



CAS-21 COST ACCOUNTING STANDARD ON QUALITY CONTROL

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

1. Introduction

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

2. Objective

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

3. Scope

The standards 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.

4.1 Abnormal cost: *An unusual or atypical cost whose occurrence is usually irregular and unexpected and/ or due to some abnormal situation of the production or operation.¹*

4.2 Cost Object: *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.

¹ Adapted from CAS 1 para 6.5.19



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 Financing Charges are interest and other costs incurred by an entity in connection with the financing arrangements.

Examples are:

1. Interest and commitment charges on bank borrowings, other short term and long term borrowings:
2. Financing Charges in respect of finance leases and other similar arrangements: and
3. 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 Overheads: Overheads comprise costs of indirect materials, indirect employees and indirect expenses.

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

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

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

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

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

² Adapted from CIMA Terminology

**5. Principles of Measurement:**

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

Such cost shall include:

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

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

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

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

5.5 *Quality Control costs shall not include imputed costs.*

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

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

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

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

6. Assignment of costs

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

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



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

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

7. Presentation

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

8. Disclosures

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

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

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

8.1.3 Quality Control cost paid/ payable to related parties³.

8.1.4 Quality Control cost incurred in foreign exchange.

8.1.5. Any abnormal portion of the Quality Control cost.

8.1.6 Penalties and damages excluded from the Quality Control cost

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

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

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

³ Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement