



## CAS – 12 (REVISED 2017)

### COST ACCOUNTING STANDARD ON REPAIRS AND MAINTENANCE COST

The following is the COST ACCOUNTING STANDARD – 12 (CAS - 12) (Revised 2017) issued by the Council of The Institute of Cost Accountants of India on “REPAIRS AND MAINTENANCE COST”. In this Standard, the standard portions have been set in ***bold italic*** type. This standard should be read in the context of the background material which has been set in normal type.

#### 1. Introduction

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

***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.***



Examples of Direct Expenses are royalties charged on production, job charges, hire charges for use of specific equipment for a specific job, cost of special designs or drawings for a job, software services specifically required for a job, travelling Expenses for a specific job.

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

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

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.

**4.5 Normal capacity: Normal Capacity is the 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.<sup>1</sup>**

**4.6 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 denote the same meaning and are used interchangeably. Production overheads shall include administration cost relating to production, factory, works or manufacturing.

**4.7 Property, plant and equipment are tangible assets that:**

- (a) are held for use in the production of goods or supply of services, for rental to others, for administrative, selling or distribution purposes; and**
- (b) are expected to be used during more than one accounting period.**

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<sup>1</sup> Adapted from CAS 2 paragraph 4.4



**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.

Major overhaul is a periodic (generally more than one year) repair work carried out to substantially restore the asset to intended working condition.

**4.9 Standard Cost: A predetermined 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 analyse the causes of variances and take proper measure to control them. Standard costs are also used for estimation.

## **5. Principles of Measurement:**

**5.1 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 materials,**



***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 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 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 usage, utilities and other costs used in such jobs.***

***5.6.1 Each type of repairs and maintenance shall be treated as a distinct activity, if material and identifiable.***

For example, routine or preventive maintenance, planned (predictive or corrective) maintenance and breakdown maintenance should be identified separately.

***5.6.2 Cost of repairs and maintenance activity shall be measured for each major asset category separately.***

***5.7 Cost of spares replaced which do not enhance the future economic benefits from the existing 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 recognised 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 recognised in cost as and when they are consumed.***

Example:

A company purchased equipment for Rs. 10 crore and insurance spare for Rs. 1 crore. If the company is covered under IndAS, such spare is capitalized as Property, Plant & Equipment. After use for five years, the equipment broke down and a part was replaced with the aforesaid insurance spare. After five years, the depreciated value of equipment is Rs. 5 crore. As property, plant and equipment are depreciated when they are available for use, accordingly the depreciated value of new spare is Rs. 50 lakhs.



The old spare was reconditioned and the cost of reconditioning is Rs. 10 lakh. As per estimated life of the old spare for future economic benefits, the current market value of the reconditioned old spare has been estimated at Rs. 25 lakhs. The amount to be treated in repairs and maintenance is Rs. 35 lakhs as follows:

	Rs. In Crore
A. Equipment Cost	10.00
B. Cost of New Spare	<u>1.00</u>
Total Cost (A+B)	11.00
Depreciation for 5 years	<u>5.50</u>
Depreciated value of Equipment & Spare	<u>5.50</u>
Reconditioning cost of old Spare	0.10
Depreciated Value of old Spare	<u>0.50</u>
<b>Book Value of Reconditioned spare</b>	<b>0.60</b>
Current market value of reconditioned spare to be restated in Book of Account	<u>0.25</u>
<b>Amount to be treated in Repairs and Maintenance</b>	<b><u>0.35</u></b>

**5.9 The cost of 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 Price variances related to repairs and maintenance, where standard costs are in use, 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 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.**

Example: Major fire, explosions, flood and similar events are abnormal circumstances referred 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.**

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

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

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

## **6. Assignment of costs**

**6.1 Repairs and maintenance costs shall be traced to a cost object to the extent economically feasible.**

**6.2 Where the repairs and maintenance cost is not directly traceable to cost object, it shall be assigned based on either of the following two principles:**

**i) Cause and Effect - Cause is the process or operation or activity and effect is the incurrence of cost.**

**ii) Benefits received – overheads are to be apportioned to the various cost objects in proportion to the benefits received by them.**

**6.3 If the repairs and maintenance 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 Cost Accounting Standard – 3.**



## 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:**

- 1. The basis of distribution of repairs and maintenance cost to the cost objects/ cost units.**
- 2. Where standard cost is applied in repairs and maintenance cost, the price and usage variances.**
- 3. Repairs and maintenance cost of Jobs done in-house and outsourced separately.**
- 4. Cost of major overhauls, asset category wise and the basis of amortisation.**
- 5. Repairs and maintenance cost paid/ payable to related parties<sup>2</sup>.**
- 6. Repairs and maintenance cost incurred in foreign exchange.**
- 7. Any Subsidy / Grant / Incentive or any amount of similar nature received / receivable reduced from repairs and maintenance cost.**
- 8. Any credits / recoveries relating to the repairs and maintenance cost.**
- 9. Any abnormal portion of the repairs and maintenance cost.**
- 10. 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 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 repairs and maintenance cost during the period covered by the cost statement which has a material effect on the repairs and maintenance cost shall be disclosed. Where the effect of such change is not ascertainable wholly or partly the fact shall be indicated.**

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<sup>2</sup> Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement