



Exposure Draft
CAS - 2 (REVISED 2023)
COST ACCOUNTING STANDARD ON CAPACITY DETERMINATION

The following is the Cost Accounting Standard - 2 (Revised 2023) on “**CAPACITY DETERMINATION**” issued by the Council of the Institute of Cost Accountants of India. This standard replaces CAS-2 (Revised 2015) on Capacity Determination. In 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

1.1 This standard deals with the principles and methods of determining the capacity of a facility for producing goods or providing services by an entity.

1.2 *This standard deals with the principles and methods of classification and determination of capacity of an entity for ascertainment 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 determination of capacity with reasonable accuracy.

3. Scope

*This standard shall be applied to the cost statements, including those requiring attestation, which require determination of capacity for assignment of overheads. **The standard may be applied for determination of capacity for any other purpose.***

4. Definitions

The following terms are being used in this standard with the meaning specified.

4.1 ***Abnormal Idle Capacity:** Abnormal idle capacity is the difference between normal capacity and actual capacity utilization where the actual capacity is lower than the normal capacity.*

4.2 ***Achievable or Practical Capacity:** ‘Practical or Achievable Capacity’ is the maximum productive capacity of a plant reduced by the predictable and unavoidable factors of interruption pertaining to internal causes.*



Thus, practical capacity is the installed capacity minus the inevitable interruptions due to time lost for preventive maintenance, repairs, set ups, normal delays, weekly off-days and holidays etc. Practical capacity does not consider the external factors causing reduction in production e.g. lack of orders.

4.3 Actual capacity utilization: *Actual capacity utilization is the volume of production achieved or service provided in a specified period, expressed as a percentage of installed capacity.*

Volume may be measured in terms of units produced or services provided or equivalent machine or man hours, as applicable.

Actual capacity utilization is usually expressed as a percentage of installed capacity.

4.4 Cost Object: *An activity, contract, cost centre, customer, process, product, project, service or any other object for which costs are ascertained.*

4.5 Excess Capacity Utilization: *is the difference between installed capacity and the actual capacity utilization when actual capacity utilization is more than installed capacity.*

4.6 Idle Capacity: *is the difference between installed capacity and the actual capacity utilization when actual capacity utilization is less than installed capacity.*

4.7 Installed capacity: *is the maximum capacity of producing goods or providing services, according to the manufacturer's specifications or determined through an expert study.*

4.8 Licenced Capacity: *is the production capacity of the plant for which licence has been issued by an appropriate authority.*

4.9 Normal Capacity: *'Normal Capacity' is the production achieved or achievable on an average over a number of periods or seasons under normal circumstances.*

4.10 Normal Idle Capacity: *Normal idle capacity is the difference between installed capacity and normal capacity.*



5. Determination of Capacity:

5.1 Capacity shall be determined in terms of units of production or services or equivalent machine or man hours.

5.2 Installed capacity: Installed capacity is usually determined based on:

- i) Technical specifications of facility.**
- ii) Technical evaluation.**
- iii) Capacities of individual or interrelated production or operation Centres.**
- iv) Operational constraints or capacity of critical machines or equipment.**
- v) Number of shifts or machine hours or man hours.**

In case technical specifications of facility are not available, the estimates by technical experts on capacity under ideal conditions shall be considered for determination of installed capacity.

In case the installed capacity is assessed as per direction of the Government or regulator it shall be in accordance with the said directives.

5.3 Achievable or Practical Capacity: Achievable or Practical Capacity is determined after suitable adjustments to the Installed Capacity.

- i) Time lost due to scheduled preventive or planned maintenance**
- ii) Number of shifts or machine hours or man hours.**
- iii) Holidays and Weekly Offs, normal shut down days, normal idle time,**
- iv) Normal time lost in batch change over, setup, etc.**
- v) Loss in efficiency due to ageing of the machines/ equipment**
- vi) Any other normal Internal Factor**

5.4 Reassessment of Installed Capacity: Installed capacity shall be reassessed in case of any change due to addition, deletion, modification or for any other reason from the date of such change.

In case the installed capacity is reassessed as per direction of the Government or regulator it shall be in accordance with the said directives.

5.5 Determination of Normal Capacity: Normal capacity is determined based on the actual capacity achieved or expected to be achieved over a period of time, or average of achievable capacity over a period of time. Average of three to five normal years may be considered for this calculation.



The periods influenced by abnormalities should be excluded for this purpose.

Explanation:

1. In case the same products with different specifications and of different ranges in terms of size, type, variety, etc. are manufactured, then there is a need to determine equivalence among them in order to determine the capacity.
2. In case some intermediate products / components etc. are also produced, the production thereof should also be considered in determination of capacity, concept of equivalence may be used.
3. In case some machines are leased out/let out or some machines are taken on lease, resulting decrease / increase in capacity should also be considered.

6. Presentation

6.1 Cost Statements shall present Installed capacity, normal capacity and actual production of goods or services provided, in absolute terms.

6.2 Actual Capacity utilization shall be presented as a percentage of installed capacity.

7. Disclosures

7.1 The cost statements shall disclose the following:

- a. **Basis for arriving at different types of capacity.**
- b. **Changes in the installed capacity or normal capacity with reason thereof.**
- c. **Capacity enhanced through outsourcing.**
- d. **Capacity outsourced to others.**
- e. **Details of actual production of goods or services provided.**
 - i. **Self-Manufactured goods or services provided through in-house facility**
 - ii. **Goods Produced or services provided through outsourcing**
- f. **Reasons for low capacity utilization.**
- g. **Abnormal cost due to under-utilization of capacity.**

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



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

8. Effective date

This Cost Accounting Standard shall be effective from the period commencing on or after ----- for being applied for the preparation and certification of General Purpose Cost Accounting Statement.

Annexure

Example Depicting the Calculation of Capacity while Determination of Capacity:

Sr.	Particulars	Case 1	Case 2	Case 3
A	Licensed Capacity	1,500	1,500	1,500
B	Installed Capacity	1,000	1,000	1,000
C	Loss due to Preventive Maintenance, Weekly Off, other internal causes	50	50	50
D	Practical Capacity (B-C)	950	950	950
E	Trend of Normal Actual Activity			
E1	Previous Year 1	900	900	900
E2	Previous Year 2	880	880	880
E3	Previous Year 3	860	860	860
F	Normal Capacity (Average of E1 to E3)	880	880	880
G	Actual Activity	800	930	1,050
H	Idle Capacity (B-G)	200	70	NA
I	Normal Idle (B-F)	120	NA	NA
J	Abnormal Idle (F-G)	80	NA	NA
K	Excess Utilization (G-B)	NA	NA	50

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