of which needs for standards are felt
- 4.2 Generating information on all alternative cost accounting practices in respect of selected practices
- 4.3 Preparation of draft on the standard cost accounting practices in respect of chosen areas/topic in cost accounting and circulate it to the members of the Institute, national accounting institute and other end user bodies like industry association, Chambers of Commerce and Industry, Government bodies etc
- 4.4 Allowing sufficient time for consideration and comments on the exposure draft
- 4.5 Pronouncement of the exposure draft as 'standard' after giving due consideration to the suggestions and modification generated on the circulated exposure drafts from such individuals and agencies as mentioned in 4.3 above.
- 4.6 To fix a date for the standard to be effective

- 4.7 To propagate and generate acceptance and commitment to follow the 'standards' prescribed by CASB
- 4.8 To revise the 'standards' once issued, if dictated by environment, government, legal authority and other situation.

## **5. Scope and Applicability**

- 5.1 The 'standards' issued by CASB will be recommendatory in nature and every member of the institute is expected to honour the same.
- 5.2 A standards will always make sure that it complies with the legal regulations in respect of the matter covered by it. However, a standard by its vary nature will have to be more definite and specific than its legal requirements.
- 5.3 Any limitation in application of a 'standard' in specific circumstances must be spelt out in the 'standard' itself.
- 5.4 Every standard will broadly have two parts – (a) explanatory part and (b) the operative part. The explanatory section will set out topic covered, the premises, the need for standardization and methodology and rationale for practice recommended. The second part, the operative portion will be the definite direction on the matter.
- 5.5 Every standard will indicate the date from which it will be operative.
- 5.6 The standards will be applicable to preparation of cost statements and other documents where the concepts embedded in the standard will be applicable.
- 5.7 As far as maintenance of cost accounting record rules under section 209 (1) (d) is concerned, relevant matter covered under the standards , wherever applicable, will be followed.

5.8 Cost Auditors will adopt and encourage the adoption of the standards, wherever applicable, in maintenance of Cost Accounting Record Rules under section 209(1)(d) and report the deviations, if any, in the Cost Audit Reports under section 233B.

5.9 The Institute will take up the standards with National Accounting Standard Board to enforce them and to include in Companies Act, 1956.

## **6. Authority attaching to the standard**

6.1 So long the standards are not enforced by National Accounting Standard Board or by Companies Act, the CASB does not possess the legal authority to impose its views as statutory regulations but it is by only persuasion the standard can be followed as normal practice by the members of the profession

6.2 ICWAI will be duty bound to protect its members who respect and adhere to the standard prescribed.

6.3 Disciplinary restriction may be imposed by the Council of the Institute at appropriate stages as may be felt necessary for not complying with or not honouring the standard.

## **COST ACCOUNTING STANDARD ON “CLASSIFICATION OF COST”**

The following is the text of the COST ACCOUNTING STANDARD 1 (CAS 1) issued by the Council of the Institute of Cost and Works Accountants of India on “Classification of Cost”. The standard deals with the principle of classifying costs in the cost statements. In this Standard, the standard portions have been set in bold italic type. These should be read in the context of the background material which has been set in normal type.

### **1. Introduction**

The standard on classification of costs deals with the basis of classification of costs and the practice to be adopted for classification of cost elements in regard to its nature and management objective. The statement aims at providing better understanding on classification of cost for preparation of various cost statements required for statutory obligations or cost control measures.

### **2. Objective**

2.1 The objective of this Standard is to prescribe the classification of costs for ascertainment of cost of a product or service and preparation of cost statements on a consistent and uniform basis with a view to effect the comparability of the same of an enterprise with that of previous periods and of other enterprises.

2.2 The classification and its disclosure are aimed at providing better transparency in the cost statement.

2.3 The standard is also for better adoption of Uniform Costing and Inter-firm Comparison.

### **3. Scope**

3.1 The standard on classification of cost should be applied in assessment of cost of a product or service, application of costing technique and in case of management decision making by the manufacturing industries in India.

3.2 The standard is to be followed by an enterprise, whether covered under section 209(1)(d) of the Companies Act,1956 or not, to classify cost in order to prepare cost statement on uniform basis to make it relevant and understandable for effective cost management.

3.3 The standard has also to be followed for the purpose of assessment of cost of production or valuation of product or the valuation of stock to be certified for calculation of duties and taxes, tariffs and other purposes as the case may be. The cost statement prepared based on standard will be used for assessment of excise duty and other taxes, anti-dumping measures, transfer pricing etc.

### **4. Definitions:**

***4.1 Cost : Cost is a measurement, in monetary terms, of the amount of resources used for the purpose of production of goods or rendering services.***

4.2 Manufacturing of goods or rendering services involves consumption of resources. Cost is measured by the sacrifice made in terms of resources or price paid to acquire goods and services. The type of cost is often referred in the costing system depends on the purpose for which cost is incurred. For example material cost is the price of materials acquired for manufacturing a product.

**4.3 Cost Centre : Any unit of Cost Accounting selected with a view to accumulating all cost under that unit. The unit may be a product, a service, division, department, section, a group of plant and machinery , a group of employees or a combination of several units. This may also be a budget centre.**

4.4 Cost Centre or Cost Object is the logical sub-unit for collection of cost. Cost Centre may be of two types – personal and impersonal cost centers. Personal cost centre consists of a person or a group of persons. Cost centres which are not personal cost centres are impersonal cost centers. Again Cost centers may be divided into broad types i.e. Production Cost Centres and Service Cost Centres. Production Cost Centres are those which are engaged in production like Machine shop, Welding shop, Assembly shop etc. Service Cost centers are for rendering service to production cost centre like Power house, Maintenance, Stores, Purchase office etc.

**4.5 Cost unit is a form of measurement of volume of production or service. This unit is generally adopted on the basis of convenience and practice in the industry concerned.**

4.6 Examples of Cost Units :

Power - MW

Cement - MT

Automobile - Number etc

## **5. Basic Rules for Classification of Costs**

***5.1 Classification of cost is the arrangement of items of costs in logical groups having regard to their nature (subjective classification) or purpose (objective classification).***

***5.2 Items should be classified by one characteristic for a specific purpose without ambiguity.***

***5.3 Scheme of classification should be such that every item of cost can be classified.***

***5.4 Basis of classification :***

- i) Nature of expense***
- ii) Relation to object – traceability***
- iii) Functions / activities***
- iv) Behaviour fixed, semi-variable or variable***
- v) Management decision making***
- vi) Production Process***
- vii) Time period***

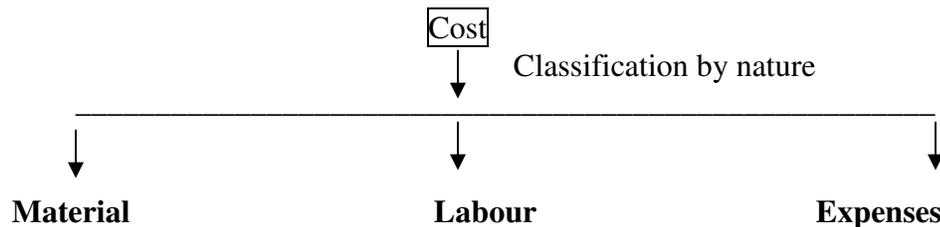
5.5 Classification of cost is the process of grouping the components of cost under a common designation on the basis of similarities of nature, attributes or relations. It is the process of identification of each item and the systematic placement of like items together according to their common features. Items grouped together under common heads may be further classified according to their fundamental differences. The same costs may appear in several different classifications depending on the purpose of classification.

5.6 Cost is classified normally in terms of a managerial objective. Its presentation normally requires sub-classification. Such sub-classification may be according to nature of the cost elements, functional lines, areas of responsibility, or some other useful break-up. The appropriate sub-classification depends upon the uses to be made of the cost report.

## 6. Classification of Costs

### 6.1 By Nature of expense:

*6.1.1 Costs should be gathered together in their natural groupings such as material, labour and other expenses. Items of costs differ on the basis of their nature. The elements of cost can be classified in the following three categories : i) Material ii) Labour iii) Expenses*



*6.1.2 Material Cost is the cost of material of any nature used for the purpose of production of a product or a service.*

6.1.3 Material cost includes cost of procurement, freight inwards, taxes & duties, insurance etc directly attributable to the acquisition. Trade discounts, rebates, duty drawbacks, refunds on account of modvat, cenvat, salex tax and other similar items are deducted in determining the costs of material.

***6.1.4. Labour Cost means the payment made to the employees, permanent or temporary, for their services.***

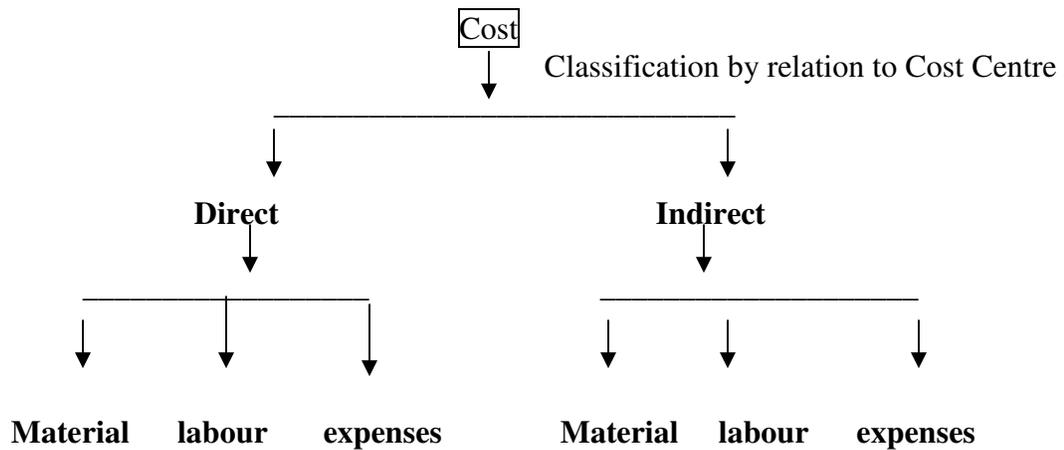
6.1.5 Labour cost include salaries and wages paid to permanent employees, temporary employees and also to employees of the contractor. Here, salaries & wages include all fringe benefits like Provident Fund contribution, gratuity, ESI, overtime, incentives, bonus , ex-gratia, leave encashment, wages for holidays and idle time etc.

***6.1.6 Expenses are other than material cost or labour cost which are involved in an activity.***

6.1.7 Expenditure on account of utilities, payment for bought out services, job processing charges etc. can be termed as expenses.

## **6.2 By Relation to Cost Centre**

***6.2.1 Classification should be on the basis of method of allocation of cost to a cost unit. If an expenditure can be allocated to a cost centre or cost object in an economically feasible way then it is called direct otherwise the cost component will be termed as indirect. According to this criteria for classification, material cost is divided into direct material cost and indirect material cost, labour cost into direct labour cost and indirect labour cost and expenses into direct expenses and indirect expenses. Indirect cost is also known as overhead.***



**6.2.2** *Direct cost has three components – direct material cost, direct labour cost and direct expenses and indirect cost has three components- indirect material, indirect labour cost and indirect expenses. Sum of all direct costs is called prime cost .*

**6.2.3** *Direct material Cost is the cost of material which can be directly allocated to a cost centre or a cost object in a economically feasible way.*

6.2.4 Raw materials consumed for production for a product or service which are identifiable in the product or service form the direct material cost. Direct Material cost includes cost of procurement, freight inwards, taxes & duties, insurance etc directly attributable to the acquisition. Trade discounts, rebates, duty drawbacks, refunds on account of modvat, cenvat, salex tax and other similar items are deducted in determining the costs of direct material.

**6.2.4** *Direct Labour Cost is the cost of wages of those workers who are readily identified or linked with a cost centre or cost object.*

6.2.5 Here, the wages of the workers include the fringe benefits include all fringe benefits like Provident Fund contribution, gratuity, ESI, overtime,

incentives, bonus , ex-gratia, leave encashment, wages for holidays and idle time etc. for the purpose of calculation of direct labour cost.

**6.2.6 *Direct Expenses are the expenses other than direct material or direct labour which can be identified or linked with the cost centre or cost object.***

6.2.7 Examples of direct expenses are

- expenses for special moulds required in a particular cost centre
- hiring charges for tools and equipments for a cost centre
- royalties in connection to a product
- Job processing charges etc

**6.2.8 *Indirect Material is the cost of material which can not be directly allocable to a particular cost centre or cost object.***

6.2.9 Materials which are of small value and can not be identified in or allocated to a product/service are classified as indirect materials. Examples :

- Consumable spares and parts
- Lubricants etc.

