

Cost Accounting Standard: 1

CAS 1, issued by ICAI provides a uniform framework for classifying costs. This classification is essential for:

- **Uniformity and consistency:** Ensuring that cost statements across departments or organizations are comparable.
- **Effective decision-making:** Enabling managers to identify, allocate, and control costs.
- **Budgeting and performance measurement:** Facilitating more accurate cost control and performance evaluation.



Detailed Classifications

1. By Nature of Expense

- **Definition:** Grouping costs based on what the expense is.
 - **Material Costs:** Costs of raw materials.
 - **Labor Costs:** Wages for production employees.
 - **Other Expenses:** Utility bills, maintenance costs, and others.

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2. By Traceability to Cost Object

- **Definition:** Differentiating costs that can be directly linked to a product or service versus those that cannot.
- **Categories:**
 - **Direct Costs:** Easily attributable to a specific cost object.
 - **Indirect Costs:** Not directly traceable.

3. By Functions/Activities

- **Definition:** Classifying costs according to business functions.
- **Categories:**
 - **Production Costs:** Costs incurred during manufacturing.
 - **Administration Costs:** Costs related to management functions.
 - **Selling and Distribution Costs:** Expenses incurred in marketing and delivering products.



4. By Behaviour

- **Definition:** Understanding how costs change with the level of business activity.
- **Categories:**
 - **Fixed Costs:** Remain constant regardless of production volume.
 - **Variable Costs:** Change in direct proportion to production levels.
 - **Semi-Variable Costs:** Have both fixed and variable components.

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5. By Relationship to Production Process

- **Definition:** Separating costs based on their role in transforming raw materials into finished goods.
- **Categories:**
 - **Prime Costs:** Direct material plus direct labor.
 - **Conversion Costs:** Costs incurred in converting raw materials into finished products includes direct labor and manufacturing overhead.

6. By Controllability

- **Definition:** Classifying costs based on the degree to which they can be controlled by management.
- **Categories:**
 - **Controllable Costs:** Costs that a manager can influence.
 - **Uncontrollable Costs:** Costs beyond the manager's direct control.



7. By Normality

- **Definition:** Distinguishing between expected (normal) costs and unexpected (abnormal) costs.
- **Categories:**
 - **Normal Costs:** Incurred during standard operations.
 - **Abnormal Costs:** Result from unusual or unforeseen events.

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8. By Time

- **Definition:** Differentiating costs based on when they are incurred.
- **Categories:**
 - **Historical Costs:** Actual costs incurred in the past.
 - **Predetermined Costs:** Estimated costs, including standards used for planning and control.

9. By Decision-Making Needs

- **Definition:** Focusing on costs that impact managerial decisions.
- **Categories:**
 - **Relevant Costs:** Future costs that will differ between alternatives.
 - **Sunk Costs:** Past costs that should not affect current decisions.

10. By Association with Cost Centers

- **Definition:** Classifying costs based on the area or department they relate to.
- **Categories:**
 - **Traceable Costs:** Can be directly assigned to a particular cost center.
 - **Common Costs:** Shared among various departments.

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