



(CAS-10)

COST ACCOUNTING STANDARD ON DIRECT EXPENSES

The following is the COST ACCOUNTING STANDARD – 10 (CAS-10) issued by the Council of The Institute of Cost and Works Accountants of India on “DIRECT EXPENSES”. In this Standard, the standard portions have been set in ***bold italic*** type. This standard should 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 Direct Expenses.

1.2 *This standard deals with the principles and methods of classification, measurement and assignment of Direct Expenses, 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 Direct Expenses with reasonable accuracy.

3. Scope

This standard should be applied to cost statements, which require classification, measurement, assignment, presentation and disclosure of Direct Expenses 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

¹ Adapted from CAS 1 paragraph 6.5.19



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 Direct Employee Cost: *The cost of employees which can be attributed to a cost object in an economically feasible way.*³

4.4 Direct Expenses: *Expenses relating to manufacture of a product or rendering a service, which can be identified or linked with the cost object other than direct material cost and direct employee cost*⁴. Examples of Direct Expenses are royalties charged on production, job charges, hire charges for use of specific equipment for a specific job, cost of special designs or drawings for a job, software services specifically required for a job, travelling Expenses for a specific job.

4.5 Direct Material Cost: *The cost of material which can be attributed to a cost object in an economically feasible way*⁵.

4.6 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 costs⁶. The terms Finance costs and Borrowing costs are used interchangeably.

4.7 Imputed Costs: *Hypothetical or notional costs, not involving cash outlay, computed for any purpose.*⁷

² Adapted from CIMA Terminology

³ Adapted from CAS 1 paragraph 6.2.4 (Direct labour cost)

⁴ Adapted from CAS 1 paragraph 6.2.6

⁵ Adapted from CAS 1-6.2.3

⁶ Adapted from CIMA Terminology

⁷ Adapted from CAS 1 paragraph 6.5.13



4.8 Overheads: *Overheads comprise of indirect materials, indirect employee costs and indirect expenses which are not directly identifiable or allocable to a cost object.*⁸

4.9 Standard Cost: *A predetermined cost of resource inputs for the cost object computed with reference to set of 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.

5. Principles of Measurement:

5.1 *Identification of Direct Expenses shall be based on traceability in an economically feasible manner.*

5.2.1 *Direct expenses incurred for the use of bought out resources shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of trade discounts, rebates, taxes and duties refundable or to be credited.*

5.2.2 *Direct expenses other than those referred to in paragraph 5.2.1 shall be determined on the basis of amount incurred in connection therewith.*

Examples: in case of dies and tools produced internally, the cost of such dies and tools will include direct material cost, direct employee cost, direct expenses, factory overheads including share of administrative overheads relating to production comprising factory management and administration.

In the case of research and development cost, the amount traceable to the cost object for development and improvement of the process for the existing product shall be included in Direct Expenses.

⁸ Adapted from CAS 3 paragraph 4.1



5.2.3 Direct Expenses paid or incurred in lump-sum or which are in the nature of 'one – time' payment, shall be amortised on the basis of the estimated output or benefit to be derived from such direct expenses.

Examples: Royalty or Technical know-how fees, or drawing designing fees, are paid for which the benefit is ensued in the future period. In such case, the production / service volumes shall be estimated for the effective period and based on volume achieved during the Cost Accounting period, the charge for amortisation be determined.

5.3 If an item of Direct Expenses does not meet the test of materiality, it can be treated as part of overheads.

5.4 Finance costs incurred in connection with the self generated or procured resources shall not form part of Direct Expenses.

5.5 Direct Expenses shall not include imputed costs. In case of goods produced for captive consumption, treatment of imputed cost shall be in accordance with Cost Accounting Standard – 4 (CAS-4).

5.6 Where direct expenses are accounted at standard cost, variances due to normal reasons shall be treated as part of the Direct Expenses. Variances due to abnormal reasons shall not form part of the Direct Expenses.

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

5.8 Any abnormal portion of the direct expenses where it is material and quantifiable shall not form part of the Direct Expenses.

5.9 Penalties, damages paid to statutory authorities or other third parties shall not form part of the Direct Expenses.



5.10 Credits/ recoveries relating to the Direct Expenses, material and quantifiable, shall be deducted to arrive at the net Direct Expenses.

5.11 Any change in the cost accounting principles applied for the measurement of the Direct Expenses should be made only if, it is required by law or for compliance with the requirements of a cost accounting standard, or a change would result in a more appropriate preparation or presentation of cost statements of an organisation.

6. Assignment of costs

6.1 Direct Expenses that are directly traceable to the cost object shall be assigned to that cost object.

7. Presentation

7.1 Direct Expenses, if material, shall be presented as a separate cost head with suitable classification. E.g.

- Subcontract charges
- Royalty on production

8. Disclosures

8.1 The cost statements shall disclose the following:

- 1. The basis of distribution of Direct Expenses to the cost objects/ cost units.**
- 2. Quantity and rates of items of Direct Expenses, as applicable.**
- 3. Where Direct Expenses are accounted at standard cost, the price and usage variances.**
- 4. Direct expenses representing procurement of resources and expenses incurred in connection with resources generated.**
- 5. Direct Expenses paid/ payable to related parties⁹.**
- 6. Direct Expenses incurred in foreign exchange.**
- 7. Any Subsidy/Grant/Incentive and any such payment reduced from Direct Expenses.**
- 8. Credits/recoveries relating to the Direct Expenses.**
- 9. Any abnormal portion of the Direct Expenses.**
- 10. Penalties and damages excluded from the Direct Expenses**

⁹ Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement



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 Direct Expenses during the period covered by the cost statement which has a material effect on the Direct Expenses. Where the effect of such change is not ascertainable wholly or partly the fact shall be indicated.