



CAS-21

COST ACCOUNTING STANDARD ON QUALITY CONTROL

The following is the Cost Accounting Standard (CAS -21) on “QUALITY CONTROL”. In this standard, the standard portions have been set in **bold Italic** type. These are to be read in context of the background material which has been set in normal type.

1. Introduction

The standard deals with the principles and methods of measurement and assignment of Quality Control cost and the presentation and disclosure in cost statement.

2. Objective

The objective of this standard is to bring uniformity, consistency in the principles, methods of determining and assigning Quality Control cost with reasonable accuracy.

3. Scope

The standard should be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of Quality Control cost 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.¹*

4.2 Cost Object: *This includes a product, service, cost centre, activity, sub-activity, project, contract, customer or distribution channel or any other unit in relation to which costs are ascertained.²*

4.3 Defectives: *End Product and/or intermediate product units that do not meet quality standards. This may include reworks or rejects.*

¹ Adopted from CAS 1 paragraph 6.5.19

² Adapted from CIMA Terminology



4.3.1 Reworks: *Defectives which can be brought up to the standards by putting in additional resources.*

Rework includes repairs, reconditioning and refurbishing.

4.3.2 Rejects: *Defectives which cannot meet the quality standards even after putting in additional resources.*

Rejects may be disposed off as waste or sold for salvage value or recycled in the production process.

4.4 Finance Costs: *Costs incurred by an enterprise in connection with the borrowing of 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 costs³. The terms Finance costs and Borrowing costs are used interchangeably.

4.5 Imputed Costs: *Hypothetical or notional costs, not involving cash outlay, computed for any purpose.*⁴

4.6 Overheads: *Overheads comprise of indirect materials, indirect employee costs and indirect expenses which are not directly identifiable or allocable to a cost object.*⁵

4.7 Quality: *Quality is the conformance to requirements or specifications.*

The quality of a product or service is fitness of that product or service for meeting its intended use as required by customer.

4.8 Quality control: *A procedure or a set of procedures exclusively designed to ensure that*

³ Adapted from CIMA Terminology

⁴ Adapted from CAS 1 paragraph 6.5.13

⁵ Adapted from CAS 3 paragraph 4.1



the manufactured products or performed service adhere to a defined set of quality criterion or meets requirement of the client or the customer.

4.9 Quality Control cost: This represents ***Cost of resources consumed towards quality control procedures.***

4.10 Scrap: ***Discarded material having some value in few cases and which is usually either disposed of without further treatment (other than reclamation and handling) or reintroduced into the production process in place of raw material⁶.***

4.11 Waste and spoilage:

4.11.1 Waste: ***Material loss during production or storage due to various factors such as evaporation, chemical reaction, contamination, unrecoverable residue, shrinkage, etc., and discarded material which may or may not have value⁷.***

4.11.2 Spoilage: ***Production that does not meet with dimensional or quality standards in such a way that it cannot be rectified economically and is sold for a disposal value. Net Spoilage is the difference between costs accumulated up to the point of rejection and the salvage value.***

5. Principles of Measurement:

5.1 Quality Control cost incurred in-house shall be the aggregate of the cost of resources consumed in the Quality Control activities of the entity. The cost of resources procured from outside shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discounts), taxes and duties refundable or to be credited by the Tax Authorities.

Such cost shall include:

- *Cost of conformance to quality: (a) prevention cost; and (b) appraisal cost.*

⁶ Adapted from Glossary of Management Accounting Terms- Page 62

⁷ Adapted from Glossary of Management Accounting Terms page 70



5.2 Identification of Quality Control costs shall be based on traceability in an economically feasible manner.

5.3 Quality Control costs other than those referred to in paragraph 5.2 shall be determined on the basis of amount incurred in connection therewith.

5.4 Finance costs incurred in connection with the self generated or procured resources shall not form part of Quality Control cost.

5.5 Quality Control costs shall not include imputed costs.

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

5.7 Any abnormal portion of the Quality Control cost where it is material and quantifiable shall not form part of the Cost of Quality Control.

5.8 Penalties, damages paid to statutory authorities or other third parties shall not form part of the Quality Control cost.

5.9 Any change in the cost accounting principles applied for the measurement of the Quality Control cost 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 organisation.

6. Assignment of costs

6.1 Quality Control cost that is directly traceable to the cost object shall be assigned to that cost object.

6.2 Assignment of Quality Control cost to the cost objects shall be based on benefits received by them.



i) Benefits received – Quality Control cost is to be apportioned to the various cost objects in proportion to the benefits received by them.

For example : On the basis of number of tests performed for a product.

7. Presentation

7.1 Quality Control cost, if material, shall be presented as a separate cost head with suitable classification.

8. Disclosures

8.1 The cost statements shall disclose the following:

8.1.1 The basis of distribution of Quality Control cost to the cost objects/ cost units.

8.1.2 Quantity and Cost of resources used for Quality Control as applicable.

8.1.3 Quality Control cost paid/ payable to related parties⁸.

8.1.4 Quality Control cost incurred in foreign exchange.

8.1.5 Any abnormal portion of the Quality Control cost.

8.1.6 Penalties and damages excluded from the Quality Control cost

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

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

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

9. Effective date:

This Cost Accounting Standard shall be effective from the period commencing on or after 1st April 2014 for being applied for the preparation and certification of General Purpose Cost Accounting Statements.

⁸ Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement