



## CAS – 7 COST ACCOUNTING STANDARD ON EMPLOYEE COST

The following is the COST ACCOUNTING STANDARD 7 (CAS - 7) issued by the Council of The Institute of Cost and Works Accountants of India on “EMPLOYEE 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 Employee cost.

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

### 3 Scope

*This standard should 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.

**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.<sup>1</sup>*

**4.2 Abnormal Idle time:** *An unusual or atypical employee idle time occurrence of which is usually irregular and unexpected or due to some abnormal situations.*

E.g.: Idle time due to a strike, lockout or an accident

**4.3 Administrative overheads:** *Expenses in the nature of indirect costs, incurred for general management of an organization<sup>2</sup>.*

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<sup>1</sup> Adapted from CAS 1 paragraph 6.5.19

<sup>2</sup> Adapted from CAS 1 paragraph 6.3.5



**4.4 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.*<sup>3</sup>

**4.5 Distribution Overheads:** *Distribution overheads, also known as Distribution Cost, are the costs incurred in handling a product from the time it is ready for despatch until it reaches the ultimate consumer.*<sup>4</sup>

The cost of any non manufacturing operations such as packing, repacking, labelling, etc. at an intermediate storage location will be part of distribution cost.

**4.6 Direct Employee Cost:** *The cost of employees which can be attributed to a Cost Object in an economically feasible way.*<sup>5</sup>

**4.7 Employee cost:** *The aggregate of all kinds of consideration paid, payable and provisions made for future payments for the services rendered by employees of an enterprise (including temporary, part time and contract employees). Consideration includes wages, salary, contractual payments and benefits, as applicable or any payment made on behalf of employee. This is also known as Labour Cost.*<sup>6</sup>

Explanation:

- 1 Contract employees include employees directly engaged by the employer on contract basis but does not include employees of any contractor engaged in the organisation.
- 2 Compensation paid to employees for the past period on account of any dispute / court orders shall not form part of Employee Cost.
- 3 Short provisions of prior period made up in current period shall not form part of the employee cost in the current period.

Employee cost includes payment made in cash or kind.

For example:

- **Employee cost**
  - Salaries, wages, allowances and bonus / incentives.
  - Contribution to provident and other funds.
  - Employee welfare
  - Other benefits
- **Employee cost – Future benefits**
  - Gratuity.
  - Leave encashment.

<sup>3</sup> Adapted from CIMA Terminology

<sup>4</sup> Adapted from CAS 1 paragraph 6.3.9

<sup>5</sup> Adapted from CAS 1 paragraph 6.2.4 (Direct labour cost)

<sup>6</sup> Adapted from CAS 1 paragraph 6.1.4



- Other retirement/separation benefits.
- VRS/ other deferred Employee cost.
- Other future benefits

**Benefits generally include**

- Paid holidays.
- Leave with pay.
- Statutory provisions for insurance against accident or health scheme.
- Statutory provisions for workman's compensation.
- Medical benefits to the Employees and dependents.
- Free or subsidised food.
- Free or subsidised housing.
- Free or subsidised education to children.
- Free or subsidised canteen, crèches and recreational facilities.
- Free or subsidised conveyance.
- Leave travel concession.
- Any other free or subsidised facility.
- Cost of Employees' stock option.

**4.8 Idle time: *The difference between the time for which the employees are paid and the employees' time booked against the cost object.***

The time for which the employees are paid includes holidays, paid leave and other allowable time offs such as lunch, tea breaks.