**6.2.10 *Indirect labour cost is the wages of the employees which are not directly allocable to a particular cost centre.***

6.2.11 Examples of indirect labour :

- Salaries of staff in the administration and accounts department
- Salaries of security staff etc

**6.2.12 *Indirect expenses are the expenses other than of the nature of material or labour and can not be directly allocable to a particular cost centres.***

6.2.13 Indirect expenses are not be allocable to a particular cost centre.  
Examples – insurance, taxes and duties,

### 6.3 By functions/activities:

**6.3.1** *Costs should be classified according to the major functions for which the elements are used into the following four major functions :*

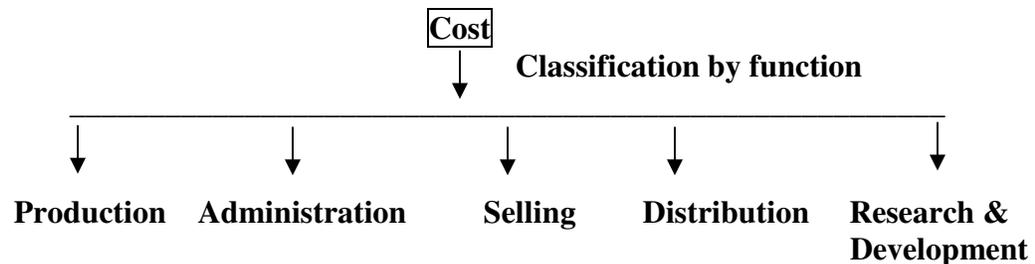
*Production;*

*Administration;*

*Selling;*

*Distribution; and*

*Research & Development Expenditure.*



**6.3.2** *Production Cost is the cost of all items involved in the production of a product or service. It includes all direct costs and all indirect costs related to the production.( Exhibit 1)*

**6.3.3** *Production overhead is the indirect costs involved in the production process.*

6.3.4 Production overhead is also termed as factory overhead or manufacturing overhead. Examples of Production overhead :

- Salaries for staff for production planning, technical supervision, factory administration etc
- normal idle time cost
- expenses for stores management
- security expenses in the factory
- labour welfare expenses
- dispensary and canteen expenses
- depreciation of plant and machineries
- repair and maintenance of factory building and plant & machineries
- insurance
- quality control etc.

***6.3.5 Administration costs are expenses incurred for general management of an organization. These are in the nature of indirect costs and are also termed as administrative overhead.***

6.3.6 Examples of items to be included in Administrative overhead :

- Salaries of administrative and accounts staff
- general office expenses like rent, lighting, rates and taxes, telephone, stationery, postage etc
- bank charges
- audit fees
- legal expenses
- depreciation & repair and maintenance of office building etc.

**6.3.7 *Selling costs are indirect costs related to selling of products or services and include all indirect cost in sales management for the organization.***

6.3.8 Selling Costs include all costs relating to regular sales and sales promotion activities. Examples of expenses which are included in selling cost are :

- Salaries, commission and traveling expenses for sales personnel
- advertisement cost
- Legal expenses for debt realization
- market research cost
- royalty on sale
- after sales service cost etc

**6.3.9 *Distribution Costs are the cost incurred in handling a product from the time it is completed in the works until it reaches the ultimate consumer.***

6.3.10 Distribution costs are the costs incurred for distribution of product to customers. Examples of distribution costs :

- Transportation cost
- cost of warehousing salable products
- cost of delivering the products to customers. etc

**Note**

1. Primary packaging cost is included in production cost whereas secondary packaging cost is distribution cost.

2. In exceptional cases, for example in case of heavy industries equipment supply, installation cost at delivery site for heavy equipments which involves assembling of parts, testing etc is included in production cost but not distribution cost. For example. installation cost of a gas turbine at plant site is included in the cost of production of gas turbine.

6.3.11 *Research & Development Costs are the cost for undertaking research to improve quality of a present product or improve process of manufacture, develop a new product, market research etc and commercialization thereof.*

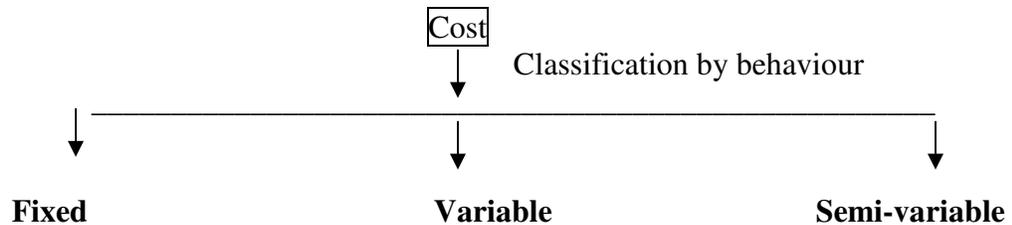
6.3.12 Research Cost comprises the cost of development of new product and manufacturing process; improvement of existing products, process and equipment; finding new uses for known products; solving technical problem arising in manufacture and application of products etc. Development cost includes the cost incurred for commercialization / implementation of research findings.

### **Exhibit 1**

	(1) Direct Material Cost (a)
	(2) Direct Labour Cost
	(3) Direct Expenses
(1)+(2)+(3) =	(4) Prime Cost
	(5) Production Overhead
	(6) Administrative Overhead
	(7) Research & Development Cost ( apportioned )
(4)+(5)+(6)+(7)=	(8) Cost of Production (b)
	(9) Selling Cost
	(10) Distribution Cost
(8)+(9)+(10) =	(11) Cost of Sales
Note :	
To arrive at value at different points as indicated above adjustment with opening and closing stock is necessary at following different points :	
(a) opening and closing stock of raw materials	
(b) opening and closing stock of work-in-progress & finished goods	

## 6.4 By Behaviour

6.4.1 *Costs are classified based on behaviour as fixed cost, variable cost and semi-variable cost depending upon response to the changes in the activity levels.*



6.4.2 *Fixed Cost is the cost which does not vary with the change in the volume of activity in the short run. These costs are not affected by temporary fluctuation in activity of an enterprise. These are also known as period costs.*

6.4.3 Examples for fixed cost : salaries, rent, audit fees, depreciation etc.

6.4.4 *Variable Cost is the cost of elements which tends to directly vary with the volume of activity. Variable cost has two parts – (a) Variable direct cost; and (b) Variable indirect costs. Variable indirect costs are termed as variable overhead.*

6.4.5 Examples of variable cost are materials consumed, direct labour, sales commission, utilities, freight, packing, etc.

6.4.6 *Semi Variable Costs contain both fixed and variable elements. They are partly affected by fluctuation in the level of activity.*

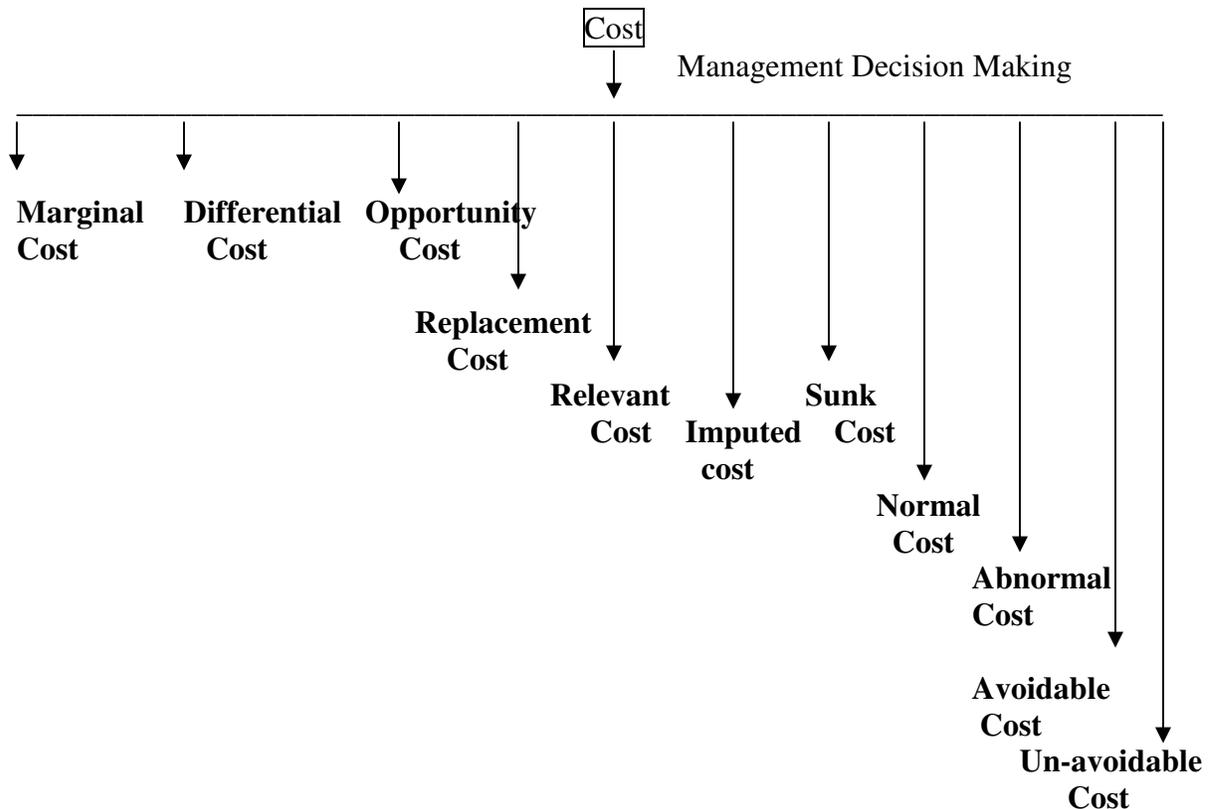
6.4.7 Examples of semi-variable cost : Factory supervision, maintenance, power etc.

**Note :**

1. The characteristics of fixed costs are (1) fixed amount within an output range (2) fixed cost per unit decreases with increased output
2. The characteristics of variable Cost: (1) The variable cost varies directly with volume of activities or production (2) variable cost remains constant per unit within a range of activity .

**6.5 For Management Decision Making**

*6.5.1 Costs are classified for the purpose of management decision making under different circumstances as under :*



*6.5.2 Marginal cost is the aggregate of variable costs, i.e. prime cost plus variable overhead. Marginal cost per unit is the change in the amount at any*

*given volume of output by which the aggregate cost changes if the volume of output is increased or decreased by one unit.*

6.5.3 Marginal cost is used in Marginal Costing system. For determining marginal cost, semi-variable costs, if any, are segregated into fixed and variable cost. Then, variable costs plus the variable part of semi-variable costs is the total marginal cost for the volume of production in consideration.

Example :

A. Production		45,000 units
	Fixed Cost	Variable Cost
B. Cost	Rs lakhs	Rs lakhs
1. Material cost		4.50
2. Labour cost		2.45
3. Fixed Cost	4.80	-
4. Variable Production & Selling overhead		2.30
5. Semi-variable Cost	3.20	2.00
	( after segregation fixed and variable part)	
		-----
C. Total Marginal Cost		11.25
		-----
D. Marginal cost per unit		Rs 25.00

*6.5.4. Differential Cost is the change in cost due to change in activity from one level to another.*

6.5.5 Differential Cost is found by using the principle which highlights the points of differences in costs by adoption of different alternatives. This technique is used in export pricing, new products and pricing goods sought to be promoted in new markets, either within the country or outside.

6.5.6 The algebraic difference between the relevant cost at two levels of activities is the differential cost. When the level of activity is increased, the differential cost is known as incremental cost and when the level of activity is decreased, the decrease in cost is known as decremental cost.

Output Unit in Lakhs	Differential Unit in lakhs	Total Cost (Rs lakhs)	Differential cost (Rs lakhs)	Differential cost per unit (Rs)
(a) 1.00	-	30.00	-	-
(b) 1.20	0.20 (b) – (a)	35.00	5.00	25.00
© 0.80	0.20 (a) – (c)	26.00	- 4.00	- 20.00

(+) Incremental cost

(-) Decremental cost

**6.5.7 Opportunity Cost is the value of the alternatives foregone by adopting a particular strategy or employing resources in specific manner.**

6.5.8 It is the return expected from an investment other than the present one. The opportunity cost is considered for selection of a project or justification of

investment, studying viability of an investment option. Example : A machine is currently being used to produce product P. It can also be used to produce product Q which can fetch Rs 60,000 profit. Then the opportunity cost of using the machine is Rs 60000.

***6.5.9 Replacement Cost is the cost of an asset in the current market for the purpose of replacement.***

6.5.10 Replacement cost is generally used for determining the optimum time of replacement of an equipment or machine in consideration of maintenance cost of the existing one and its productive capacity.

***6.5.11 Relevant Costs are costs relevant for a specific purpose or situation.***

6.5.12 In the context of decision making relating to a specific issue, only those costs which are relevant are considered. A particular cost item may be relevant in a decision making and may be irrelevant in some other decision making situation. For example, present depreciated cost of machine is relevant in case of decision of its sale but it is irrelevant in case of decision of its replacement.

***6.5.13 Imputed Costs are hypothetical or notional costs, not involving cash outlay, computed only for the purpose of decision making.***

6.5.14. In economics, ‘imputed’ indicates an ascribed or estimated value when there is no criteria of absolute monetary value for such purpose. In national income estimation wages of housewives are imputed. Similarly, in farming operations, the wages or salaries of owner are imputed. Imputed costs are

similar to opportunity costs. Interest on internally generated fund, which is not actually paid is an example of imputed cost.

***6.5.15 Sunk Costs are historical costs which are incurred i.e. 'sunk' in the past and are not relevant to the particular decision making problem being considered.***

6.5.16 Sunk costs are those that have been incurred for a project and which will not be recovered if the project is terminated. While considering the replacement of a plant, the depreciated book value of the old asset is irrelevant as the amount is a sunk cost which is to be written off at the time of replacement.

***6.5.17 Normal Cost is a cost that is normally incurred at a given level of output in the conditions in which that level of output is achieved.***

6.5.18 Normal cost includes those items of cost which occur in the normal situation of production process or in the normal environment of the business. The normal idle time is to be included in the ascertainment of normal cost.

***6.5.19 Abnormal Cost is an unusual or a typical cost whose occurrence is usually irregular and unexpected and due to some abnormal situation of the production.***

6.5.20 Abnormal cost arises due to idle time for some heavy break down or abnormal process loss. They are not considered in the cost of production for decision making and charged to profit & loss account.

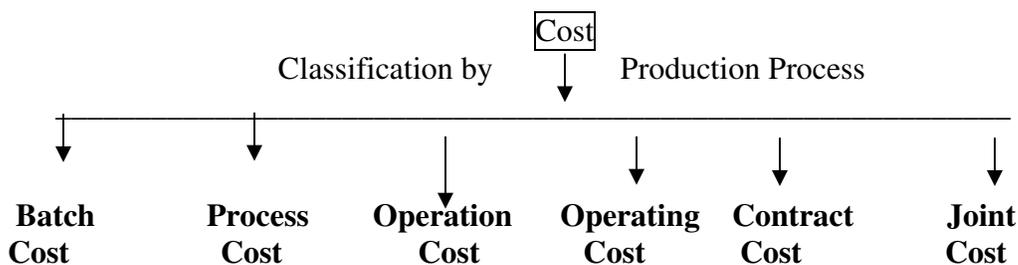
**6.5.21 Avoidable Costs are those costs which under given conditions of performance efficiency should not have been incurred.**

6.5.22. Avoidable costs are logically associated with some activity or situation and are ascertained by the difference of actual cost with the happening of the situation and the normal cost. When spoilage occurs in manufacture in excess of normal limit, the resulting cost of spoilage is avoidable cost. Cost variances which are controllable may be termed as avoidable cost.

**6.5.23 Unavoidable Costs are inescapable costs which are essentially to be incurred, within the limits or norms provided for. It is the cost that must be incurred under a programme of business restriction. It is fixed in nature and inescapable.**

## **6.6. By nature of production process**

**6.6.1 Costs are also classified on the basis of nature of production or manufacturing process.**



**6.6.2 Batch Cost is the aggregate cost related to a cost unit which consist of a group of similar articles which maintain its identity throughout one or more stages of production.**

***6.6.3 Process cost : When the production process is such that goods are produced from a sequence of continuous or repetitive operations or processes, the cost incurred during a period is considered as process cost. The process cost per unit is derived by dividing the process cost by number of units produced in the process during the period.***

6.6.4. Accounts are maintained for cost of a process for a period. The average cost per unit produced during the period is process cost per unit.

***6.6.5 Operation Cost is the cost a specific operation involved in a production process or business activity.***

6.6.6. When there are distinctly separate operations involved in a process, cost for each operation is found out for effective control mechanism.

***6.6.7 Operating Cost is the cost incurred in conducting a business activity. Operating costs refer to the cost of undertakings which do not manufacture any product but which provide services.***

***6.6.8 Contract cost is the cost of a contract with some terms and condition of adjustment agreed upon between the contractee and the contractor.***

6.6.9. Contract cost usually implied to major long term contracts as distinct from short term job costs. Escalation clause are sometimes provided in the contract in order to take care of anticipated change in material price, labour cost etc.

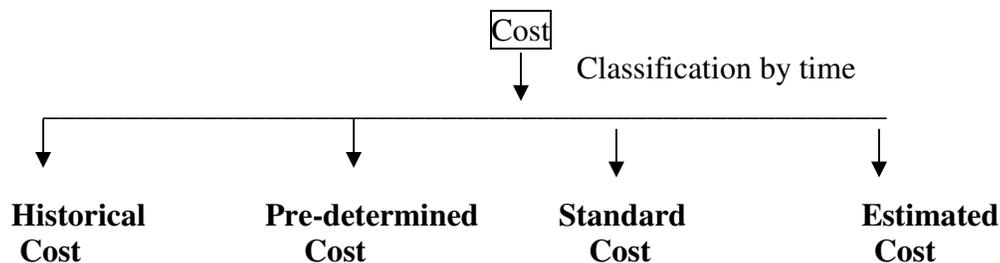
**6.6.10 Joint Costs are the common cost of facilities or services employed in the output of two or more simultaneously produced or otherwise closely related operations, commodities or services.**

6.6.11 When a production process is such that from a set of same input, two or more distinguishably different products are produced together, products of greater importance are termed as joint products and products of minor importance are termed as by-products and the costs incurred prior to the point of separation of the products are termed as Joint Costs. For example, in a petroleum refinery industry, petrol, diesel oil, kerosene oil, naphtha, tar etc are produced jointly in the refinery process.

**6.6.12 By-Product Cost is the cost assigned to the by-products.**

## 6.7 Classification by time

**6.7.1 A cost item is related to a specific period of time and cost can be classified according to the system of assessment and specific purpose as indicated in the following ways:**



**6.7.2 Historical Costs are the actual costs of acquiring assets or producing goods or services.**

6.7.3 They are 'postmortem' costs ascertained after they have been incurred and they represent the cost of actual operational performance. Historical costing system follows a system of accounting to which all values ( in revenue and capital accounts) are based on costs actually incurred or as relevant from time to time.

***6.7.4 Pre-determined Costs for a product are computed in advance of production, on the basis of a specification of all the factors affecting cost and cost data. Pre-determined costs may be either standard or estimated.***

***6.7.5 Standard Costs : A predetermined norm applied as a scale of reference for assessing actual cost, whether these are more or less. 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 of deviation placed.***

6.7.6. 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.

***6.7.7 Estimated Costs of a product are prepared in advance prior to the performance of operations or even before the acceptance of sale orders.***

6.7.8 Estimated cost is found with specific reference to product in question, and activity level of the plant. It has no link with actual and hence it is assumed to be less accurate than the standard cost.

## **7. Presentation and Disclosure:**

*7.1 The classification of cost item should be done on ‘basis of classification’ chosen with pre-determined objective.*

*7.2 The classification of cost item should be followed consistently from period to period and preparation of cost statements should be made with reference to a period of time.*

*7.3 A change in classification should be made only if it is required by law or for compliance with a Cost Accounting Standard or the change would reset in a more appropriate preparation or presentation of cost statements of an enterprise.*

*7.4. Any change in classification of cost which has a material effect on the cost of the product should be disclosed in the cost statements. Where the effect of such change is not ascertainable wholly or partly, the fact should be indicated in the cost statement.*