1) Development of a CAS product.

Ans: The following is the Cost Accounting Standard-18 (CAS-18) on “RESEARCH AND DEVELOPMENT COSTS”. The standard deals with the principles and methods of determining the Research and Development Costs. This Standard, the standard portions have been set in bold italic type. These are to be read in the context of the background material which has been set in normal type.

1. Introduction

This standard deals with the principles and methods of determining the Research, and Development Costs and their classification, measurement and assignment 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 Research, and Development Costs with reasonable accuracy and presentation of the same.

3. Scope

This standard should be applied to cost statements that require classification, measurement, assignment, presentation and disclosure of Research, and Development Costs 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.

4.2 Cost Object: This includes a product, service, cost centre, activity, sub-activity, project, contract, customer or distribution channel or any other unit in relation to which costs are finally ascertained.

4.3 Direct Materials: The cost of materials which can be attributed to a cost object in an economically feasible way.

4.4 Direct Employee Cost: The cost of employees 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 or direct employee cost.

Examples of Direct Expenses are royalties charged on production, 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.

4.6 Imputed Costs: Hypothetical or notional costs, not involving cash outlay, computed only for the purpose of decision making.

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

4.8 Indirect Material Cost: The cost of materials which cannot be directly attributed to a particular cost object.

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

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

4.11 Research and Development:

4.11.1 Research: Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

4.11.2 Development: Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services prior to the commencement of commercial production or use.

5. Principles of Measurement

5.1 Research, and Development Costs shall include all the costs that are directly traceable to research and/or development activities or that can be assigned to research and development activities strictly on the basis of a) cause and effect or b) benefits received. Such costs shall include the following elements:

1. The cost of materials and services consumed in Research and Development activities.

2. Cost of bought out materials and hired services as per invoice or agreed price including duties and taxes directly attributable there to net of trade discounts, rebates, taxes and duties refundable or to be credited.

3. The salaried, wages and other related costs of personnel engaged in Research and Development activities.

4. The depreciation of equipment and facilities, and other tangible assets, and amortisation of intangible assets to the extent that they are used for Research, and Development activities.

5. Overhead costs, other than general administrative costs, related to Research, and Development activities.

6. Costs incurred for carrying out Research, and Development activities by other entities and charged to the entity; and

7. Expenditure incurred in securing copyrights or licences.

8. Expenditure incurred for developing computer software.

9. Costs incurred for the design of tools, jigs, moulds and dies.

10. Other costs that can be directly attributed to Research and Development activities and can be identified with specific projects.

5.2 Subsidy / Grant / Incentive or amount of similar nature received / receivable with respect to Research, and Development Activity, if any, shall be reduced from the cost of such Research, and Development Activity.

5.3 Any abnormal cost where it is material and quantifiable shall not form part of the Research, and Development Cost.