Cost Accounting Standards
of Sri Lanka
(CASSL)

May 2026

Institute of Certified Management Accountants of Sri Lanka
Incorporated by the Parliament Act No. 23 of 2009

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Cost Accounting Standards Board

Institute of Certified Management Accountants of Sri Lanka (CMA *Sri Lanka*)

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The National Professional Management Accounting Institution in Sri Lanka

Equipping Future Accountants

A MEMBER OF

Institute of Certified Management Accountants *of Sri Lanka*

Vision

CMA, the Preferred Choice.

Mission

To train and develop
Management Accounting Professionals who are
innovative, ethically and socially responsible, and
contributing for sustainable value creation.

Values

Core values observed in day-to-day operations:
Adaptability and Innovation;
Excellence in Everything we do;
Embracement in Diversity;
Openness, Honesty, and Transparency;
Professionalism;
Supportive and Responsive; and
Trust and Integrity.

From the President

CMA *Sri Lanka.*

It is a great pleasure and a privilege to share this message on the launch of the Cost Accounting Standards of Sri Lanka by the Institute of Certified Management Accountants of Sri Lanka (CMA *Sri Lanka*). This is a historical moment as first standards on Cost Accounting issued by a National Professional Management Accounting body in Sri Lanka incorporated by an Act of Parliament. As a National Professional Management Accounting Body, we need to stress the importance of proper costing and the maintenance of cost records to improve efficiency, effectiveness, productivity and remove wastages and corruption in business organizations and make them competitive in the local and global markets. The launch of the Cost Accounting Standards is a significant milestone achieved by CMA *Sri Lanka* with the technical support of the Institute of Cost Accountants of India.

We plan to implement the system of cost accounting and cost audit standards with the backing of the regulatory authorities to benefit organizations and society. In this we are encouraged by the by the Indian experience that mandatory compliance in the application of these standards in the public and corporate sectors have significantly contributed to the economic well-being and prosperity of the nation.

I take this opportunity to express my heartfelt thanks to several who made this publication possible. At the outset, I thank Messrs. CMA TCA Srinivasa Prasad and CMA Neeraj D Joshi of the Institute of Cost Accountants of India (ICMAI) for giving consent to the 'Exposure Draft'. I am also deeply grateful to members of the Cost and Management Accounting Standards Board (CMASB) headed by Mr. Mahendra Jayasekera and the Expert Committee led by Mr. Tyrell Roche for their dedication. I also thank Messrs. CMA AN Raman and CMA Gopala Krishnan for their support. CMA My special thanks are due to Dr. Mangala Fonseka for his admirable guidance and for undertaking the task of compiling the publication. Finally, I owe a debt of gratitude to the Governing

Council of CMA *Sri Lanka* and all those who took part in the process in numerous capacities.

It is ardently hoped that the practitioners from the public and corporate sectors will implement the standards in their workplaces in the same spirit that CMA *Sri Lanka* developed them. In doing so, we certainly can work together to build a more productive and competitive nation. I wish the launch of Sri Lanka's Cost Accounting Standards every success it so richly deserves and believe that effective implementation will bring rewards to industry and commerce and enable our businesses to be global leaders.

Prof Lakshman R Watawala

From the President

The Institute of Cost Accountants of India (ICMAI)

The launch of the Cost Accounting Standards of Sri Lanka by the Institute of Certified Management Accountants of Sri Lanka represents an important development in the continuing professional engagement between the Institute of Cost Accountants of India and CMA Sri Lanka. The initiative also reflects the longstanding association and professional exchanges between the two institutions over the years.

The association between the two institutions traces back to the period prior to the incorporation of CMA Sri Lanka, when it functioned as the Society of Cost and Management Accountants of Sri Lanka (SCMASL). Professor Lakshman R. Watawala, who played a key role in the establishment of both SCMASL and CMA Sri Lanka, maintained close professional engagement with ICMAI from the formative years of the institution. Over time, the two institutions have undertaken various collaborative and knowledge-sharing initiatives in areas relating to cost and management accounting.

Over the years, India has established a comprehensive system of cost accounting and cost auditing supported by a well-defined regulatory framework. The progressive development of Cost Accounting Standards in India has played an important role in promoting standardization and improving the effectiveness of cost reporting across industries. CMA Sri Lanka, through its ongoing professional engagement and collaboration, initiated the development of Cost Accounting Standards for Sri Lanka by drawing upon the Cost Accounting Standards issued by the ICMAI in India and adapting them to suit domestic business practices and regulatory requirements.

The issuance of these Standards marks a significant step towards enhancing the quality, reliability and consistency of cost accounting practices in Sri Lanka, while also advancing the discipline of cost management and strengthening professional best practices.

The ICMAI remains committed to extending its continued support to CMA *Sri Lanka* in the development and strengthening of Cost Accounting Standards and related professional frameworks. The Institute looks forward to further collaboration with CMA *Sri Lanka* in areas of professional development, knowledge sharing, capacity building, research and advancement of the cost and management accounting profession for the mutual benefit of both institutions and the wider professional community.

The Indian CMA fraternity conveys its best wishes to the CMA fraternity of Sri Lanka for the effective implementation of these standards and for their continued contribution to the advancement of the profession.

Jai Hind,

CMA TCA Srinivasa Prasad

From the Chairman,

Cost and Management Accounting Standards Board, CMA *Sri Lanka*

It is with a deep sense of privilege that I reflect on my close association with the development of the Cost Accounting Standards for application across the public and corporate sectors of Sri Lanka—an endeavour of considerable national importance. It is both timely and commendable that CMA *Sri Lanka* has taken the initiative to address this long-standing need, which will serve as a catalyst for enhancing productivity, strengthening economic growth, and improving the overall wellbeing of our nation.

The technical collaboration with the Institute of Cost Accountants of India (ICMAI) has been both enriching and rewarding, contributing significantly to the successful formulation and publication of the Cost Accounting Standards of Sri Lanka. While the process was inherently complex, it proved equally stimulating and intellectually fulfilling.

The development of these standards was spearheaded by the Cost and Management Accounting Standards Board (CMASB), comprising distinguished members from both academia and professional practice. A dedicated Technical Sub-Committee undertook the detailed work, supported by a rigorous methodology that included comprehensive literature reviews, consultative workshops, and extensive stakeholder engagement. Following the issuance of the Exposure Draft, the document underwent a thorough review by an expert committee. The standards are now presented for public comment, which will play a vital role in refining future editions.

This publication represents a comprehensive compendium of nineteen Cost Accounting Standards, structured within a cohesive and logical framework. It commences with preliminary sections, followed by the Conceptual Framework and Generally Accepted Cost Accounting Principles, before elaborating on the individual standards. The document further encompasses guidance on Cost Sheet preparation and Implementation Aspects, and concludes with a Glossary of Selected Cost Terms and an Implementation Guide included in the appendices.

Looking ahead, the agenda of the CMASB is both extensive and forward-looking. Key priorities include promoting awareness and facilitating the effective implementation of these standards, expanding their application to emerging sectors, and introducing formal Cost Audit Standards. In parallel, the Board will continue to support CMA *Sri*

Lanka in its efforts to obtain statutory and regulatory recognition for these standards.

At this significant milestone, I wish to express my sincere appreciation to Professor Lakshman R. Watawala for his visionary leadership and steadfast encouragement. I also extend my gratitude to the members of the CMASB and the Technical Committee for their dedication and commitment to the workshop participants for their invaluable contributions, and to all who supported the Board's work in numerous ways.

In conclusion, I invite all stakeholders to join us in embracing the challenges ahead. Through our collective resolve and shared commitment, we can contribute meaningfully to the sustained prosperity of our nation.

Mahendra Jayasekera

From the Vice President,

The Institute of Cost Accountants of India (ICMAI) and Chairman, CASB of ICMAI

It gives immense pleasure to convey heartfelt greetings and best wishes on the occasion of the launch of the Cost Accounting Standards of Sri Lanka (CASSL) by the Institute of Certified Management Accountants of Sri Lanka (CMASL).

The Institute of Cost Accountants of India (ICMAI) expresses its sincere appreciation to CMASL for the commendable work undertaken in adapting the Cost Accounting Standards (CASs) while developing the Cost Accounting Standards of Sri Lanka. This initiative marks a significant milestone in strengthening the professional framework for cost and management accounting in the SAARC region.

The development of CASSL by CMASL is a progressive step towards fostering transparency, consistency and reliability in cost measurement and reporting practices. It is expected that these Standards will contribute substantially towards promoting cost consciousness and inculcating a strong cost culture across industries and institutions. Such efforts will also play an important role in enhancing efficiency, improving competitiveness and supporting informed managerial decision-making.

This initiative is expected to create greater awareness and acceptance of Cost Accounting Standards amongst the accounting and professional bodies across the SAARC region through the SAFA network. The harmonization of cost accounting practices across neighboring countries will further strengthen regional cooperation and facilitate the development of a robust and globally aligned cost and management accounting profession in South Asia.

The collaboration between ICMAI and CMASL reflects the shared commitment of both Institutes towards professional excellence, knowledge sharing and institutional development. It is hoped that this partnership will continue to expand into new areas of mutual cooperation, including professional educa-

tion, research, standard-setting, capacity building and exchange of best practices for the advancement of the profession.

The Cost Accounting Standards Board of ICMAI extends its best wishes to CMASL for the successful implementation of CASSL and looks forward to many more collaborative initiatives that will contribute to the growth and strengthening of the CMA profession across the SAARC region and beyond.

Best Wishes,

CMA Neeraj D Joshi

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In compiling this publication, I owe a great debt of gratitude to several individuals and institutions:

- Professor Lakhsman R Watawala and the Governing Council for the initiative, foresight, and relentless support.
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- Mr. Mahendra Jayasekera and the Cost and Management Accounting Standards Board (CMASB) for their invaluable advice and guidance.
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- Participants of the Workshops for their constructive comments.
- Ms. Shanthi Maheswaran and Ms. Rashmi Premathilaka for their dedicated administrative support.

My sincere thanks to you all.

It is my fervent hope that this publication will contribute towards reshaping the frontiers of Cost Accounting in Sri Lanka and direct the nation towards prosperity.

Dr. Mangala Fonseka

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Contents

Preface

Managing costs is the foundation of value maximization and a key driver of competitive advantage. Effective cost management allows an enterprise, whether public or corporate, to use its scarce resources prudently leading to higher productivity and surpluses or profits. Regardless of the size, industry, or ownership, cost management is essential for organizational excellence, especially in developing countries like Sri Lanka, where fiscal constraints make efficiency a necessity.

Managing costs is supported by institutionalization of collecting, recording, and synthesizing of cost data, and compilation of cost sheets. Application of cost accounting standards that provide a uniform framework for measuring, assigning and allocating costs enables development of cost sheets in a consistent and equitable manner on a periodic basis. The cost sheets, thus prepared, facilitate purposeful comparison and benchmarking; enhance understanding of occurrence and allocation of costs; promote effective decision making; and comply with regulatory and legal requirements. In effect, application of cost standards provides a range of benefits to users in the informative, comparative, and decision-making spheres.

This publication presents a collection of Cost Accounting Standards for the benefit of the Sri Lankan public and corporate sectors. These are built on a strong conceptual foundation, that consists of six cornerstones of norms and values running through the standards. On this foundation the generally accepted cost accounting principles define the cost elements synthesized under heads and sub-heads. Finally, the cost accounting standards- the rules and guidelines for preparing cost sheets- are formulated by combining the principles in meaningful ways.

The earliest attempts at developing cost accounting standards date back to the US of 1970s where a set of nineteen standards were developed to ensure consistency and comparability in how contractors account for and allocate costs on federal defense contracts. This was followed by several other countries in South Asia, namely, India, Bangladesh and Pakistan who adopted similar systems with enthusiasm. Of these, India is of particular interest; where, under the guidance of the Cost Accounting Standards Board of India, a comprehensive system of 24 cost accounting standards has been developed. These are used across industries and the public sector to determine accurate production cost and comply with statutory cost audit requirements.

Sri Lanka is the latest to join this movement. Under the auspices of CMA *Sri Lanka*, the nation has launched an initiative to introduce cost accounting standards across manufacturing, services, and the public sectors. With the support of the Indian Institute of Cost Accountants (ICMAI) CMA *Sri Lanka* has been permitted to adopt Indian standards to the local context. This long neglected but essential development is expected to transform cost management, providing far reaching benefits for organizations, industry and society.

SECTION 1

Introduction

Cost Accounting Standards of Sri Lanka fulfills a long awaited need in the history of the nation's cost accounting practice. While financial accounting and its derivatives- such as financial analysis and reporting- often take centre stage in organizational management, cost accounting remains the very foundation of the field yet continues to receive less emphasis. Responding to this gap and its adverse implications, this publication seeks to bring cost accounting to the forefront of organizational management.

The purpose of this book is to offer a rule book that keeps the cost data honest, consistent, and comparable. More specifically, it serves as a guide to formalizing preparation of cost sheets through application of cost accounting standards, that are rooted in generally accepted cost accounting principles, which, in turn, are grounded on a rigorous conceptual foundation. This will make the practice of cost accounting effective, efficient, and productive with multiple benefits accruing to the complying organizations, industry, regulatory bodies and society at large.

The contents of the book are largely based on the work of the Institute of Cost Accountants of India (ICMAI). Similarity in business practices, geographical proximity, and historical ties have made seeking support of India appropriate and meaningful. Through a technical collaboration with ICMAI, CMA *Sri Lanka* has adopted the Conceptual Framework, Generally Accepted Cost Accounting Principles, and the Cost Accounting Standards to the Sri Lankan context. The book also features several new sections, viz. the Cost Sheet, Implementation Aspects, and a Selected Glossary of Cost Terms. As such, this book serves as a comprehensive handbook for the cost accounting practice within organizations.

A rigorous methodology was adopted in developing Cost Accounting Standards of Sri Lanka. Spearheaded by the Cost Accounting Standards Board that consisted of two consultants from India, and several local academics and professionals from industry, the detailed work was assigned to a smaller technical sub-committee. The process involved thorough perusal of relevant Indian material, frequent review meetings largely via video conferencing and deliberation on documents at various stages. Additionally, two workshops were held to gather insights from practioners across the public and private sectors as well as an expert committee covering vital sectors of the economy.

The cost accounting standards are currently in 'exposure draft' form leaving room for refinement based on views of users, industry experts, and policy makers. The standards- which currently total nineteen-will be expanded to cover additional sectors and operations. Finally, while the cost sheet in this publication focuses on manufacturing, future versions will extend to vital sectors like energy, telecommunication, hospitality, health, education, and construction.

SECTION 2

The Conceptual Foundation

The conceptual foundation offers the basis for developing the Generally Accepted Cost Accounting Principles (GACAPs) followed by Cost Accounting Standards of Sri Lanka (CASSL). It comprises six cornerstones that stipulate the norms/ values running through the standards like a common thread. While serving as a search light to understand GACAPs and CASSL in the correct perspective, it offers guidance for their refinement and extension.

The cornerstones that comprise the conceptual foundation are as follows.

Focus on cost drivers of value

Cost drivers are the structural factors that influence or determine the level of costs incurred by an organization in producing and delivering the product or service. By understanding the cost drivers, a business can optimize its operations, reduce expenditure, and increase its value proposition to customers. Further, by analyzing cost drivers, organizations can understand how their costs behave, are influenced by external and internal factors, and how they can be reduced/ optimized. There are different methods and techniques for analyzing cost drivers depending on the type, level and purpose of the analysis which enable focus on cost drivers of value to advantage.

Cost for a purpose

Cost is more a relative than an absolute concept. It is well accepted that cost is driven by purpose which vary over one's needs. For instance, external reporting is driven by historical data; performance evaluation by attention directing diagnostic figures, *and* planning and decision by analytical and predictive information. Using the same set of cost data for all purposes is, therefore, a futile exercise. This has given rise to a wide range of cost concepts from which users shall select the relevant ones for a specific purpose. Thus, computation of cost shall always be associated with a purpose.

Reality driven cost models

A cost model is a structured tool that businesses use to aggregate, allocate, and analyze all types of expenditure, providing a transparent system for understanding and managing a company's spending. In designing cost models every effort must be made to ensure that they reflect the entity's business model, its organizational structure, operational processes, strategy, and its competitive environment. Furthermore, it is imperative that cost models are reviewed and adjusted on a continuous basis to be aligned with the associated parameters which are in a state of flux.

Materiality and cost effectiveness

The concept of materiality and cost effectiveness pertain to the extent of detail of costs and the degree of accuracy that one should maintain in presenting cost information. This involves complying with the principle of cost benefit analysis which stipulates that one shall not operate in areas where costs exceed benefits. Working towards higher levels of detail of costs will invariably entail higher costs (of analysis), that may, beyond a certain point, turn out to be less than the benefits that they will accrue. Thus, it may not be economically feasible (cost effective) to continue beyond this level of expansiveness of cost information (materiality).

Comparability and consistency

The purpose of costing and preparation of cost sheets shall be comparison of an organization with its past, as well as other comparable organizations. It is comparability and that alone that determines the progression or otherwise of an organization. Thus, all efforts associated with cost accounting, comprising recording, accumulation, synthesis, and presentation of cost information shall promote comparability.

Consistency involves following the same formats, methods and techniques by the organization period after period which facilitates comparability. Further, they shall be varied only for valid reasons such as those required by law, compliance with new cost accounting standards or on the grounds that it would result in a more value adding presentation of cost information.

Transparency and auditability

Transparency is the quality of being easy to see through or done in an open way without secrets or any attempt to hide something. Since cost information is used by a variety of stakeholders such as management, regulators and the government there is a need for transparency regarding the definitions used, sources of data, and the desirable coverage. A high level of transparency leads to well-organized and a complete set of cost records and statements which makes auditability, the task of presenting a true and fair picture of the organization's activities, easy. Thus, transparency and auditability are two concepts that relate to each other with one leading to the other.

SECTION 3

Generally Accepted Cost Accounting Principles

Generally Accepted Cost Accounting Principles (GACAPs) denote a collection of propositions/ rules for recording cost data that serve as the basis to explain behaviour of cost accounting systems. Based on the conceptual foundation, they offer a chain of reasoning for the process of costing and preparation of cost sheets. They could also be visualized as a set of norms or guidelines to comply with in preparing cost sheets. Moreover, GACAPs serve as the precursor to preparation of Cost Accounting Standards of Sri Lanka (CASSL) that provide uniformity into the cost sheets.

The objectives of GACAPs are as follows.

i. To narrow down diversities in cost accounting practices, facilitating development of CASSL.

ii. To provide a reference source for industry and practitioners in the preparation and attestation of cost sheets, where specific CASSL are yet to be issued.

iii. To offer a reference source for stakeholders in understanding and explaining cost sheets.

iv. To serve as a base for monitoring the evolution of new concepts and practices in cost accounting.

v. To codify the GACAPs to be applied to Sri Lankan industry over time.

This section contains GACAPs associated with thirteen elements of cost: Material cost, employee cost, direct expenses, utilities, repairs and maintenance costs, production overheads, depreciation, administrative overheads, selling and distribution overheads, interest and finance charges, sales, joint costs, and common costs. The elementwise GACAPs which are detailed in the following pages are preceded by a common set of principles that are applicable across all elements of cost.

The GACAPs are adapted from the publication **Generally Accepted Cost Accounting Principles** issued by the Institute of Cost Accountants of India (ICMAI).

Principles applicable to all elements of cost
(Common GACAPs)

i. When an element of cost is accounted for at standard cost, variances owing to normal causes are treated as a part of the element-wise cost while variances owing to abnormal causes will not form part of the cost.

ii. Any subsidy/grant/ incentive and any such payment received/ receivable with respect to the input cost is reduced from cost for ascertainment of the cost of the object to which such amount pertains to.

iii. Any abnormal cost, that is material and quantifiable, will not form part of the cost of the object.

iv. Penalties or damages paid to statutory authorities or other third parties will not form part of the cost of the object.

v. Costs reported under various elements of cost will not include imputed costs.

vi. Finance costs incurred in connection with acquisition of resources such as material, utilities, and the like will not form part of the cost of such resources.

vii. Any credits or recoveries from employees/ suppliers/ other parties towards costs incurred by the entity for a given resource will be netted against such costs.

viii. Except otherwise stated, the measurement of costs for cost accounting purposes will follow the same principles as set out in Generally Accepted Cost Accounting Principles applicable to the entity concerned.

Elementwise GACAPs
Material Cost
(Applicable for CASSL 6)

i. **Material cost usually includes all costs required to bring the material to the present condition and location.**

In case of manufacturing units, the location implies the factory gate/ works while in case of service organizations, the location implies the place from which the services are rendered or activities carried out.

ii. **Material receipts are valued at purchase price including duties and taxes, freight inwards, insurance, and other expenditure directly attributable to procurement (net of trade discounts, rebates, taxes, and duties refundable or to be credited by the tax imposing authorities) that can be quantified with reasonable accuracy at the time of acquisition[1].**

The requirement that the expenditure must be capable of being quantified with reasonable accuracy at the time of acquisition is important. For large volume small value purchases, it is common to take freight/ other costs at a predetermined percentage of purchase prices and recognize any difference as expense for the period when actual costs are available as expenses for the period. For small value items of purchase, it is common even to treat all freight on such purchases as overheads.

iii. **Procurement costs are usually not included in material cost. However, those costs which can be directly identified with a material are included in the material cost.**

Purchase department overheads are not generally included in material cost.

iv. **Development expenses incurred in respect of materials procured are included in the cost of material to the extent that the material procured has arisen owing to such developments.**

1 CASSL 6 Paragraph 5.1.1

v. **In case where material is acquired in exchange for other material or services supplied, the cost of material is taken as the cost of material supplied or services provided plus other applicable expenses such as freight.**

vi. **Normal loss or spoilage of material prior to reaching the factory or at places where the services are provided is absorbed into the cost of balance of material, net of amounts recoverable from suppliers, insurers, carriers or recoveries from disposal[2].**

vii. **Losses owing to shrinkage or evaporation and gain owing to elongation or absorption of moisture, etc., before the material is received is absorbed into material cost to the extent, they are normal, with corresponding adjustment in the quantity[3].**

viii. **In case where material procured represents agricultural produce from own sources, it is valued at market price or other cost which can be determined with reasonable accuracy.**

ix. **The forex component of imported material cost is converted at the rate on the date of the transaction. Any subsequent change in the exchange rate till payment or otherwise will not form part of the material cost[4].**

x. **Self-manufactured material (and self-manufactured components and sub-assemblies) are valued at cost including direct material cost, direct employee cost, direct expenses, factory overheads and a share of administrative overheads relating to production. The share of other administrative overheads, finance costs and marketing overheads are excluded[5].**

xi. **The material cost of normal scrap/ defectives, which are rejects, is included in the material cost of manufactured goods. This cost not exceeding the normal is adjusted to the material cost of good production. Material cost of abnormal scarp/ defectives shall not be included in the material cost but treated as a loss after giving credit to the realizable value of such scrap/ defectives[6].**

xii. **Issues of material are valued using appropriate assumptions on cost flows[7].**

E.g. FIFO, LIFO and Weighted Average Rate.

xiii. **Material costs are assigned to cost objects based on material quantity consumed where traceable and where not traceable on technical norms or estimates[8].**

xiv. **In case material is processed or part-manufactured by a third party according to specifications provided by the buyer, the processing/ manufacturing charges payable to**

2 CASSL 6 Paragraph 5.1.5

3 CASSL 6 Paragraph 5.1.6

4 CASSL 6 Paragraph 5.1.7

5 CASSL 6 Paragraph 5.1.3, 5.3

6 CASSL 6 Paragraph 5.4

7 CASSL6 Paragraph 5.2.1

8 CASSL 6 Paragraph 6.3.1

the third party are treated as part of the material cost[9].

xv. **In case part of the manufacturing operations/ activity is sub-contracted, the sub-contract charges related to material are treated as direct expenses and assigned directly to the cost object[10].**

xvi. **Cost of materials like catalysts, dies, tools, patterns etc., which are relatable to production over a period, is amortized over the production units benefited by such cost. Cost of material with life exceeding one year is included in the cost over the useful life of material[11].**

xvii. **In case the cost of material is written off or written down in the financial books as per the accounting policy followed by the entity, such adjustments are not treated as cost.**

It is usual for companies to write off or write down the cost of non-moving/ slow moving items, for instance, those that have not moved for three years or more.

xviii. **With respect to xvii above, when material is subsequently issued, it is valued at the original cost in cost accounting records and the difference between the original cost and the carrying amount is presented in the reconciliation statement, wherever economically feasible.**

In case it is not economically feasible to apply the above principle, it is valued at the carrying amount in the cost records.

Employee Cost

(Applicable for CASSL 7)

i. **Employee cost or labour cost is ascertained taking into account the gross pay including all allowances payable along with the cost to the employer of all benefits[12].**

ii. **Bonus, whether payable as a statutory minimum or on a share of surplus and ex gratia payable in lieu of or in addition to bonus is treated as part of the employee cost[13].**

iii. **Remuneration payable to managerial personnel including executive directors on the Board or other offices of a corporate body under a statute is considered as part of the employee cost of the year under reference whether the whole or part of the remuneration is computed as a percentage of profits[14].**

Remuneration of non-executive directors will not be considered as part of employee cost but treated as part of administrative overheads.

9 CASSL 6 Paragraph 6.2.1.

10 CASSL 6 Paragraph 6.2.2

11 CASSL 6 Paragraph 6.3.2

12 CASSL 7 Paragraph 5.1

13 CASSL 7 Paragraph 5.2

14 CASSL 7 Paragraph 5.3

iv. **Performance incentives must be accumulated over the entire production and not recognized after the threshold limit for earning the incentive is reached.**

v. **Separation costs related to voluntary retirement, retrenchment, termination, etc. should be amortized over the period benefiting from such costs[15].**

vi. **Amounts payable to employees during a layoff period/ strike period/ suspension period are not included.**

vii. **Cost of employee share options is treated as part of employee cost provided it is not a notional cost and involves an actual cash outlay.**

viii. **Gratuity, pension, and other superannuation benefits, measured using actuarial valuation or any other method, are part of employee cost.**

ix. **Amortized separation costs related to voluntary retirement, retrenchment, termination, etc. for the period is treated as indirect cost and assigned to the cost objects. Unamortized amounts relating to discontinued operations shall not be treated as an employee cost[16].**

x. **Recruitment costs, training costs, and other such costs are treated as overheads and dealt with accordingly[17].**

xi. **Overtime premium and idle time cost shall be assigned directly to a cost object or treated as overheads depending on the economic feasibility and the specific circumstance leading to such overtime or idle time[18].**

xii. **In case the employee service is directly traceable to a cost object such cost is assigned based on the time consumed[19].**

xiii. **If employee costs are not directly traceable to a cost object, they are assigned on a suitable basis such as estimates based on time and motion study[20].**

Direct Expenses

(Applicable for CASSL 10)

i. **The identification of direct expenses is based on traceability to the cost objective in an economically feasible manner[21].**

Many expenses in real life may be capable of being identified as direct expenses but are often considered under overheads owing to their non-economic nature to be traced to cost objects.

15 CASSL 7 Paragraph 5.4

16 CAASL 7 Paragraph 6.4

17 CASSL 7 Paragraph 6.5

18 CASSL 7 Paragraph 6.6, 6.7

19 CASSL 7 Paragraph 6.1

20 CASSL 7 Paragraph 6.3

21 CASSL 10 Paragraph 5.1

ii. **Similarly, if an item of expense does not meet the criterion of materiality, it can be considered as part of overheads[22].**

iii. **Expenses incurred for the use of bought out resources are determined at invoice or agreed upon price including duties and taxes, and other expenses directly attributable,net of trade discounts, rebates, taxes, and duties refundable to be credited[23].**

iv. **Direct expenses other than those referred to above are determined based on the amounts incurred in connection therewith[24].**

v. **Expenditure paid or incurred in lump sum, or which is a 'one-time' payment, is amortized based on the estimated output or benefit derived from such expenses[25].**

vi. **Direct expenses are, by definition, directly traceable to cost objects and thus no special rules are required in assigning them to cost objects[26].**

Utilities

(Applicable for CASSL 8)

i. **The cost of utilities purchased is measured at the cost of purchase including duties and taxes, transportation cost, insurance and other expenditure directly attributable to procurement, net of trade discounts, rebates, taxes and duties refundable to be credited[27].**

This is subject to the condition that the costs can be quantified with reasonable accuracy at the time of acquisition.

ii. **The cost of generated utilities includes direct materials, direct labour, direct expenses, and factory overheads[28].**

e.g**.** Direct material - fuel used in generation of power; direct expenses - electricity tax for generation.

iii. **Cost of utilities generated for inter-unit transfers is arrived at as cost of self-generated utilities with cost of distribution added[29].**

iv. **Cost of utilities generated for inter-company transfers is arrived at as cost of self-generated utilities with cost of distribution and a share of administrative overheads added[30].**

22 CASSL 10 Paragraph 5.2.3
23 CASSL 10 Paragraph 5.2.1
24 CASSL 10 Paragraph 5.2.2
25 CASSL 10 Paragraph 5.3
26 CASSL 10 Paragraph 6.1.
27 CASSL 8 Paragraph 5.2
28 CASSL 8 Paragraph 5.3.1
29 CASSL 8 Paragraph 5.3.2
30 CASSL 8 Paragraph 5.3.3

v. **Cost of utilities generated for sale to outside parties is arrived at as cost of self-generated utilities with cost of distribution, a share of administrative overheads, and marketing overheads added[31].**

vi. **Cost of utilities includes cost of distribution of such utilities[32].**

vii. **Cost of production and distribution of utilities is determined based on the normal or actual capacity whichever is higher while unabsorbed cost, if any, is treated as an abnormal cost[33].**

viii. **Cost of standby utilities includes the committed costs of maintaining such utility[34].**

ix. **Determining cost of utilities is guided by the principle of traceability to a cost object in an economically feasible manner[35].**

Accurate recording of utilities consumed by different users call for significant investment in measuring instruments and manpower for recording and analysis of such metered data. The benefit from such expenditure needs to be justified.

x. **The most appropriate basis for distribution of the cost of a utility to the departments consuming services is to be derived from usage parameters[36].**

Repairs and Maintenance Cost

(Applicable for CASSL 12)

i. **The cost of repairs and maintenance is the aggregate of direct and indirect cost relating to the repairs and maintenance activity[37].**

ii. **Cost of in-house repairs and maintenance activity will include cost of materials, consumable stores, spares, manpower, equipment usage, utilities and other resources used in the activity[38].**

iii. **Cost of repairs and maintenance carried out by outside contractors inside the entity will include the charges payable to the outside party other than the above in-house costs[39].**

iv. **Cost of repairs and maintenance activity carried out by contractors at his premises is determined at invoice or agreed upon price including duties and taxes and other expenditure directly attributable net of discounts (other than cash discounts), taxes,**

31 CAASL 8 Paragraph 5.3.4

32 CASSL 8 Paragraph 5.9

33 CASSL 8 Paragraph 5.9

34 CASSL 8 Paragraph 5.9

35 CASSL 8 Paragraph 6.1

36 CASSL 8 Paragraph 6.3

37 CASSL 12 Paragraph 5.1

38 CASSL 12 Paragraph 5.2

39 CASSL 12 Paragraph 5.3

and duties refundable or to be credited. It will also include the cost of other resources provided to the outside contarctors[40].

v. **Each type of repairs and maintenance is treated as a distinct activity, if material and identifiable[41].**

vi. **The cost of repairs and maintenance is ascertained for each major asset category separately[42].**

vii. **Cost of spares replaced, which does not enhance the future economic benefits of the existing asset beyond its previously assessed standard of performance is included under repairs and maintenance cost[43], when repairs and maintenance is considered as a separate cost centre, the cost of which is apportioned to user centres.**

viii. **If a high value spare is replaced with a reconditioned one and the spare is expected to result in future economic benefits, it is taken into inventory. Such a spare is valued at an amount that measures its service potential in relation to a new spare, the amount of which shall not exceed the cost of reconditioning the spare. The difference between the total of the cost of the new spare and the reconditioning cost and the value of the reconditioned spare shall be treated as repairs and maintenance cost[44].**

ix. **The cost of major overhaul is amortized on a rational basis[45].**

A major overhaul is the periodic (generally more than one year) repair work carried out to restore the asset to its intended working condition.

x. **Repairs and maintenance cost is traced to a cost object to the extent economically feasible[46].**

xi. **In case the repairs and maintenance cost is not directly traceable, it is assigned based on either of the principles of cause and effect or benefits received[47].**

40 CASSL 12 Paragraph 5.4
41 CAASL 12 Paragraph 5.6.1
42 CASSL 12 Paragraph 5.6.2
43 CASSL 12 Paragraph 5.7
44 CASSL 12 Paragraph 5.8
45 CASSL 12 Paragraph 5.9
46 CASSL 12 Paragraph 6.1
47 CASSL 12 Paragraph 6.2

Production Overheads

(Applicable for CASSL 13)

i. **Overheads comprise of indirect material cost, indirect employee cost and indirect expenses. They are termed indirect because they are not directly identifiable or allocable to the ultimate cost object- usually a product or service – in an economically feasible way.**

ii. **Production overheads are indirect costs involved in the production process or in rendering services[48].**

Production overheads include administration costs relating to production, factory, works or manufacturing**.** Production related expenses incurred at the corporate office, e.g. design office expenses, materials management, and industrial relations will also be covered by the term.

iii. **The terms production overheads, factory overheads, works overheads and manufacturing overheads denote the same meaning and are used interchangeably[49].**

iv. **Since overheads cannot be economically traced to products and services, they are required to be assigned on some equitable basis.**

v. **While assigning overheads, traceability to a cost object in an economically feasible manner shall be the guiding principle. A cost which can be traced directly to a cost object shall be assigned directly[50].**

vi. **Assignment of overheads to the cost objects shall be based on either of the following two principles:**

Cause and effect- Cause is the process/ operation/ activity and effect is the incurrence of cost.

Benefits received- Overheads are to be apportioned to the various cost objects in proportion to the benefits received by them[51].

vii. **Secondary assignment of overheads may be carried out based on either the reciprocal or non-reciprocal method. The reciprocal method considers the exchange of services among the service departments, whereas the non-reciprocal method considers only one directional service flow a service cost centre to other production cost(s)[52].**

viii. **It is imprudent to allocate overheads to cost centres/ cost objects based on 'what the traffic can bear' – that is by the size of the user.**

48 CASSL 3 Paragraph 4.9

49 CASSL 3 Paragraph 4.2

50 CASSL 3 (R-1) Paragraph 6.1

51 CASSL 3 (R-1) Paragraph 6.2

52 CAASL 3 (R-1) Paragraph 6.3.2

ix. **There is a general preference for allocating overheads based on cause and effect' analysis. This is owing to what/ who causes the costs to be incurred is a more rational criterion to assign costs rather than the size or benefits received.**

x. **In case of facilities created on a standby or ready to serve basis, the cost shall be assigned based on expected benefits instead of actual.**

xi. **Production overheads are usually accumulated under production cost centres to facilitate absorption by products or services.**

xii. **These costs are absorbed by the products based on resources used by the product at the production centre.**

xiii. **The overheads assigned to the production cost centres are charged to products through an overhead absorption rate for each cost centre.**

Common bases for assignment of production overheads to cost objects are:

Bases of denominator	**Applicability**
Unit of production	When a single product or different products of similar specifications are produced.
Material cost	When the overheads are mostly related to material.
Direct employee cost	When conversion process is labour intensive and wage rates are somewhat uniform.
Direct employee hour	When conversion process is labour intensive.
Machine hr./ vessel occupancy hr./ reaction hr./ crushing hr.	When production mainly depends on performance of the base.

A preferred approach for assignment of overheads to cost objects is to use multiple drivers instead of a single driver, where feasible[53].

xiv. **A preferred approach to assignment of overheads is the assigning of cost of resources to activities and assigning the cost of activities to cost objects through use of cost drivers, wherever feasible[54].**

xv. **Also, there are service cost centres through which the product does not pass through, but which provide a support function to the production cost centres.**

xvi. **In case 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[55].**

53 CASSL 3 (R-1) Paragraph 6.4

54 CASSL 3 (R-1) Paragraph 6.5

55 CASSL 3 (R-1) Paragraph 6.2

xvii. **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[56].**

xviii. **Charging overheads based on 'benefits received' by the various users is preferred. This requires some measure of 'receipt of benefit' to be developed.**

xix. **At times capacity in a service department is created in anticipation of demand for services. In such instances it is appropriate to allocate such capacity costs based on 'capacity to serve', rather than actual usage of services.**

All overheads must be charged to products or services. Thus, the total production overheads of production cost centres are applied to products passing through them using a suitable absorption base.

xx. **Before the final step of absorption, production overheads of production cost centres must be segregated between fixed and variable overheads. The fixed overheads are absorbed by products based on normal capacity or actual capacity utilization whichever is higher, whereas variable overheads are absorbed based on actual capacity utilization. This is in alignment with CASSL 2 as well.**

xxi. **Normal capacity is defined in CASSL 2 as the production achieved or achievable on average over a period/ season under normal circumstances taking into account the loss of capacity resulting from planned maintenance. It amounts to practical capacity minus the loss of productive capacity owing to external factors[57].**

xxii. **Under-absorbed fixed overheads are charged to Costing Profit and Loss Account and shown as an item of reconciliation with financial accounts.**

Depreciation

i. **Depreciation, though part of overheads, generally appears as a separate line item in the cost statements instead of being grouped under overheads. This is because of its size in the technology driven business of today and its unique characteristic of being a non-cash cost.**

ii. **Amortization of intangible assets tends to be grouped with depreciation because intangible assets themselves are grouped with fixed assets for presentation purposes.**

iii. **The measurement of depreciation in cost accounts tends to mirror the practices in financial accounts.**

iv. **The treatment of depreciation in cost accounts must address the following issues.**

56 CASSL 3 (R-1) Paragraph 6.3

57 CASSL 2 Paragraph 4.4.

v. **Depreciation not calculated on period of use basis; depreciation on idle assets; 100% depreciation on certain classes of assets; write-off of small value assets; depreciation on fully depreciated assets; depreciation on revalued assets.**

vi. **Cost accounts will always use the depreciation computed on period of use basis and take the balance to Costing Profit and Loss Account or reconciliation with financial accounts.**

vii. **In case an entity uses 100% depreciation rates in financial books of account depreciation based on estimated life is used for costing purposes with the difference taken to Costing Profit and Loss or reconciliation with financial accounts.**

viii. **In case small value items are written off fully at the time of purchase in financial accounts the same is generally adopted for cost accounts.**

ix. **In case of old plants, there is a special case for fully depreciated assets which continue in regular service. Some entities continue to provide a notional depreciation on such assets for decision making purposes.**

x. **Depreciation on the amount by which the asset is written up on revaluation is charged to revaluation reserve in financial books. Some entities compute the depreciation on the revalued figure for costing purposes to reflect the true cost of deprecation.**

xi. **The cumulative depreciation charged in the cost accounts against any individual item of fixed asset will not exceed the original cost of the asset.**

xii. **Depreciation on common assets are apportioned to individual cost centres on some suitable basis.**

Administrative Overheads

(Applicable for CAS SL 11)

i. **Administrative overheads are the aggregate cost of resources consumed in activities relating to general management and administration of an organization[58].**

The principles of measurement of material cost, employee cost, utilities, repairs and maintenance, and depreciation noted in the respective standards will apply if included in the administrative overheads.

ii. **In case of leased assets, if it is an operating lease- the entire rental will be treated as part of administrative overheads, while in case of financial lease- the finance cost portion will be segregated and treated as a part of finance cost[59].**

iii. **The cost of software (developed in-house, purchased, licensed or customized), includ-**

58 CASSL 11 Paragraph 5.1

59 CASSL 11 Paragraph 5.2

ing upgrading shall be amortized over its useful life[60].

When hardware requires up-grading along with the software, it is recommended to use compatible estimated lives for the two sets of cost.

iv. **The cost of the administrative services provided by an outside party is determined at invoice or agreed upon price including duties and taxes, and other expenditure directly attributable net of discounts (other than cash discounts), taxes and duties refundable or to be credited[61]. The assignment of administrative overheads to cost objects is based on either of the principles of cause and effect or benefits received, if not directly traceable[62].**

The cost of shared services is best assigned to user activities based on actual usage; infrastructure costs based on readiness to serve; and general management costs on a rational basis. e.g. Number of employees, turnover, investment size, etc.

v. **Since most administrative costs are fixed in nature, it is preferable to charge them to users on 'readiness to serve' basis such as installed capacity, budgeted sales etc. rather than actual production or actual sales.**

60 CASSL 11 Paragraph 5.3

61 CASSL 11Paragraph 5.4

62 CAASL 11 Paragraph 6.2

Selling and Distribution Overheads

(Applicable for CASSL 15)

i. **Selling costs can be recorded in a manner which will facilitate customer/ product profitability analysis, as appropriate. Thus, selling costs can be identified with markets, distribution channels, territories, salesmen, etc. before being assigned to customers/ products as applicable.**

ii. **The acceptable bases for apportionment of common selling costs to customers/ products are Weight, units/ equivalent units, value of goods, and any other appropriate and equitable basis.**

iii. **The acceptable bases for assigning common transport costs to products are weight, volume of goods, ton-km, units/ equivalent units, and value of goods.**

iv. **The transportation costs assigned to products are charged to units based on some measure which factors in the distance e.g. ton km.**

Interest and Finance Charges

(Largely applicable in CAS SL 17)

i. **Interest and finance charges have come to be included in cost of sales though not in cost of production. Such costs are also assigned to products before arriving at profit margins by product.**

ii. **For assignment, interest charges are grouped under *interest on long terms funds* and *interest on working capital funds.***

iii. **Interest in long term funds is assigned to product lines based on fixed capital investment (including fixed assets, moulds, dies, etc.) in such product lines. A portion of the interest is also charged to outside investment, if it exists, and excluded from cost of sales. For this purpose, it is usual to develop an average cost of long term funds and apply it to fixed capital investment in each product line.**

iv. **It is not the accepted practice to charge imputed interest on owners' funds in cost accounting.**

Sales

i. **Cost of sales results lead to the profit margin and hence sales also must be dealt with in Cost Accounting.**

ii. **Since costing is carried out by product, product wise analysis of sales is required.**

iii. **What is important is the value of sales produced through such an analysis. Often sales analysis produces invoiced value of sales. What is required for cost accounting is the net value of sales net of trade discounts, returns, allowances, volume discounts, special discounts based on market conditions etc.**

iv. **Many of these deductions from sales are transacted through credit notes which also must be processed through the sales analysis to arrive at the product wise break-up of sales.**

v. **Some of the deductions from sales will be available only in total and hence may have to be allocated to products on a suitable basis, say, sales value.**

vi. **It is not unusual for businesses to focus on net realization from sales ex-factory gate. This means that freight (both primary and secondary), transit insurance, loading and unloading charges, handling charges and the like are deducted from net sales as arrived at in iii above. This also entails freight and other transport costs not being shown under the head distribution costs. So long as these costs are shown separately as deductions from net sales value, the practice is acceptable.**

vii. **Certain cost accounting record rules require gross sales to be shown in addition to net sales in the cost statement. This requires that excise duty, sales tax (VAT) etc. is added to net sales to arrive at the gross sales value by product.**

Joint Costs

(Applicable for CAS SL 19)

i. **Joint costs are the costs of a production process that yields multiple products simultaneously. e**.g. The refining of petroleum yields petrol, kerosene, diesel, naphtha, grease, tar and several other products; distillation of coal yields coke, natural gas, and other products.

ii. **The costs of the common process are joint costs.**

iii. **Joint costs are allocated based on either a measure of the number of units, weight, or volume of the joint products, *or* values attributed to the joint products.**

iv. **By product is a special instance of joint products where one or more of the joint products have minor value compared to others.**

v. **Such by-products are generally valued at their value at split-off point with such value being credited to the costs of the main product. The split-off point value is arrived at based on the ultimate realizable value of the by-product less the post-split-off costs.**

Common Costs

i. **A common cost is the cost of operating a common facility, activity or service that is shared by two or more cost objects.**

ii. **The common cost is generally lower than the stand-alone individual cost for each cost object for which the facility was not shared.**

iii. **Common costs are therefore allocated to cost objects based on the individual costs of the cost object.**

SECTION 4

Cost Accounting Standards of Sri Lanka

Cost Accounting Standards of Sri Lanka (CASSL) are a set of standardized principles and guidelines issued by the Institute of Certified Management Accounts of Sri Lanka to ensure uniformity, consistency, and accuracy in the measurement, classification, assignment, and presentation of cost related information in cost statements. Each standard addresses a specific component of cost defining the methodology in a reliable and consistent manner. They, in effect, constitute a set of procedures for recording and reporting measurement of the cost of manufacturing goods and performing services at the unit and aggregate levels, and in detail.

The benefits of CASSL include:

i. Establish uniform methods for cost measurement across organizations and industries to facilitate comparison and benchmarking.

ii. Enhance the clarity of cost data, making it easier for stakeholders to understand how costs are incurred and allocated.

iii. Hold organizations responsible for the cost management practices, ensuring that costs are justified and documented.

iv. Compute accurate cost information (Right Costs) to assist administrators and management in making informed practical, operational and strategic decisions.

v. Ensure adherence to legal and regulatory requirements related to cost reporting and decision making.

This section contains nineteen CASSL adapted from the Cost Accounting Standards of India - October 2024 version (Institute of Cost Accountants of India).

Each standard covers (carrying the respective number of the Indian standard) the following-Introduction; Objective; Scope; Definitions; Principles of Measurement; Assignment of Costs; Presentation; Disclosures; and Effective Date.

CASSL are followed by Presentation and Disclosure Requirements that are common across standards. The section concludes with a brief note on the application of Cost Accounting Standards on a few specific sectors.

The Cost Accounting Standards of Sri Lanka (CASSL) shall be effective from the period commencing on July 1, 2026 for the preparation and certification of General Purpose Cost Accounting Statements.

COST ACCOUNTING STANDARDS OF SRI LANKA (CASSL)

CASSL 1

CLASSIFICATION OF COST

The following is the COST ACCOUNTING STANDARD OF SRI LANKA No. 1 (CASSL 1) issued by the Institute of Certified Management Accountants of Sri Lanka for the determination of 'CLASSIFICATION OF COST'. In this standard, the standard portions are set in **bold** type. This standard should be read in the context of the background material set in regular type.

1. Introduction

This standard deals with the principles of classification of cost in determining the cost of a product or service.

2. Objective

This standard aims to bring uniformity and consistency to the principles of classification of cost for disclosure and presentation in the cost statements of a product or service.

3. Scope

This standard shall be applied to cost statements, which require classification, presentation, and disclosure of cost, including those requiring attestation.

4. Definitions

The following terms are being used in this standard with the meaning specified and given in the alphabetical order.

4.1 Abnormal cost: An unusual cost or atypical cost whose occurrence is usually irregular and unexpected and/ emerge owing to some abnormal situation of the production or operation.

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

Administrative overheads shall exclude production overheads, marketing overheads, and interest and finance charges. Further, it does not include administration cost relating to production, factory, works or manufacturing.

4.3 Classification of cost: Classification of cost is the arrangement of items of cost in logical groups having regard to their nature (subjective classification) and purpose (objective classification).

4.4 Conversion cost: Conversion cost is the production cost excluding the cost of direct materials.

4.5 Cost: A measurement, in monetary terms, of the amount of resources used for the purpose of production of goods or rendering services.

Manufacturing of goods or rendering services involves consumption of resources The type of cost often referred to in the costing system depends on the purpose for which cost is incurred. For example, material cost is the price of materials consumed for manufacturing a product or for rendering a service.

4.6 Cost centre: Any unit of an entity selected with a view to accumulating all cost under that unit. The unit can be a division, department, section, group of plant and machinery, group of employees, or combination of several of them.

Cost centre is the logical unit for accumulation of cost. Cost centre may be of two types- personal and impersonal cost centres. Personal cost centre consists of a person or a group of persons. Cost centres which are not personal cost centres are impersonal cost centres. Cost centres may also be classified into broad types, i.e. Operating cost centres and Support cost centres. Operating cost centres are those which are in the chain of operations like machine shop, welding shop, assembly shop, and operating theatre, call centre and so on. Support- service cost centres are for rendering services to operating cost centres like the powerhouse, maintenance stores, help desk, transport for call centre staff and so on.

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

4.8 Cost of production: Cost of production of a product or a service consists of cost materials consumed, direct employee costs, direct expenses, production overheads, quality control costs, packing costs, research and development costs, and administrative overheads relating to production.

Cost of production of a service means cost of the service rendered. To arrive at cost of production of goods, including those dispatched for captive consumption, adjustment for stock of work-in-progress, finished goods, reveries for sales of scrap, wastage and the like, shall be made.

4.9 Cost of transportation: Cost of transportation comprises of the cost of freight, cartage, transit insurance, and cost of operating fleet, and other incidental charges whether incurred internally or paid to an outside agency for transportation of goods, but does not include detention and demurrage charges.

Cost of transportation is classified as inward transportation cost and outward transportation cost.

4.10 Cost unit: A form of measurement of volume of production of a product or a service. Cost Unit is generally adopted based on convenience and practice in the industry concerned.

e.g. power- MW; cement- MT; automobile-Number; transportation- Ton-km.

4.11 Development cost: Development Cost is the cost for application of research findings or other knowledge to a plan or design to produce new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.

4.12 Direct employee cost: Employee costs, which can be attributed to a cost object in an economically feasible way.

4.13 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.

e.g. Royalties charged on production; job charges, hiring charges for use of specific equipment for a specific job; software service specifically required for a job.

4.14 Direct materials: Materials, the cost of which can be attributed to a cost object in an economically feasible way.

4.15 Distribution overheads: Also known as distribution costs, are the costs incurred in handling a product or service from the time it is ready for dispatch 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 and labelling at an intermediate storage location will be part of distribution cost.

e.g. Secondary packing; outward transportation cost; warehousing cost; cost of delivering the products to customers; clearing and forwarding charges; cost of mending or replacing packing materials at the distribution point.

4.16 Employee c ost: Benefits paid or payable for the services rendered by employees (including temporary, part-time and contract employees) of an entity.

Explanation: Contract employees include those engaged by the employer on a contract basis, either directly or through a contractor but do not include employees of any contractor engaged in the entity for a contractual job; compensation paid to employees for a past period on account of any dispute/ court order in the current period shall form part of employee cost, but not part of production cost; short provisions or prior period employee cost made up in current period shall form part of the employee cost in the current period, but not part of production cost; employee cost includes payment made in cash or kind.

4.17 Fixed costs: Costs which do not vary with the change in the volume of activity.

Fixed indirect costs are termed fixed overheads.

4.18 Indirect employee cost: Employee cost which cannot be directly attributed to a particular cost object.

4.19 Indirect expenses: Expenses, which cannot be directly attributed to a particular cost object.

4.20 Indirect material: Materials, the costs of which cannot be directly attributed to a particular cost object.

4.21 Marketing overheads: This comprises selling overheads and distribution overheads.

4.22 Material cost: The cost of material used to produce a product or rendering a service.

4.23 Normal capacity: The production achieved or achievable on average over several periods or seasons under normal circumstances taking into account the losses of capacity resulting from planned maintenance.

The above is also applicable for normal capacity in relation to a service being rendered.

4.24 Overheads: Overheads comprise costs of indirect material, indirect employees and indirect expenses.

4.25 Packing material cost: The cost of material of any nature used for the purpose of packing a product. It can be classified into primary packing material and secondary packing material. Primary packing material is essential to hold and preserve the product for its use by the customer and secondary packing material enables us to store, transport, inform the customer, promote and otherwise make the product marketable.

4.26 Prime cost: The aggregate of direct material cost, direct employee cost, and direct expenses.

4.27 Production overheads: Indirect costs involved in the production of a product or in rendering service.

The terms production overheads, factory overheads, and manufacturing overheads demote the same meaning. Production overheads include administration costs relating to production, factory, works or manufacturing.

4.28 Research cost: Cost of original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

4.29 Selling overheads: Selling overheads (marketing and distribution costs) are the expenses related to sale of products or services and include all indirect expenses incurred in selling the products or services.

4.30 Semi-variable costs: Costs that contain both fixed and variable elements. They partly change with the change in the level of activity.

4.31 Support-service cost centre: A cost centre which primarily provides auxiliary services across the entity.

The cost centre which provides services for production, operation or other service cost centre but not directly engaged in the manufacturing process or operation or in rendering a service. It offers services to other cost centres/ other units and in some cases to outside parties. E.g. Engineering; workshops; quality control; quality assurance; designing; laboratory; help desk. .

4.32 Standard cost: A pre-determined cost of a product or service based on technical specifications and efficient operating conditions.

Standard costs are used as a scale of reference to compare the actual cost with the standard cost with a view to determining the variances, if any, and analyzing the causes of variances and take proper measures to control them.

4.33 Variable costs: Costs that tend to directly vary with the volume of activity.

Variable indirect costs are termed as variable overheads.

5. Principles of classification of costs

5.1 Costs shall be classified by the process of grouping the components of cost under a common designation based on similarities of nature, attributes, or relations. Items grouped together under common heads shall be further classified according to their fundamental differences.

It is the process of identification of each item and the systematic placement of like items together according to their common features. The same costs may appear in several different classifications depending on the purpose of classification. Cost is classified normally in terms of managerial objectives with presentation normally requiring sub-classification. Such sub- classification may be according to the 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. For instance, cost may be classified with reference to the nature of expense, its traceability to a cost object (direct/ indirect), relation to functions/ activities, behaviour (fixed, variable, or semi-variable), or relationship to production processes.

5.2 Scheme of classification shall be such that every item of cost is classified.

6. Classification of costs

6.1 Nature of expenses

6.1.1 Items of costs differ based on their nature. Costs shall be gathered in their natural groupings such as *material*, *employee*, and *expenses*.

6.1.2 Material costs are the cost of materials used for production of a product or rendering a service, net of trade discounts, rebates, taxes, and duties refundable that can be quantified with reasonable accuracy.

6.1.3 Employee costs are consideration, including benefits paid or payable to employees, permanent or temporary, for production of a product or rendering a service.

It is the aggregate of all kinds of consideration paid and payable for the services rendered by employees of an entity (including temporary, part-time, and contract employees). Consideration includes wages, salaries, and other payments, including benefits, as applicable.

6.1.4 Expenses are costs other than material cost and employee cost for the purpose of production of a product or rendering of a service.

e.g. Cost of utilities, payment for bought-out services, job processing charges.

6.2 Nature of traceability to a cost object

6.2.1 Classification shall be based on the method of assigning cost to a cost object. If a cost can be assigned to a cost object in an economically feasible way, it shall be termed as direct to that cost object. A cost that cannot be assigned directly shall be an indirect cost.

6.2.2 Direct material costs are the cost of material, which can be assigned to a cost object in an economically feasible way.

Raw materials consumed for production of a product or rendering a service which are identifiable to the product or service form the direct material cost. Direct material cost includes the cost of procurement, freight forward, taxes and duties and insurance directly attributable to the acquisition of the material. Trade discounts, rebates, duty drawbacks, refunds of duties/ taxes and other similar items are deducted in determining the costs of direct material.

6.2.3 Direct employee cost are employee costs, which can be assigned to a cost object in an economically feasible way.

e.g. Cost of wages of workers who are readily identifiable or linked with a cost center or cost object, including the fringe benefits like the EPF contribution, gratuity, ETF, overtime, incentives, bonus, ex-gratia, leave encashment, and wages for holidays and idle time.

6.2.4 Direct expenses are expenses, which can be assigned to a cost object in an economically feasible way.

e.g. Expenses for special molds required in a particular cost centre; hiring charges for tools and equipment for a cost centre; royalties in connection with a product.

6.2.5 Indirect material costs are cost of material, which cannot be directly assigned to a particular cost object in an economically feasible way.

e.g. Consumable spares and parts; lubricants; cost of computer stationery for the administrative function.

6.2.6 Indirect employee costs are employee costs, which cannot be directly assigned to a particular cost object in an economically feasible way.

e.g. Salaries of security staff; operating manager's salary.

6.2.7 Indirect Expenses are expenses, which cannot be directly assigned to a particular cost object in an economically feasible way.

e.g. Insurance premia, rates, taxes.

6.3 Nature of function

Costs shall be classified according to major functions.

e.g. Production/ project; administration; selling; distribution; research and development, revenue, capital purpose.

6.4 Nature of behaviour

Costs shall be classified based on behavior in response to the changes in the activity levels such as fixed cost, variable cost and semi-variable cost.

6.5 Nature of production or operation process

6.5.1 Cost shall also be classified based on nature of production or operation process.

6.5.2 Batch cost shall be the aggregate cost related to a cost unit which consists of a group of similar articles or services which maintain its identity throughout one or more stages of production or operation.

6.5.3 Process cost shall be the cost of production or operation where goods are produced, or services rendered from a sequence of continuous or repetitive operations or processes during a period.

6.5.4 Operation cost shall be the cost of a specific operation involved in the production of goods or rendering of services.

6.5.5 Contract cost shall be the cost of a contract agreed upon between the client and the contractor.

6.5.6 Joint costs are the costs of common resources used for producing two or more products or rendering two or more services simultaneously.

7. Presentation

7.1 The cost items in the cost statements shall be presented on the 'basis of relevant classification.

7.2 The classification of cost items shall be followed consistently from period to period.

8. Disclosures

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

8.2 Disclosures shall be made in the body of the cost statement, as a footnote, or as a separate schedule.

8.3 Any change in classification of cost shall be made only if it is required by law or for compliance with a Cost Accounting Standard or such change would result in more appropriate preparation or presentation of cost statements of an entity.

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

9. Effective Date

This Cost Accounting Standard will be effective from the period commencing on July 1, 2026, for the preparation and certification of General Purpose Cost Accounting Statements.

CASSL 2

CAPACITY DETERMINATION

The following is the COST ACCOUNTING STANDARD OF SRI LANKA No. 2 (CASSL 2) on 'CAPACITY DETERMINATION' issued by the Institute of Certified Management Accountants of Sri Lanka. In this standard, the standard positions are set in **bold** type. This standard should be read in the context of the background material set in regular type.

1. Introduction

1.1 This standard deals with the principles and methods of determining the capacity of a facility for producing goods or providing services by an entity.

1.2 This standard deals with the principles and methods of classification and determination of capacity of an entity for ascertainment of the cost of product n 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 determination of capacity with reasonable accuracy.

3. Scope

This standard shall be applied to the cost statements, including those needing attestation, which require determination of capacity for assignment of overheads. The standard may be applied for determination of capacity for any other purpose as well.

4. Definitions

The following terms are being used in this standard with the meaning specified and given in alphabetical order.

4.1 Achievable or practical capacity: Practical or achievable capacity is the maximum productive capacity reduced by the predictable and unavoidable factors of interruption pertaining to internal causes.

Thus, practical capacity is the installed capacity minus the inevitable interruptions owing to time lost for preventive maintenance, repairs, set-ups, normal delays, weekly off-days, holidays, etc. Practical capacity does not consider the external factors causing reduction in production.

e.g. Lack of orders.

4.2 **Actual capacity utilization: Actual capacity utilization is the volume of production achieved, or service rendered in a specific period, expressed as a percentage of installed capacity.**

The volume may be measured in terms of units produced or service provided or equivalent machine or man hours, as applicable.

Bottleneck: Refers to an obstruction that hinders or restricts the workflow, thereby constraining capacity of production/ rendering of services within a business.

A process step that becomes a congestion point or a blockage for flow of work; it is like the neck of the bottle- smaller in diameter than the body- that restricts the flow of contents.

4.3 **Excess c apacity u tilization: The difference between installed capacity and the actual capacity utilization when the latter is greater than the former.**

4.4 **Idle capacity: The difference between installed capacity and the actual capacity utilization when latter is less than the former.**

4.5 **Installed capacity: Maximum capacity for producing goods or providing services, according to the manufacturer's specifications or determined through an expert study.**

4.6 **Licensed capacity: The capacity to provide goods or provide services for which license has been issued by an appropriate authority.**

Also termed allowed or allotted capacity.

4.7 **Normal capacity: The production achieved or achievable on average over several periods or seasons under normal circumstances taking into account the losses of capacity resulting from planned maintenance.**

5. Determination of Capacity

5.1 **Capacity shall be determined in terms of units of production or services or equivalent machine or man hours.**

5.2 **Installed capacity: This is usually determined based on: Technical specifications of the facility; technical evaluation by experts; directives of government/ regulators; capacities of individual or interrelated production or operation centres; operational constraints or capacity of critical machines or equipment; or the number of shifts/ machine hours/ man hours.**

In case technical specifications of the facility are not available, the estimates by technical experts shall be considered for determination of installed capacity. In case the installed capacity is assessed as per direction of the Government or regulator it shall be in accordance with the said directives. Bottlenecks are to be given due consideration when determining the installed capacity.

5.3 Achievable or practical capacity: This is determined after making suitable adjustments to the installed capacity, viz. time lost due to scheduled preventive or planned maintenance; number of shifts/ machine hours/ man hours; holidays and weekly offs, normal shut-down days; normal idle time; normal time lost in batch changeover, set up, etc.; loss in efficiency due to ageing of the machines/ equipment; any other normal internal factor.

5.4 Reassessment of installed capacity: Installed capacity will be reassessed in case of any change due to addition, deletion, modification or for any other reason from the date of such change.

In case the installed capacity is reassessed as per direction of the Government or regulator it shall be in accordance with the said directives.

5.5 Determination of normal capacity: Normal capacity is determined based on the actual capacity achieved or expected to be achieved over a period. Average of three to five normal years may be considered for this calculation.

The periods influenced by abnormalities should be excluded for this purpose.

In case the same products with different specifications and of different ranges in terms of size, type, variety, etc. are manufactured, then there is a need to determine equivalence among them.

In case some intermediate products/ components etc. are also produced, the production thereof (in terms of equivalent units) should also be considered in determination of capacity. In case some machines are leased out/ let out or taken on lease, resulting decrease/ increase in capacity should also be considered.

6. Presentation

6.1 Installed capacity, normal capacity and actual production of goods or provision of services, in absolute terms, shall be presented.

6.2 Actual capacity utilization shall be presented as a percentage of installed capacity.

7. Disclosures

7.1 The cost statements shall disclose the following:

- **Basis for achieving at different types of activity.**
- **Changes in the installed capacity or normal capacity with reason thereof.**

- **Capacity enhanced through outsourcing.**
- **Capacity outsourced to others.**
- **Details of actual production of goods or services provided: self-manufactured goods or services provided through in-house facility; goods produced or services provided through outsourcing.**
- **Reasons for low capacity utilization.**
- **Abnormal cost due to under-utilization of capacity.**

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

7.3 Disclosures shall be made in the body of the cost statement or as a foot note or a separate schedule.

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

8. Effective Date

This Cost Accounting Standard will be effective from the period commencing on July 1, 2026, for the preparation and certification of General Purpose Cost Accounting Statements.

CASSL 3

PRODUCTION AND OPERATION OVERHEADS

The following is the Cost Accounting Standard of Sri Lanka No. 3 on 'PRODUCTION AND OPERATION OVERHEADS' (CAS SL 3) issued by the Institute of Certified Management Accountants of Sri Lanka. In this standard, the standard portions are set in **bold** type. This standard shall be read in the context of the background material, which has been set in regular type.

1. Introduction

1.1 This standard deals with the principles and methods of determining production or operations Overheads.

1.2 This standard deals with the principles and methods of classification, measurement and assignment of production or operation overheads, for determination of the cost of goods produced or services provided and for 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 production or operation overheads with reasonable accuracy.

3. Scope

This standard shall be applied to cost statements, which require classification, measurement, assignment, presentation and disclosure of production or operations overheads including those requiring attestation.

4. Definitions

The following terms are being used in this standard with the meaning specified and given in the alphabetical order.

4.1 Abnormal cost: An unusual or atypical cost whose occurrence is usually irregular and unexpected or due to some abnormal situation of the production or operation.

4.2 Absorption of production or operation overheads: Assigning of production or operation overheads to cost objects by means of appropriate absorption rates.

Overhead absorption rate = Production or operation overheads of the activity divided by the volume of activity.

e.g. obtain the rate by dividing the overheads of a machine shop by machine hours.

4.3 Administrative overheads: Cost of all activities relating to general management and administration of an entity.

Administrative overheads shall exclude production overhead, marketing overheads and finance cost. Production overheads include administration cost relating to production, factory, works, or manufacturing.

Cost centre: Any unit of an entity selected with a view to accumulating all costs under that unit. The unit can be a division, department, section, group of plant and machinery, group of employees or combination of several units.

The unit can be a division, department, section, group of plant and machinery, group of employees, or combination of several of them.

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

4.5 Fixed costs: Fixed costs are costs which do not vary with the change in the volume of activity.

Fixed indirect costs are termed fixed overheads.

4.6 Imputed costs: Notional cost, not involving cash outlay, computed for any purpose.

4.7 Indirect employee cost: Employee cost, which cannot be directly attributed to a particular cost object.

4.8 Indirect expenses: Employee cost, which cannot be directly attributed to a particular cost object.

4.9 Indirect material cost: Material cost that cannot be directly attributed to a particular cost object.

4.10 Normal capacity: Normal capacity is the volume of production or services achieved or achievable on average over a period under normal circumstances, taking into account the reduction in capacity resulting from planned maintenance.

4.11 Production or operation overheads: Indirect costs involved in the production of a product or in rendering a service.

The terms production overheads, factory overheads, works overheads, and manufacturing overheads denote the same meaning and are used interchangeably. Production or operations overheads include administration cost relating to production, factory, works, or manufacturing and providing services. In addition, production or operation overheads shall also be classified based on behaviour such as variable production or operation overheads, semi-variable production or operation overheads and fixed production or operations overheads.

- Variable production or operation overheads comprise of expenses which vary in proportion to the change of volume of production or activity or services provided.
- Semi-variable costs are the costs that contain both fixed and variable elements. They partly change with the change in the level of activity.
- Fixed overheads are indirect costs which do not vary with the change in the volume of production or activity, or service provided.

4.12 Standard cost: A pre-determined 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 cost with the standard cost with a view to determining the variances, if any, and analyzing the causes of variances and taking proper measures to control them. Standard costs are also used for estimating.

4.13 Variable c osts: Variable costs are the cost which tends to directly vary with the volume of activity.

5. Principles of Measurement

5.1 Production or operation overheads representing procurement of resources shall be determined at invoice or agreed upon price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discounts), taxes and duties and refundable or to be credited.

5.2 Production or operation overheads other than those referred to in paragraph 5.1 shall be determined based on cost incurred in connection therewith.

In case of a machinery spare fabricated internally or a repair job carried out internally, it will include cost incurred on material, employees, and expenses

5.3 Any abnormal cost where it is material and quantifiable shall not form part of the production or operation overheads.

5.4 Production or operation overheads shall not include imputed costs.

5.5 Production or operation overheads variances attributable to normal reasons shall be treated as part of production or operation overheads. Overhead variances attributable to abnormal reasons shall be excluded from production or operations overheads.

5.6 Any subsidy, grant, incentive or amount of similar nature received or receivable with respect to production or operation overheads shall be reduced for ascertainment of the cost object to which such amounts are related.

5.7 Fines, penalties, damage, and similar levies paid or payable to statutory authorities or other third parties shall not form part of the production or operations overheads.

5.8 Credits or recoveries relating to the production or operation overheads, material and quantifiable, shall be deducted from the total production or operation overheads to arrive at the net production or operation overheads. Where the recovery exceeds the total production or operations overheads the balance recovery shall be treated as other income.

5.9 Any change in the cost accounting principles applied for the measurement of the production or operations overheads shall be made only if, (a) it is required by law or (b) for compliance with the requirements of a cost accounting standard, or (c) a change would result in more appropriate preparation or a presentation of cost statements of an entity.

6. Assignment

6.1 While assigning production or operation overheads, traceability to a cost object in an economically feasible manner shall be the guiding principle. The cost which can be traced directly to a cost object shall be directly assigned.

6.2 Assignment of production or operation overheads to the cost objects shall be based on either of the following two principles:

- **Cause and effect: Overheads are to be apportioned based on the cause of the cost. Herein, the process/ operation/ activity is the cause for the cost while its incurrence cost is the effect.**
- **Benefits received: Overheads are to be apportioned in proportion to the benefits received by the cost objects.**

In case of facilities created on a standby or ready to serve basis, the cost shall be assigned based on expected benefits instead of the actual.

6.3 Absorption of production or operation overheads shall be as follows:

6.3.1 The variable production or operation overheads shall be absorbed to products or services based on actual production.

6.3.2 The fixed production or operation overheads shall be absorbed based on the normal capacity.

7. Presentation

7.1 Production or operation overheads shall be presented as a separate cost head.

7.2 If material- elements-wise and behaviour-wise- details of the p roduction or o peration overheads shall be presented.

7.3 Any under-absorption or over-absorption of production or operation overheads shall be presented in the reconciliation statement.

8. Disclosures

8.1 The cost statements shall disclose the following:

- **The basis of assignment of production or operation overheads to the cost objects.**
- **Production or operation overheads incurred in foreign exchange.**
- **Production or operation overheads relating to resources received from or supplied to related parties.**
- **Any subsidy, grant, incentive, or any amount of similar nature received, or receivable reduced from production or operation overheads.**
- **Credits or recoveries relating to the production or operation overheads.**
- **Any abnormal cost not forming part of the production or operation overheads.**
- **Any unabsorbed production or operation overheads.**

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 production or operation overheads during the period covered by the cost statement and has a material effect will be disclosed. In case, the effect of such change is not ascertainable wholly or partly the fact shall be indicated.

9. Effective Date

This Cost Accounting Standard will be effective from the period commencing on July1, 2026, for the preparation and certification of General Purpose Cost Accounting Statements.

CASSL 6

MATERIAL COST

The following is the COST ACCOUNTING STANDARD No. 6 (CASSL 6) issued by the Institute of Certified Management Accountants of Sri Lanka on 'MATERIAL COST'. The standard portions are in bold italics. This standard should be read in the context of the background material, which is in regular type.

1. Introduction

1.1 **This standard deals with principles and methods of determining the material cost. Material for the purpose of this standard includes raw materials, process materials, additives, manufactured/ bought out components, sub-assemblies, accessories, semi-finished goods, consumable stores, spares and other indirect materials. This standard does not deal with p acking materials as a separate standard is being issued on the subject.**

1.2 **This standard deals with the principles and methods of classification, measurement, and assignment of material cost, for determination of the cost of product or service, and the presentation and disclosure in cost statements.**

1.3 **The standard deals with the following aspects:**

- Principle of valuation of receipt of materials.
- Principle of valuation of the issue of materials.
- Assignment of material cost to cost objects.

2. Objective

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

3. Scope

This standard shall be applied to cost statements which require classification, measurement, assignment, presentation, and disclosure of material costs, including those requiring attestation.

4. Definitions

The following terms are being used in this standard with the meaning specified and are given in the alphabetical order.

4.1 **Abnormal c ost: An unusual or atypical cost whose occurrence is usually irregular and unexpected and/ or due to some abnormal situation of the production or operation.**

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

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 Defectives: Materials, products or intermediate products that do not meet quality standards. This may include reworks or rejects.

4.4.1 Reworks: Defectives which can be brought up to the required quality standards by putting in additional resources.

Reworks include repairs, reconditioning, and refurbishing.

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

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

4.5 Intermediate product: An intermediate product is a product that requires further processing before it is saleable.

4.6 Materials

4.6.1 Direct materials: Materials, the costs of which can be attributed to a cost object in an economically feasible way.

4.6.2 Indirect materials: Materials, the costs of which cannot be directly attributed to a particular cost object.

4.7 Material cost: The cost of material used for the purpose of production of a product or rendering a service.

4.8 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 carry the same meaning and are used interchangeably.

4.9 Property, plant and equipment: Tangible assets that are:

- **Held for use in the production of goods or supply of services, for rental to others, for administrative, selling or distribution purposes; and**
- **Expected to be used for more than one accounting period.**

4.10 Scrap: Discarded material having no value or an insignificant value and which is usually either disposed of without further treatment (other than reclamation and handling) or reintroduced into the process in place of raw material.

4.11 Standard cost: A pre-determined 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 cost with the standard cost with a view to determining the variances, if any, and analyzing the causes of variances and taking proper measures to control them. Standard costs are also used for estimating purposes.

4.12 Wastage and spoilage

4.12.1 Waste: Material lost during production or storage and discarded material which may or may not have any value.

4.12.2 Spoilage: Production that does not meet the quality requirements or specifications and cannot be rectified economically.

5. Principles of Measurement

5.1 Principle of valuation of receipt of materials

5.1.1 The material receipt shall be valued at purchase price including duties and taxes, freight inwards, insurance and other expenditure directly attributable to procurement (net of trade discounts, rebates, taxes and duties refundable or to be credited by the taxing authorities) that can be quantified with reasonable accuracy at the time of acquisition.

5.1.2 Finance costs incurred in connection with the acquisition of materials shall not form part of material cost.

5.1.3 Self-manufactured materials shall be valued including direct material cost, direct employee cost, direct expenses, factory overheads, share of administrative overheads relating to production but excluding share of other administrative overheads, finance cost and marketing overheads.

5.1.4 Items such as spare parts, stand-by equipment and servicing equipment are recognized as property, plant, and equipment when they meet the definition of property, plant, and equipment and are depreciated accordingly. If not, such items are classified as inventory and are recognized in cost as and when these are consumed.

5.1.5 Normal loss or spoilage of material prior to reaching the factory or at places where the services are provided shall be absorbed into the cost of balance material net of amounts recoverable from suppliers, insurers, carriers or recoveries from disposal.

5.1.6 Loses due to shrinkage or evaporation and gain due to elongation or absorption of moisture etc., before the material is received shall be absorbed into material cost to the extent, they are normal, with corresponding adjustment in the quantity.

The adjustment for moisture will depend on whether dry weight is used for measurement.

5.1.7 The forex component of the imported material cost shall be converted at the rate on the date of the transaction. Any subsequent change in the exchange rate until payment or otherwise shall not form part of the material cost.

The date on which a transaction (whether for goods or services) is recognized is in accounting is in conformity with Generally Accepted Accounting Principles.

5.1.8 Any demurrage or detention charges, or penalty levied by transport or other authorities shall not form part of the cost of materials.

5.1.9 Subsidy/ grant/ incentive or any such payment received/ receivable with respect to any material shall be reduced from the cost for ascertainment of the cost object to which such amounts are related.

5.2 Principles of valuation of the issue of material

5.2.1 Issue of material shall be valued using appropriate assumptions on cost flows.

e.g. First in, First Out (FIFO), Last in, First Out (LIFO), and Weighted Average Rate (WAR). The method of valuation will be followed on a continuous basis.

5.2.2 In case materials are accounted for at standard cost, the price variances related to material shall be treated as part of material cost.

5.2.3 Any abnormal cost shall be excluded from the material cost.

5.3 Self-manufactured components and sub-assemblies shall be valued includ-

ing direct material cost, direct employee cost, direct expenses, factory overheads, share of administrative overheads relating to production but excluding share of other administrative overheads, finance cost, and marketing overheads.

5.4 The material cost of normal scrap/ defectives which are rejects shall be included in the material cost of goods manufactured. The material cost of actual scrap/ defectives, not exceeding the normal shall be adjusted in the material cost of good production. Material cost of abnormal scrap/ defectives shall not be included in material cost but treated as loss after giving credit to the realizable value of such scarp/ defectives.

6. Assignment of Costs

The basis of assignment of costs to the cost of product or service is dealt in in this section.

6.1 Assignment of costs- Material

6.1.1 Assignment of material costs to cost objects: Material costs shall be directly traced to a cost object to the extent it is economically feasible and/ or shall be assigned to the cost object based on material quantity consumed or similar identifiable measure and valued as per the principles laid under Paragraph 5 above.

6.1.2 In case material costs are not directly traceable to the cost object, these may be assigned on a suitable basis, like technical estimates.

6.2 Assignment of costs- Direct expenses

6.2.1 In case material is processed or part manufactured by a third party according to specifications provided by the buyer, the processing/ manufacturing charges payable to the third party shall be treated as part of the material cost.

6.2.2 In case part of the manufacturing operations/ activity is subcontracted, the subcontract charges related to materials shall be treated as direct expenses and assigned directly to the cost object.

6.3 Assignment of costs – Indirect material

6.3.1 The cost of indirect material shall be assigned to the various cost objects based on a suitable basis such as actual usage or technical specifications or a similar identifiable measure.

6.3.2 The cost of materials like catalysts, dies, tools, molds, patterns etc. which are relatable to production over a period shall be amortized over the production units benefited by such cost.

6.3.3 The cost of indirect material with life exceeding one year shall be included in cost over the useful life of the material.

7. Presentation

Cost statements governed by this standard, shall present material costs as detailed below:

7.1 Direct materials shall be classified in the cost statement under suitable heads:

e.g. Raw material, components; semi-finished good; and sub-assemblies.

7.2 Direct materials shall be classified as purchased, indigenous, imported or self-manufactured.

7.3 7.3. Indirect Materials shall be classified in the cost statement under suitable heads.

In case they are significant, indirect material may be grouped under heads such as tools, stores and spares, machinery spares, jigs and fixtures, consumable stores, etc.

8. Disclosures

8.1 The following information shall be disclosed in the cost statements dealing with the determination of material cost.

- **Quantity and rates of major items of material. Major items are defined as those that form 5% of the cost of material.**
- **The basis of valuation.**
- **Any change in the cost accounting principles and methods applied for the determination of the material cost during the period covered by the cost statement and has a material effect will be disclosed. In case the effect of such change is not ascertainable, wholly or partly, the fact shall be indicated.**

- **Any abnormal cost excluding from the material cost.**
- **Any demurrage or detention charge, penalty levied by transport or other authorities, excluded from the material cost.**
- **Any subsidy, grant, incentive, or any such payment reduced from the material cost.**
- **Cost of material procured from related parties.**

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

8.3 Disclosures may be made in the body of the cost statement or as a footnote or as a separate schedule.

8.4 Any change in the cost accounting principles and methods applied for the measurement and assignment of the production or operations overheads during the period covered by the cost statement and has a material effect will 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 will be effective from the period commencing on July 1, 2026, for the preparation and certification of General Purpose Cost Accounting Statements.

CASSL 7

EMPLOYEE COST

The following is the COST ACCOUNTING STANDARD No. 7 (CASSL 7) issued by the Institute of Certified Management Accountants of Sri Lanka on 'EMPLOYEE COST'. In the standard, the standard portions have been set in **bold** type. This standard should be read in the context of background material, which has been set in regular type.

1. Introduction

1.1 This standard deals with the principles and methods of determining the employee cost.

1.2 This standard deals with the principles and methods of classification, measurement, and assignment of employee cost for determining the cost of a product or service and presenting and disclosing cost statements.

2. Objective

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

3. Scope

This standard shall be applied to cost statements which require classification, measurement, assignment, presentation, and disclosure of employee cost, including those requiring attestation.

4. Definitions

The following terms are being used in this standard with the meaning specified and are given in the alphabetical order.

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.

4.2 Abnormal idle time: An unusual or atypical idle time occurrence of which is irregular and unexpected or owing to some abnormal situations.

4.3 Administrative overheads: Cost of all activities relating to general management and administration of an entity.

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

4.5 Direct employee cost: Employee cost, which can be attributed to a cost object in an economically feasible way.

4.6 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 dispatch or delivery until it reaches the ultimate consumer, including the units receiving the product or service in an inter-unit transfer.

4.7 Employee cost: Employee benefits payable in all forms of consideration given for the services rendered by employees (including temporary, part-time and contract employees) of an entity.

Consideration includes wages, salary, contractual payments and benefits, as applicable or any amount paid or payable on behalf of the employee. This is also known as labour cost.

Direct employee c ost: The cost of employees which can be attributed to an excisable good in an economically feasible way.

Indirect Employee Cost: The cost of employees which cannot be directly attributed to a particular excisable good.

4.8 Idle time: The difference between the time for which employees are paid/ payable to employees and employees' time booked for cost objects.

4.9 Imputed costs: Notional cost, not involving cash outlay, computed for any purpose.

4.10 Indirect e mployee c ost: Employee c ost, which cannot be directly attributed to a particular cost object.

4.11 Marketing o verheads: Marketing o verheads comprise of selling overheads and distribution overheads.

4.12 Overtime premium: The extra amount payable beyond the normal wages and salaries for work performed beyond the normal working hours.

4.13 Production o verheads: Indirect costs involved in the production of a product or in rendering a service.

4.14 Selling overheads: Selling overheads (marketing and distribution costs) are the expenses related to sale of products or services and include all indirect expenses incurred in selling the products or services.

4.15 Standard c ost: A predetermined cost of a product or service based on technical specifications and efficient operating conditions.

5. Principles of Measurement

5.1 Employee cost shall be ascertained taking into account the gross pay including all allowances payable along with the cost to the employer of all the benefits.

5.2 Bonus whether payable as a statutory minimum or on sharing of surplus and ex gratia payments payable in lieu of or in addition to bonus payments shall be treated as part of the employee cost.

Remuneration payable to managerial personnel, including executive directors on the Governing Board and other officials of a corporate body under a statute will be considered as part of the employee cost of the year under reference whether the whole or part of the remuneration is computed as a percentage of profits. Further, remuneration paid to non-executive directors shall not form part of employee cost but shall form part of administrative overheads.

5.3 Separation costs related to voluntary retirement, retrenchment, termination etc. shall be amortized over the period benefiting from such costs.

5.4 Employee cost shall not include imputed costs.

5.5 Cost of idle time is ascertained by the idle hours multiplied by the hourly rate applicable to the relevant employee or group of employees.

5.6 In case employee cost is accounted for at standard cost, variances due to normal reasons related to employee cost shall be treated as part of the employee cost. Variances owing to abnormal reasons shall be treated as part of abnormal cost.

5.7 Any subsidy, grant, incentive or any such payment received or receivable with respect to any employee cost shall be reduced for ascertainment of cost of the cost object to which such amounts are related.

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

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

5.10 The cost of free housing, free conveyance and any other similar benefits provided to an employee shall be determined at the total cost of all resources consumed in providing such benefits.

5.11 Any recovery from the employee towards any benefit provided, e.g. housing, shall be reduced from the employee's cost.

5.12 Any change in the cost accounting principles applied for the measurement of the employee cost shall be made only if, (a) it is required by law or (b) for compliance with the requirements of a cost accounting standard, or (c) a change would result in more appropriate preparation or a presentation of cost statements of an entity.

6. Assignment of Costs

6.1 In case where employee services are traceable to a cost object, such employees' cost shall be assigned to the cost object based on criteria such as time consumed, number of employees engaged etc.

6.2 In determining whether a particular employee cost is chargeable to a separate cost object, the principle of materiality shall be adhered to.

6.3 In case employee services are not directly traceable to the cost object, these may be assigned on a suitable basis like estimates on time and motion study.

6.4 The amortized separation costs related to voluntary retirement, retrenchment, and termination etc. for the period shall be treated as indirect cost and assigned to the cost objects in an appropriate manner. However, unamortized amounts related to 'discontinued operations' shall not be treated as employee cost.

6.5 Recruitment costs, training costs and other such costs shall be treated as overheads and dealt with accordingly.

6.6 Overtime premium shall be assigned directly to the cost object or treated as overheads depending on the economic feasibility and the specific circumstances requiring such overtime.

6.7 Idle time cost shall be assigned directly to the cost object or treated as overheads depending on the economic feasibility and the specific circumstances causing such idle time.

Cost of idle time for reasons anticipated such as normal lunchtime, holidays etc. is normally included in the employee cost while arriving at the cost per hour of an employee/ group of employees whose time is attributed directly to cost objects.

7. Presentation

7.1 Direct employee costs shall be presented as a separate cost head in the cost statement.

7.2 Indirect employee costs shall be presented in cost statements as part of overheads relating to respective functions e.g. manufacturing, administration, marketing etc.

7.3 The cost statement shall provide the resources consumed on account of employee cost category-wise such as wages and salaries to permanent, temporary, part-time and contract employees; piece rate payments; overtime payments; employee benefits (category-wise) etc. wherever such items form a material part of the total employee cost.

8. Disclosures

8.1 The cost statements shall disclose the following:

- **Employee cost attributable to capital works or jobs in deferred revenue expenditure indicating the method followed in determining the cost of such capital work.**
- **Separation costs payable to employees.**
- **Any abnormal cost excluded from employee cost. penalties and damages paid etc. excluded from employee cost.**
- **Any subsidy, grant, incentive and any such payment reduced from employee cost.**
- **The employee cost paid to related parties.**
- **The employee cost incurred in foreign exchange.**

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

8.3 Disclosures may be made in the body of the cost statement or as a footnote or as a separate schedule.

8.4 Any change in the cost accounting principles and methods applied for the measurement and assignment of the employee cost during the period covered by the cost statement and has a material effect on the employee cost. In case, where the effect of such change is not ascertainable, wholly or partly, the fact shall be indicated.

9. Effective Date

This Cost Accounting Standard will be effective from the period commencing on July 1, 2026, for the preparation and certification of General Purpose Cost Accounting Statements.

CASSL 8

COST OF UTILITIES

The following is the COST ACCOUNTING STANDARD No. 8 (CASSL 8) issued by the Institute of Certified Management Accountants of Sri Lanka on 'COST OF UTILITIES'. In the standard, the standard portions have been set in **bold** type. This standard should be read in the context of background material, which has been set in regular type.

1. Introduction

1.1 **This standard deals with the principles and methods of determining the cost of utilities.**

1.2 **This standard deals with the principles and methods of classification, measurement, and assignment of utility costs for determining the cost of a 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 utilities with reasonable accuracy.

3. Scope

3.1 **This standard shall be applied to cost statements that require classification, measurement, assignment, presentation, and disclosure of utility costs, including those requiring attestation.**

3.2 **This standard shall not be applicable to the organizations primarily engaged in the generation and sale of utilities.**

3.3 **This standard does not cover issues related to the ascertainment and treatment of carbon credit.**

4. Definitions

The following terms are being used in this standard with the specified meaning and are given in the alphabetical order.

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.**

4.2 **Committed cost: The cost of maintaining stand-by utilities.**

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

4.5 Interest and finance charges: Interest and other costs incurred by an entity in connection with the financing arrangements.

e.g. Interest and commitment charges on bank borrowings, other short term and long term borrowing; financing charges in respect of finance leases and other similar arrangements; exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest costs. The terms interest and financing charges, finance costs, and borrowing costs are used interchangeably.

4.6 Normal capacity: Normal capacity is the production achieved or achievable on average over several periods or seasons under normal circumstances taking into account the loss of capacity resulting from planned maintenance.

4.7 Standard cost: A pre-determined cost of a product or service based on technical specifications and efficient operating conditions.

4.8 Stand-by utilities: Any utility created as backup against any failure of the main source of utilities.

4.9 Utilities: Significant inputs such as power, steam, water, compressed air and the like which are used for the manufacturing process but do not form part of the final product.

5. Principles of Measurement

5.1 Each type of utility shall be treated as a distinct cost object.

5.2 Cost of utilities purchased shall be measured at cost of purchase including duties and taxes, transportation cost, insurance and other expenditure directly attributable to procurement (net of trade discounts, rebates, taxes and duties refundable or to be credited) that can be quantified with reasonable accuracy at the time of acquisition.

5.2.1 *5.2.1* **Cost of self-generated utilities for own consumption shall comprise direct material cost, direct employee cost, direct expenses and factory overheads.**

5.2.2 In case of utilities generated for the purpose of inter unit transfers, the distribution cost incurred for such transfers shall be added to the cost of utilities.

5.2.3 Cost of utilities generated for intercompany transfers shall comprise direct material cost, direct employee cost, direct expenses, factory overheads, distribution cost and share of administrative overheads.

5.2.4 Cost of utilities generated for the sale to outside parties shall comprise direct material cost, direct employee cost, direct expenses, factory overheads, distribution cost, share of administrative overheads and marketing overheads. The sale value of such utilities will also include the margin.

5.3 Finance costs incurred in connection with the utilities shall not form part of the cost of utilities.

5.4 The cost of utilities shall include the cost of distribution of such facilities.

The cost of distribution will consist of the cost of delivery of utilities up to the point of consumption.

5.5 Cost of utilities shall not include imputed costs.

5.6 In case cost of utilities is accounted for at standard cost, the price variances related to utilities shall be treated as part of cost of utilities and the portion of usage variances due to normal reasons shall be treated as part of the cost of utilities. Usage variances due to abnormal reasons shall be treated as part of abnormal cost.

5.7 Any subsidy/grant/ incentive or any such payment received/ receivable with respect to any cost of utility shall be reduced for ascertainment of the cost to which such amounts are related.

5.8 The cost of production and distribution of utilities 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. Cost of any stand-by utility shall include the committed costs of maintaining such a utility.

5.9 Any abnormal cost which is material and quantifiable shall not form part of the cost of utilities.

5.10 Penalties, damages paid to statutory authorities or other third parties shall not form part of the cost of utilities.

5.11 Credits/ recoveries relating to the utilities including cost of utilities provided to outside parties, material and quantifiable, shall be deducted from the total cost of utility.

5.12 Any change in the cost accounting principles applied for the measurement of the cost of utilities 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 more appropriate preparation or a presentation of cost statements of an entity.

6. Assignment of Costs

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

6.2 In case where the cost of utilities is not directly traceable to the cost object, it shall be assigned on the most appropriate basis.

6.3 The most appropriate basis for distribution of cost of a utility to the departments consuming services is to be derived from usage parameters.

7. Presentation

7.1 Utilities costs shall be presented as a separate cost head for each type of utility in the cost statement, if it is material.

7.2 Where separate cost statements are prepared for utilities, the cost of utilities shall be classified as purchased or generated. Such statement shall also include the cost of utilities consumed along with quantitative information by individual consuming units, inter-unit transfers, intercompany transfers, and sales to outside parties, wherever applicable.

8. Disclosures

8.1 The cost statements shall disclose the following:

- **The basis of distribution of the cost of utility to the consuming units.**
- **The cost of purchase, production, distribution, marketing and price with reference to sales to outside parties.**
- **In case where the cost of utility is disclosed at the standard rate, the price and usage variances.**
- **The cost and price of utility received from/ supplied to related parties; cost and price utility received from/ supplied as interunit transfers and inter-company transfers.**
- **The cost of utilities incurred in foreign exchange.**
- **Any subsidy/grant/ incentive and any such payment reduced from the cost of utilities.**

- **Credits/ recoveries relating to the cost of utilities.**
- **Any abnormal cost excluded from utilities.**
- **Penalties, damages, etc., paid are excluded from the costs of utilities.**

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, as a footnote, or as a separate schedule.

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

9. Effective Date

This Cost Accounting Standard will be effective from the period commencing on July 1, 2026, for the preparation and certification of General Purpose Cost Accounting Statements.

CASSL 9

PACKING MATERIAL COST

The following is the COST ACCOUNTING STANDARD No. 9 (CAS SL 9) issued by the Institute of Certified Management Accountants of Sri Lanka on 'PACKING MATERIAL COST'. In the standard, the standard portions have been set in **bold** type. This standard should be read in the context of background material, which has been set in regular type.

1. Introduction

1.1 **This standard deals with the principles and methods of determining the packing material cost. expenses.**

1.2 **This standard deals with the principles and methods of classification, measurement, and assignment of packing material cost, for determination of the cost of product or service, and the presentation and disclosure in cost statements.**

1.3 **Packing materials for the purpose of this standard are classified into primary and secondary packing materials.**

2. Objective

The objective of this standard is to bring uniformity and consistency to the principles and methods of determining the packing material cost with reasonable accuracy.

3. Scope

This standard should be applied to cost statements, which require classification, measurement, assignment, presentation, and disclosure of packing material cost including those requiring attestation.

4. Definitions

The following terms are being used in this standard with the meaning specified and are given in the alphabetical order.

4.1 **Abnormal cost: An unusual or atypical cost whose occurrence is usually irregular and unexpected and/ or owing to some abnormal situation of the production or operation.**

e.g. The cost of packing material which is rejected after issue owing to unusual causes such as misprinting, use of material of wrong specification etc. (net of realizable value).

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

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 Direct employee cost: Employee costs, which can be attributed to a cost object in an economically feasible way.

4.5 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.

4.6 Direct materials: Materials, the cost of which can be attributed to a cost object in an economically feasible way.

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

E.g. Secondary packing, transportation cost, warehousing cost, cost of delivering the products to customers, clearing and forwarding charges, cost of mending or replacing packing material at distribution point.

4.8 Imputed costs: Notional cost, not involving cash outlay, computed for any purpose.

E.g. Packing material supplied by the customer.

4.9 Interest and finance charges: Interest and other costs incurred by an entity in connection with financing arrangements.

Interest and financing charges, finance costs and borrowing costs are used interchangeably.

4.10 Marketing overheads: This comprises selling overheads and distribution overheads.

4.11 Packing materials: Materials used to hold, identify, describe, store, protect, display, transport, promote, and make the product marketable.

4.12 Defectives: Materials, products or intermediate products that do not meet quality standards. This may include reworks or rejects.

(a) **Reworks: Defectives which can be brought up to the required quality standards by putting in additional resources.**

(b) **. Rejects: Defectives which cannot meet the required quality standards even after putting in additional resources.**

4.13 Packing material cost: The cost of material of any nature used for the purpose of packing of a product.

4.14 Primary packing material: Packing material which is essential to hold and preserve the product for its use by the customer.

Pharmaceutical industry: Insertions related to product, foils for strips of tablets, capsules, vials

4.15 Reusable packing material: Packing material that are used more than once to pack the product.

4.16 Scrap: Discarded material having no value or an insignificant value and which is usually either disposed of without further treatment (other than reclamation and handling) or reintroduced into the process in place of raw material.

4.17 Secondary packing material: Packing material that enables to store, transport, inform the customer, promote and otherwise make the product marketable.

e.g. Pharmaceutical industry: Cartons used for holding strips of tablets and card board boxes used for holding cartons.

4.18 Packing material development cost: Cost of evaluation of packing material such as pilot tests, field tests, consumer research, and feedback.

4.19 Production overheads: Indirect costs involved in the production of a product or in rendering a service.

4.20 Selling overheads: Selling overheads: Selling overheads (marketing and distribution costs) are the expenses related to sale of products or services and include all indirect expenses incurred in selling the products or services.

4.21 Standard cost: A pre-determined cost of a product or service based on technical specifications and efficient operating conditions.

5. Principles of Measurement

5.1 Principle of valuation of receipts of packing material.

5.1.1 The packing material receipts shall be valued at purchase price including duties and taxes, freight inwards, insurance, and other expenditure directly attributable to procurement (net of trade discounts, rebates, taxes and duties refundable or to be credited) that can be quantified at the time of acquisition.

5.1.2 Finance costs directly incurred in connection with the acquisition of packing material shall not form part of packing material cost.

5.1.3 Self manufactured packing material shall be valued including direct material cost, direct employee cost, direct expenses, job charges, factory overheads including share of administrative overheads comprising factory management and administration and share of research and development cost incurred for development and improvement of existing process or product.

5.1.4 Normal loss or spoilage of packing material prior to receipt in the factory shall be absorbed in the cost of balance materials net of amounts recoverable from suppliers, insurers, carriers or recoveries from disposal.

5.1.5 5.1.5 The forex component of imported packing material shall be converted at the rate on the date of transaction. Any subsequent change in the exchange rate till payment or otherwise shall not form part of the packing material cost.

5.1.6 Any demurrage, detention charges or penalty levied by the transport agency or any authority shall not form part of the cost of packing materials.

5.1.7 Any subsidy/ grant/ incentive or any such payment received/ receivable with respect to packing material shall be reduced for ascertainment of the cost to which such amounts are related.

5.2 Principle of valuation of issue of packing material.

Issues shall be valued using appropriate assumptions on cost flow.

e.g. First in First Out (FIFO), Last in First Out (LIFO), Weighted Average Rate.

5.3 In case where packing material are accounted for at standard cost, the price variances related to such materials shall be treated as part of packing material cost and the portion of usage variances owing to normal reasons shall be treated as part of packing material cost. Usage variances owing to abnormal reasons shall be treated as part of abnormal cost.

5.4 The normal loss arising from the issue or consumption of packing materials shall be included in the packing materials cost.

5.5 Any abnormal cost where it is material and quantifiable shall be excluded from the packing material cost.

5.6 The credits/ recoveries in normal scrap arising from packing materials, if any, shall be deducted from the total cost of packing materials to arrive at the net cost of packing materials.

6. Assignment of Costs

6.1 Packing material costs shall be directly traced to a cost object to the extent it is economically feasible.

6.2 In case packing material costs are not directly traceable to the cost object these may be assigned based on quantity consumed or similar measures like technical estimates.

6.3 The packing material cost of reusable packing shall be assigned to the cost object taking into account the number of times or the period over which it is expected to be reused.

6.4 Cost of primary packing shall form part of the cost of production.

6.5 Cost of secondary packing materials shall form part of distribution overheads.

7. Presentation

7.1 Packing materials shall be classified as primary and secondary and within this classification as purchased-indigenous, imported and self-manufactured.

7.2 In case separate cost statements are prepared for packing costs, the cost of packing materials consumed shall be presented in terms of type of packing in which the materials are used. Such statements shall also include price and quantity information, wherever it is found material and quantifiable.

8. Disclosures

8.1 The cost statements shall disclose the following:

- **The basis of valuation of packing material.**
- **In case packing material cost is disclosed at standard cost, the price and usage variances.**
- **The cost and price of packing materials received from suppliers to related parties.**
- **Packing material cost incurred in foreign exchange.**
- **Any subsidy/ grant/ incentive and any such payment reduced from packing material costs.**
- **Credits/ recoveries relating to the packing material cost.**
- **Any abnormal cost excluding from packing material costs.**
- **Penalties and damages paid, etc. excluded from packing material costs.**

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 footnote or as a separate schedule.

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

9. Effective Date

This Cost Accounting Standard will be effective from the period commencing on July 1, 2026, for the preparation and certification of General Purpose Cost Accounting Statemen

CASSL 10

DIRECT EXPENSES

The following is the COST ACCOUNTING STANDARD No. 10 (CAS SL 10) issued by the Institute of Certified Management Accountants of Sri Lanka on 'DIRECT EXPENSES'. In the standard, the standard portions have been set in **bold** type. This standard should be read in the context of background material, which has been set in regular type.

1. Introduction

a. This standard deals with the principles and methods of determining the direct expenses.

b. **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 to 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 and are given in the alphabetical order.

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.

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

4.3 Direct employee cost: Employee cost, which can be directly attributed to a cost object in an economically feasible way.

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.

e.g. 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.

4.6 Imputed costs: Notional cost, not involving cash outlay, computed for any purpose.

4.7 Interest and finance charges: Interest and Financing Charges are interest and other costs incurred by an entity in connection with the financing arrangements.

4.8 Overheads: Overheads comprise costs of indirect materials, indirect employees and indirect expenses.

4.9 Standard cost: A predetermined cost of a product or service based on technical specifications.

5. Principles of Measurement

1.1 **Identification of direct expenses shall be based on traceability in an economically feasible manner.**

1.1.1 **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.**

1.1.2 **Direct expenses other than those stated above shall be determined based on amount incurred in connection therewith.**

e.g. 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.

With respect to 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.

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

e.g. Royalty or technical know-how fees, or drawing design 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 amortization be determined.

1.2 **If an item of direct expenses does not meet the test of materiality, it can be treated as part of overheads.**

1.3 **Finance costs incurred in connection with the self-generated or procured resources shall not form part of the direct expenses.**

1.4 **In case where direct expenses are accounted for at standard cost, variances due to normal reasons shall be treated as part of the direct expenses. Variances owing to abnormal circumstances shall not form part of the direct expenses.**

1.5 **Any subsidy/grant/ incentive or any such payment received/ receivable with respect to any direct expense shall be reduced for ascertainment of the cost object to which such amounts are related.**

1.6 **Any abnormal portion of the direct expenses where they are material and quantifiable shall not form part of the direct expenses.**

1.7 **Penalties and damages paid to statutory authorities or other third parties shall not form part of the direct expenses.**

1.8 **Credits/ recoveries relating to the direct expenses, material and quantifiable, shall be deducted to arrive at the net direct expenses.**

1.9 **Any change in the cost accounting principles applied for the measurement of the direct expenses shall be made only if, (a) it is required by law or (b) for compliance with the requirements of a cost accounting standard, or (c) a change would result in more appropriate preparation or a presentation of cost statements of an entity.**

6. Assignment of Costs

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

7. Presentation

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

e.g. Subcontract charges; royalty on production

8. Disclosures

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

- **The basis of distribution of direct expenses to the cost objects/cost units.**
- **Quantity and rates of items of direct expenses, as applicable.**

- **In case where direct expenses are accounted for at standard cost, the price and the usage variances.**
- **Direct expenses representing procurement of resources and expenses incurred in connection with resources generated.**
- **Direct expenses paid/payable to related parties.**
- **Direct expenses incurred in foreign exchange.**
- **Any subsidy/ grant, incentive and any such payment reduced from direct expense.**
- **Credits/ recoveries relating to direct expenses.**
- **Any abnormal portion of the direct expenses.**
- **Penalties and damages excluded from the direct expenses.**

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

1.12 **Disclosures shall be made in the body of the Cost Statement or as a footnote or as a separate schedule.**

1.13 **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 will be disclosed. Where the effect not ascertainable wholly or partly, the fact shall be indicated.**

9. Effective Date

This Cost Accounting Standard will be effective from the period commencing on July 1, 2026, for the preparation and certification of General Purpose Cost Accounting Statements.

CASSL 11

ADMINISTRATIVE OVERHEADS

The following is the COST ACCOUNTING STANDARD No. 11 (CAS SL 11) issued by the Certified Management Accountants of Sri Lanka on 'ADMINISTRATIVE OVERHEADS'. In the standard, the standard portions have been set in **bold *type***. This standard should be read in the context of background material, which has been set in regular type.

1. Introduction

1.1 This standard deals with the principles and methods of determining the administrative overheads.

1.2 This standard delas with the principles and methods of classification, measurement and assignment of administrative overheads, 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 administrative overheads with reasonable accuracy.

3. Scope

This standard should be applied to cost statements, which require classification, measurement, assignment, presentation and disclosure of administrative overheads including those requiring attestation.

4. Definitions

The following terms are being used in this standard with the meaning specified and are given in the alphabetical order.

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.

4.2 Absorption of overheads: Assigning overheads to cost objects by means of appropriate absorption rate. Overhead absorption rate = Production or operations overheads of the activity divided by the volume of activity.

4.3 Administrative o verheads: Cost of all activities relating to general management and administration of an entity.

Administrative overheads shall exclude production overheads, marketing overheads, and interest and finance charges. Further, it does not include administration cost relating to production, factory, works or manufacturing.

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

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

4.6 Interest and finance charges: Interest and other costs incurred by an entity in connection with the financing arrangements.

4.7 Normal capacity: Production achieved or achievable on average over several periods or seasons under normal circumstances taking into account the loss of capacity resulting from planned maintenance.

4.8 Overheads: Overheads comprise costs of indirect material, indirect employees and indirect expenses.

5. Principles of measurement

5.1 Administrative overheads shall be the aggregate of cost of resources consumed in activities relating to general management and administration of an organization.

It usually represents the cost of shared services, cost of infrastructure and general management costs. Administrative overheads comprise items such as employee costs, utilities, office supplies, legal expenses, and outside services. The principles of measurement of materials cost, employee costs, utilities, repairs and maintenance, and depreciation found in the respective standards will apply to these elements included in administrative overheads.

5.2 In the case of leased assets, if the lease is an operating lease, the entire rentals shall be included in the administrative overheads. If the lease is a financial lease, the finance cost portion shall be segregated and treated as part of finance costs.

5.3 The cost of software (developed in-house, purchased, licensed or customized), including upgrading shall be amortized over its estimated useful life.

In case hardware requires upgrading along with software upgrading, it is recommended that comparable estimated lives be used for the two sets of cost.

5.4 The cost of administrative services procured from outside shall be determined at invoice or agreed upon prices 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.

5.5 Any subsidy/grant/ incentive or any item of similar nature received/ receivable with respect to administrative overheads shall be reduced for ascertainment of the cost of the cost object to which such amounts are related.

5.6 Administrative overheads shall not include any abnormal administrative cost.

e.g. Expenses incurred in a situation of natural calamity.

5.7 Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of administrative overheads.

5.8 Credits/ recoveries relating to the administrative overheads including those rendered without any consideration, material and quantifiable, shall be deducted to arrive at the net administrative overheads.

5.9 Any change in the cost accounting principles applied for the measurement of administrative overheads 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 more appropriate preparation or a presentation of cost statements of an entity.

6. Assignment of Costs

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

6.2 Assignment of administrative overheads to the cost objects shall be based on either of the following two principles:

Cause and effect: Overheads are to be apportioned based on the cause of the cost. Herein, the process/ operation/ activity is the cause for the cost while its incurrence cost is the effect.

Benefits received: Overheads are to be apportioned in proportion to the benefits received by the cost objects.

In case of facilities created on a standby or ready to serve basis, the cost shall be assigned based on expected benefits instead of the actual. The costs of shared services shall be assigned to user activities based on actual usage. In case where the resources by way of infrastructure are shared the cost should be assigned on a readiness to serve basis. General management costs shall be assigned on a rational basis. e.g. number of employees, turnover, size of investment.

7. Presentation

7.1 Administrative overheads shall be presented as a separate cost head in the cost statement.

7.2 Element-wise details of the administrative overheads based on materiality shall be presented.

8. Disclosures

8.1 The cost statements shall disclose the following:

- **The basis of assignment of administrative overheads to the cost objects.**
- **Any imputed cost included as a part of administrative overheads.**
- **Administrative overheads incurred in foreign exchange.**
- **Cost of administrative activities received from or supplied to related parties.**
- **Any subsidy/grant/ incentive or any amount of similar nature received/ receivable reduced from administrative overheads.**
- **Credits/ recoveries relating to the administrative overheads.**
- **Any abnormal portion of the administrative overhead.**
- **Penalties and damages excluded from the administrative overheads.**

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 footnote or as a separate schedule.

8.4 Any change in the cost accounting principles and methods applied for the measurement and assignment of the employee cost during the period covered by the cost statement and has a material effect will 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 will be effective from the period commencing on July 1, 2026 for the preparation and certification of General Purpose Cost Accounting Statements.

CASSL 12

REPAIRS AND MAINTENANCE COST

The following is the COST ACCOUNTING STANDARD No. 12 (CAS SL 12) issued by the Institute of Certified Management Accountants of Sri Lanka on 'REPAIRS AND MAINTENANCE COST' In the standard, the standard portions have been set in **bold** type. This standard should be read in the context of background material, which has been set in regular type.

1. Introduction

1.1 This standard deals with the principles and methods of determining the repairs and maintenance cost.

1.2 This standard deals with the principles and methods of classification, measurement and assignment of repairs and maintenance cost, 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 repairs and maintenance cost with reasonable accuracy.

3. Scope

This standard shall be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of repairs and maintenance cost including those requiring attestation.

4. Definitions

The following terms are being used in this standard with the meaning specified and are given in the alphabetical order.

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

4.2 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.

4.3 Imputed costs: Notional cost, not having cash outlay, computed for any purpose.

4.4 Interest and finance charges: I nterest and other costs incurred by an entity in connection with the financing arrangements.

4.5 Normal capacity: Production achieved or achievable on average over several periods or seasons under normal circumstances taking into account the loss of capacity resulting from planned maintenance.

4.6 Production overheads: Indirect costs involved in the production of a product or in rendering a service.

4.7 Property, plant and equipment: Tangible assets that are held for use in the production of goods or for rendering of services, for rental to others, for administrative, selling or distribution purposes and expected to be used for more than one accounting period.

4.8 Repairs and maintenance cost: Cost of all activities which have the objective of maintaining or restoring an asset in or to a state in which it can perform its required function at intended capacity and efficiency.

Repairs and maintenance activities for the purpose of this standard include routine or preventive maintenance, planned (predictive or corrective) maintenance and breakdown maintenance. The repair or overhaul of an asset which results in restoration of the asset to intended condition would also be a part of repairs and maintenance activity. In this, major overhaul is periodic (generally more than one year) repair work carried out to substantially restore the asset to intended working conditions.

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

5. Principles of Measurement

5.1 Repairs and maintenance cost shall be the aggregate of direct and indirect cost relating to repairs and maintenance activity.

Direct cost includes the cost of materials, consumable stores, spares, manpower, equipment usage, utilities and other identifiable resources consumed in such activity. Indirect cost includes the cost of resources common to various repairs and maintenance activities such as manpower, equipment usage and other costs allocable to such activities.

5.2 Cost of in-house repairs and maintenance activity shall include cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources used in such activity.

5.3 Cost of repairs and maintenance activity carried out by outside contractors inside the entity shall include charges payable to the contractor and cost of material, consumable stores, spares, manpower, equipment usage, utilities, and other costs incurred by the entity for such jobs.

5.4 Cost of repairs and maintenance jobs carried out by contractor at its premises shall be determined at invoice or agreed upon price including duties and taxes, and other expenditure directly attributable, net of discounts (other than cash discount), taxes and duties refundable or to be credited. This cost shall also include the cost of other resources provided to the contractors.

5.5 Cost of repairs and maintenance jobs carried out by outside contractors shall include charges made by the contractor and cost of own materials, consumable stores, spares, manpower, equipment sage, utilities and other costs used in such jobs.

5.6 Each type of repairs and maintenance shall be treated as a distinct activity, if material and identifiable. Further, Cost of repairs and maintenance activity shall be measured for each major asset category.

e.g. Routine or maintenance, planned (predictive or corrective) maintenance and breakdown maintenance should be identified separately.

5.7 Cost of spares replaced, which do not enhance the future economic benefits from the exiting asset beyond its previously assessed standard of performance, shall be included under repairs and maintenance cost.

5.8 High value spare, when replaced by a new spare and is reconditioned, shall be recognized as property, plant and equipment (when they meet the definition of property, plant and equipment) and depreciated accordingly. Otherwise, such items are classified as inventory and recognized in cost as and when they are consumed.

e.g. A company purchased equipment for Rs. 10 million and an insurance spare for Rs. 1 million. If the company is covered under LKAS, such a spare is capitalized as Property, Plant & Equipment. After using it for five years, the equipment broke down and a part was replaced with the aforesaid insurance spare. After five years, the depreciated value of the equipment is Rs. 5.5 million. As property, plant and equipment are depreciated when they are available for use, accordingly, the depreciated value of the new spare is Rs. 0.5 million. The old spare was reconditioned, and the cost of reconditioning is Rs. 0.1 million. As per the estimated life of the old spare for future economic benefits, the current market value of the reconditioned old spare has been estimated at Rs. 0.25 million. The amount to be treated in repairs and maintenance is Rs . 0. 35 million.

		Rs Million	Rs Million
A	Equipment cost	10.00	
B	Cost of new spare	1.00	
	Total Cost (A+B)	11.00	
	Depreciation for 5 years	5.50	
	Depreciated value of equipment	**5.50**	
	Reconditioning cost of old spare		0.10
	Depreciated value of old spare		0.50
	Book value of reconditioned spare		**0.60**
	Current market value of reconditioned spare to be restated in Book of Account		0.25
	Amount to be treated in r epairs and maintenance		**0.35**

5.9 The cost of a major overhaul shall be amortized on a rational basis

5.10 Finance costs incurred in connection with the repairs and maintenance activities shall not form part of repairs and maintenance costs.

5.11 Repairs and maintenance costs shall not include imputed costs.

5.12 In case standard costs are used price variances related to repairs and maintenance, shall be treated as part of repairs and maintenance cost. The portion of usage variances attributable to normal reasons shall be treated as part of repairs and maintenance cost. Usage variances attributable to abnormal reasons shall be excluded from repairs and maintenance cost.

5.13 Subsidy/ grant/ incentive or amount of similar nature received/ receivable with respect to repairs and maintenance activity, if any, shall be reduced for ascertainment of the cost object to which such amounts are related.

5.14 Any repairs and maintenance cost resulting from some abnormal circumstances, if material and quantifiable, shall not form part of the repairs and maintenance cost.

e.g. Major fire, explosions, flood and similar events are abnormal circumstances referred to above.

5.15 Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the repairs and maintenance cost.

e.g. A penalty imposed by a regulatory authority for wrongful construction or damages paid to the third party for the loss caused owing to improper working of property, plant & equipment, shall not be included in repairs and maintenance cost.

5.16 Credits/ recoveries relating to the repairs and maintenance activity that is material and quantifiable shall be deducted in arriving at the net repairs and maintenance cost.

5.17 Any change in the cost accounting principles applied for the measurement of repairs and maintenance costs shall be made only if, (a) it is required by law or (b) for compliance with the requirements of a cost accounting standard, or (c) a change would result in more appropriate preparation or a presentation of cost statements of an entity.

6. Assignment of Costs

6.1 While assigning repairs and maintenance costs traceability to a cost object in an economically feasible manner shall be the guiding principle.

6.2 In case the repairs and maintenance cost is not directly traceable to cost objects it shall be assigned based on either of the following two principles:

Cause and effect: Costs are to be apportioned based on the cause of the cost. Herein, the process/ operation/ activity is the cause for the cost while its incurrence cost is the effect.

Benefits received: Overheads are to be apportioned in proportion to the benefits received by the cost objects.

6.3 If the repairs and maintenance cost (including the cost of reciprocal exchange of services) is shared by several cost objects, the related cost shall be measured as an aggregate and distributed among the cost objects as per the principles lais down in CASSL 3 Production and Operations Overheads.

7. Presentation

7.1 Repairs and maintenance cost, if material, shall be presented in the cost statement as a separate item of cost.

7.2 Asset category- wise details of repairs and maintenance cost, if material, shall be presented separately.

7.3 Activity-wise details of repairs and maintenance cost, if material, shall be presented separately.

8. Disclosures

8.1 The cost statements shall disclose the following:

- **The basis of distribution of repairs and maintenance cost to the cost objects/ cost units.**
- **In case standard cost is applied in repairs and maintenance cost, the price and usage variances.**
- **Repairs and maintenance cost of jobs done in-house and outsourced separately.**
- **Cost of major overhauls, asset category wise and the basis of amortization.**
- **Repairs and maintenance cost paid/ payable to related parties.**
- **Repairs and maintenance cost incurred in foreign exchange.**
- **Any subsidy/ grant/ incentive or any amount of similar nature received/ receivable reduced from repairs and maintenance cost.**
- **Any credits/ recoveries relating to the repairs and maintenance cost.**
- **Penalties and damages excluded from the repairs and maintenance 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 footnote or as a separate schedule.

8.4 Any change in the cost accounting principles and methods applied for the measurement and assignment of the repairs and maintenance cost during the period covered by the cost statement and has a material effect 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 will be effective from the period commencing on July 1, 2026, for the preparation and certification of General Purpose Cost Accounting Statements.

CASSL 13

COST OF SERVICE COST CENTRE

The following is the COST ACCOUNTING STANDARD No. 13 (CASSL 13) issued by the Institute of Certified Management Accountants of Sri Lanka on 'COST OF SERVICE COST CENTRE'. In the Standard, the standard portions have been set in **bold** type. This standard should be read in the context of background material, which has been set in regular 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 4.11 of this standard. It excludes utilities and repairs & maintenance services dealt with in CAS SL 8 and CAS 12, respectively.

1.3 This standard deals with the principles and methods of classification, measurement, and assignment of the cost of service cost centre for determining the cost of a product or service and the presentation and disclosure in cost statements.

2. Objective

The objective of this standard is to uniformly and consistently establish the principles and methods for determining the cost of service cost centres 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 and are given in the alphabetical order.

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.

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

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 dispatch 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 and other costs incurred by an entity in connection with the financing arrangements.**

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

4.8 **Normal capacity: Production achieved or achievable on average over several periods or seasons under normal circumstances taking into account the loss of capacity resulting from planned maintenance.**

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

4.10 **Selling overheads: Selling overheads (marketing and distribution costs) 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.**

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 provides services to production, operations, or other cost service centre but is not directly engaged in the manufacturing process or operations. It offers services to other cost centres/ other units and in some cases to outside parties.

e.g. Engineering, workshop, research & development, quality control, quality assurance, designing, laboratory, welfare services, safety, transport, component, tool stores, pollution control, computer cell, dispensary, school, creche, township, security, etc. Administrative overheads include cost of the 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 Cost of service cost centre shall be the aggregate of direct and indirect cost attributable to services being rendered by such cost centre.

5.2.1 Cost of in-house services shall include cost of material, consumable stores, spares, manpower, equipment usage, utilities, and other resources used in providing such service. Cost of other resources includes related overheads.

5.2.2 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.

5.2.3 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.

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

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

5.2.6 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 centre shall not include imputed costs.

5.5 In case the cost of service cost at the centre is accounted for 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. 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 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 more appropriate preparation or a presentation of cost statements of an entity.

6. 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.

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 for 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

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:

- **The basis of distribution of cost of each service cost centre to the consuming centres.**
- **The cost of purchase, production, distribution, marketing and price of services with reference to sales to outside parties.**
- **In case where the cost of service cost centre is disclosed at standard cost, the price and usage variances.**
- **Cost of services received from/ rendered to related parties; cost of service cost centre incurred in foreign exchange.**
- **Any subsidy, grant, incentive and any such payment reduced from the cost of service cost centre.**
- **Credits/ recoveries relating to the cost of service cost centre.**
- **Any abnormal cost excluded from cost of service cost centre.**
- **Penalties and damages paid excluded from the cost of service cost centre.**

8.2 Disclosures shall be made only where material and significant.

8.3 Disclosures shall be made in the body of the cost statement or as a footnote or as a separate schedule.

8.4 Any change in the cost accounting principles and methods applied for the management and assignment of the cost of service cost centre during the period covered by the cost statement and has a material effect 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 will be effective from the period commencing on July 1, 2026, for the preparation and certification of General Purpose Cost Accounting Statement.

CASSL 14

POLLUTION CONTROL COST

The following is the COST ACCOUNTING STANDARD No. 14 (CASSL 14) issued by the Institute of Certified Management Accountants of Sri Lanka on 'POLLUTION CONTROL COST'. In the Standard, the standard portions have been set in **bold** type. This standard should be read in the context of background material, which has been set in regular type.

1. Introduction

This standard deals with principles and methods of determining the Pollution Control Costs.

This standard deals with the principles and methods of classification, measurement and assignment of pollution control costs, for determination of 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 pollution control costs with reasonable accuracy.

3. Scope

This standard should be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of pollution control costs including those requiring attestation.

4. Definitions

The following terms are being used in this definition with the meaning specified and are given in the alphabetical order.

4.1 Air pollutant: Any solid liquid, or gaseous substance (including noise) present in the atmosphere in such concentration as may be or tend to be injurious to human beings or other living creatures or plants or property or environment

4.2 Air pollution: The presence in the atmosphere of any air pollution.

4.3 Cost object: Cost o bject: An activity, contract, cost centre, customer.

4.4 Direct expenses: Expenses related 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.

4.5 Environment: Environment includes water, air, and land and the inter-relationship which exists among and between water, air and land, and human beings, other than living creatures, plants, micro-organism and property.

4.6 Environmental pollutant: Any solid, liquid, or gaseous substance present in such concentration as may be, or tend to be, injurious to environment.

4.7 Environment pollution: The presence in the environment of any environmental pollutant.

4.8 Imputed costs: Notional cost, not involving cash outlay computed for any purpose.

4.9 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.

e.g. Interest and commitment charges on bank borrowings, other short term and long term borrowings, amortization of ancillary cost incurred in connection with the arrangements of borrowings, finance charges in respects of finance leases, other similar arrangements and exchange differences arsing from foreign currency borrowings to the extent they are regarded as an adjustment to the interest cost.

The terms finance costs and borrowing costs are used interchangeably.

4.10 Normal capacity: 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.

4.11 Pollution control: The control of emissions and effluents into environment. It constitutes the use of materials, processes, or practices to reduce, minimize, or eliminate the creation of pollutants or wastes. It includes practices that reduce the use of toxic or hazardous materials, energy, water and/ or other resources.

4.12 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 overjheads denote the same meaning and are used interchangeably. Production overheads shall include administration cost relating to production, factory works or manufactirng.

4.13 Soil pollutant: A substance which is the source of soil contamination.

4.14 Soil pollution: The presence of any soil pollutant(s) in the soil which is harmful to the living beings when it crosses its threshold concentration level.

4.15 Standard cost: A pre-determined 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 analyzing the causes of variances and taking proper measures to control them. Standard costs are also used for estimation.

4.16 Water pollution: Such contamination of water or such alteration of the physical, chemical or biological properties of water or such discharge of any sewage or trade effluent or any other liquid, gaseous or solid substance into water (whether directly or indirectly) as may, or is likely to, create a nuisance or render such water harmful or injurious to public health or safety, or to domestic, commercial, industrial, agricultural or other legitimate uses, or to the life and health of animals or plants or of aquatics organism.

5. Principles of Measurement

5.1 Pollution control costs shall be the aggregate of direct and indirect cost relating to pollution control activity.

Direct cost includes the cost of materials, consumable store, spares, manpower, equipment usage, utilities, resources for testing and certification and other identifiable resources consumed in activities such as waste processing, disposal, remediation and others.

Indirect cost includes the cost of resources common to various pollution control activities such as pollution control registration and such like expenses.

5.2 Costs of pollution control which are internal to the entity should be accounted for when incurred. They should be measured at the historical cost of resources consumed.

5.3 Future remedial or disposal costs which are expected to be incurred with reasosble certainty as part of onerous contract or constructive obligation, legally enforceable shall be estimated and accounted based on the quantum of pollution generated in each period and the associated cost of remediation or disposal in future.

e.g. Future disposal costs of solid waste generated during the current period should be estimated on, say, a per ton basis.

5.4 Contingent future remedial or disposal costs e.g. those likely to arise on account of future legislative changes on pollution control shall not be treated as cost until the incidence of such costs become reasonably certain and can be measured.

External costs of pollution which are generally the costs imposed on external parties including social costs are difficult to estimate with reasonable accuracy and are generally excluded from general purpose cost statements.

Social costs of pollution are measured by economic models of cost measurement. The cost by way of compensation by the polluting entry either under future legislation or under social pressure cannot be quantified by traditional models of cost measurement. They are best kept out of general purpose cost statements.

5.5 Cost of in-house pollution control activity shall include cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources used in such activity.

5.6 Cost of pollution control activity carried out by outside contractors inside the entity shall include charges payable to the contractor and cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other costs incurred by the entity for such jobs.

5.7 Cost of pollution control jobs carried out by contractor at its premises shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable there to net of discounts (other than cash discount), taxes, and duties refundable or to be credited. This cost shall also include the cost of other resources provided to the customers.

5.8 Cost of pollution control jobs carried out by outside contractors shall include charges made by the contractor and cost of own material, consumable stores, spares, manpower, equipment usage, utilities, and other costs used in such jobs.

5.9 Each type of pollution control, e.g. water, air, soil pollution shall be treated as a distinct activity, if material and identifiable.

5.10 Finance costs incurred in connection with the pollution control activitiesshall not form part of pollution control costs.

5.11 Pollution control costs shall not include imputed costs.

5.12 Price variances related to pollution control, where standard costs are in use, shall be treated as part of pollution control cost. The portion of usage variances attributable to normal reasons shall be treated as part of pollution control cost. Usage variances attributable to abnormal reasons shall be excluded from pollution control cost.

5.13 Subsidy/ grant/ incentive or amount of similar nature received/ recivable with respect to pollution control activity, if any, shall be reduced for ascertainment of the cost object to which such amounts are related.

5.14 Any pollution control cost resulting from abnormal circumstances, if material and quantifiable, shall not form part of the pollution control cost.

5.15 Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the pollution control cost.

5.16 Credits/ recoveries relating to pollution control activity, material and quantifiable, shall be deducted to arrive at the net pollution control cost.

5.17 Research and development cost to develop new processes, new products or use of new materials to avoid or mitigate pollution shall not be treated as research and development costs and not included under pollution control costs. Development costs incurred for commercial development of such product, process or material shall be included in pollution control costs.

5.18 Any change in the cost accounting principles applied for the measurement of the pollution control cost should be made only if , it is required by law 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 organization.

6. Assignment of Costs

6.1 Pollution control costs shall be traced to a cost object to the extent economically feasible.

Direct costs of pollution control such as treatment and disposal of waste shall be assigned directly to the product, where traceable economically.

In case these costs are not directly traceable to the product but are traceable to a process which causes pollution, the costs shall be assigned to the products passing through the process based on the quantity of the pollutant generated by the product.

6.2 In case the pollution control cost is not directly traceable to cost object, it shall be treated as overhead and assigned based on either of the following two principles:

Cause and effect: Costs are to be apportioned based on the cause of the cost. Herein, the process/ operation/ activity is the cause for the cost while its incurrence is the effect.

Benefits received: Overheads are to be apportioned in proportion to the benefits received by the cost objects.

Typical of such costs are costs such as administration costs relating to pollution control activities, costs of certification such as ISO 14000 and registration fees payable to pollution control authorities.

6.3 In case pollution control cost (including the share of the cost of reciprocal exchange of services) is shared by several cost objects, the related cost shall be measured as an aggregate and distributed among the cost objects as per principles laid down in CASSL 3.

7. Presentation

7.1 Pollution control cost, if material, shall be presented in the cost statement as a separate item of cost.

7.2 Pollution control costs shall be presented duly classified as follows:

- **Direct and indirect costs**
- **Internal and external costs**
- **Current and future costs**
- **Domain ares, e.g. water, air and soil.**

7.3 Activity-wise details of pollution control cost, if material, shall be presented separately.

8. Disclosures

8.1 The cost statements shall disclose the following:

- **The basis of distribution of pollution control cost to the cot objects/ cost units.**
- **In case standard cost is applied in pollution control is applied in pollution cost, the price and usage variance.**
- **Pollution control cost of jobs done in-house and outsourced separately.**
- **Pollution control cost paid/ payable to related parties.**
- **Pollution control cost incurred in foreign exchange.**
- **Any subsidy/ grant/ incentive or any amount of similar nature received/ receivable reduced from pollution control cost.**
- **Any credits/ recoveries relating to the pollution control cost.**
- **Any abnormal portion of the pollution control cost.**
- **Penalties and damages excluded from the pollution control cost.**

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

8.3 Cost incurred on pollution control relating to prior periods and taken to reconciliation directly shall be disclosed separately.

8.4 In case estimates are made of future costs to be incurred on pollution control, the basis of estimate shall be disclosed separately.

8.5 If a descriptive note dealing with the social cost of pollution caused by the entity and the control of such pollution is contained in the same document as the cost statement, the cost statement shall carry a reference to such descriptive note.

8.6 Disclosures shall be made in the body of the cost statement or as a foot note or as a separate schedule.

8.7 Any change in the cost accounting principles and methods applied for the measurement and assignment of the pollution control cost during the period covered by the cost statement which has a material effect on the pollution control cost shall be disclosed. In case the effect of such change is not ascertainable wholly or partly the fact shall be included.

9. Effective Date

This Cost Accounting Standard will be effective from the period commencing on July 1, 2026, for the preparation and certification of General Purpose Cost Accounting Statement.

CASSL 15

SELLING AND DISTRIBUTION OVERHEADS

The following is the COST ACCOUNTING STANDARD No. 15 (CASSL 15) issued by the Institute of Certified Management Accountants of Sri Lanka on 'SELLING AND DISTRIBUTION OVERHEADS'. In the Standard, the standard portions have been set in **bold** type. This standard should be read in the context of background material, which has been set in regular type.

1. Introduction

This standard deals with the principles and methods of determining the Selling and Distribution Overheads.

This standard covers the principles and methods of classification, measurement, and assignment of selling and distribution overheads for determining the cost of sales of a product or service and the presentation and disclosure in cost statements.

2. Objective

The objective of this standard is to uniformly and consistently establish the principles and methods for determining the selling and distribution overheads with reasonable accuracy.

3. Scope

This standard shall be applied to cost statements, which require classification, measurement, assignment, presentation, and disclosure of selling and distribution overheads, including those requiring attestation.

4. Definitions

The following terms are being used in this standard with the meaning specified and are given in the alphabetical order.

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.

4.2 Absorption of overheads: Assigning overheads to cost objects by means of an appropriate absorption rate.

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: Also known as distribution costs, are the costs incurred in handling a product or service from the time it is ready for dispatch or delivery until it reaches the ultimate consumer including the units receiving, the product or service in an inter-unit transfer.

The cost of packing, repacking, labelling, etc. at an intermediate storage location will be part of distribution cost.

e.g. Packing, repacking/ labelling at an intermediate storage location; transportation cost; cost of warehousing (cover depots, go-downs; storage yards; stock yards, etc.).

Note: In case of machinery involving technical help in installation, such expenses are part of production and not considered as cost of selling and distribution overheads.

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

4.6 Indirect expenses: Expenses which cannot be directly attributed to a particular cost object.

4.7 Marketing overheads: This comprises selling overheads and distribution overheads.

4.8 Overheads: Overheads comprise costs of indirect materials, indirect employees and indirect expenses.

4.9 Selling overheads: Expenses related to sale of products or services and include all indirect expenses incurred in selling the products or services.

e.g. Salaries of sales personnel; travelling expenses of sales personnel; commission to sales agents; sales and brand promotion expenses including advertisement, publicity, sponsorship, endorsements and similar other expenses; receivable collection costs; after sales service costs; warranty costs.

5. Principles of Measurement

5.1 Selling and distribution overheads shall be the aggregate of the cost of resources consumed in the selling and distribution activities of the entity. The cost of resources procured from outside shall be determined at invoice or agreed upon 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.

Post sales costs such as warranty cost, product liability cost, and after-sales service shall be estimated on a reasonable basis.

5.2 Selling and distribution overheads, the benefits of which are expected to be derived over a long period, shall be amortized on a rational basis.

5.3 Selling and distribution overheads shall not include imputed cost.

5.4 Cost of after sales services provided in terms of sales agreements for a class of transactions shall be determined on a rational and scientific basis, net of any recovery on the service.

5.5 Any subsidy/grant/ incentive or any such payment received/ receivable with respect to any selling and distribution overheads shall be reduced from the cost of sales of the cost object.

5.6 Any abnormal cost relating to selling and distribution activity shall be excluded from the selling and distribution overheads.

5.7 Any demurrage or detention charges, or penalty levied by transportation or other authorities in respect of distribution activity shall not form part of selling and distribution overheads.

5.8 Penalties and damages paid to statutory authorities or other third parties shall not form part of selling and distribution overheads.

5.9 Credits/ recoveries relating to selling and distribution overheads including those rendered without any consideration, material and quantifiable, shall be deducted to arrive at the net selling and distribution overheads.

5.10 Any change in the cost accounting principles applied for the measurement of selling and distribution overheads 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 more appropriate preparation or a presentation of cost statements of an entity.

6. Assignment of Costs

6.1 Selling and distribution overheads directly traceable shall be assigned to the relevant product sold or service rendered.

6.2 In case the selling and distribution overheads are not directly traceable to cost objects it shall be assigned based on either of the following two principles:

Cause and effect: Costs are to be apportioned based on the cause of the cost. Herein, the process/ operation/ activity is the cause for the cost while its incurrence is the effect.

Benefits received: Overheads are to be apportioned in proportion to the benefits received by the cost objects.

7. Presentation

7.1 Selling and distribution overheads shall be presented as a separate cost head in the cost statement. A reporting entity may use the term marketing overheads in place of selling and distribution overheads.

Alternatively, a reporting entity may use the term marketing overheads.

7.2 Element-wise details of selling and distribution overheads shall be presented, if material.

8. Disclosures

8.1 The cost statements shall disclose the following:

- **The basis of distribution of selling and distribution overheads to the cost objects.**
- **Selling and distribution overheads incurred in foreign currency.**
- **Cost of selling and distribution services rendered to related parties.**
- **Any subsidy/grant/ incentive and any such payment reduced from selling and distribution overheads.**
- **Credits/ recoveries relating to the selling and distribution overheads.**
- **Penalties and damages excluded from selling and distribution overheads.**

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

8.3 Disclosures shall be made in the body of the cost statement or as a footnote or as a separate schedule.

8.4 Any change in the cost accounting principles and methods applied for the measurement and assignment of the selling and distribution overheads during the period covered by the cost statement and has a material effect 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 will be effective from the period commencing on July 1, 2026, for the preparation and certification of General Purpose Cost Accounting Statements.

CASSL 16

DEPRECIATION AND AMORTIZATION

The following is the COST ACCOUNTING STANDARD No. 16 (CASSL 16) issued by the Certified Management Accountants of Sri Lanka on 'DEPRECIATION AND AMORTIZATION'. The standard portions are in **bold** type. This standard should be read in the context of the background material, which is in regular type.

1. Introduction

This standard deals with the principles and methods of measuring and assigning depreciation and amortization to determine the cost of a product or service and the presentation and disclosure in cost statements.

2. Objective

The objective of this standard is to uniformly and consistently establish the principles and methods for determining Depreciation and Amortization with reasonable accuracy.

3. Scope

The standard shall be applied to cost statements which require measurement, assignment, presentation, and disclosure of depreciation and amortization, including those requiring attestation.

4. Definitions

The following terms are being used in this standard with the meaning specified and are given in the alphabetical order.

4.1 Amortization: The systematic allocation of the depreciable amount of an intangible asset over its useful life.

It refers to expending the acquisition cost minus the residual value of intangible assets such as franchise, patents and trademarks or copyrights in a systematic manner over their estimated useful economic life so as to reflect their consumption in the production of goods and services.

4.2 Asset: An asset is a resource controlled by an entity because of past events; and from which future economic benefits are expected to flow to the entity.

In case of some assets which are acquired for safety or environmental reasons, the acquisition of such assets may not provide future economic benefits directly but may be necessary for an entity to obtain the future economic benefits from other assets. Such items also qualify for recognition as assets.

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 **Current asset: An entity shall classify an asset as current when it expects to realize the asset, or intends to sell or consume it, in its normal operating cycle; holds the asset primarily for the purpose of trading; expects to realize the asset within twelve months after the reporting period; and the asset is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.**

4.5 **Depreciation: Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.**

It is a measure of the wearing out, consumption or other loss of value of a depreciable asset arising from use, efflux of time or obsolescence through technology or market changes. Depreciation does not include impairment loss. Depreciation is allocated so as to charge a fair proportion of the depreciable amount in each accounting period during the estimated useful life of the asset. The depreciable amount of a depreciable asset is its historical cost, or other amount substituted for historical cost, or other amount substituted for historical cost in the financial statements, less the estimated residual value.

The useful life of an asset is either the period over which a depreciable asset is expected to be used by the enterprise or the number of production or similar units expected to be obtained from the use of the asset by the entity.

4.6 **Depreciable amount: The cost of an asset, or other amount substituted for cost in the financial statement, less its residual value.**

4.7 **Depreciable property, plant and equipment: Tangible assets that are used in the production of goods or supply of services; for rental to others; for administrative selling or distribution purposes; and expected to be used during more than one accounting period.**

Land is not a depreciable asset as it does not have a defined useful life.

4.8 **Impairment loss: The amount by which the carrying amount of an asset exceeds its recoverable amount.**

4.9 **Intangible asset: An identifiable non-monetary asset without physical existence (substance).**

4.10 **Residual (salvage) value: The estimated amount that an entity would currently obtain from disposal of an asset, after deducting the estimated costs of disposal, if the assets were already of the age and in the condition expected at the end of its useful life.**

4.11 Useful life (asset): It is either the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from use of the asset by the entity.

5. Principles of Measurement

5.1 Depreciation and amortization shall be measured based on the depreciable amount and the useful life:

The residual value of an intangible asset shall be assumed to be zero unless: (a) There is a commitment by a third party to purchase the asset at the end of its useful life; or (b) there is an active market for the asset and

- Residual value can be determined by reference to that market.
- It is probable that such a market will exist at the end of the asset's useful life
- The residual value of a property, plant and equipment shall be considered as zero if the entity is unable to estimate the same with reasonable accuracy.

The minimum amount of depreciation to be provided shall not be less than the amount calculated as per principles and methods as prescribed by any law or regulations applicable to the entity and followed by it.

5.2 In the case of regulated industry, the amount of depreciation shall be the same as prescribed by the regulator concerned.

5.3 While estimating the useful life of a depreciable asset, consideration shall be given to:

expected physical wear and tear; obsolescence; and legal or other limits on the use of the asset.

5.4 The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights but may be shorter depending on the period over which the entity expects to use the asset.

If the contractual or other legal rights are conveyed for a limited term that can be renewed the useful life of the intangible asset shall include the renewal period (s) only if there is evidence to support renewal by the entity without incurring a significant cost. The useful life of a re-acquired right recognized as an intangible asset in a business combination is the remaining contractual period of the contract in which the right was granted and shall not include renewal periods. The useful life of an intangible asset, in any situation, shall not exceed 10 years from the date it is available for use.

5.5 **Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.**

An asset which is used only when the need arises but is always held ready for use.

e.g. Fire extinguisher, stand-by generator, safety equipment.

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or include in a disposal group that is classified as held for resale) or the date that the asset is de-recognized.

5.6 **Depreciation of any addition or extension to an existing depreciable asset which retains a separate identity and is capable of being used after the expiry of the useful life of that asset shall be based on the estimated useful life of that addition or extension.**

5.7 **Depreciation of any addition or extension to an existing depreciable asset which retains a separate identity and is capable of being used after the expiry of the useful life of that asset shall be based on the estimated useful life of that addition or extension.**

5.8 **The impact of higher depreciation due to revaluation of assets shall not be assigned to cost object.**

5.9 **Impairment loss on assets shall be excluded from the cost of production.**

5.10 **The method of depreciation used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.**

5.11 **An entity can use any of the methods of depreciation to assign depreciable amount of an asset on a systematic basis over its useful life.**

e.g. Straight-line method; diminishing balance method; and units of production method.

5.12 **The method of amortization of an intangible asset shall reflect the pattern in which the economic benefits are expected to be consumed by the entity.**

5.13 **The methods and rates of depreciation applied shall be reviewed at least annually and, if there has been a change in the expected pattern of consumption or loss of future economic benefits, the method applied shall be changed to reflect the changed pattern.**

5.14 Items such as spare parts, stand-by equipment and servicing equipment are recognized as property, plant and equipment when they meet the definition of property, plant and equipment, and depreciated accordingly. Otherwise, such items are classified as inventory and recognized in cost as and when they are consumed.

5.15 Cost of small assets shall be written off in the period in which they were purchased as per the accounting policy of the entity.

5.16 Depreciation of an asset shall not be considered in case cumulative depreciation exceeds the original cost of the asset, net of residual value.

5.17 In case where depreciation for an addition of an asset is measured based on the number of days for which the asset was used for the preparation and presentation of financial statements, depreciation of the asset for assigning to the cost of object shall be measured in relation to the period the asset was utilized.

6. Assignment of Costs

6.1 Depreciation shall be traced to the cost object to the extent economically feasible.

6.2 In case the selling and distribution overheads are not directly traceable to cost objects it shall be assigned based on either of the following two principles:

Cause and effect: Costs are to be apportioned based on the cause of the cost. Herein, the process/ operation/ activity is the cause for the cost while its incurrence is the effect.

Benefits received: Overheads are to be apportioned in proportion to the benefits received by the cost objects.

6.3 Depreciation of an asset which remains idle or temporarily withdrawn from production of goods and services shall be considered as an abnormal cost for the period the asset is not in use.

6.4 The depreciation charged for a period is usually recognized in the cost of goods or services.

6.5 Similarly, in case the property, plant and equipment are used for producing another asset, the related depreciation shall form part of the cost of such asset.

7. Presentation

Depreciation and amortization, if material, shall be presented in the cost statement as a separate item of cost.

8. Disclosures

8.1 The cost statement shall disclose the following:

- **The basis of distribution of depreciation and amortization to the cost objects.**
- **Any credits/ recoveries relating to depreciation and amortization.**
- **Additional depreciation on account of revaluation of the asset, which is not included in the cost.**
- **Amount of depreciation that is not included in cost because of the temporary withdrawal from the production of goods and services.**

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

8.3 Disclosures shall be made in the body of the cost statement, as a footnote, or in a separate schedule.

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

9. Effective Date

This Cost Accounting Standard will be effective from the period commencing on July 1, 2026 for the preparation and certification of General Purpose Cost Accounting Statements.

CASSL 17

INTEREST AND FINANCING CHARGES

The following is the COST ACCOUNTING STANDARD No. 17 (CASSL 17) issued by the Certified Management Accountants of Sri Lanka on 'INTEREST AND FINANCING CHARGES'. In the standard, the standard portions have been set in **bold** type. This standard should be read in the context of background material, which has been set in regular type.

1. Introduction

This standard deals with the principles and methods of classification, measurement and assignment of interest and financing charges.

2. Objective

The objective of this standard is to bring uniformity and consistency in the principles and methods of determining and assigning the interest and financing charges with reasonable accuracy.

3. Scope

This standard should be applied to cost statements which require classification, measurement, assignment, presentation, and disclosure of interest and financing charges, including those requiring attestation.

This standard does not deal with costs relating to risk management through derivatives.

4. Definitions

The following terms are being used in this standard with the meaning specified and are given in the alphabetical order.

4.1 Asset: An asset is a resource controlled by an entity because of past events; and from which future economic benefits are expected to flow to the entity.

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

4.3 Current asset: An entity shall classify an asset as current when it expects to realize the asset, or intends to sell or consume it, in its normal operating cycle; holds the asset primarily for the purpose of trading; expects to realize the asset within twelve months after the reporting period; and the asset is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

4.4 Current liabilities: An entity shall classify a liability as current when it expects to settle the liability in its normal operating cycle; it is a liability primarily for the purpose of trading; the liability is due to be settled within twelve months after the reporting period or It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

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

4.6 Intangible asset: An identifiable non-monetary asset without physical substance.

4.7 Interest and finance charges: Interest and other costs incurred by an entity in connection with the financing arrangements.

e.g. Interest and commitment charges on bank loans, other short term and long term borrowing; financing charges in respect of finance leases and other similar arrangements; exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest costs.

The terms interest and financing charges, finance costs, and borrowing costs are used interchangeably.

4.8 Net current asset: Net current asset is the excess of current assets over current liabilities. Current liabilities shall include short term borrowings and that part of long term borrowings which are classified as current liabilities. Short term borrowing is the borrowing which is repayable within one year from the date of disbursal as per the loan agreement. Long term borrowing is repayable one year after the date of disbursal as per the loan agreement.

5. Principles of Measurement

5.1 Interest and financing charges shall be identified for: (a) acquisition/ construction/ production of qualifying assets; and (b) other finance costs for production of goods/ operations or services rendered which cannot be classified as qualifying assets.

5.2 Interest and financing charges directly attributable to the acquisition/ construction/ production of a qualifying asset shall be included in the cost of the asset.

5.3 Interest and financing charges shall not include imputed costs.

5.4 Subsidy/ grant/ incentive or amount of similar nature received/ receivable with respect to interest and financing charges if any, shall be reduced to ascertain the net interest and financing charges.

5.5 Penal i nterest for delayed payment, fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the interest and financing charges.

In case the company delays the payment of statutory dues beyond the stipulated date, interest paid for delayed payment shall not be treated as penal interest.

5.6 Interest paid for or received on investment shall not form part of the other financing charges for production of goods/ operations or services rendered.

6. Assignment of Costs

6.1 Assignment of interest and financing charges to the cost objects shall be based on either of the following principles:

Cause and effect: Costs are to be apportioned based on the cause of the cost. Herein, the process/ operation/ activity is the cause for the cost while its incurrence is the effect.

Benefits received: Overheads are to be apportioned in proportion to the benefits received by the cost objects.

7. Presentation

Interest and Financing Charges shall be presented in the cost statement as a separate item of cost of sales.

8. Disclosures

8.1 The cost statements shall disclose the following:

- **The basis of distribution of interest and financing c harges to the cost objects/ cost units.**
- **In case where predetermined cost is applied the rate and usage charged.**
- **Interest and financing charges paid/ payable to related parties; interest and financing charges incurred in foreign exchange.**
- **Any subsidy/grant/ incentive or any amount of similar nature received/ receivable reduced interest and financing charges.**

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

8.3 Interest and f inancing c harges incurred relating to prior periods and taken to reconciliation directly shall be disclosed separately.

8.4 Disclosures shall be made in the body of the cost statement or as a footnote or as a separate schedule.

8.5 Any change in the cost accounting principles and methods applied for the measurement and assignment of interest and financing charges during the period covered by the cost statement and has a material effect shall be disclosed. Where the impact of such a change is not ascertainable, wholly or partly, the fact shall be indicated.

9. Effective Date

This Cost Accounting Standard will be effective from the period commencing on July 1, 2026, for the preparation and certification of General Purpose Cost Accounting Statements.

CASSL 19

JOINT COSTS

The following is the COST ACCOUNTING STANDARD No. 19 (CAS SL 19) issued by the Certified Management Accountants of Sri Lanka on 'JOINT COSTS'. In the standard, the standard portions have been set in **bold** type. This standard should be read in the context of background material, which has been set in regular type.

1. Introduction

The standard deals with the principles and methods of measuring and assigning Joint Costs and the presentation and disclosure in cost statements.

2. Objective

The objective of this standard is to bring uniformity and consistency in the principles, methods of determining and assigning Joint Costs with reasonable accuracy**.**

3. Scope

The standard shall be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of joint costs, including those requiring attestation**.**

4. Definitions

The following terms are being used in this standard with the meaning specified and are given in alphabetical order.

4.1 **By-product: Product with relatively low value produced incidentally in the manufacturing of a product or providing service.**

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

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

4.4 **Joint costs: Joint costs are the cost of common resources used to produce two or more products or services simultaneously.**

4.5 **Joint product: Products or services that are produced simultaneously, by the same process, identifiable at the end of the process and recognized as main products or services having sufficient value.**

4.6 **Scrap: Discarded material having no or insignificant value and which is usually either disposed of without further treatment (other than reclamation and handling) or reintroduced into the process in place of raw material.**

4.7 Split-off point: The point in the production process at which joint products become separately identifiable.

The terms split-off point and separation point are used interchangeably.

4.8 Waste: Material lost during production or storage and discarded material which may or may not have any value.

5. Principles of Measurement

5.1 The principles and methods for measuring joint costs up to the split off point will be the same as stipulated in other cost accounting standards.

5.2 Cost incurred after split-off point on product separately identifiable shall be measured for the resources consumed for each joint/ by-product.

5.3 Cost incurred after splitting off point for further processing of joint product/ by-product shall be the aggregate of direct and indirect costs.

5.4 Cost of further processing of joint product/ by-product carried out by outside parties shall be determined at invoice or agreed upon price including duties and taxes, net of discounts (other than cash discount) taxes and duties refundable or to be credited and other expenditure directly attributable to such processing. This cost shall also include the cost of resources provided to outside parties.

5.5 In case the production process generates scrap or waste, realized or realizable value, net of disposal cost of scrap and waste shall be deducted from the cost of joint product.

5.6 Any subsidy/grant/ incentive or any such payment received/ receivable with respect to any joint product/ by-product shall be reduced for ascertainment of the cost to which such amounts are related.

5.7 Penalties, damages paid to statutory authorities or other third parties shall not form part of the joint product/ by-product.

6. Assignment of Costs

Joint cost incurred shall be assigned to joint products based on benefits received, which is measured using any of the following methods: (a) Physical units method; (b) Net realizable Value- Net selling price per unit multiplied by quantity (quantity sold) while net realizable value is to be adjusted for the post-split off costs; (c) Technical estimates (adopted where the by-product is not saleable in the condition in which it emerges or comparative prices of similar products are not available.

7. Presentation

The cost statement shall present the elementwise cost of individual products produced jointly and the value assigned to by-products.

8. Disclosures

8.1 The cost statement shall disclose the basis of allocation of joint costs to individual products and the value assigned to the by-products.

8.2 The disclosure should be made only where material, significant and quantifiable.

8.3 Disclosures shall be made in the body of cost statements or as a footnote or as a separate schedule.

8.4 Any change in the cost accounting principles and methods applied for the measurement and assignment of the joint costs and the value assigned to by-products during the period covered by the cost statements and has a material effect shall be disclosed. Where the effect of such a change is not ascertainable, wholly or partly, the fact shall be indicated.

9. Effective Date

This Cost Accounting Standard will be effective from the period commencing on July 1, 2026, for the preparation and certification of General Purpose Cost Accounting Statements.

CASSL 20

ROYALTY AND TECHNICAL KNOW-HOW FEE

The following is the Cost Accounting Standard of Sri Lanka No. 20 on 'ROYALTY AND TECHNICAL KNOW-HOW FEE' (CASSL 20) issued by the Institute of Certified Management Accountants of Sri Lanka. In this standard, the standard portions are set in **bold** type. This standard shall be read in the context of the background material, which has been set in regular type.

1. Introduction

1.1 This standard deals with the principles and methods of determining the amount of Royalty and Technical Know-how Fee.

1.2 This standard deals with the principles and methods of classification, measurement and assignment of the amount of Royalty and Technical Know-how fee, for determination of the cost of product or service, and their preservation 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 amount of royalty and technical know-how fee with reasonable accuracy.

3. Scope

This standard should be applied to cost statements, which require classification, measurement, assignment, presentation and disclosure of the amount of royalty and technical know—how fee including those requiring attestation.

4. Definitions

The following terms are being used in this standard with the specified meaning and are given in the alphabetical order.

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

4.2 Imputed costs: Notional cost, not involving cash outlay, computed for any purpose.

4.3 Interest and finance charges: Interest and other costs incurred by an entity in connection with the financing arrangements.

e.g. Interest and commitment charges on bank borrowings, other short term and long term borrowings; financing charges in respect of finance leases and other similar arrangements; and exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest costs.

The terms interest and financing charged, finance costs, and borrowing costs are used interchangeably. 4.4 Royalty: Any consideration for the use of asset (tangible and / or intangible) to the owner.

Royalty is often expressed as a percentage of the revenues obtained by use of the owners' asset (tangible and / or intangible); per unit of production or sales value. It may relate to use of non-renewable resource (petroleum and mineral resources); patents; trademarks; franchise rights; copyrights; art-work; software; and the like.

4.4 Technical service fee: Technical service fee is any consideration payable to provider of technical or managerial services.

5. Principles of Measurement

5.1 Royalty and technical know-how fee paid or incurred in lump-sum or which are in the nature of 'one-time' payment, shall be amortized on the basis of the estimated output or benefit to be derived from the related asset.

e.g. Amortization of the amount of royalty or technical know-how fee paid for which the benefit is ensued in the current or future periods shall be determined based on the production/ service volumes estimated for the period over which the asset is expected to benefit the entity.

5.2 Amount of royalty and technical know-how fee shall not include finance costs and imputed costs.

5.3 Any subsidy/ grant/ incentive or any such payment received/ receivable with respect to amount of royalty and technical know-how fee shall be reduced to measure the amount of royalty and technical know-how fee.

5.4 Penalties, damages paid to statutory authorities or other third parties shall not form part of the amount of royalty and technical know-how fee.

5.5 Credits/ recoveries relating to the amount royalty and technical know-how fee, material and quantifiable, shall be deducted to arrive at the net amount of royalty and technical know-how fee.

5.6 Any change in the cost accounting principles applied for the measurement of the amount of royalty and technical know-how fee 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 organization.

6. Assignment of costs

6.1 Royalty and technical know-how fee that is directly traceable to a cost objecti shall be assigned to that cost object. In case such fee is not directly traceable to a cost object then it shall be assigned on any of the following bases: units produced; units sold; sales value.

6.2 The amount of royalty fee paid for mining rights shall form part of the cost of material.

6.3 The amount of royalty and technical know-how fee shall be assigned on the nature / purpose of such fee.

The amount of royalty and technical know-how fee related to product or process know how it should be treated as cost of production; if it is related to trademarks or brands shall be treated cost of sales.

7. Presentation

The amount of royalty and technical know-how fee shall be presented as a separate cost head with suitable classification.

8. Disclosures

8.1 The cost statements shall disclose the following:

- **The basis of distribution of the amount of royalty and technical know-how fee to the cost objects/ cost units.**
- **Quantity and the related rate of items of the amount of royalty and technical know-how fee, as applicable.**
- **Royalty and technical know-how fee paid/ payable to related parties.**
- **Royalty and technical know-how fee incurred in foreign exchange.**
- **Any subsidy/ grant/ incentive and any such payment reduced from the amount of royalty and technical know-how fee.**
- **Credits/ recoveries relating to the amount of royalty and technical know-how fee.**
- **Penalties and damages excluded from the amount of royalty and technical know-how fee.**

8.2 Disclosures shall be made in he body of the cost statement or as a footnote or as a separate schedule.

8.3 Any change in the cost accounting principles and methods applied for the management and assignment of the amount of royalty and technical know-how fee during the period covered by the cost statement which has a material effect on the amount royalty and technical know-how fee. In case the effect of such change is not ascertainable, wholly or partly, the fact shall be indicated.

9. Effective Date

This Cost Accounting Standard will be effective from the period commencing on July 1, 2026, for the preparation and certification of General Purpose Cost Accounting Statements.

CASSL 21

QUALITY CONTROL

The following is the Cost Accounting Standard of Sri Lanka No. 21 on 'QUALITY CONTROL' (CASSL 21) issued by the Institute of Certified Management Accountants of Sri Lanka. In this standard, the standard portions are set in bold type. This standard shall be read in the context of the background material, which has been set in regular type.

1. Introduction

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

2. Objective

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

3. Scope

The standard shall 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 and are given in the alphabetical order.

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.

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

4.3 Defectives: Materials, products or intermediate products that do not meet quality standards. This may include reworks or rejects.

4.3.1 Rework: 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 Imputed costs: Notional cost, not involving cash outlay, computed for any purpose.

4.5 Interest and finance charges: Interest and other costs incurred by an entity in connection with the financing arrangements.

e.g. Interest and commitment charges on bank borrowings, other short term and long term borrowings; financing charges in respect of finance leases and other similar arrangements; and exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest costs.

The terms interest and financing charged, finance costs, and borrowing costs are used interchangeably.

4.6 Overheads: Comprise costs of indirect material, indirect employees, and indirect expenses.

4.7 Quality: 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 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: Cost of resources consumed towards quality control procedures.

4.10 Scrap: Discarded material having no or significant value and which is usually either disposed off without further treatment (other than reclamation and handling) or reintroduced into the process in place of raw material.

4.11 Waste and spoilage

4.12 Waste: Material lost during production or storage and discarded material which may or not have any value.

4.12.1 Spoilage: Production that does nt meet the quality requirements or specifications and cannot be reflected economically.

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: prevention cost; appraisal cost.

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 based on 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 cpst of the cost object to which such amounts are related.**

5.7 **Any abnormal portion of the quality control cost where its 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 for compliance 1with the requirements of a cost accounting standard, or a change would result in a more appropriate prepartion of cost statements of an organization.**

6. Assignment of costs

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

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

Benefits received- Quality control cost is to be apportioned to the various cost objects in proportion to the benefits received by them.

e.g. Based on number of tests performed for a product.

7. Presentation

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

8. Discclosures

8.1 The cost statements shall disclose the following:

- **The basis of distribution of quality control cost to the cost objects/ cost units.**
- **Quantity and cost of resources used for quality control cost as applicable.**
- **Quality control cost paid/ payable to related parties.**
- **Quality control cost incurred in foreign exchange.**
- **Any abnormal portion of the quality control cost.**
- **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 fot note or as a separate schedule.

8.4 Any change in the cost accounting principle 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. In case the effect of such change is not ascertainable wholly or partly the fact shall be included.

9. Effective Date

This Cost Accounting Standard will be effective from the period commencing on July 1, 2026, for the preparation and certification of General Purpose Cost Accounting Statement.

CASSL 22

MANUFACTURING COST

The following is the COST ACCOUNTING STANDARD No. 22 (CASSL 22) issued by the Certified Management Accountants of Sri Lanka on 'MANUFACTURING COST'. In the Standard, the standard portions have been set in **bold** type. This standard should be read in the context of background material, which has been set in regular type.

1. Introduction

1.1 This standard deals with the principles and methods of determining the Manufacturing Cost of goods.

1.2 This standard deals with the principles and methods of classification, measurement, and assignment for the determination of the manufacturing cost of goods and the presentation and disclosure in cost statements.

1.3 This is an adapted version to cover goods in general while the original (Indian) version deals exclusively with excisable goods.

2. Objective

The objective of this standard is to bring uniformity and consistency in the principles and methods of determining the manufacturing cost of goods.

3. Scope

This standard should be applied to cost statements which require classification, measurement, assignment, presentation, and disclosure of the manufacturing cost of goods.

4. Definitions

The following terms are being used in this standard with the meaning specified and are given in an alphabetical order.

4.1 Abnormal and non-recurring 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.

4.2 Administrative overheads: Cost of all activities relating to general management and administration of an organization.

4.3 Captive consumption: Captive consumption means the consumption of goods manufactured by one division or unit and consumed by another division or unit of the same organization or related undertaking for manufacturing another product.

4.4 Defectives: Materials, products or intermediate products that do not meet quality standards. This may include reworks or rejects. Reworks are defectives which can be brought up to the required quality standards by putting in additional resources. Rejects are defectives which cannot meet the required quality standards even after putting in additional resources.

4.5 Depreciation: Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

4.6 Direct expenses: Expenses relating to manufacture of a good, which can be identified to such goods other than direct material cost and direct employee cost.

4.7 Employee cost: Benefits paid or payable for the services rendered by employees (including temporary, part-time and contract employees) of an entity.

4.8 Interest and finance cost: Costs incurred by an enterprise in connection with the borrowing of funds.

4.9 Manufacturing cost: Manufacturing cost of a good is the aggregate of costs of all resources used in the process of its manufacturing.

Manufacturing cost includes cost of materials (including processing materials), employee cost, cost of utilities, packing cost, direct expenses, repairs & maintenance cost, pollution control cost, quality control cost, research and development cost, cost of inputs received free of cost or received at concessional value from the user of the good, Depreciation and amortization, (including amortization cost of free tools, patterns, dies, drawings, blue prints, technical maps, charts, engineering, development, art work, design work, plans, sketches, packaging material and the like necessary for production of goods), cost of rework, reconditioning retro-fitment, manufacturing overheads, other costs allocable to such activity, adjustment for stock of work in progress and recoveries for sales of scrap, and wastages and the like but does not include expenses of the above nature incurred for post manufacturing purposes.

Manufacturing cost and cost of production are used interchangeably.

4.10 Manufacturing overheads: Indirect costs involved in the manufacturing process.

The terms manufacturing overheads, factory overheads, works overheads and production overheads have the same meaning and are used interchangeably. Manufacturing overheads shall include administration cost relating to production, factory, works or manufacturing and depot. Manufacturing overheads shall be classified based on behaviour as variable manufacturing overheads and fixed manufacturing overheads. Variable manufacturing overheads comprise expenses which vary in proportion to the change in volume of production. E.g. cost of utilities. Fixed manufacturing overheads comprise expenses which do not vary in proportion to the change in volume of production. E.g. salaries, rent, repairs & maintenance.

4.11 Material consumed: Material consumed includes materials directly identified for production of goods such as indigenous materials, imported materials, bought out items. self-manufactured items, process materials and other items, materials received free of cost or at concessional value from the buyer, accessories, goods used for providing free warranty for goods.

Cost of material consumed consists of the cost of material, duties and taxes, freight inwards, insurance, and other expenditure directly attributable to procurement. Trade discounts, rebates, and other similar items are deducted to determine the cost of materials. Sales tax set off, VAT, duty drawback, and other similar duties subsequently recovered / recoverable by the entity are also deducted.

4.12 Normal capacity: Production achieved or achievable on average over a period or season under normal circumstances, taking into account the loss of capacity resulting from planned maintenance.

4.13 Packing material cost: The cost of material of any nature used for the purpose of packing of the good.

4.14 Quality control cost: Expenses incurred relating to quality control activities for adhering to the quality standard. These expenses include salaries and wages relating to employees engaged in quality control activity and other related expenses.

4.15 Repairs and maintenance cost: Cost of all activities which have the objective of maintaining or restoring an asset in or to a state in which it can perform its required function at intended capacity and efficiency.

4.16 Research and development Cost: Cost incurred for development and improvement of the process or the good.

4.17 Royalty: Compensation/ periodic payments for the use of asset (tangible and/ or intangible) to the owner for use of his asset in the production/ manufacture, selling and distribution by an entity.

4.18 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.

4.19 Technical know-how fee: A lump sum or periodical amount payable to the provider of technical know-how in the form of design, drawings, training of personnel, or practical knowledge, skills or experience.

4.20 Spoilage: Production that does not meet the quality requirements or specifications and cannot be rectified economically. Net spoilage is the difference between costs accumulated up to the point of rejection and the salvage value.

4.21 Wastage: Material lost 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 any value.

5. Principles of Measurement

5.1 Manufacturing cost for goods shall be measured for each type of goods separately.

5.2 Manufacturing cost of each type of goods shall be the aggregate of direct and indirect cost relating to manufacturing activity.

5.3 Material cost shall be measured separately for each type of material, that is, for indigenous material, imported material, bought out components and process materials, self- manufactured items, accessories for each type of goods. Further, Agricultural produce harvested for a biological asset should inevitably be made at its fair values less cost to sell at the point of harvest.

5.4 The material cost of normal scrap/ defectives which are rejects shall be included in the material cost of each type of goods manufactured. The material cost of actual scrap/ defectives, not exceeding the normal quantity, shall be adjusted in the cost of good production. Realized or realizable value of scrap or waste shall be deducted for determination of manufacturing cost. Material cost of abnormal scrap/ defectives shall not be included in material cost but treated as loss after deducting the realizable value of such scrap/ defectives.

5.5 Employee cost for goods shall be measured for each type of goods separately.

5.6 The cost of utilities consumed for manufacturing goods shall be measured for each type of utility.

5.7 Packing material cost used for each type of goods shall be measured separately.

If goods are transferred/ dispatched duly packed, the cost of such packing shall include all types of packing in which each type of goods are removed from the place of removal.

5.8 The direct expense for manufacturing goods shall be measured for each type of goods separately.

5.9 Repairs and maintenance cost for manufacturing goods shall be measured for each type of goods separately.

5.10 Depreciation and amortization cost for manufacturing goods shall be measured for each type of goods separately.

5.11 Research and development cost for manufacturing goods shall be measured for each good separately.

5.12 Cost incurred for manufacturing goods after split-off point shall be measured for each joint/ by product.

In case where the manufacturing process generates scrap or wase, realized or realizable value net of cost of disposal, of such scrap and waste shall be deducted from the cost of joint/ by product.

5.13 Royalty and technical know-how fee for manufacturing of goods paid or incurred in lumpsum or which are 'one-time' payment, shall be amortized on the basis of the estimated output or benefit to be derived from the related technical know-how.

Royalty paid on sales shall not form part of the manufacturing cost of goods.

5.14 Quality control cost incurred in-house for manufacturing goods shall be the aggregate of the cost of resources used in the quality control activities in relation to each type of good. 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, taxes and duties refundable or to be credited as input credit.

5.15 Manufacturing overheads for goods representing procurement of resources shall be determined on the invoice or agreed upon including duties and taxes, and other expenditure directly attributable thereto net of discounts, taxes and duties refundable or to be credited as input credit.

Manufacturing overheads other than those referred to above shall be determined based on cost incurred in connection therewith.

5.16 Any abnormal cost, which is material and quantifiable, shall not form part of the manufacturing cost of goods.

5.17 Interest and other finance costs are not part of manufacturing cost of goods

5.18 Any subsidy/grant/ incentive or any such payment received/ receivable, from other entity other than the buyer with respect to any manufacturing cost of good shall be deducted for ascertainment of the manufacturing cost of good to which such amounts are related.

5.19 The manufacturing cost of goods 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.

5.20 Fines, penalties, damages, demurrage and similar levies paid to statutory authorities or other third parties shall not form part of the manufacturing cost of goods. cost.

5.21 The forex component of imported material or other element of cost shall be converted at the rate on the date of transaction. Any subsequent change in the exchange rate till payment or otherwise shall not form part of manufacturing cost of goods.

5.22 Credits/ recoveries relating to the manufacturing cost, which are material and quantifiable, shall be deducted from the total manufacturing cost to arrive at the net manufacturing cost of e goods.

5.23 Work in process/ progress stock shall be measured at cost computed for different stages of completion.

Stock of work-in-process shall be valued at cost based on stages of completion as per cost accounting principles. Opening and closing stock of work-in-process/ progress shall be adjusted for computation of manufacturing cost of any type of good.

6. Assignment of Costs

6.1 While assigning various elements of manufacturing cost of goods, traceability to a good in an economically feasible manner shall be the guiding principle. The cost which can be traced directly to each type of goods shall be directly assigned.

6.2 Assignment of manufacturing cost of goods, which are not directly traceable to the good, shall be based on either of the following two principles:

6.3 Cause and effect: Costs are to be apportioned based on the cause of the cost. Herein, the process/ operation/ activity is the cause for the cost while its incurrence is the effect.

6.4 Benefits received: Overheads are to be apportioned in proportion to the benefits received by the cost objects.

6.5 The variable manufacturing/ production overheads shall be absorbed based on actual production.

6.6 The fixed manufacturing/ production overheads and other similar items of fixed costs such as quality control cost, research and development costs and administrative overheads relating to manufacturing shall be absorbed in the manufacturing cost based on the normal capacity or actual capacity utilization of the plant, whichever is higher.

6.7 In case a production process results in more than one product being produced simultaneously, treatment of joint products and by-products shall be as follows:

a. **Incase joint products are produced; joint costs are allocated between the products on a rational and consistent basis.**

b. **In case by-products are produced, the net realizable value of by-products is credited to the manufacturing cost of the main product.**

6.8 Miscellaneous i ncome relating to production/ manufacture shall be adjusted in the determination of manufacturing cost.

7. Presentation

7.1 The cost statement as per Appendix 1 to this standard or as near thereto shall present the following information.

7.1.1 Actual capacity utilization in absolute terms and as a percentage of normal capacity.

7.1.2 Cost information relating to various elements of cost shall be presented separately.

8. Disclosures

8.1 Disclosure shall be made only where material, significant and quantifiable.

8.2 If there is any change in cost accounting principles and practices during the period under review which may materially affect the manufacturing cost of goods in terms of comparability with previous period(s), the same shall be discussed.

9. Effective Date

This Cost Accounting Standard will be effective from the period commencing on July 1, 2026, for the preparation and certification of General Purpose Cost Accounting Statements.

Appendix I/ Specimen

Cost Sheet showing Manufacturing Cost of Product for____________________

	Name of the Manufacturer		
	Address of the Manufacturer		
	Name of the unit		
	Address of the unit		
A	**Quantitative Information**	**Unit**	**Quantity**
1	Normal/Installed Capacity		
2	Production		
3	Captive Consumption		
4	Production as % of Normal/ Installed Capacity		

B	**Cost Information**	**Unit**	**Quantity**	**Rate**	**Amount**	**Cost/ Unit**
	Materials					
1	A.					
	B.					
	C.					
	D.					
	Total Materials Consumed					
2	Process Materials					
3	Utilities					
4	Direct Employee Cost					
5	Direct Expenses					
6	Consumable Stores and Spares					
7	Repairs and Maintenance Cost					
8	Quality Control Cost					
9	Research & Development Cost					
10	Royalty/ Technical Know-how Fee					
11	Depreciation/Amortization					
12	Other Manufacturing Overheads					
13	Total (1 - 12)					
14	Add/ Less Work-in-Progress					
15	Less Credit for Recoveries					
16	Primary Packing Material Cost					
17	Cost of Inputs Received Fre or at Concessional Value					
18	**Manufacturing Cost**					

Presentation and Disclosure Requirements Across Standards

Presentation and disclosure requirements of different stakeholders differ. The presentation requirements of cost information for statutory purposes are laid down in the recoding rules. Similarly, the requirements of reporting for regulatory purposes are laid down by the regulatory agencies. Further, managements stipulate the presentation formats for managerial purposes. It is therefore not considered necessary to lay down model statements or formats of presentation requirements. It will, however, be appropriate to give disclosure practices which are generally applicable across standards.

i. Cost statements must contain, besides total cost, unit cost per unit of output.

ii. Output quantities with the unit of measure must appear in the cost statements.

iii. Input costs are best broken up as quantity and rate.

iv. The basis of valuation of inputs must be stated.

v. The basis of distribution of cost to cost objects or cost centres must be disclosed.

vi. Costs incurred in foreign currency must be stated separately.

vii. Any cost that is excluded must be disclosed.

viii. Any credits or recoveries netted against cost must be shown separately.

ix. Transactions with related parties must be highlighted or disclosed.

x. Cost elements, which are material for a product or activity, must be disclosed separately.

xi. Cost details of all ancillary products or activities may be maintained under a miscellaneous group and disclosed appropriately.

xii. Changes in the costing principles and methods applied must be disclosed with the accompanying effect.

Further Applications

A brief note on the application of Cost Accounting Standards on Excisable Goods, Customs Duty, and Transfer Pricing follows. They will be dealt with in detail in separate schedules to be published in due course.

Application of Cost Accounting Standards on Excisable Goods

The Sri Lankan Excise Ordinance empowers authorities to impose excise duties on manufactured goods (e.g. alcoholic beverages). Under the Ordinance levies are imposed computed on the precise quantity of materials used or the specific degree of attenuation during production. The implementation of CASSL enhances the administration of these regulations by providing a reliable, standardized framework for quantifying underlying manufacturing metrics.

Accommodating excisable goods under CASSL 22: Manufacturing Cost

CASSL 22: Manufacturing Cost is designed to govern the determination of the manufacturing cost of goods in general. The standard mandates a uniform method for aggregating the cost of all resources to be accurately measured. By providing strict guidelines on handling abnormal costs, scrap, and the valuation of work-in-progress, CASSL 22 eliminates arbitrary cost allocations. This guarantees that any excise valuation dependent on material utilization or production cost is derived from an honest, consistent, and comparable data base.

CASSL 22 directly bridges cost accounting with excise compliance through a specialized 'Cost Statement showing Manufacturing Cost' tailored specifically for excisable goods. This schedule integrates regulatory requirements into the entity's Cost Sheet by including the **Excise Registration Number**, the **Central Excise Tariff Heading** (at the beginning) and **Inputs Received Free or at Concessional Value from the Buyer of the Excisable Good** as the last cost item prior to displaying the Manufacturing Cost. Refer to Appendix II.

By standardizing these records, the CASSL framework empowers manufacturers to substantiate their production costs with objective data. Simultaneously, it equips the Department of Excise with transparent, auditable cost sheets, thereby minimizing valuation disputes through streamlining the enforcement of excise regulations.

Application of Cost Accounting Standards on Customs Duty Valuation

The implementation of CASSL plays a pivotal role in streamlining customs duty regulations, particularly concerning accurate valuation of imported goods. Under Schedule E of the Sri Lankan Customs Ordinance, duties are primarily assessed on the transaction value of the goods. However, when the transaction value cannot be determined, customs authorities rely on alternative methodologies, such as the Computed Value Method. CASSL provides an essential framework to ensure these complex computations are accurate, transparent, and standardized as shown below.

Strengthening the Computed Value Method

Article 6 of Schedule E directs that the computed value must aggregate the cost of materials, fabrication, and other processing costs employed in producing the imported goods, alongside general expenses and profit. CASSL 22: (Manufacturing Cost) and CASSL 6: Material Cost establish uniform guidelines for identifying, measuring, and classifying these expenditures. By adhering to these standards, importers and manufacturers can present a highly reliable, mathematically sound cost base that aligns seamlessly with the customs authorities' requirements for computed valuation.

Substantiating statutory additions

In addition, Article 8 of Schedule C mandates specific additions to the price actually paid or payable, notably including the cost of packing (both material and labor) and any royalties or license fees related to the goods. The CASSL framework explicitly addresses these elements: CASSL 9: Packing Material Cost governs the precise measurement and assignment of primary and secondary packing costs. Similarly, CASSL 20: Royalty and Technical Know-How Fees direct standardized accounting treatment for royalty and technical know-how fees.

Facilitating compliance and auditability

Ultimately, applying CASSL ensures that the cost sheets presented to Sri Lanka Customs are consistent and comparable across different periods and entities. This standardized approach eliminates arbitrary internal cost allocations, empowering importers to confidently substantiate their customs declarations with objective data. Consequently, the adoption of CASSL significantly reduces the risk of valuation disputes and penalties, facilitating a smoother, more transparent customs clearance process.

Application of Cost Accounting Standards on Transfer Pricing

Transfer pricing (TP) regulations in Sri Lanka mandate that transactions between associated enterprises be conducted in accordance with the arm's length principle. The implementation of the CASSL significantly strengthens TP compliance by providing a standardized rule book that keeps organizational cost data reliable, consistent, and comparable and provides the following enhancements and value additions.

Enhancing cost-based Transfer Pricing Methods

Several of the prescribed TP methodologies rely fundamentally on accurate cost ascertainment. For instance, the Cost-Plus Method (CPM) determines the arm's length price by applying an appropriate gross profit markup to the direct and indirect production costs incurred during a controlled transaction. Similarly, the Transactional Net Margin Method (TNMM) evaluates net profit margins relative to a specific base, which often includes costs. CASSL establishes uniform guidelines for measuring and assigning crucial cost elements, including material costs, employee costs, production overheads, and capacity determination. This structural uniformity ensures that the underlying cost bases used in CPM and TNMM calculations are accurate and derived systematically.

Improving comparability analyses

In order to accurately determine an arm's-length price, TP regulations require adjustments for functional differences, including those in accounting practices that could materially affect profit margins. By standardizing cost accounting practices across organizations, CASSL minimizes arbitrary internal cost allocations, thereby enhancing the reliability of comparability analyses between controlled and uncontrolled transactions.

Facilitating statutory documentation and auditability

Sri Lankan TP regulations require taxpayers to maintain extensive documentation, including a Local File that must include allocation schedules showing how the financial data used in the TP methodology ties back to the annual financial statements. The transparent cost records generated through CASSL compliance allow organizations to seamlessly substantiate these schedules. Ultimately, the rigorous application of CASSL empowers enterprises to justify their transfer pricing policies with reliable data, thereby reducing the risk of tax adjustments and stringent non-compliance penalties.

SECTION 5

The Cost Sheet

The Cost Sheet is the outcome of the process of cost accounting that involves collecting, recording, organizing, and synthesizing cost data, giving rise to an informative document of cost information. Cost Statement, a related term, is often claimed to be synonymous with the Cost Sheet. Though technical differences do exist between a Cost Sheet and Cost Statement, they will be taken as synonymous and the term Cost Sheet will be used through the section.

The cost sheet constitutes a detailed document that outlines the total cost associated with manufacturing a product, rendering a service, accomplishing a job, completing a project, or any such endeavour. It will be prepared either in the aftermath of the event (costs incurred)- historical cost sheet, or prior to the event (estimated costs)- estimated cost sheet. Further, the cost sheet is designed to illustrate a consecutive buildup of cost components organized in a logical manner. It also contains value adding columns such as per unit costs and other similar indicators which enhance understandability of related costs. The associated time span of the cost sheet depends on the nature of the event concerned such as monthly, annually, or even completion of the project/ job. Overall, it is a creative display of costs that brings a variety of benefits to users.

Salient benefits of the cost sheet that will arise through use of historical and estimated cost sheets, as relevant.

- Reveals the total cost and cost per unit, the starting point for managing costs.
- Gives intermediary cost information such as prime cost, factory cost, etc. in absolute as well as efficiency ratio terms, that dissects the total cost into its causes.
- Determines selling price through adding suitable profit mark-ups to stay competitive.
- Assists in decision making over a wide range of applications such as resources (material, labour and expenses, and special decision making situations (e.g. manufacture vs. purchase of components etc.)
- Enables cost comparison through perusing information of prior periods (available in the cost sheet) and tracking expenses for cost control and cost reduction purposes.
- Supports the tender procedure where bids are invited from prospective applicants for various supplies with the cost information providing the base-level information for the comparisons.

Cost Sheets vs. Financial Statements

Ambiguity exists on the nature and the purpose of the cost sheet in comparison with financial statements. It is imperative that such doubts are dispelled. Refer to the Table.

Table: Difference between Cost Sheet and Financial Statement

	Cost Sheet	**Financial Statement**
Meaning	A cost sheet is a financial document that provides details of cost that the business has incurred/ or incur in producing a particular product during a specific period.	A financial statement is a formal record of the financial activities of a business that produces an overview of the financial conditions.
Emphasis	Cost ascertainment and control.	Determination of financial performance and health of the entity.
Basis	Actual (historic) cost or estimated cost basis	Based on actual figures at the end of the year.
Tenders and quotations	Used for submitting tenders and quotations.	Plays no role.
Time period	For a specific period such as daily, weekly, monthly, years or for a job.	Annual basis.
Users	Largely for internal users	Largely for external users such as investors, shareholders and the government.

It follows that the differences between the cost sheet and the financial statements will give rise to different profit figures as per the two documents. These shall be reconciled through a Statement of Reconciliation. Please see Specimen III.

Sector-wise Cost Sheets

The structures of cost statements vary across sectors. The differences in operational details among sectors (e.g. manufacturing vs. hospitality) give rise to such variations. Further, even within a given sector (e.g. manufacturing) variations exist among sub sectors. As such, the cost sheet of the confectionary industry will differ from those of the plantation, steel, or construction industries. It follows that purposeful comparison and use of cost information requires designing of cost sheets for critical sectors and subsectors of the economy.

The Cost Sheets that follow pertain to the manufacturing sector in general.

Specimen 1: Format of Cost Sheet for a Manufacturing Entity (Basic)

Specimen II: Format of Cost Sheet for Manufacturing Entity (Detailed)

Specimen III: Reconciliation between Profits as per Cost Statement and Financial Statement.

Specimen 1

Format of Cost Sheet for a Manufacturing Entity (Basic)

Cost Sheet for the period …….

Particulars	**Total cost**	**Cost per unit**
Direct Material Direct Labour Direct Expenses		
Prime Cost		
Add: Manufacturing Overheads Add/ Less WIP		
Manufacturing Cost		
Add: Administration Overheads		
Add/ Less: Finished Goods		
Cost of Production of Goods Sold		
Add: Selling and Distribution Costs		
Add: Financial Costs		
Total Cost		
Add: Profit		
Net Sales (Net of Taxes and Duty)		

Specimen II

Format of Cost Sheet for a Manufacturing Entity (Detailed)

Cost sheet for the period…….

	Particulars	Unit of Measurement	Quantity	Current Year		Previous Year		Current Year	Previous Year
				Amount	Rate Per Unit	Amount	Rate Per Unit	% on Sales	% on Sales
1	Materials Consumed								
2	Process Materials/ Chemicals								
3	Utilities								
4	Direct Employee Cost								
5	Direct Expenses								
6	Consumable Stores and Spares								
7	Repairs & Maintenance								
8	Quality Control Expenses								
9	Research & Development Expenses								
10	Royalty/ Technical Know-how fee								
11	Depreciation / Amortization								
12	Other Manufacturing Overheads								
13	Total (1 to 12)								
14	Add/Less: Work-in-Progress								
15	Less: Credits for Recoveries								
16	Primary Packing Cost								
17	Cost of Inputs Received Free or at Concessional Value								
18	Manufacturing Cost								
19	Administrative Overheads								
20	Secondary Packing Cost								
21	Less: Self/ Captive Consumption (Including Samples, etc.)								
22	Other Adjustments								
23	Add/ Less: Finished Goods								
24	Cost of Production of Goods Sold [18+ (19 to 23)}								
24	Selling and Distribution Overheads:								
25	Interest & Financing Charges								
26	Total Cost [23 + (24 to 25)]								
27	Net Sales (Net of Taxes and Duty)								
28	Margin [Profit/ Loss as per Cost Accounts] (27-26)								

Specimen III

Reconciliation between Profits as per Cost Sheet and Financial Statements

Particulars	**Current year (Rs.)**	**Previous year (Rs.)**
Profit as per the Cost Sheet		
Add/ Less Difference in inventory Valuation between Cost and Financial accounts		
Profit after difference in inventory valuation		
Add: Income not considered in cost accounts **Less:** Expenses not considered in cost		
Profit as per the Financial Statement		

SECTION 6

Implementation Aspects

This section, supplementary to the core areas presented, gives, in point form, the activities associated with the process of costing, and preparation and using cost sheets. These take place in the wider context of operationalizing a cost accounting system. It is expected that practitioners abide by the items in the check list as they prepare to apply cost accounting standards in their organizations for an era of more responsible costing.

The activities are outlined under two phases, *planning* and *execution* for convenience in comprehending.

Planning

- Focus on the underlying business proposition of the organization.
- Clarify the objectives of the costing exercise such as pricing, cost control, benchmarking, statutory reporting, product profitability, or decision support.
- Decide on an appropriate cost model based on the organization structure, functions and operations.
- Define the elements associated with the cost model: cost units, cost centres, and cost functions.
- Establish the costing policies to be followed for classification of costs, treatment of abnormal costs, materiality thresholds, valuation methods, and disclosure requirements.
- Identify the major cost drivers and select preliminary bases for allocation, apportionment, and absorption of overheads.
- Be inspired and guided by the value chain of the business.
- Map the end-to-end operating process, including interfaces among departments, support functions, shared services, and outsourced activities.
- Design the cost accounting system in terms of activities, flow of information, levels of responsibility, and channels of accountability.
- Align the chart of accounts, cost codes, and source documents with the requirements of the cost accounting system.
- Decide on the degree of automation and associated costs such as setting up costs, operating expenses, staff training expenditure, etc.
- Determine the cost flows covering the operating system.
- Develop standard formats for data capture, cost accumulation, allocation sheets, reconciliation schedules, and periodic cost statements.

- Undertaking pilot testing or trial runs to assess practicality, data availability, and behavioural implications before full-scale implementation.
- Fix reporting timelines, review calendars, authorization levels, and document retention responsibilities.

Execution

- Collect cost data from various sources of origin.
- Validate the completeness, accuracy, and timeliness of source data before processing.
- Categorize cost data.
- Assign direct costs and accumulate indirect costs in the appropriate cost centres.
- Summarize cost data, complying with cost accounting standards.
- Apply approved bases for distribution, apportionment, absorption, and cost assignment on a consistent basis.
- Prepare reconciliation schedules between cost records and financial records wherever necessary.
- Make cost information known at different levels of responsibility and accountability.
- Preparation of cost sheets/ cost statements.
- Review exceptions, abnormal costs, under-absorption or over-absorption, and significant variances requiring management attention.
- Analyzing cost statements; making relevant inferences and decisions.
- Use cost information for pricing, budgeting, process improvement, benchmarking, and performance evaluation.
- Staff and employee involvement in rectifying shortcomings.
- Feedback at different levels.
- Preparedness for cost audits.
- Maintain working papers, allocation notes, assumptions, and evidence trails to support transparency and auditability.
- Review of cost accounting systems on a periodic basis.
- Update cost drivers, cost centres, formats, and system parameters when there are changes in products, processes, technology, or organization structure.
- Make necessary adjustments and improvements to the cost accounting system

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APPENDIX I

Glossary of Selected Cost Terms

The definitions of elements of cost that appear in the *Generally Accepted Cost Accounting Principles* followed by *Cost Accounting Standards* are given below, given in alphabetical order. The glossary is confined to aforesaid terms.

Abnormal cost: An unusual cost or a typical cost whose occurrence is usually irregular and unexpected and/ emerge owing to some abnormal situation of the production or operation.

Abnormal idle time: An unusual or atypical idle time occurrence of which is irregular and unexpected or owing to some abnormal situations.

Absorption of production or operations overheads: Assigning of production or operations overheads to cost objects by means of appropriate absorption rates.

Achievable or practical capacity: Practical or achievable capacity is the maximum productive capacity reduced by the predictable and unavoidable factors of interruption pertaining to internal causes.

Actual capacity utilization: Actual capacity utilization is the volume of production achieved, or service rendered in a specific period, expressed as a percentage of installed capacity.

Administrative overheads: Cost of all activities relating to the general management and administration of an entity.

Amortization: The systematic allocation of the depreciable amount of an intangible asset over its useful life.

Asset: An asset is a resource controlled by an entity because of past events; and from which future economic benefits are expected to flow to the entity.

Bottleneck: Refers to an obstruction that hinders or restricts the workflow, thereby constraining capacity of production/ rendering of services within a business.

By-product: Product with relatively low value produced incidentally in the manufacturing of a product or providing service.

Captive consumption: Captive consumption means the consumption of goods manufactured by one division or unit and consumed by another division or unit of the same organization or related undertaking for manufacturing another product.

Classification of cost: Classification of cost is the arrangement of items of cost in logical groups having regard to their nature (subjective classification) and purpose (objective classification).

Conversion cost: Conversion cost is the production cost excluding the cost of direct materials.

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

Cost centre: Any unit of an entity selected with a view to accumulating all cost under that unit. The unit can be a division, department, section, group of plant and machinery, group of employees, or combination of several of them.

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

Cost of production: Cost of production of a product or a service consists of cost materials consumed, direct employee costs, direct expenses, production overheads, quality control costs, packing costs, research and development costs, and administrative overheads relating to production.

Cost of transportation: Cost of Transportation comprises of the cost of freight, cartage, transit insurance, and cost of operating fleet, and other incidental charges whether incurred internally or paid to an outside agency for transportation of goods but does not include detention and demurrage charges.

Cost unit: A form of measurement of volume of production of a product or a service.

Current asset: An entity shall classify an asset as current when it expects to realize the asset, or intends to sell or consume it, in its normal operating cycle; holds the asset primarily for the purpose of trading; expects to realize the asset within twelve months after the reporting period; and the asset is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities: An entity shall classify a liability as current when it expects to settle the liability in its normal operating cycle; it is a liability primarily for the purpose of trading; the liability is due to be settled within twelve months after the reporting period or It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

Defectives: Materials, products or intermediate products that do not meet quality standards. This may include reworks or rejects.

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

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

Depreciation: Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Depreciable amount: The cost of an asset, or other amount substituted for cost in the financial statement, less its residual value.

Depreciable property, plant and equipment: Tangible assets that are used in the production of goods or supply of services; for rental to others; for administrative selling or distribution purposes; and expected to be used during more than one accounting period.

Development cost: Cost for application of research findings or other knowledge to a plan or design to produce new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.

Direct employee cost: Employee costs, which can be attributed to a cost object in an economically feasible way.

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.

Direct materials: Materials, the cost of which can be attributed to a cost object in an economically feasible way.

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

Employee cost: Benefits paid or payable for the services rendered by employees (including temporary, part-time and contract employees) of an entity.

Excess capacity utilization: The difference between installed capacity and the actual capacity utilization when the latter is greater than the former.

Fixed costs: Costs which do not vary with the change in the volume of activity. Fixed indirect costs are termed fixed overheads.

Idle capacity: The difference between installed capacity and the actual capacity utilization when latter is less than the former.

Idle time: The difference between the time for which employees are paid/ payable to employees and employees' time booked for cost objects.

Impairment loss: The amount by which the carrying amount of an asset exceeds its recoverable amount.

Imputed costs: Notional cost, not involving cash outlay, computed for any purpose.

Installed capacity: Maximum capacity for producing goods or providing services, according to the manufacturer's specifications or determined through an expert study.

Indirect employee cost: Employee cost which cannot be directly attributed to a particular cost object.

Indirect expenses: Expenses, which cannot be directly attributed to a particular cost object.

Indirect materials: Materials, the cost of which cannot be directly attributed to a particular cost object.

Indirect material cost: Material cost that cannot be directly attributed to a particular cost object.

Intangible asset: An identifiable non-monetary asset without physical existence (substance).

Interest and finance charges: Interest and other costs incurred by an entity in connection with financing arrangements.

Intermediate product: An intermediate product is a product that requires further processing before it is saleable.

Joint costs: Joint costs are the cost of common resources used to produce two or more products or services simultaneously.

Joint product: Products or services that are produced simultaneously, by the same process, identifiable at the end of the process and recognized as main products or services having sufficient value.

Licensed capacity: The capacity to provide goods or provide services for which license has been issued by an appropriate authority.

Manufacturing cost: Manufacturing cost of an excisable good is the aggregate of costs of all resources used in the process of its manufacturing**.**

Marketing overheads: This comprises selling overheads and distribution overheads.

Material cost: Cost of material used for production of a product or rendering a service.

Material Consumed: Material consumed includes materials directly identified for production of excisable goods such as indigenous materials, imported materials, bought out items. self-manufactured items, process materials and other items, materials received free of cost or at concessional value from the buyer, accessories, goods used for providing free warranty for excisable goods.

Net current asset: Net current asset is the excess of current assets over current liabilities.

Normal capacity: The production achieved or achievable on average over several periods or seasons under normal circumstances taking into account the losses of capacity resulting from planned maintenance.

Overheads: Overheads comprise costs of indirect material, indirect employees and indirect expenses.

Overtime premium: The extra amount payable beyond the normal wages and salaries for work performed beyond the normal working hours.

Packing materials: Materials used to hold, identify, describe, store, protect, display, transport, promote, and make the product marketable**.**

Packing material cost: The cost of material of any nature used for the purpose of packing a product.

Packing material development cost: Cost of evaluation of packing material such as pilot tests, field tests, consumer research, and feedback.

Prime cost: The aggregate of direct material cost, direct employee cost, and direct expenses.

Primary packing material: Packing material which is essential to hold and preserve the product for its use by the customer.

Production overheads: Indirect costs involved in the production of a product or in rendering a service.

Property, plant and equipment: Tangible assets that are held for use in the production of goods or for rendering of services, for rental to others, for administrative, selling or distribution purposes and expected to be used for more than one accounting period.

Quality control cost: Expenses incurred relating to quality control activities for adhering to the quality standard. These expenses include salaries and wages relating to employees engaged in quality control activity and other related expenses.

Repairs and maintenance cost: Cost of all activities which have the objective of maintaining or restoring an asset in or to a state in which it can perform its required function at intended capacity and efficiency.

Research cost: Cost of original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

Residual (salvage) value: The estimated amount that an entity would currently obtain from disposal of an asset, after deducting the estimated costs of disposal, if the assets were already of the age and in the condition expected at the end of its useful life.

Reusable packing material: Packing material that are used more than once to pack the product.

Royalty: Compensation/ periodic payments for the use of asset (tangible and/ or intangible) to the owner for use of his asset in the production/ manufacture, selling and distribution by an entity.

Secondary packing material: Packing material that enables to store, transport, inform the customer, promote and otherwise make the product marketable.

Selling overheads: Selling overheads (marketing and distribution costs) are the expenses related to sale of products or services and include all indirect expenses incurred in selling the products or services.

Semi-variable costs: Costs that contain both fixed and variable elements. They partly change with the change in the level of activity.

Scrap: Discarded material having no value or an insignificant value and which is usually either disposed of without further treatment (other than reclamation and handling) or reintroduced into the process in place of raw material.

Split-off point: The point in the production process at which joint products become separately identifiable.

Spoilage: Production that does not meet the quality requirements or specifications and cannot be rectified economically.

Standard cost: A pre-determined cost of a product or service based on technical specifications and efficient operating conditions.

Support-service cost centre: A cost centre which primarily provides auxiliary services across the entity.

Standard cost: A pre-determined cost of a product or service based on technical specifications and efficient operating conditions.

Technical know-how fee: A lump sum or periodical amount payable to the provider of technical know-how in the form of design, drawings, training of personnel, or practical knowledge, skills or experience.

Useful life (asset): It is either the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from use of the asset by the entity.

Variable costs: Costs that tend to directly vary with the volume of activity.

Wastage: Material lost during production or storage and discarded material which may or may not have any value.

APPENDIX II

Application Guidance

Additional notes and impressions of a random nature that are of practical relevance when dealing with elementwise generally accepted cost accounting principles are given in this appendix.

Material Cost

i. Under the cost accounting record rules, the cost of purchased material is reckoned to include 'direct charges up to works'. The term 'works' can be taken to mean any place of operations.

ii. The direct charges include: (a) in the case of indigenous material, the invoice cost, freight, transit insurance, loading and unloading charges; (b)in the case of imported material, they include the FOB value, overseas freight, insurance, customs duty, cleaning charges, inland freight, etc.

iii. Demurrage charges or detention charges at port or by carrier or penalty levied by them are not treated as cost, being abnormal cost.

iv. Penalties levied by tax authorities such as customs, excise sales tax authorities on consignments of goods are not treated as cost.

v. Taxes for which the buyer gets credit like VAT, countervailing import duty are excluded from cost.

vi. Purchase tax is sometimes levied by the state Governments on inputs with or without relief against tax payable on sale. Such tax is to be taken as part of cost except to the extent it is allowed to be offset against tax on sale.

vii. Cost is net of trade discount. Cash discount is generally treated as a financial income and is not netted against cost. But there may be circumstances in the transaction which suggest that the cash discount is not one for prompt payment, but a price discount offered in the pretense of a cash discount.

viii. Cost is to be taken net of volume discounts to the extent this can be anticipated. Where there is uncertainty regarding eligibility or the quantum, these may be netted against consumption as and when they become confirmed.

ix. Bank charges for negotiation of documents in connection with a purchase transaction are generally treated as finance costs and not included in material cost. This is based on the premise that sale documents are negotiated through bank to avoid credit risks or to avail bank finance. Hence, bank charges on bills negotiated through bank on collection or acceptance basis are often added to material cost but are best excluded from material cost. Interest, when charged by the supplier for the whole or part of the credit period extended, is generally treated as a finance charge. This is so even if the interest appears on the face of the invoice.

x. Imports of material from certain countries are often available with extended periods of credit with zero or concessional rate of interest. Whether the concession in the matter of interest shall be treated as cost unsettled.

xi. Exchange losses or gains incurred after the purchase transaction is completed are not treated as material cost but are to be treated as finance cost.

xii. The cost of materials obtained in returnable containers where there is credit on return is taken net of credit. Where rent is payable for the period for which the container is retained, such rent is treated as overheads.

xiii. The rate to be adopted for material in cost accounting is generally taken after adjusting material losses-in transit, in storage or other losses. This is, however, permissible only if the losses are normal. Transit losses can be reflected in the rate by deducting such losses from the billed quantity provided such losses are incidental to transport.

xiv. Apart from physical loss, there can be losses owing to evaporation or shrinkage. They are also treated in the same way.

xv. An abnormal loss in transit, e.g. loss owing to accident cannot be reflected in the rate. It will be treated as a loss and taken to the Profit and Loss Account net of recoveries from insurance or carrier.

xvi. Storage losses are also treated similarly provided they are incidental to storage, and the period of storage is normal in the given case.

xvii. On a slightly different footing are moisture losses in transit or storage. Since most technical calculations are based on dry weight, it is advisable to account for materials which absorb moisture on a dry weight basis, grossing up the rate. Dry weight can be air-dry or bone-dry.

xviii. Similar adjustments are called for when consumption quantities of material in cost accounting are to be aligned with technical calculations which adjust physical quantities for strengths, purity or other factors. In these cases, the rates are grossed up to reflect quantity restatements.

xix. Exchange losses or gains incurred after the purchase transaction is completed are not treated as material cost but are to be treated as finance cost.

xx. At times, materials are sent outside for pre-processing before it is used in the production process, e.g. cotton for cleaning, steel rods for blanking etc. Charges paid to outside parties for pre-processing are added to material cost.

xxi. If the same operations are performed in-house, it is usual to treat them as production cost and not as part of material cost.

xxii. Material is often held for long periods for seasoning, maturing, etc. The storage and interest cost for such storage is treated as part of material cost.

xxiii. Some material may require special storage facilities, e.g. prawn in freezers. The storge and interest cost for such storage is treated as part of material cost.

xxiv. Materials may undergo discoloration, deterioration in quality or overstep the shelf-life. Losses for such reasons are not treated as part of material cost.

xxv. Amount of recovery from disposable containers in which material is received is best treated as miscellaneous income and not reduced from material cost.

xxvi. The treatment in the case of returnable containers where credit is obtained from the supplier on a regular basis can be different. Such credit is generally reduced from material cost. In case, the container cost is not included in the price charged but a charge is made for non-return or late return, such charge is treated as abnormal cost excluded from cost.

xxvii. When material is supplied in returnable containers and a rent is charged for such containers based on the period of use, the cost is treated as overheads.

xxviii. Material is often held in storage under special conditions at higher than normal temperature to prevent solidifying, the associated costs are not treated as part of material costs but as part of production costs.

xxix. The costs of operating and maintaining pipelines for moving material from storage to production are not treated as part of material costs but as part of production costs. It is the same for pumping charges for liquids. The feeding charge for material to equipment at an elevated level is also treated as production costs.

Employee Cost

i. Employee cost or labour cost includes all remuneration paid to employees of the company including allowances, benefits, or any payment made on behalf of employees.

ii. Employee cost includes remuneration paid or payable and provisions made for future payments.

iii. For cost accounting purposes, employee cost includes amounts paid to temporary, part time, and casual or contract employees including benefits extended to them.

iv. Bonus has been described as 'deferred wage' and customary payments by way of bonus have come to acquire the characteristic of mandatory payment. There is little reason to deny such payments the status of cost.

v. Bonus ought to be distinguished from performance incentives which are generally related to output and not profits. These may take the form of incentives at: Individual employee level-based on his or her performance; group of employees level- based on performance of a group of employees or team; unit level- where incentives are paid based on performance of the factory or other unit.

vi. Incentives at all three levels may be based on performance covering the production of more than one product; then an assignment issue arises. It is generally accepted that the incentives must be prorated over all the products on the production of which the incentive is earned, not merely to the products produced after the threshold limit for earning the incentive is reached.

vii. There has generally been a reluctance to treat incentives based on sales as cost of production, even though it is paid to production employees. The basis of calculating the incentive or the timing of payment should not determine the treatment of such a incentive, if it was originally conceived as an incentive for higher production.

viii. Some tend to argue that managerial personnel are owners of the business and hence payments to them must be regarded as returns to owners. Others argue that the remuneration to managerial personnel is as for executive directors, managers etc. and hence must be regarded as cost. The latter view gets higher credence with greater professionalization of management and whole time directors with no or little shareholding in the company drawing managerial remuneration which includes a commission as a % of profits.

ix. In the case of sole proprietorships, salary paid to owner and in the case of a partnership fixed salary paid to a working partner must qualify as cost.

x. It is customary for senior management to have extended prerequisites in the form of free housing, free car, services of waterman/ gardener, free telephone, leave, and travel concessions for self and family.

xi. There are group benefits extended to employees such as Group Personal Accident Insurance, Group Medical Insurance Scheme, etc. It is difficult to relate such costs to individual employees and therefore to cost centres or objects. These can only be allocated to cost centres or cost objects based on number of employees or employee cost of each cost centre or cost object.

xii. Employee welfare expenses similarly represent benefits including canteen facilities, recreation facilities, gifts to individual employees on birthdays/ marriages, dispensary facilities, etc. These are legitimately treated as part of employee cost and allocated to cost centres or cost objects based on number of employees or employee cost of each centre or cost object.

xiii. It is usual for employee cost, particularly direct employee cost, to be converted to hourly rates for ease of assignment to jobs or products. Such hourly rates may reflect only payroll costs, i.e. basic plus allowances or be comprehensive and include all benefits. The aim is for the rate to reflect the cost to company (CTC). In case the rate excludes some of the elements of employee cost, these will be treated as overheads and absorbed.

xiv. Hourly rates are arrived at using the available hours as the divisor. Normal health breaks or rest allowances are excluded from available hours. It is important to note that rest times which are included in job times cannot be excluded from available hours.

xv. It is not unusual for regular costing to proceed based on standard hourly rates based on budgeted employee cost and budgeted hours and for the variances in labour rates to be treated as overheads or taken to the profit and loss account or reconciliation.

xvi. Early stages of technology witnessed a major role for the workmen in the manufacturing process with output being controlled mainly by the workmen's efforts. Hence, elaborate systems were built to log workmen's time on individual jobs or products.

xvii. As technology grew, the importance of machines in production grew with decreasing nexus between workmen's efforts and production. Workmen were assigned to more than one machine producing more than one product with his role being reduced to attending to controls.

xviii. Where technology is at an early stage, it is still common for direct employee cost to be assigned to products and operations based on time booked. This is typical of engineering shops with conventional machines such as lathes, drilling machines, milling machines, etc. and simple processing shops.

xix. When sophisticated technology is deployed such as computer numerically controlled machines are employed, it is usual for employee cost to be absorbed into products as part of a comprehensive machine hour rate.

xx. In case where a gang of workmen or a team of employees are assigned to a job, it is usual to assign direct employee cost based on gang hours or time logged by the team.

xxi. The wheel turns a full circle case where assembly operations are controlled in the main by robots and one or two workmen control the whole assembly line only to attend disruptions. Direct employee cost, even the entire cost including equipment cost- in such cases is assigned on the time honored direct labour cost basis.

xxii. In a balanced production line in a lean manufacturing set-up where workmen stand in fixed location, the belt carrying the work moves at fixed speed and workmen are expected to complete their operations within the allotted time. In such cases, it is usual to charge employee cost as well as equipment cost based on 'cycle time' rather than labour hours.

xxiii. Overtime that is based on single rate possesses no special issues in costing. But where overtime is compensated at double or triple rate, the overtime premium is handled in one of the following ways: (a) where the overtime working is caused by a 'rush order' of the customer or other special requirement of a job, the premium is assigned to the job or product; (b) In all other cases, it is usual to treat the premium as overheads and absorb the same as part of overheads.

xxiv. Idle time of direct workmen is generally logged separately. Normal idle time is absorbed in product cost as part of overheads and abnormal idle time is taken to costing profit and loss or reconciliation.

xxv. In case where direct workmen are expected to carry out maintenance on the machines attended to by them, it is usual to log such time separately against maintenance work orders and treat the same as repairs and maintenance costs.

xxvi. Booking time spent on jobs or products is relevant in job or batch productions but loses its relevance in continuous process industries where direct employee cost is treated as part of processing cost.

xxvii. Changing direct employee cost based on standard time is prevalent. In such cases, efficiency variances are isolated and absorbed in product cost except when it is abnormal where it is taken to Costing Profit and Loss account or reconciliation with financial accounts.

Direct Expenses

i. Direct expenses relate to manufacture of a product or rendering a service which can be readily identified or linked with cost objects other than direct material and direct employee cost.

ii. Common examples are: Royalties charged on production, job charges, hire charges for use of specific equipment for special jobs, cost of special designs or drawings for a job, software services specifically required for a job, and travelling expenses for a specific job.

iii. The need for direct expenses to be amortized arises when, for example, royalties or technical know-how fees are paid for which the benefit accrues in the future period. In such cases, the production/ service volumes are estimated for the effective period and based on volume achieved during the current period, the charge for amortization is determined.

Cost of Utilities

i. Utilities are special class of service cost centres which generally produce a measurable output which are used as input in the process of manufacture of products and services, but do not form part of the products. e.g. power, steam, water, compressed air, etc.

ii. Utilities are generally meant for captive consumption even though it is not unusual for part of the output to be sold to a nearby plant of the same entity or another entity.

iii. Utilities are also purchased by an entity from an outside source, usually a public utility (e.g. power from an electricity authority).

iv. It is also not unusual for utilities produced to have more than one use - steam generated being used both to drive turbines to generate electricity (high pressure steam) and for heating purposes in the process (low pressure steam) giving rise to interesting issues in costing.

v. Sometimes a utility is held to safeguard against the failure of the main source of input, e.g. stand-by generators held against future failure of power supply from the grid.

vi. Administrative overheads are generally not allowed to captively used utilities. In case where utilities are largely meant for transfer to other units or sale to outside parties such as sale of generated power to the official grid, administrative overheads may also be allocated to the utilities.

vii. Since the cost of utilities is significant in many entities and there is measurable output, it is usual to do the costing of utilities with the same rigor as in the case of products and services. The cost accounting record rules require the preparation of separate cost statements for each major utility such as power, steam and the like. CASSL 8 on cost of utilities requires each type of utility to be treated as a separate cost object.

viii. Costs of distributing the utilities, e.g. power through distribution lines including transformers, motor control centres and the like, are treated differently based on end use. Costs of distribution of utilities for captive use are often captured in a separate service cost centre and treated as a service cost centre. Cost of utilities used for inter-unit transfer often includes the proportionate cost of distribution.

ix. Costs of utilities meant for sale to outside parties will include marketing costs if the generated utility is mainly for sale, but this takes the context out of captive generation and consumption of utilities in the manufacture of products and rendering of services.

x. In case where part of the utility generated is used within the utility, e.g. electricity used within the powerhouse, cost of such consumption is generally absorbed by the cost of output meant for other users. This has got the effect of grossing up the unit cost of the utility for the costs of internal consumption of the respective utilities.

xi. Output of utilities is generally distinguished in terms of quality. In the case of water, raising water from bore wells or pumped from a nearby river is identified as raw water, whereas the output of a water treatment plant is identified as treated water; the output from a cooling tower as cooling water; and the output from a chilling plant as chilled water. Similarly steam produced is classified as low pressure, medium pressure, or high pressure or into bands of pressure rating.

xii. Costs of generation of various types of water involve progressively additional costs while costs of steam generation must be allocated to steam at different pressures based on some measure of work. (e.g. British Thermal Units).

xiii. The methods of assignment of costs of generated utilities to the consuming centres vary considerably depending on the system of measurement of use. E.g. metering, instrumentation system and the like used in the entity. It can be safely said that it may be uneconomical to meet the consumption of utilities to the last unit. Some technical estimates may have to be used. The problem is complicated because distribution lines are not always laid out in such a way that measuring instruments can be installed at each distribution point. It is not uncommon to tap power from a nearby line carrying power to another consuming centre or to divert steam from a nearby pipe carrying steam to another consuming centre. These problems get accentuated as the plant advances in years when new requirements of utilities are met in an ad hoc manner such that the original drawings of distribution are no longer representative.

xiv. In case meters are installed, utility costs are assigned based on actual usage as metered.

xv. Alternatively, utility costs are assigned based on ratings of consuming equipment weighted by usage factor, e.g. in the case of power, based on HP rating of equipment multiplied by number of hours in use. As a last resort, technical estimates based on specifications of power or steam consumed are used to develop the basis for allocation.

xvi. Distribution losses or unaccounted consumption of utilities are netted against the quantity generated before assignment to consuming cost centres to reflect such cost in grossed-up unit rates.

xvii. Any abnormal losses like venting large quantities of high pressure steam to avoid an accident will of course be evaluated separately and treated as a loss in the Costing Profit and

Loss Account or reconciliation with financial accounts.

Repairs and Maintenance Cost

i. Repairs and maintenance cost is the cost of all activities required to restore the asset to a condition to perform its function at intended capacity and efficiency.

ii. Repairs and maintenance cost includes cost of: Repair materials, spares, consumable stores, manpower, utilities, repair and equipment cost, and allocated costs from other service cost centres.

iii. Repairs and maintenance can be classified into: Preventive maintenance, planned maintenance, and breakdown maintenance.

iv. Preventive maintenance costs are generally booked through standing orders which are in essence continuing work orders, all issues of material, time of maintenance crew, and other resources used, booked against the standing orders.

v. Alternatively, preventive maintenance schedules carry a standard bill of materials and standard usage of maintenance crew time, and other resources and these are blown up based on the number of jobs completed. Actual usage of material, time and other resources are recorded in detail, and allocated to various preventive maintenance jobs based on standard usage.

vi. Planned maintenance jobs are like annual shutdowns, periodic overhauls, etc. These carry a standard bill of material to be used for the maintenance jobs, parts to be replaced during the planned maintenance, number and skill category of maintenance crew required, heavy maintenance equipment like cranes to be used and other resources. Actual of these resources are booked against the planned maintenance jobs.

vii. Break down maintenance jobs are triggered by a fault report which generates a work order with a number. All issues of material, time of crew, and other resources are booked against these work orders to provide cost of individual maintenance jobs.

viii. In a computerized environment, robust systems are in place to open and close work orders for all types of maintenance jobs with authorizations and sign offs, standard bills of material type, and number of persons and other resources required with automatic generation of issue requisitions and requests for personnel and equipment. Costs of closed work orders are transferred to relevant accounts in the books.

ix. In a non-computerized environment, there is often a tendency to keep the paperwork to a minimum while ensuring accurate costing. In such an environment, work orders are opened only for large maintenance jobs. The threshold limit is fixed in terms of time taken for the maintenance job to be completed (or shut down time) the cost of materials requisitioned, the number of crew involved, special equipment required, or a combination of these. Costs are booked by work orders for the major repairs and for others, costs are booked by cost centres or equipment number.

x. It is also usual to treat the maintenance crew as fixed resources and not attempt to book their time against maintenance jobs. The allocations to cost centres are based on the principle of 'readiness to serve' with the estimate of demand from various cost centres prepared at the time of manpower planning acting as the base for allocation of manpower costs.

xi. Maintenance jobs often require the use of heavy equipment such as cranes, hoists, etc. The costs of this maintenance are accumulated by equipment number. These are charged with maintenance jobs based on recorded usage in hours or to cost centres based on estimated usage prepared at the time of planning capital expenditure on these items of equipment.

xii. Many large production facilities have a captive workshop where parts are tuned, machined or otherwise repaired. These workshops also produce some spare parts. Often, the workshop is treated as similar to production cost centres with job orders being opened for production jobs and work orders for repair jobs. The costs of the workshop, which comprises costs of materials, labour, equipment and other resources are assigned to jobs and work orders based on some suitable basis such as labour hours.

xiii. Maintenance jobs are increasingly being outsourced. Maintenance labour is almost completely outsourced with only a small crew of specialized craftsmen retained on the companies' pay rolls.

xiv. The outsourcing may be of the entire job or may take the form of a contract for supply of labour. In the former case, bill for completed jobs is generally available and lead to accurate costing of labour for such jobs. When outsourcing takes the form of a contract for supply of labour, no time recording by jobs is generally available and only deployment by department or cost centre is available.

xv. With increasing sophistication of technology, maintenance of specialized equipment is entrusted on a turnkey basis to the vendor of the equipment or other specialized maintenance outfits. This may involve costs of travel of technicians besides bill for services from the agency rendering the services. It is usual to accumulate all costs of such maintenance jobs and treat them appropriately as outlined earlier.

xvi. It is usual to have Annual Maintenance Contracts (AMCs) for specialized equipment, particularly electronic equipment subject to sudden failures. These take the form of only servicing with parts (comprehensive). The AMCs specify the number of routine servicing calls that will be made in a year. Where a single machine is covered by an AMC, covering becomes simple. But, where a collection of machines is covered by a single AMC, allocation of costs to cost centres can be made based on the number of machines in each cost centre. In case where the machine in various cost centres requires different levels of service or vary in cost, a suitable allocation base has to be determined based on such differences.

xvii. It has been customary in the past to treat major repair jobs differently with their cost being spread over the periods benefiting from such expenditure. Increasingly such expenditure is charged to the profit and loss account of the period in financial accounts, which is driven largely by tax deductibility considerations. However, in cost accounts, these major repair jobs may be prorated over the years of benefits with appropriate disclosures in reconciliation statements in the respective years. The treatment in cost accounts would depend on the nature and benefit accruing from such expenditure.

Production Overheads Cost

i. Overheads comprise of indirect material, indirect labour, and indirect expenses. They are termed indirect because they are not directly identifiable or allocable to the ultimate cost object, usually a product or service, in an economically feasible way. Instead of using the term overheads, it is more appropriate to refer to them as indirect costs.

ii. Increasingly, with the spread of information technology, more costs can be identified with the final cost object. Even small materials which could not be previously identified with the products in an economically feasible way can now have the issues recorded by product.

iii. On the contrary, the sophistication of manufacturing technology renders workman as observers of machines working or instrument watchers or console operators instead of tending to the machine or product directly. Thus, a greater portion of the labour cost is becoming indirect to the product.

iv. Since overheads cannot be economically traced to products, they are traced to production centres through which the product passes to be absorbed by the product generally based on time spent by the product at the production centre.

v. There are also service cost centres through which the product does not pass but which provide a support function to the production cost centres. The service department costs are assigned to production cost centres before being traced to products and services.

vi. In traditional cost systems, a cost contribution sheet is prepared to capture the expenses in the nature of overheads booked in the books of account and supporting records like stores records. These are then analyzed by cost centres.

vii. Some overheads are booked in the system by cost centres. For this purpose, many general ledger systems have extensions to account codes to book transactions by cost centres.

viii. In other cases, the overheads individually or after being grouped into homogenous groups are apportioned to cost centres on some suitable basis. The following Table reproduced from CASSL3 Production Overheads.

Item of cost	**Basis of apportionment**
Power	HP rating of machines x hrs. x LF
Fuel	Consumption rate x hrs.
Jigs, tools and fixtures	Machine hrs. or man hrs.
Crane hire charges	Crane hours or weight of material handled
Supervisor's salary and fringe benefits	Number of employees
Labour welfare cost	Number of employees
Rent and rates	Floor or space area
Insurance	Value of fixed assets
Depreciation	Value of fixed assets.

i. For a long time, the method of apportionment used was based on 'charging what the traffic will bear', i.e. the bigger the cost centre the greater the charge to it. This is actively discouraged now.

ii. Charging overheads based on benefits received by the various cost centres is preferred. This requires some measure of benefit to be developed.

iii. After the spread of modern management accounting concepts, particularly activity-based costing (ABC), there is a distinct preference for apportioning overheads based on cause and effect analysis. What or who causes the costs to be incurred is a more rational criterion to change costs rather than the size of the benefits received.

iv. Thus, the Purchased Department costs are best charged based on an analysis of what causes the Purchase Department to be manned and operating at the present level. It could be the number of purchase requisitions, number of items being ordered, degree of inspection required by various items, the logistics requirements involved or a weighted combination of these.

v. After the overheads are allocated or apportioned to various cost centres, the costs apportioned to service cost centres are redistributed to production cost centres and other service cost centres, generally based on one of the bases outlined above.

vi. Given the information processing capability, individual items of overheads or groups of them are taken up for redistribution.

vii. Rendering of service by one or more service cost centres to other cost centres or even rendering services inter-se by service cost centres are adequately handled in a spread sheet environment.

viii. It is useful to remember that the use of sophistication in distribution methods does not improve the quality of the costing system. It is the direct capturing of costs to cost centres, the appropriateness of defining the cost centres and the use of proper measures of benefits received that will improve the cost. Ultimately, it is the analysis of what triggers the cost that is relevant.

ix. Ultimately, all overheads must be charged to products or services. Hence, the total production overheads of production cost centres are applied to products passing through them, using a suitable absorption base. The absorption bases commonly used are listed below.

Base of denominator	**Applicability**
Units of production	When a single product is produced or different products are similar in specification.
Direct labour cost	When conversion process is labour intensive and wage rates are substantially uniform.
Direct labour hours	When conversion process is labour intensive.
Machine hr. or vessel occupancy or reaction hr. or crushing hr. etc.	When production mainly depends on performance of the bases.

i. Prior to the final step of absorption, production overheads of production cost centres must be segregated between fixed overheads and variable overhead. The fixed overheads are absorbed by products based on normal capacity or actual capacity utilization whichever is higher. Variable overheads are absorbed by products based on actual capacity utilization.

ii. Under absorbed fixed overheads are charged to Costing Profit and Loss Account and shown as an item of reconciliation with financial accounts.

iii. It is usual to employ a predetermined overheads rate throughout the year based on budgeted overheads and budgeted production base and to absorb overheads based on actual production multiplied by the pre-determined overhead rate.

iv. The difference between the absorbed overheads and the actual overhead arises owing to: (a) Variation between the budgeted level of capacity utilization and actual production; and (b) Variation between budgeted level of overheads and actual overheads.

v. It is easy to lose perspective on the amount of overhead absorbed by different product in the web of calculations involved in allocation, apportionment and absorption. Operating managers have great difficulty in comprehending the result of a complex allocation, apportionment and absorption algorithm. A simple causal relationship is better understood. It may be preferable to limit complex distribution models if required to major items of overheads and to use simple ad-hoc methods for the balance overheads.

vi. Normal capacity is defined in CASSL 2 Capacity determination as the production achieved or achievable on average over a period or season under normal circumstances taking into account the loss of capacity resulting from planned maintenance. It is practical capacity minus the loss of productive capacity owing to external factors. In arriving at the practical capacity the following are factored: Holidays, number of shifts, shift duration, annual maintenance, preventive maintenance if it involves overtime, batch change over time, lunch breaks, personnel change over, etc.

Administrative Overheads Cost

i. Administrative overheads must be understood as costs of administrative functions in an entity and not as collection of elements of costs such as travel, communication, printing, stationery, etc.

ii. Administrative overheads are of two types: Costs of administrative support functions which support operations such as purchase, personnel, accounts, factory administration, marketing support, etc.; Costs of policy making and strategic management such as Finance, Human Resources Development, etc.

iii. The functions covered in the first part are generally attached to a unit like factory administration or marketing administration and are readily identified with production or selling and distribution function.

iv. Even when they are located in a head office or corporate office, it should make little difference, because they cater to the needs of specific functions in the entity. For example, purchase may be in a central office, but they cater to the requirements of specific factories or manufacturing, and costs can be assigned to such units.

v. The assignment of such costs to functions and activities benefited by them is feasible subject to limits. The use of activity-based costing (ABC) can lead to identification of activities within the administration function and what causes them. Thus, the head office purchase activity costs can be assigned to user functions based on some measure of activity like the number of purchase requisitions.

vi. The assignment of as many administrative overheads as possible based on identified cost drivers is recommended. The balance of administrative overheads can only be assigned to cost centres or objects based on capacity or sales value. It is usual in textile industry to charge corporate office cost to mills based on installed spindle capacity.

Selling and Distribution Overheads Cost

i. The use of the term 'selling and distribution overheads includes items of costs that are not 'overheads' but are direct to products such as commission on sales, freight, etc.

ii. It is necessary to distinguish 'selling' costs from 'distribution costs'. The former relate mainly to costs incurred before sales are generated and are therefore indirect to the product while distribution costs are more direct to products.

iii. It is also useful to speak about 'order getting' costs and 'order filling' costs to distinguish between the two sets of costs.

iv. Selling costs are generally fixed in nature except for commission on sales and the like. E.g. salaries of sales personnel, travelling expenses of sales personnel, commission to sales agents, advertisement costs, sales promotion expenses including cost of promotional material such as product broches, catalogues, collection costs including legal expenses for recovery of dues, after sales service costs, warranty costs etc.

v. Selling overheads or selling costs are a combination of direct costs relating to selling products or services and indirect costs of sale management.

vi. Distribution overheads or distribution costs are the costs incurred in handling a product from the time it is ready for dispatch until it reaches the ultimate consumer.

vii. Distribution costs include: Secondary packing cost, packing repacking/ labelling at an intermediate storage location, transportation costs, cost of warehousing (cover depots, go-downs, storage yards, stock yards, etc.).

viii. Transportation costs comprise cost of freight, loading and unloading, transit insurance, costs of operating a fleet, and other incidental charges whether incurred internally or paid to an outside agency for transportation of goods.

ix. Broadly, transportation costs are divided into two categories: (a) Cost of operating own fleet; (b) Cost of hired transport.

x. Costs under either category may include costs: (a) Directly allocable to products; or (b) to be apportioned to products.

xi. A good costing system should be able to record separate transportation cost from factory to depots and from depot to customers' place, wherever practicable and economically feasible.

xii. Penalty, detention charges, demurrage charges, and other abnormal costs are excluded from transportation costs.

Interest and Finance Charges

i. This cost head includes the following items of cost: Interest on debentures and bonds, interest on long term loans, interest on working capital finance in the form of cash, credit or overdraft including short term loans, interest on overdue payments to suppliers and others, discounting charges on bills of exchange, bank charges on bills negotiated through bank for sales or purchases, letter of credit charges, guarantee commission/ commitment charges, cash discount and many more.

ii. Interest and finance charges are accumulated under suitable heads as above in the financial books before they are taken to cost accounts.

iii. For a long time, it was the practice to ignore interest as an element of cost following textbook discussions on whether interest is a cost. However, more recently there is recognition for interest and finance charges as a cost.

iv. Similarly, it is usual to develop an average rate of interest paid on various forms of finance for working capital and apply it to working capital investment in product lines or products.

v. Working capital investment by product line is arrived at directly in most cases or apportioned on the following: Raw material stocks-direct or on the basis of raw materials consumed; stores- generally on the basis of stores consumed excluding special high value items which can be identified directly; work-in-process and finished goods- direct; book debts-direct or on the basis of sales (gross); other current assets- except high value items which can be directly identified with products, on the basis of sales or cost of sales.

vi. It is also not unusual to arrive at the working capital investment based on length of the operating cycle in number of days for each product line multiplied by cost of sales or sales value.

vii. Other finance charges are identified by product lines or products for big items of expenditure or otherwise grouped and charged to product lines or products based on cost of materials consumed, cost of production, and cost of sales or sales.

viii. In case where the assignment is done initially to product lines as for interest on long term loans, such charges are assigned to individual products based on cost of sales or sales.

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