**4.9 Imputed Costs: *Hypothetical or notional costs, not involving cash outlay, computed for any purpose.***<sup>7</sup>

**4.10 Indirect Employee Cost: *The cost which can not be directly attributed to a particular cost object.***<sup>8</sup>

**4.11 Marketing overheads: *Marketing Overheads are also known as Selling and Distribution Overheads.***

**4.12 Overtime Premium: *Overtime is the time spent beyond the normal working hours which is usually paid at a higher rate than the normal time rate. The extra amount beyond the normal wages and salaries paid is called overtime premium.***

<sup>7</sup> Adapted from CAS 1 paragraph 6.5.13

<sup>8</sup> Adapted from CAS 1 paragraph 6.2.10



**4.13 Production Overheads: *Indirect costs involved in the production process or in rendering service.***<sup>9</sup>

The terms Production Overheads, Factory Overheads, Works Overheads and Manufacturing Overheads denote the same meaning and are used interchangeably.

**4.14 Selling Overheads: *Selling Overheads, also known as Selling Costs, are the expenses related to sale of products and include all Indirect Expenses in sales management for the organization.***<sup>10</sup>

**4.15 Standard Cost: *A predetermined cost of resource inputs for the cost object computed with reference to set of 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 *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 a sharing of surplus shall be treated as part of employee cost. Ex gratia payable in lieu of or in addition to Bonus shall also be treated as part of the employee cost.***

**5.3 *Remuneration payable to Managerial Personnel including Executive Directors on the Board and other officers 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.***

Explanation: Remuneration paid to non executive directors shall not form part of Employee Cost but shall form part of Administrative Overheads.

**5.4 *Separation costs related to voluntary retirement, retrenchment, termination etc. shall be amortised over the period benefitting from such costs.***

**5.5 *Employee cost shall not include imputed costs.***

<sup>9</sup> Adapted from CAS 1 paragraph 6.3.3

<sup>10</sup> Adapted from CAS 1 paragraph 6.3.7



**5.6 Cost of Idle time is ascertained by the idle hours multiplied by the hourly rate applicable to the idle employee or a group of employees.**

**5.7 Where Employee cost is accounted at standard cost, variances due to normal reasons related to Employee cost shall be treated as part of Employee cost. Variances due to abnormal reasons shall be treated as part of abnormal cost.**

**5.8 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.**

**5.9 Any abnormal cost where it is material and quantifiable shall not form part of the Employee cost.**

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

**5.11 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.**

**5.12 Any recovery from the employee towards any benefit provided e.g. housing shall be reduced from the employee cost.**

**5.13 Any change in the cost accounting principles applied for the determination of the Employee 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 enterprise.**

## **6 Assignment of costs**

**6.1 Where the Employee services are traceable to a cost object, such Employees' cost shall be assigned to the cost object on the basis such as time consumed or number of employees engaged etc or similar identifiable measure.**

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

**6.3 Where the Employee costs are not directly traceable to the cost object, these may be assigned on suitable basis like estimates of time based on time study.**



**6.4 The amortised 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 unamortised amount related to discontinued operations, shall not be treated as employee cost.**

**6.5 Recruitment costs, training cost 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 circumstance requiring such overtime.**

**6.7 Idle time cost shall be assigned direct 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 like normal lunchtime, holidays etc is normally loaded in the Employee cost while arriving at the cost per hour of an Employee/a group of Employees whose time is attributed direct 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 a part of overheads relating to respective functions e.g. manufacturing, administration, marketing etc.**

**7.3 The cost statement shall furnish the resources consumed on account of Employee cost, category wise such as wages 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:**

- 1. Employee cost attributable to capital works or jobs in the nature of deferred revenue expenditure indicating the method followed in determining the cost of such capital work.**
- 2. Separation costs payable to employees.**
- 3. Any abnormal cost excluded from Employee cost.**
- 4. Penalties and damages paid etc excluded from Employee cost.**
- 5. Any Subsidy, Grant, Incentive and any such payment reduced from Employee cost**



6. *The Employee cost paid to related parties<sup>11</sup>.*
7. *Employee cost incurred in foreign exchange.*

**8.2 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 which has a material effect on the Employee Cost. Where the effect of such change is not ascertainable wholly or partly the fact shall be indicated.**

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

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

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<sup>11</sup> Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement