

# Overview of Cost Accounting Standards and GACAP

## 4

**This Module includes:**

- 4.1 Cost Accounting Standards**
- 4.2 Guidance Notes on Cost Accounting Standards**
- 4.3 Generally Accepted Cost Accounting Principles (GACAP)**

# OVERVIEW OF COST ACCOUNTING STANDARDS AND GACAP

## **SLOB Mapped against the Module**

To develop detail understanding of Cost Accounting Standards to ensure appropriate evaluation of cost records maintained. (CMLO 4a, b)

## **Module Learning Objectives:**

This module helps to know about the conceptual frame work of cost accounting standards. Generally Accepted Cost Accounting Principles (GACAP) contains a summary of the Cost Accounting Principles currently followed by business entities in India in preparing and presenting cost information in the context of general purpose cost statements for statutory reporting and covered by Cost Audit. After studying this module, the students will be able to –

- ▲ Learn about the Cost Accounting Standards
- ▲ Familiarise with the Guidance Notes on Cost Accounting Standards
- ▲ Recognize the Generally Accepted Cost Accounting Principles (GACAP)

# Cost Accounting Standards

## 4.1

**C**ost Accounting Standards are guidelines for the companies [for the management] that specify the cost accounting treatment for various cost elements, minimum disclosure requirements and ensure the comparability, consistency, and completeness of cost records. These standards are designed to achieve uniformity and consistency in cost accounting principles and practices.

The Institute of Cost Accountants of India, recognizing the need for structured approach to the measurement of cost in manufacture or service sector and to provide guidance to the user organizations, government bodies, regulators, research agencies and academic institutions to achieve uniformity and consistency in classification, measurement and assignment of cost to product and services, has constituted Cost Accounting Standards Board (CASB) with the objective of formulating the Cost Accounting Standards. Keeping in view latest legal and contemporary developments, the Cost Accounting Standards Board develops Cost Accounting Standards.

### **Utilities of Cost Accounting Standards**

The Cost Accounting Standards:

- (i) provide a structured approach to measurement of costs in manufacturing process or service industry;
- (ii) integrate, harmonize, and standardize cost accounting principles and practices;
- (iii) provide guidance to users to achieve uniformity and consistency in classification, measurement, assignment, and allocation of costs to products and services;
- (iv) arrive at the basis of computing the cost of product, activity, or service where required by legal or regulatory bodies;
- (v) enable practicing members to make use of Cost Accounting Standards in the attestation of General Purpose Cost statements; and
- (vi) assist in clear and uniform understanding of all the related issues by various user organizations, Government Bodies, regulators, research agencies, and academic institutions.

### **List of Cost Accounting Standards [CASs]**

The structure of Cost Accounting Standard consists of Introduction, Objectives of issuing standards, Scope of standard, Definitions and explanations of the terms used in the standard, Principles of Measurement, Assignment of Cost, Presentation and Disclosure.

So far, the Institute has released 24 Cost Accounting Standards [CASs].

A list of these standards is tabulated below:

<b>LIST OF COST ACCOUNTING STANDARDS (CAS) AND CORRESPONDING GUIDANCE NOTES ISSUED AS ON DATE</b>			
<b>CAS No.</b>	<b>Title</b>	<b>Effective Date (For the period commencing from)</b>	<b>Guidance Note</b>
CAS 1 (Revised 2015)	Classification of Cost	1st April 2015	
CAS 2 (Revised 2024)	Capacity Determination	1st April 2024	Guidance Note on Capacity Determination CAS-2 (Revised 2024) - is in process.
CAS 3 (Revised 2015)	Production and Operation Overheads	1st April 2016	
CAS 4 (Revised 2018)	Cost of Production/ Acquisition/ Supply of Goods/ Provision of Service	1st March 2019	
CAS 5	Average (Equalized) Cost of Transportation	1st April 2010	
CAS 6	Material Cost	1st April 2010	Guidance Note on Material Cost (CAS-6)
CAS 7	Employee Cost	1st April 2010	Guidance Note on Employee Cost (CAS-7)
CAS 8	Cost of Utilities	1st April 2010	Guidance Note on Cost of Utilities (CAS-8)
CAS 9	Packing Material Cost	1st April 2010	Guidance Note on Packing Material Cost (CAS-9)
CAS 10	Direct Expenses	1st April 2010	Guidance Note on Direct Expenses (CAS-10)
CAS 11	Administrative Overheads	1st April 2010	Guidance Note on Administrative Overheads (CAS-11)
CAS 12	Repairs and Maintenance Cost	1st April 2010	Guidance Note on Repairs and Maintenance Cost (CAS-12)
CAS 13	Cost of Service Cost Centre	1st April 2011	Guidance Note on Cost Accounting Standard on Cost of Service Center (CAS-13)
CAS 14	Pollution Control Cost	1st April 2012	
CAS 15	Selling and Distribution Overheads	1st April 2013	
CAS 16	Depreciation and Amortisation	1st April 2014	
CAS 17	Interest and Financing Charges	1st April 2014	

CAS 18	Research and Development Costs	1st April 2014	
CAS 19	Joint Costs	1st April 2014	
CAS 20	Royalty and Technical Know-How Fee	1st April 2014	
CAS 21	Quality Control	1st April 2014	
CAS 22	Manufacturing Cost	1st April 2015	
CAS 23	Overburden Removal Cost	1st April 2017	
CAS 24	Treatment of Revenue in Cost Statements	1st April 2017	

**Notes:**

- 1. Introduction** of the standard explains as to what the subject matter that the standard deals with.
- 2. Objective** of the standard explains the way of bringing uniformity and consistency in the principles of Cost for disclosure and presentation in the cost statements of a product or service.
- 3. Scope** of the standard specifies that it shall be applied to cost statements, which require classification, presentation and disclosure of cost including those requiring attestation.
- 4. Definitions** are the terms that are being used in the standard with their meanings specified.
- 5. Principles of Measurement** specify the way of determining the value of various elements of cost. E.g. commonly, any element of cost shall not include, abnormal costs, imputed cost etc.
- 6. Assignment** refers to the assignment of any element of cost to the cost of production, commonly, like “Cause and Effect”, “Benefits received” etc. Costs shall be directly traced to a Cost object to the extent it is economically feasible any if not, shall be assigned to the cost object on appropriate basis.
- 7. Presentation** refers to the principle of whether an element of cost shall be presented as separate cost head or as a part of a class or group of costs, mostly indirect. This depends on the classification of the specific element of cost as direct or indirect.
- 8. Disclosures** specify the details of the disclosures to be made in the cost statements in respect of the specific elements of cost.
- 9. Effective date** for all the standards, commonly, will be given at the end, which is the specific date of its commencement / enforcement.

*Students are advised to thoroughly go through all the standards, along with the guidance notes, on specific standards, issued by the Institute, for a comprehensive understanding. In view of the mandatory application of these standards, in conducting cost audits, it is essential to ensure that in the preparation and presentation of the cost statements, annexures to the cost audit report are in full compliance of these standards.*

## COST ACCOUNTING STANDARDS AND GACAP

### CAS –1

(REVISED 2015)

#### COST ACCOUNTING STANDARD ON

#### “CLASSIFICATION OF COST

The following is the COST ACCOUNTING STANDARD - 1 (CAS - 1) (Revised 2015) issued by the Council of the Institute of Cost Accountants of India for determination of “**CLASSIFICATION OF 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

This standard deals with the principles of Classification of Cost for determining the cost of product or service.

#### 2. Objective

*The objective of this standard is to bring uniformity and consistency in the principles of Classification of Cost for disclosure and presentation in the cost statements of a product or service.*

#### 3. Scope

*This standard shall be applied to cost statements, which require classification, presentation and disclosure of 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.*

**4.2 Administrative Overheads:** *Cost of all activities relating to general management and administration of an entity.*

Administrative overheads shall exclude production overheads, marketing overheads and interest and finance charges. Administrative overheads do not include administration cost relating to production, factory, works or manufacturing.

**4.3 Classification of cost:** *Classification of cost is the arrangement of items of costs in logical groups having regard to their nature (subjective classification) and purpose (objective classification).*

**4.4 Conversion cost:** *Conversion cost is the production cost excluding the cost of direct materials.*

**4.5 Cost:** *Cost is a measurement, in monetary terms, of the amount of resources used for the purpose of production of goods or rendering services.*

Manufacturing of goods or rendering services involves consumption of resources. The type of cost often referred to in the costing system depends on the purpose for which cost is incurred. For example, material cost is the price of materials consumed for manufacturing a product or for rendering a service.

- 4.6 Cost Centre:** *Any unit of an entity selected with a view to accumulating all cost under that unit. The unit can be division, department, section, group of plant and machinery, group of employees or combination of several units.*

Cost Centre is the logical unit for accumulation of cost. Cost Centre may be of two types –personal and impersonal cost centres. Personal cost centre consists of a person or a group of persons. Cost centres which are not personal cost centres are impersonal cost centres. Cost centres may also be classified into broad types i.e. Operating Cost Centres and Support- Service Cost Centres. Operating Cost Centres are those which are in the chain of operations like machine shop, welding shop, assembly shop, operation theatre, callcentre and so on. Support-service Cost centres are for rendering services to operating cost centre like power house, maintenance, stores, help desk, transport for call centre staff and so on.

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

- 4.8 Cost of Production:** *Cost of production of a product or a service consists of cost of materials consumed, direct employee costs, direct expenses, production overheads, quality control costs, packing costs, research and development costs and administrative overheads relating to production.*

Cost of production of a service means cost of the service rendered. To arrive at cost of production of goods, including those dispatched for captive consumption, adjustment for stock of work-in-process, finished goods, recoveries for sales of scrap, wastage and the like, shall be made.

- 4.9 Cost of Transportation:** *Cost of Transportation comprises of the cost of freight, cartage, transit insurance and cost of operating fleet and other incidental charges whether incurred internally or paid to an outside agency for transportation of goods but does not include detention and demurrage charges.*

Cost of transportation is classified as inward transportation cost and outward transportation cost.

- 4.10 Cost Unit:** *Cost Unit is a form of measurement of volume of production of a product or a service. Cost Unit is generally adopted on the basis of convenience and practice in the industry concerned.*

Examples:

- Power - MW
- Cement - MT
- Automobile - Number
- Transportation - Tonne- Kilometre

- 4.11 Development Cost:** *Development cost is the cost for 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 before the start of commercial production or use.*

- 4.12 Direct Employee Cost:** *Employee costs, which can be attributed to a cost object in an economically feasible way.*

- 4.13 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:

- Royalties charged on production
- Job charges
- Hire charges for use of specific equipment for a specific job
- Software services specifically required for a job

**4.14 Direct Materials: Materials, the costs of which can be attributed to a cost object in an economically feasible way.**

**4.15 Distribution Overheads: Distribution overheads, also known as distribution costs, are the costs incurred in handling a product or service from the time it is ready for despatch or delivery until it reaches the ultimate consumer including the units receiving the product or service in an inter-unit transfer.**

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

Examples:

- Secondary packing
- Outward transportation cost
- Warehousing cost
- Cost of delivering the products to customers
- Clearing and forwarding charges
- Cost of mending or replacing packing materials at distribution point.

**4.16 Employee Cost: Benefits paid or payable for the services rendered by employees (including temporary, part time and contract employees) of an entity.**

Explanation:

- 1 Contract employees include employees engaged by the employer on contract basis; either directly or through a contractor but does not include employees of any contractor engaged in the entity for a contractual job.
- 2 Compensation paid to employees for the past period on account of any dispute / court orders in the current period shall form part of employee cost, but not a part of production cost.
- 3 Short provisions of prior period employee cost in current period shall form part of the employee cost in the current period, but not a part of production cost.

Employee cost includes payment made in cash or kind.

**4.17 Fixed Costs: Fixed costs are costs which do not vary with the change in the volume of activity. Fixed indirect costs are termed fixed overheads.**

- 4.18 Indirect Employee Cost:** *Employee cost, which cannot be directly attributed to a particular cost object.*
- 4.19 Indirect Expenses:** *Expenses, which cannot be directly attributed to a particular cost object.*
- 4.20 Indirect Materials:** *Materials, the costs of which cannot be directly attributed to a particular cost object.*
- 4.21 Marketing overheads:** *Marketing Overheads comprise of selling overheads and distribution overheads.*
- 4.22 Material Cost:** *The cost of material used for the purpose of production of a product or rendering a service.*
- 4.23 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.*

The above definition is also applicable for normal capacity in relation to a service being rendered.

- 4.24 Overheads:** *Overheads comprise costs of indirect materials, indirect employees and indirect expenses.*
- 4.25 Packing Material Cost:** *The cost of material of any nature used for the purpose of packing of a product.*

Packing material can be classified into primary packing material and secondary packing material. Primary packing material is essential to hold and preserve the product for its use by the customer and secondary packing material enables to store, transport, inform the customer, promote and otherwise make the product marketable.

- 4.26 Prime cost:** *Prime cost is the aggregate of direct material cost, direct Employee cost and direct expenses.*
- 4.27 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. Production overheads include administration costs relating to production, factory, works or manufacturing.

- 4.28 Research Cost:** *Research cost is the cost of original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.*
- 4.29 Selling Overheads:** *Selling overheads are the expenses related to sale of products or services and include all indirect expenses incurred in selling the products or services.*

Selling overheads are also known as selling costs.

- 4.30 Semi Variable Costs:** *Semi Variable Costs are the costs that contain both fixed and variable elements. They partly change with the change in the level of activity.*
- 4.31 Support-Service Cost Centre:** *The cost centre which primarily provides auxiliary services across the entity.*

The cost centre which provides services to production, operation or other service cost centre but not

directly engaged in manufacturing process or operation or in rendering a service is a support-service cost centre. A support-service cost centre renders services to other cost centre's/other units and in some cases to outside parties.

Examples:

- Engineering
- Workshop
- Quality control
- Quality assurance
- Designing
- Laboratory
- Help desk
- Transport for call centre staff

**4.32 *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 cost 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.

**4.33 *Variable Costs: Variable costs are the cost which tends to directly vary with the volume of activity.***

Variable indirect costs are termed as variable overheads.

**5. Principles of Classification of Costs**

**5.1 *Costs shall be classified by the process of grouping the components of cost under a common designation on the basis of similarities of nature, attributes or relations. Items grouped together under common heads shall be further classified according to their fundamental differences.***

It is the process of identification of each item and the systematic placement of like items together according to their common features. The same costs may appear in several different classifications depending on the purpose of classification.

Cost is classified normally in terms of managerial objective. Its presentation normally requires sub-classification. Such sub-classification may be according to nature of the cost elements, functional lines, areas of responsibility, or some other useful break-up. The appropriate sub-classification depends upon the uses to be made of the cost report.

Cost may be classified with reference to the nature of expense, its traceability to a cost object (direct/indirect), its relation to functions /activities, its behaviour (fixed, semi-variable or variable)and its relationship to production process.

**5.2 *Scheme of classification shall be such that every item of cost is classified.***

## 6. Classification of Costs

### 6.1 By Nature of expenses

**6.1.1** *Items of costs differ on the basis of their nature. Costs shall be gathered together in their natural groupings such as material, employee and expenses. The elements of cost can be classified in the following three categories :*

- i) Material*
- ii) Employee*
- iii) Expenses*

**6.1.2** *Material Costs are cost of materials used for the purpose of production of a product or rendering of a service, net of trade discounts, rebates, taxes and duties refundable that can be quantified with reasonable accuracy.*

**6.1.3** *Employee Costs are consideration, including benefits paid or payable to employees, permanent or temporary, for the purpose of production of a product or rendering of a service.*

It is the aggregate of all kinds of consideration paid and payable for the services rendered by employees of an entity (including temporary, part time and contract employees). Consideration includes wages, salaries, and other payments, including benefits, as applicable.

**6.1.4** *Expenses are costs other than material cost and employee cost for the purpose of production of a product or rendering of a service.*

Examples:

- Cost of utilities
- Payment for bought out services
- Job processing charges

### 6.2 By nature of traceability to a cost object

**6.2.1** *Classification shall be on the basis of method of assigning cost to a cost object. If a cost can be assigned to a cost object in an economically feasible way, it shall be termed as direct to that cost object. A cost that cannot be assigned directly shall be indirect cost.*

**6.2.2** *Direct Material Costs are the cost of materials which can be assigned to a cost object in an economically feasible way.*

Raw materials consumed for production of a product or rendering of a service which are identifiable to the product or service form the direct material cost. Direct material cost includes cost of procurement, freight inward, taxes & duties and insurance directly attributable to the acquisition of the material. Trade discounts, rebates, duty drawbacks, refunds of duties/taxes and other similar items are deducted in determining the costs of direct material.

**6.2.3** *Direct Employee Cost are employee costs, which can be assigned to a cost object in an economically feasible way.*

Example :

The cost of wages of those workers who are readily identified or linked with a cost centre or cost object, including the fringe benefits like provident fund contribution, gratuity, ESI, overtime, incentives, bonus, ex-gratia, leave encashment and wages for holidays and idle time.

**6.2.4 Direct Expenses are expenses, which can be assigned to a cost object.**

Examples:

- Expenses for special moulds required in a particular cost centre
- Hiring charges for tools and equipments for a cost centre
- Royalties in connection to a product
- Job processing charges

**6.2.5 Indirect Material Costs are cost of materials, which cannot be directly assigned to a particular cost object in an economically feasible way.**

Examples:

- Consumable spares and parts
- Lubricants
- Cost of computer stationary for administrative function

**6.2.6 Indirect Employee costs are employee costs, which cannot be directly assigned to a particular cost object in an economically feasible way.**

Examples:

- Salaries of security staff
- Operating manager's salary

**6.2.7 Indirect Expenses are expenses, which cannot be directly assigned to a particular cost object in an economically feasible way.**

Examples:

- Insurance
- Rates and Taxes

**6.3 By function**

**6.3.1 Costs shall be classified according to major functions viz:**

- **Production/ Project;**
- **Administration;**
- **Selling;**

- *Distribution;*
- *Research;*
- *Development;*

#### 6.4 *By nature of behaviour*

6.4.1 *Costs shall be classified based on behaviour in response to the changes in the activity levels such as, fixed cost, variable cost and semi-variable cost.*

#### 6.5 *By nature of production or operation process*

6.5.1 *Costs shall also be classified on the basis of nature of production or operation process.*

6.5.2 *Batch Cost shall be the aggregate cost related to a cost unit which consist of a group of similar articles or services which maintain its identity throughout one or more stages of production or operation.*

6.5.3 *Process cost shall be the cost of production or operation process where goods are produced or services rendered from a sequence of continuous or repetitive operations or processes during a period.*

6.5.4 *Operation Cost shall be the cost a specific operation involved in production of goods or rendering of services.*

6.5.5 *Contract cost shall be the cost of a contract agreed upon between the contractee and the contractor.*

6.5.6 *Joint costs are the costs of common resources used for producing two or more products or rendering two or more services simultaneously.*

### 7. **Presentation**

7.1 *The cost items in the cost statement shall be presented on ‘basis of relevant classification’.*

7.2 *The classification of cost items shall be followed consistently from period to period.*

### 8. **Disclosure**

8.1 *Any change in classification of cost shall be made only if it is required by law or for compliance with a Cost Accounting Standard or such change would result in a more appropriate preparation or presentation of cost statements of an entity.*

8.2 *Any change in classification of cost which has a material effect on the cost of the product shall be disclosed in the cost statements. Where the effect of such change is not ascertainable wholly or partly, the fact shall be indicated in the cost statement.*

## CAS – 2

(REVISED 2024)

**COST ACCOUNTING STANDARD ON CAPACITY DETERMINATION**

The following is the Cost Accounting Standard-2 (Revised 2024) 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 Achievable or Practical Capacity: ‘Practical or Achievable Capacity’ is the maximum productive capacity 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.*

- 4.2 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.

- 4.3 Bottleneck: refers to an obstruction that hinders or restricts the flow of workflow processes, thereby constraining capacity of production / rendering of services within a business.*

A process step that becomes a congestion point or a blockage for flow of work; It is like the neck of the bottle – smaller (in diameter) – that restricts the flow of contents from the bottle.

*For example:* a manufacturing plant wherein a particular machine has a lower processing capacity as compared to the machines before and after it in the production line. As a result this machine becomes overwhelmed with work, causing a backlog of items waiting to be processed, slowing down the entire production process, and potentially delaying the delivery of finished products to customers.

- 4.4 ***Excess Capacity Utilization:*** is the difference between installed capacity and the actual capacity utilization when actual capacity utilization is more than installed capacity.
- 4.5 ***Idle Capacity:*** is the difference between installed capacity and the actual capacity utilization when actual capacity utilization is less than installed capacity.
- 4.6 ***Installed capacity:*** is the maximum capacity of producing goods or providing services, according to the manufacturer's specifications or determined through an expert study.
- 4.7 ***Licensed Capacity:*** is the capacity of producing goods or providing services for which licence has been issued by an appropriate authority. ***Licensed Capacity*** is sometimes termed as ***Allowed or Allotted Capacity***.
- 4.8 ***Normal Capacity:*** is the capacity achieved or achievable for goods or services on an average over a number of periods or seasons under normal circumstances.

## 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.***
    - a) 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.
    - b) In case the installed capacity is assessed as per direction of the Government or regulator it shall be in accordance with the said directives.
    - c) Bottlenecks are to be given due consideration while determining the Installed capacity.
- 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 1st April 2024 for being applied for the preparation and certification of General Purpose Cost Accounting Statement.

**CAS-3 (REVISED 2015)****COST ACCOUNTING STANDARD ON “PRODUCTION AND OPERATION OVERHEADS”**

The following is the Cost Accounting Standard on **PRODUCTION AND OPERATION OVERHEADS** (CAS-3) (Revised 2015) issued by the Council of the Institute of Cost Accountants of India. This standard replaces CAS-3 (Revised 2011) on Overheads. In this Standard, the standard portions have been set in *bold italic* type. This standard shall 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 Production or Operation Overheads.

**1.2** *This standard deals with the principles and methods of classification, measurement and assignment of Production or Operation Overheads, for determination of the cost of goods produced or services provided and for 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 Production or Operation Overheads with reasonable accuracy.*

**3. Scope**

*This standard shall be applied to cost statements, which require classification, measurement, assignment, presentation and disclosure of Production or Operation Overheads 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 or due to some abnormal situation of the production or operation.*

**4.2** *Absorption of Production or Operation Overheads: Assigning of Production or Operation Overheads to cost objects by means of appropriate absorption rate.*

Overhead Absorption Rate = Production or Operation Overheads of the Activity divided by the volume of activity.

For example the rate obtained by dividing the overheads of a Machine Shop by machine hours.

**4.3** *Administrative Overheads: Cost of all activities relating to general management and administration of an entity.*

Administrative overheads shall exclude production overheads, marketing overheads and finance cost. Production overheads includes administration cost relating to production, factory, works or manufacturing.

**4.4** *Cost Centre: Any unit of an entity selected with a view to accumulating all costs under that unit. The unit can be division, department, section, group of plant and machinery, group of employees or combination of several units.*

A cost centre includes a process, function, activity, location, item of equipment, group of persons or any other unit in relation to which costs are accumulated.

- 4.5 Cost Object:** *An activity, contract, cost centre, customer, process, product, project, service or any other object for which costs are ascertained.*
- 4.6 Fixed costs:** *Fixed costs are costs which do not vary with the change in the volume of activity. Fixed indirect costs are termed fixed overheads.*
- 4.7 Imputed Cost:** *Notional cost, not involving cash outlay, computed for any purpose.*
- 4.8 Indirect Employee Cost:** *Employee cost, 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 Indirect Material Cost:** *Material cost that cannot be directly attributed to a particular cost object.*
- 4.11 Normal capacity:** *Normal capacity is the volume of production or services achieved or achievable on an average over a period under normal circumstances taking into account the reduction in capacity resulting from planned maintenance (In line with paragraph 4.5 of CAS – 2 (Revised 2015)).*
- 4.12 Production or Operation Overheads:** *Indirect costs involved in the production of a product or in providing service.*

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

Production or Operation Overheads include administration cost relating to production, factory, works or manufacturing and providing of services.

In addition Production or Operation Overheads shall also be classified on the basis of behaviour such as variable Production or Operation Overheads, semi-variable Production or Operation Overheads and fixed Production or Operation Overheads.

- Variable Production or Operation Overheads comprise of expenses which vary in proportion to the change of volume of production or activity or services provided.
- Semi Variable Costs are the costs that contain both fixed and variable elements. They partly change with the change in the level of activity.
- Fixed overhead are indirect costs which do not vary with the change in the volume of production or activity or service provided.

- 4.13 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 cost 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.

- 4.14 Variable costs:** *Variable costs are the cost which tends to directly vary with the volume of activity.*

## 5. Principles of Measurement:

- 5.1 Production or Operation Overheads representing procurement of resources shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discounts), taxes and duties refundable or to be credited.**

**5.2** *Production or Operation Overheads other than those referred to in paragraph 5.1 shall be determined on the basis of cost incurred in connection therewith.*

In case of machinery spare fabricated internally or a repair job carried out internally, it will include cost incurred on material, employees and expenses.

**5.3** *Any abnormal cost where it is material and quantifiable shall not form part of the Production or Operation Overheads.*

**5.4** *Production or Operation Overheads shall not include imputed cost.*

**5.5** *Production or Operation Overhead variances attributable to normal reasons shall be treated as part of Production or Operation Overheads. Overhead variances attributable to abnormal reasons shall be excluded from Production or Operation Overheads.*

**5.6** *Any subsidy, Grant, Incentive or amount of similar nature received or receivable with respect to Production or Operation Overheads shall be reduced for ascertainment of the cost of the cost object to which such amounts are related.*

**5.7** *Fines, penalties, damages and similar levies paid or payable to statutory authorities or other third parties shall not form part of the Production or Operation Overheads.*

**5.8** *Credits or recoveries relating to the Production or Operation Overheads, material and quantifiable, shall be deducted from the total Production or Operation overheads to arrive at the net Production or Operation Overheads. Where the recovery exceeds the total Production or Operation Overheads, the balance recovery shall be treated as other income.*

**5.9** *Any change in the cost accounting principles applied for the measurement of the Production or Operation Overheads shall 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 entity.*

## **6. Assignment**

**6.1** *While assigning Production or Operation Overheads, traceability to a cost object in an economically feasible manner shall be the guiding principle. The cost which can be traced directly to a cost object shall be directly assigned.*

**6.2** *Assignment of Production or Operation Overheads to the cost objects shall be 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 – Production Overheads are to be apportioned to the various cost objects in proportion to the benefits received by them.*

In case of facilities created on a standby or ready to serve basis, the cost shall be assigned on the basis of expected benefits instead of actual.

**6.3** *Absorption of Production or Operation Overheads shall be as follows:*

**6.3.1** *The variable Production or Operation Overheads shall be absorbed to products or services based on actual production.*

*6.3.2 The fixed Production or Operation Overheads shall be absorbed based on the normal capacity.*

**7. Presentation**

*7.1 Production or Operation Overheads shall be presented as separate cost head.*

*7.2 If material, element wise and behaviour wise details of the Production or Operation Overheads shall be presented.*

*7.3 Any under-absorption or over-absorption of Production or Operation Overheads shall be presented in the reconciliation statement.*

**8. Disclosures**

*8.1 The cost statements shall disclose the following:*

- 1. The basis of assignment of Production or Operation Overheads to the cost objects.*
- 2. Production or Operation Overheads incurred in foreign exchange.*
- 3. Production or Operation Overheads relating to resources received from or supplied to related parties (Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement).*
- 4. Any Subsidy, Grant, Incentive or any amount of similar nature received or receivable reduced from Production or Operation Overheads.*
- 5. Credits or recoveries relating to the Production or Operation Overheads.*
- 6. Any abnormal cost not forming part of the Production or Operation Overheads.*
- 7. Any unabsorbed Production or Operation Overheads.*

*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 Production or Operation Overheads during the period covered by the cost statement which has a material effect on the Production or Operation Overheads shall be disclosed. Where the effect of such change is not ascertainable wholly or partly the fact shall be indicated.*

**9. Effective date**

This Cost Accounting Standard shall be effective from the period commencing on or after 1st April 2016 for being applied for the preparation and certification of General Purpose Cost Accounting Statement.

**CAS-4 (REVISED 2018)****COST ACCOUNTING STANDARD ON COST OF PRODUCTION / ACQUISITION / SUPPLY OF GOODS / PROVISION OF SERVICES**

The following is the Cost Accounting Standard (CAS-4) (Revised 2018) on “**COST OF PRODUCTION/ ACQUISITION/ SUPPLY OF GOODS / PROVISION OF SERVICES**” issued by the Council of the Institute of Cost Accountants of India (ICAI). This Standard replaces CAS-4 on Cost of Production for Captive Consumption issued earlier. The CAS-4 (Revised 2018) deals with the determination of cost of production or acquisition or supply of goods or provision of services or both. In this Standard, the standard portions have been set in ***bold italic*** type. These should be read in the context of the background material which has been set in normal type.

**1. Introduction**

**1.1.** Cost Accounting Standard 4 (CAS-4) was issued to specify the principles for determination of cost of production for valuation of goods meant for captive consumption, as required under the Central Excise Valuation (Determination of Price of Excisable Goods) Rules 2000. CBEC, vide circular No. 692/8/2003-CX dated 13-2-2003 had clarified that in case of captive consumption, cost calculation should be as per CAS-4 only.

**1.2.** With the introduction of Goods and Services Tax [GST] with effect from July 1, 2017, the concept of ‘captive consumption’ is no more relevant for computing the tax incidence. However, the concept of cost of production or manufacture is relevant under the GST laws where the value of supply of goods or services or both are determined based on cost.

1.2.1. As per section 15(1) of the CGST Act, where the supplier and the recipient of the supply are not related and price is the sole consideration for the supply, the value of supply of goods or services or both shall be the transaction value. Section 15(4) provides that where the value of the supply of goods or services or both cannot be determined under sub-section (1), the same shall be determined in such manner as may be prescribed. These have been prescribed under Chapter IV of the CGST Rules, 2017.

1.2.2. Rules 27, 28, & 29 of the CGST Rules provide for methodologies for determination of value of supply under certain situations.

As per Rule 27, where the supply of goods or services is for a consideration not wholly in money, the value of the supply shall be the open market value of such supply; or the sum total of consideration in money and equivalent; or the value of supply of goods or services or both of like kind and quality.

As per Rule 28, value of the supply of goods or services or both between distinct or related persons other than where the supply is made through an agent, shall be the open market value of such supply; or the value of supply of goods or services of like kind and quality.

Proviso to Rule 28 provides that where goods are intended for further supply as such by the recipient, the value shall be an amount equivalent to 90% of the price charged for the supply of goods of like kind and quality by the recipient to his customer not being a related person.

Where a recipient is eligible for input tax credit, the value declared in the invoice shall be deemed to be the open market value of the goods or services.

As per Rule 29, value of supply of goods between the principal and his agent shall be the open market value of the goods being supplied, or at the option of the supplier, be 90% of the price

charged for the supply of goods of like kind and quality by the recipient to his customer not being a related person, where the goods are intended for further supply by the said recipient.

- 1.2.3. Rules 27, 28, & 29, however, further provide that if the value of supply is not determinable under the said Rules, the same shall be determined by the application of Rule 30 or Rule 31 in that order.

As per Rule 30, the value shall be one hundred and ten percent of the cost of production or the cost of acquisition of such goods or the cost of provision of such services.

Rule 31 specifies residual method for determination of value of supply of goods or services or both. Where the value of supply of goods or services or both cannot be determined under Rule 27 to 30, the same shall be determined using reasonable means consistent with the principles and the general provisions of section 15 and the provisions of Chapter-IV of CGST Rules.

In the case of supply of services, the supplier may opt directly for Rule 31, ignoring Rule 30.

- 1.3. ***This Standard deals with the principles and methods of classification, measurement and assignment for the determination of cost of production or acquisition or supply of goods or provision of services as required under the provisions of GST Acts/Rules.***

## 2. Objective

***The objective of this Standard is to bring uniformity and consistency in the principles and methods of determining the cost of production or acquisition or supply of goods or provision of services as required under the provisions of GST Acts/Rules.***

The cost statements prepared based on this Standard will be used for determination of value of supply of goods or services or both. This Standard and its disclosure requirement will provide transparency in the valuation of goods and services.

This standard shall further ensure adequate accuracy in computing Transaction Value of supply for goods or services or both, where the open market value of supply of goods and services or value of supply of goods or services of like kind and quality are not available or same is not verifiable.

## 3. Scope

***This standard should be applied to cost statements which require classification, measurement, assignment, presentation, and disclosure of related costs for determination of the following under the relevant provisions of GST Acts/Rules.***

- (i) ***Determination of cost of production of goods;***
- (ii) ***Determination of cost of acquisition of goods;***
- (iii) ***Determination of cost of supply of goods;***
- (iv) ***Determination of cost of provision/supply of services ; and***
- (v) ***Determination of value of supply of goods or services as per open market value or as per goods or services of like kind and quality.***

## 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. *Actual Capacity Utilization:*** *Actual capacity utilization is the volume of production achieved or services 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.

**4.3. *Administrative Overheads:*** *Cost of all activities relating to general management and administration of an entity.*

Administrative overheads shall exclude production overheads, marketing overheads and finance cost. Production overheads include administration cost relating to production, factory, work or manufacturing.

**4.4. *Allocation of Overheads:*** *Allocation of overheads is assigning total amount of an item of cost directly to a cost object.*

**4.5. *Amortization:*** *Amortisation is the systematic allocation of the depreciable amount of an intangible asset over its useful life.*

**4.6. *Apportionment of Overheads:*** *Distribution of overheads to more than one cost objects on some equitable basis.*

**4.7. *By-product:*** *Product with relatively low value produced incidentally in the manufacturing of the product or service.*

**4.8. *Cost:*** *Cost is a measurement, in monetary terms, of the amount of resources used for the purpose of production of goods or rendering services.*

**4.9. *Cost of Purchase/ Acquisition:*** *The costs of purchase/ acquisition of Goods comprise the purchase price, import duties and other taxes (net of trade discounts, rebate, taxes and duties), and transport, handling, storage and other costs directly attributable to the acquisition of goods and services.*

Cost of acquisition of goods or services is conceptually synonymous to cost of purchase of goods.

**4.10. *Cost of Production of goods:*** *Cost of production of a product consists of materials consumed, Direct Wages and Salaries, direct expenses, works overheads, quality control costs, research and development costs, packing costs, administrative overheads relating to production.*

To arrive at cost of production of goods dispatched for captive consumption, adjustment for stock of Work-in-progress, finished goods, recoveries for sales of scrap, wastages etc. shall be made.

The terms Cost of Production or Cost of Manufacturing or Cost or Processing denote the same meaning and are used interchangeably.

**4.11. *Cost of Provision of Service:*** *Cost of provision of services consists of cost of materials consumed, direct employee costs, direct expenses, quality control costs, research and development costs, operation overheads and administrative overheads relating to provision of services.*

**4.12. *Defectives:*** *Materials Product or intermediate products that do not meet quality standards. This may include reworks or rejects.*

An intermediate product is a product that might require further processing before it is saleable to the ultimate consumer.

**4.12.1. Reworks: Defectives which can be brought up to the standards by putting in additional resources.**

Rework includes repairs, reconditioning, retro-fitment and refurbishing.

**4.12.2. Rejects: Defectives which cannot meet the quality standards even after putting in additional resources.**

Rejects may be disposed off as waste or sold for salvage value or recycled in the production process.

**4.13. Depreciation: Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.**

**4.13.1 Depreciable amount: The cost of an asset, or other amount substituted for cost in the financial statement, less its residual value.**

**4.13.2 Depreciable 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 other, for administrative, selling or distribution purposes; and

(b) are expected to be used during more than one accounting period.

Land is not a depreciable asset as it does not have a defined useful life.

**4.13.3 Useful life of asset: Useful life of asset is either:**

(a) the period over which a asset is expected to be available for use by an entity: or

(b) the number of production or similar units expected to be obtained from use of the asset by the entity.

**4.14. Development Cost: Development cost is the cost for 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 before the start of commercial production or use.**

**4.15. 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.**

**4.16. Employee Cost: Employee Benefits paid or payable in all forms of consideration given for the service rendered by employees (including temporary, part time and contract employees) of an entity.**

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.

- 4.16.1. *Direct Employee Cost: Employee cost, which can be attributed to a Cost object in an economically feasible way.*
- 4.16.2. *Indirect Employee Cost: Employee cost, which cannot be directly attributed to a particular cost object.*
- 4.17. *Excess Capacity Utilization: Excess capacity utilization is the difference between installed capacity and the actual capacity utilization when actual capacity utilization is more than installed capacity.*
- 4.18. *Idle Capacity: Idle capacity is the difference between installed capacity and the actual capacity utilization when actual capacity utilization is less than installed capacity.*
- 4.18.1. *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.*
- 4.18.2. *Normal Idle Capacity: Normal idle capacity is the difference between installed capacity and normal capacity.*
- 4.19. *Installed Capacity: Installed capacity is the maximum capacity of producing goods or providing services, according to the manufacturer's specifications or determined through an expert study.*
- 4.20. *Interest and Finance Costs: Interest and Financing Charges are interest and other costs incurred by an entity in connection with the arrangements.*

Examples are:

1. Interest and commitments 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 difference arising out 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.

- 4.21. *Joint Costs: Joint costs are the cost of common resources used to produce two or more products or services simultaneously.*
- 4.22. *Joint Product: Products or services that are produced simultaneously, by the same process, identifiable at the end of the process and recognised as main products or services having sufficient value.*
- 4.23. *Material Consumed: Material Consumed includes materials directly identified for production of goods or provision of Services such as:*
- (a) *Indigenous materials;*
  - (b) *Imported materials;*
  - (c) *Bought out items;*
  - (d) *Self-manufactured items;*
  - (e) *Process materials and other items;*
  - (f) *Materials received free of cost or at concessional value from the buyer;*
  - (g) *Accessories which are supplied along with the final product.*

Cost of material consumed consists of cost of material, freight inwards, insurance and other expenditure directly attributable to procurement and goods used for providing free warranty. (Net off duties and taxes, Trade discount, rebates, subsidies and other similar items)

**4.24. *Materials Cost: The cost of material used for the purpose of production of a product or rendering a service.***

**4.24.1. *Direct Materials: Materials, the costs of which can be attributed to a cost object in an economically feasible way.***

**4.24.2. *Indirect Materials: Materials, the costs of which cannot be directly attributed to a particular cost object.***

**4.25. *Normal Capacity: Normal Capacity is the production achieved or achievable on an average over a numbers of period or season under normal circumstances taking into account the loss of capacity resulting from planned maintenance.***

**4.26. *Overheads: Overheads comprise costs of indirect materials, indirect employees and indirect expenses.***

**4.27. *Packing Materials: Materials used to hold, identify, describe, store, protect, display, transport, promote and make the product marketable.***

**4.28. *Packing Material Cost: The cost of material of any nature used for the purpose of packing of product.***

**4.29. *Production or Operation Overheads: Indirect costs involved in the production of a product or in providing service.***

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

Production or Operation Overheads shall include administration cost relating to production, factory, works or manufacturing and providing of services.

In addition, Production or Operation Overheads shall be classified on the basis of behaviour such as variable Production or Operation Overheads, semi-variable Production or Operation Overheads and fixed Production or Operation Overheads.

- Variable Production or Operation Overheads comprise of expenses which vary in proportion to the change of volume of production or activity or services provided.
- Semi-variable Costs are the costs that contain both fixed and variable elements. They partly change with the change in the level of activity.
- Fixed Overheads are the costs which do not vary with the change in volume of production or activity or service provided.

**4.30. *Quality Control Cost: Cost of resources consumed towards quality control procedures.***

**4.31. *Repairs & 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.***

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

- 4.33. *Royalty: Royalty is any consideration for the use of asset (tangible and/or intangible) to the owner.*
- 4.34. *Scrap: Discarded material having no or insignificant value and which is usually either disposed of without further treatment (other than reclamation and handling) or reintroduced in place of raw material.*
- 4.35. *Selling Overheads: Selling overheads are the expenses related to sale of products or services and include all indirect expenses incurred in selling the products or services.*
- 4.36. *Standard Cost: A predetermined cost of a product or service based on technical specifications and efficient operating conditions.*
- 4.37. *Support Service Cost Centre: The cost centre which primarily provides auxiliary services across the entity.*
- 4.38. *Technical Know-how Fee: Technical Know-how Fee is a lump sum or periodical amount payable to provider of Technical Know-how in the form of design, drawings, training of personnel, or practical knowledge, skills or experience.*
- 4.39. *Waste and Spoilage:*
- 4.39.1. *Waste: Material lost during production or storage and discarded material which may or may not have any value.*
- 4.39.2. *Spoilage: Production that does not meet the quality requirements or specification cannot be rectified economically*

## 5. Principles of Measurement

- 5.1. *Cost of production or acquisition of goods or provision of services shall be measured for each type of goods or services separately.*
- 5.2. *Cost of production or acquisition or supply of each type of goods shall be the aggregate of direct and indirect costs relating to the production or acquisition or supply activity of those goods.*
- 5.3. *Cost of provision of each type of service shall be the aggregate of direct and indirect cost relating to that service activity.*
- 5.4. *Material cost shall be measured separately for each type of material, that is, for indigenous material, imported material, bought out components, process materials, self-manufactured items, and accessories for each type of goods or services.*
- 5.5. *The material cost of normal scrap/defectives which are rejects shall be included in the material cost of goods produced or services provided. The material cost of actual scrap/ defectives, not exceeding the normal quantity shall be adjusted in the material cost of good production. Realized or realizable value of scrap or waste shall be deducted for determination of cost of production or acquisition of goods or provision of services. Material Cost of abnormal scrap /defectives should not be included in material cost but treated as loss after deducting the realisable value of such scrap / defectives.*
- 5.6. *Employee Cost for each type of goods or services shall be measured separately.*
- 5.7. *The cost of utilities consumed for the production or acquisition or supply of each type of goods or provision of services shall be measured for each type of utility separately i.e. power, electricity, water, steam & gas.*

- 5.8. *Cost of packing material used for the production or acquisition or supply of goods or provision of services shall be measured for each type of goods or services separately.*

If goods are transferred / dispatched or supplied duly packed, the cost of such packing shall be included in the cost of goods transferred/dispached or supplied.

- 5.9. *Direct Expenses for the production or acquisition or supply of goods or provision of services shall be measured for each type of goods or services separately.*
- 5.10. *High value spare 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.*
- 5.11. *Repairs and maintenance cost for the production or acquisition or supply of goods or provision of services shall be measured for each type of goods or services separately.*
- 5.12. *Depreciation and Amortisation cost for the production or acquisition or supply of goods or provision of services shall be measured for each type of goods or services separately.*

Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

- 5.13. *Research & Development cost for the production or acquisition or supply of goods or provision of services shall be measured for each type of goods or services separately.*
- 5.14. *Cost incurred for the production or acquisition or supply of goods or provision of services after split-off point shall be measured for each type of Joint/By-Product or service for the resources consumed.*

In case the production process generates scrap or waste, realized or realizable value net of cost of disposal, of such scrap and waste shall be deducted from the cost of Joint Product.

- 5.15. *Royalty and Technical Know-how Fee for production or acquisition or supply of goods or provision of services paid or incurred in lump-sum or which are in the nature of 'one-time' payment, shall be amortised on the basis of the estimated output or benefit to be derived from the related Technical Know-how.*
- 5.16. *Royalty paid as a consideration for use of asset or on technology transfer, in any form, will form part of cost, however royalty paid on brand usage shall not form part of cost of production.*
- 5.17. *Quality Control cost incurred in-house for the production or acquisition or supply of goods or provision of services shall be the aggregate of the cost of resources used in the Quality Control activities in relation to each type of goods or service. The cost of resources procured from outside shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts, taxes and duties refundable or to be credited as input tax credit.*
- 5.18. *Production or Operation Overheads representing procurement of resources shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts; taxes and duties refundable or to be credited as input tax credit. Production or Operation Overheads other than those referred to above shall be determined on the basis of cost incurred in connection therewith.*

Industry Specific Operating Expenses: In case of process peculiarity of a particular industry, it may not be easily practicable to determine element-wise conversion cost of a product. In such situation, the company may calculate cost center/cost object-wise conversion cost. It may be summarized under 'industry specific operating expenses', instead of element-wise conversion cost e.g. Textile industry-spinning, weaving, processing.

- 5.19. *Any abnormal cost, where it is material and quantifiable, shall not form part of the cost of production or acquisition or supply of goods or provision of service.*
- 5.20. *Interest and other Finance costs shall not form part of cost of production or acquisition of goods or provision of services.*
- 5.21. *Impairment loss on assets shall not form part of cost of production or acquisition or supply of goods or provision of services.*
- 5.22. *Imputed costs shall not form part of cost of production or acquisition or supply of goods or provision of services.*
- 5.23. *Cost of production or acquisition or supply of goods or provision of services shall include cost of inputs received free of cost or at concessional value, net of input tax credit, from the recipient of goods or services and amortisation cost of free tools, pattern, dies, drawings, blue prints, technical maps, charts, engineering, development, art work, design work, plans, sketches, and the like necessary for the production or acquisition or supply of goods or provision of services.*
- 5.24. *Cost of production or acquisition or supply of goods or provision of services shall also include cost of rework, reconditioning, retro-fitment, production or operation overheads and other costs allocable to such activity, adjustment for stock of work-in-process and recoveries from sales of scrap and wastages and the like necessary for the production or acquisition or supply of goods or provision of services.*
- 5.25. *Subsidy or Grant or Incentive or any such payment received or receivable, from any entity other than the recipient of goods or service, with respect to any element of cost shall be deducted for ascertainment of the cost of production or acquisition or supply of goods or provision of services to which such amounts are related.*
- 5.26. *Any Grants recognized as deferred income in the financial statements shall also be reduced from the relevant element of cost of production or acquisition or supply of goods or provision of services.*
- 5.27. *The cost of production or acquisition or supply of goods or provision of services shall be determined based on the normal capacity or actual capacity utilization whichever is higher and unabsorbed cost, if any, shall be treated as abnormal cost.*
- 5.28. *Fines, penalties, damages, demurrage and similar levies paid to statutory authorities or other third parties shall not form part of the cost of production or acquisition or supply of goods or provision of services.*
- 5.29. *The forex component of imported material or other element of cost shall be converted at the rate on the date of the transaction. Any subsequent change in the exchange rate till payment or otherwise shall not form part of the cost of production or acquisition or supply of goods or provision of services.*
- 5.30. *Credits or recoveries relating to any element of cost including the facilities provided to outside parties, which are material and quantifiable, shall be deducted from the total cost of production or acquisition or supply of goods or provision of services.*

**5.31. *Work in process/progress stock shall be measured at cost computed for different stages of completion.***

Stock of work-in-process/progress shall be valued at cost on the basis of stages of completion as per cost accounting principles. Opening and closing stock of work-in-process/progress shall be adjusted for computation of cost of production or acquisition of goods or provision of services.

**6. Assignment of Cost**

**6.1. *Cost of production or acquisition or supply of goods or provision of services shall be determined on 'normal cost' basis. For this purpose, any abnormal and non-recurring costs, abnormally low plant utilization, abnormal rejections, accidents, strikes, fires, unexpected Court orders etc. shall be ignored.***

**6.2. *While assigning various elements of cost, traceability to goods or services in an economically feasible manner shall be the guiding principle. The cost which can be traced directly to each type of goods or services shall be directly assigned.***

**6.3. *Assignment of cost of producing or acquisition or supply of goods or providing services, which are not directly traceable to the goods or services shall be based on either of the following two principles;***

**6.3.1. *Cause and Effect – Cause is the process or operation or activity and effect is the incurrence of cost.***

**6.3.2. *Benefits received – to be apportioned to various cost objects in proportion to the benefits received by them.***

**6.4. *The variable production or operation overheads shall be absorbed based on actual production.***

**6.5. *The fixed production or operation overheads and other similar item of fixed costs such as quality control cost, research and development costs and administrative overheads relating to manufacturing shall be absorbed in the cost of production or acquisition or supply of goods or provision of services on the basis of the normal capacity or actual capacity utilization of the plant or service centre, whichever is higher.***

**6.6. *In case a production process results in more than one product being produced simultaneously, treatment of joint products and by-products shall be as under:***

**6.6.1. *In case joint products are produced, joint costs incurred upto the split off point are allocated between the products on a rational, equitable, and consistent basis.***

*Joint cost incurred shall be assigned to the joint products based on benefits received measured by using the physical unit method or equivalent cost or net realisable value at split off point. Net realisable value for this purpose means the net selling price per unit multiplied by quantity sold, adjusted for the post-split off costs.*

**6.6.2. *In case by-products are produced, the net realisable value of by-products is credited to the manufacturing cost of the main product.***

**6.7. *In case a process results in more than one service being produced simultaneously, joint costs incurred upto the split off point are allocated between the services on a rational, equitable, and consistent basis.***

**6.8. *Miscellaneous Income relating to production or operations shall be adjusted in the determination of cost of production or acquisition or supply of goods or of cost of providing a service.***

For example, income from sale of empty containers used for procurement of raw material shall be deducted in determination of manufacturing cost.

## 7. Presentation

7.1. *Cost Statements should be prepared as per the applicable format given in the Appendix to this Standard or as near thereto as possible, as listed below:*

7.1.1. *Appendix-1: Statement of Cost of Production of the taxable goods*

7.1.2. *Appendix-2: Statement of Cost of Provision/Supply of the taxable Services*

7.1.3. *Appendix-3: Statement of Cost of Acquisition of taxable goods*

7.1.4. *Appendix-4: Statement of Open Market Value / Value as per Goods or Services of like kind and quality*

7.2. *Companies covered under the Companies (Cost Records and Audit) Rules, 2014 issued under section 148 of the Companies Act 2013 shall prepare and present the cost records and cost statements in compliance with the said Rules, applicable Cost Accounting Standards, and Generally Accepted Cost Accounting Principles issued by the Institute.*

7.3. *Companies not covered under these Rules and all other entities shall prepare and present the cost records and cost statements in compliance with the applicable Cost Accounting Standards and Generally Accepted Cost Accounting Principles issued by the Institute.*

7.4. *Cost Statements as certified by the Cost Accountant in practice should enable the business entity to determine value of taxable goods or services at the time of supply and issue of tax invoice as required under section 31 of the CGST Act.*

7.5. *In cases where it may not be possible to determine true and fair cost of goods or services at the time of supply of such goods or services or both, the company should compute the cost on budgeted/estimated/standard cost basis and the Cost Accountant may issue provisional Cost certificate on such basis. In such cases, final certificate shall be issued after costs are finalized. In case of any variations in the costs and hence the value of goods or services, the supplier shall issue a Debit or Credit Note as per provisions of section 34 of the CGST Act.*

Examples of such cases are – Input costs or prices based on the LME prices; existence of cost escalation clauses in the supply contract; or where future costs of inputs and input services are unpredictable, uncertain and volatile, etc.

7.6. *Certified Cost Statements shall be presented with the following periodicity:*

7.6.1. *In case of registered person, whose aggregate turnover in the preceding financial year did not exceed the limits prescribed in Section 10 (1) of the CGST Act 2017, the Certified Cost Statement shall be issued for a six month period. For example costs for April to September shall be certified in March of the same year.*

7.6.2. *In case of registered person, whose aggregate turnover in the preceding financial year exceeds the limits prescribed in Section 10 (1) of the CGST Act 2017, Certified Cost Statement shall be issued on quarterly basis e.g. costs for July to September shall be certified in June of the same year.*

7.6.3. *Certified Cost Statement shall also be issued for the completed financial year, annually based on audited accounts on or before 31<sup>st</sup> December of the next financial year.*

7.7. *The cost statements shall be prepared by the Management and authenticated & signed by any Key Management Personnel in case of company, partner in case of partnership firm and proprietor in case of proprietary firm.*

7.8. *The statement shall be certified by a Cost Accountant in practice after the same is duly authenticated as above. The certificate may contain any qualification or disclosures as required.*

## 8. Disclosures

8.1. *Disclosure shall be made only where material, significant, and quantifiable.*

8.2. *If there is any change in cost accounting principles and practices during the period under review which may materially affect the cost of production or acquisition of goods or provision services in terms of comparability with previous period(s), the same shall be disclosed.*

8.3. *If opening stock and closing stock of work-in-progress are not readily available for certification purpose, the same should be disclosed.*

8.4. *Any fact which may have material impact on the costs as certified should be disclosed.*

## 9. Effective date

*This Cost Accounting Standard shall be effective from 1<sup>st</sup> March 2019 and will apply for preparation and certification of Cost Statements for determining the Cost of Production / Acquisition / Supply of Goods / Provision of Services as required under the provisions of GST Act/Rules, from the financial year 2018-19.*

Let us give an example:

A production process has three stages.

<u>Stage</u>	<u>Input material cost</u>	<u>Processing cost</u>	<u>Total</u>
	(₹ / MT)	(₹ / MT)	(₹ / MT)
1	2000	500	2500
2	2500	1000	3500
3	3500	1000	4500

If during the production process at stage, the scrap is produced and the same is recycled at stage 2 after making an expenditure of ₹ 200 per MT to make it suitable for re-processing at stage 2, then scrap will be valued @ ₹ (2500 – 200 ) i.e ₹ 2300. If no expenditure is involved to make scrap re-usable, the scrap value will be @ ₹2500. The scrap value for the scrap produced during a period calculated at the rate as explained above may be deducted to find out the cost of production for the period.

**Statement of Cost of Production of the taxable goods**  
(refer Rule 30 of the CGST Rules, 2017)

<b>A General Information</b>						
1	Name of the Manufacturer					
2	Address of the Manufacturer					
3	GSTIN of the Manufacturer					
4	Description of the Product					
5	HSN Code of the Product					
6	Period of validity of Cost Statement					
<b>B Quantitative Information</b>					<b>Unit</b>	<b>Quantity</b>
1	Quantity produced					
<b>C Cost Information</b>		<b>Unit</b>	<b>Quantity</b>	<b>Rate</b>	<b>Amount</b>	<b>Cost per Unit</b>
1	Cost of Material (Specify)					
	A.					
	B.					
	C.					
	Others					
2	Process Materials/Chemicals					
3	Cost of Utilities (Specify)					
	A.					
	B.					
	C.					
4	Direct Employee Cost					
5	Direct Expenses					
6	Consumable Stores and Spares					
7	Repairs and Maintenance Cost					
8	Quality Control Cost					
9	Reserach & Development Cost					
10	Technical Know-how Fee/Royalty, if any					
11	Depreciation / Amortization					
12	Other Production Overheads					
13	Administrative Overheads relating to cost of Production					

14	Industry specific Operating Expenses					
15	Total(1 to 14)					
16	Work-in-Progress Adjustments					
17	Less: Credit for Recoveries, if any					
18	Net Amount (15+/-16-17)					
19	Packing Cost					
20	Cost of Inputs received free or at concessional value from or on behalf the recipient of the taxable goods (net of input tax credit)					
21	Amortised cost of moulds, tools, dies and patterns, etc. received free of cost from or on behalf of the recipient of the taxable goods.					
22	Cost of Production (18 to 21)					

We hereby affirm as follows –

1. We have maintained the cost records as required.
2. The cost statement has been prepared in compliance with the applicable Cost Accounting Standards and generally accepted cost accounting principles.

Date:  
Representative

Seal & Signature of the Company's Authorised

I/We have verified the aforesaid cost data on test check basis with reference to the books of account, cost accounting records and other records.

Based on the information and explanations given to me/us, and our test checks performed and on the basis of Cost Accounting Standards and generally accepted cost accounting principles and practices followed by the Industry, I/we certify that the above cost data reflects true and fair view of the cost of production or manufacture of the above good.

Date: Seal & Signature of the Cost Accountant

Place: Membership No.: Firm Reg. No.:

**Note:**

1. **Separate Cost Statement(s) shall be prepared for each type of goods.**
2. **Any other material and significant fact in relation to compilation of the cost statement (s) should be disclosed by way of Notes.**

**Statement of Cost of Production of the taxable Service**  
(refer Rule 30 of the CGST Rules, 2017)

<b>A General Information</b>						
1	Name of the Supplier of Service					
2	Address of the Supplier of Service					
3	GSTIN of the Supplier of Service					
4	Description of the Service					
5	Service Code					
6	Period of validity of Cost Statement					
<b>B Quantitative Information (if applicable)</b>					<b>Unit</b>	<b>Quantity</b>
Quantum of Service Provided						
<b>C Cost Information</b>	<b>Unit</b>	<b>Quantity</b>	<b>Rate (₹)</b>	<b>Amount (₹)</b>	<b>Cost per Unit (₹)</b>	
1	Materials consumed (Specify major items)					
	A.					
	B.					
	C.					
	Others					
2	Utilities (Specify)					
	A.					
	B.					
	C.					
3	Direct Employee Cost					
4	Direct Expenses					
5	Consumable Stores and Spares					
6	Repairs and Maintenance					
7	Quality Control Expenses					
8	Reserach & Development Expenses					
9	Technical Know-how Fee/Royalty					
10	Depreciation / Amortization					
11	Operation Overheads relating to provision of services					
12	Administrative Overheads relating to Supply of Service					
13	Industry specific Operating Expenses					

14	Free supplies received from recipient or supplied on behalf of recipient, if any (net of input tax credit)					
15	Total (1 to 14)					
16	Less Credit for Recoveries, if any					
17	Cost of Services Provided (15-16)					

We hereby affirm as follows –

1. We have maintained the cost records as required.
2. The cost statement has been prepared in compliance with the applicable Cost Accounting Standards and generally accepted cost accounting principles.

Date:  
Representative

Seal & Signature of the Company's Authorised

I/We have verified the aforesaid cost data on test check basis with reference to the books of account, cost accounting records and other records.

Based on the information and explanations given to me/us, and our test checks performed and on the basis of Cost Accounting Standards and generally accepted cost accounting principles and practices followed by the Industry, I/we certify that the above cost data reflects true and fair view of the cost of providing the above taxable service.

Date:

Seal & Signature of the Cost Accountant

Place:

Membership No.:

Firm Reg. No.:

**Note:**

1. **Separate Cost Statement(s) shall be prepared for each service.**
2. **Any other material and significant fact in relation to compilation of the cost statement (s) should be disclosed by way of Notes**

**Statement showing Cost of Acquisition of the taxable Goods**  
(refer Rule 30 of the CGST Rules, 2017)

<b>A General Information</b>						
1	Name of the Acquirer					
2	Address of the Acquirer					
3	GSTIN of the Acquirer					
4	Description of the Product acquired					
5	HSN Code of the Product					
6	Period during which the goods were acquired					
7	Source by which acquired	Indigenous / Imported				
<b>B Quantitative Information</b>					<b>Unit</b>	<b>Quantity</b>
1	Opening Stock of acquired Goods					
2	Goods acquired during the period					
3	Closing Stock of acquired goods					
4	Quantity of acquired goods sold					
<b>C Cost Information (when acquired from Indigenous sources)</b>	<b>Unit</b>	<b>Quantity</b>	<b>Rate (₹)</b>	<b>Amount (₹)</b>	<b>Cost per Unit (₹)</b>	
1	Purchase Cost of the Goods acquired					
2	Inward Freight					
3	Inward Insurance					
4	Packing cost charged by the Supplier					
5	Incidental Expenses charged by the Supplier					
6	Commission charged by the Supplier					
7	Taxes, duties, cesses, fees and charges levied under any law other than the GST Laws					
8	Interest or late fee or penalty for delayed payment charged by the Supplier					
9	Less : Subsidy/Grants etc. received from the Government					

10	Storage Charges					
11	Administrative Overheads relating to acquisition of goods					
12	L/C Commission and other expenses directly connected with acquisition of goods					
13	Total (1 to 12)					
14	Less: Trade Discount or Rebate given by the Supplier					
15	Less: Credit for Recoveries, if any					
16	Less: Input Tax Credit availed					
17	Cost of Acquisition (13 to 17)					
<b>D</b>	<b>Cost Information (when acquired from Foreign sources)</b>	<b>Unit</b>	<b>Quantity</b>	<b>Rate (₹)</b>	<b>Amount (₹)</b>	<b>Cost per Unit (₹)</b>
1	Purchase Cost of the Goods acquired					
2	Inward Ocean/sea Freight from out of India to customs port					
3	Maritime Insurance					
4	Clearing & Forwarding Charges					
5	Inland Inward Freight					
6	Inward Insurance within India					
7	Packing cost charged by the Supplier					
8	Incidental Expenses charged by the Supplier					
9	Commission charged by the Supplier					
10	Taxes, duties, cesses, fees and charges levied under any law other than the GST Laws, where Input Tax Credit is not available					
11	Interest or late fee or penalty for delayed payment charged by the Supplier					
12	Subsidy/Grant etc. paid by person other than Government					
13	Storage Charges					
14	Administrative Overheads relating to acquisition of goods					
15	L/C Commission Charged					

16	Total (1 to 15)					
17	Less: Trade Discount or Rebate given by the Supplier					
18	Less: Credit for Recoveries, if any					
19	Less: Input Tax Credit availed					
20	Cost of Acquisition (16 to 19)					

We hereby affirm that we have maintained the cost records as required.

Date: \_\_\_\_\_ Seal & Signature of the Company's Authorised Representative

I/We have verified the aforesaid cost data on test check basis with reference to the books of account, cost accounting records and other records.

Based on the information and explanations given to me/us, and our test checks performed and on the basis of Cost Accounting Standards and generally accepted cost accounting principles and practices followed by the Industry, I/we certify that the above cost data reflects true and fair view of the cost of acquisition of the above taxable good.

Date: \_\_\_\_\_ Seal & Signature of the Cost Accountant

Place: \_\_\_\_\_ Membership No.: \_\_\_\_\_ Firm Reg. No.: \_\_\_\_\_

**Note:**

1. Separate Cost Statement(s) shall be prepared for each type of goods.
2. Any other material and significant fact in relation to compilation of the cost statement (s) should be disclosed by way of Notes.

**Statement of Open Market Value / Value as per Goods or Services of like kind and quality  
(refer Rules 27 to 29 of the CGST Rules, 2017)**

A	General Information	
1	Name of the Supplier of goods or services or both*	
2	Address of the Supplier of goods or services or both*	
3	GSTIN of the Supplier of goods or services or both*	
4	Description of the Product / Service*	
5	HSN Code of the Product / Service Code*	
6	Period of validity of the Cost Statement	
7	List of Documents Verified	
<p>On the basis of aforesaid documents and other details available with us, we hereby affirm that the open market value / value as per goods or services or both of the like kind and quality as stated above is ₹ _____.</p> <p>Date: _____ Seal &amp; Signature of the Company's Authorised Representative</p>		
<p>I/We have verified the aforesaid documents on test check basis.</p> <p>Based on the information and explanations given to me/us, and our test checks performed, I/we certify that the above value reflects true and fair value of the above taxable goods or services or both.</p> <p>Date: _____ Seal &amp; Signature of the Cost Accountant</p> <p>Place: _____ Membership No.: _____ Firm Reg. No.:</p>		
<p><b>Note:</b></p> <p><b>1. Separate Statement(s) shall be prepared for each goods or for each service.</b></p> <p><b>2. Any other material and significant fact in relation to compilation of the cost statement (s) should be disclosed by way of Notes</b></p> <p><b>*strike off whatever not relevant</b></p>		

**CAS -5**  
**COST ACCOUNTING STANDARD**  
**ON DETERMINATION OF**  
**AVERAGE (EQUALIZED) COST OF TRANSPORTATION**

The following is the text of the Cost Accounting Standard 5 (CAS-5) issued by the Council of the Institute of Cost & Works Accountants of India on “**DETERMINATION OF AVERAGE (EQUALIZED) COST OF TRANSPORTATION**”. This standard deals with the determination of average transportation cost of a product. 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 the normal type.

**1. Introduction:**

- 1.1 The cost accounting principles for tracing/identifying an element of cost, its allocation/apportionment to a product or service are well established. Transportation cost is an important element of cost for procurement of materials for production and for distribution of product for sale. Therefore, Cost Accounting Records should present transportation cost separately from the other cost of inward materials or cost of sales of finished goods. The Finance Act, 2003 also specifies the certification requirement of transportation cost for claiming deduction while arriving at the assessable value of excisable goods cleared for home consumption/ export. There is a need to standardize the record keeping of expenses relating to transportation and computation of transportation cost.

**2. Objective**

- 2.1 To bring uniformity in the application of principles and methods used in the determination of averaged/equalized transportation cost.
- 2.2 To prescribe the system to be followed for maintenance of records for collection of cost of transportation, its allocation/apportionment to cost centres, locations or products.

For example, transportation cost needs to be apportioned among excisable, exempted, non-excisable and other goods for arriving at the average of transportation cost of each class of goods.

- 2.3 To provide transparency in the determination of cost of transportation.

**3. Scope**

- 3.1 This standard should be applied for calculation of cost of transportation required under any statute or regulations or for any other purpose. For example, this standard can be used for :
- (a) determination of average transportation cost for claiming the deduction for arriving at the assessable value of excisable goods
  - (b) Insurance claim valuation
  - (c) Working out claim for freight subsidy under Fertilizer Industry Coordination Committee
  - (d) Administered price mechanism of freight cost element
  - (e) Determination of inward freight costs included or to be included in the cost of purchases attributable to the acquisition.
  - (f) Computation of freight included in the value of inventory for accounting on inventory or valuation of stock hypothecated with Banks / Financial Institution, etc.

#### 4. Definitions

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

**4.1** *Cost of Transportation comprises of the cost of freight, cartage, transit insurance and cost of operating fleet and other incidental charges whether incurred internally or paid to an outside agency for transportation of goods but does not include detention and demurrage charges.*

Explanation :

Cost of transportation is classified as inward transportation cost and outward transportation Cost.

**4.2** *Inward Transportation cost is the transportation expenses incurred in connection with materials / goods received at factory or place of use or sale/removal.*

**4.3** *Outward Transportation cost is the transportation expenses incurred in connection with the sale or delivery of materials or goods from factory or depot or any other place from where goods are sold / removed*

**4.4** *Freight is the charges paid or payable for transporting materials/ goods from one location to another.*

**4.5** *Cartage is the expenses incurred for movement of goods covering short distance for further transportation for delivery to customer or storage.*

**4.6** *Transit insurance cost is the amount of premium to be paid to cover the risk of loss /damage to the goods in transit.*

**4.7** *Depot is the bounded premises/place managed internally or by an agent, including consignment agent and C&F agent, franchisee for storing of materials/goods for further dispatch including the premises of Consignment Agent and C&F Agent for the purpose.*

Depot includes warehouses, godowns, storage yards, stock yards etc.

**4.8** *Equalized transportation cost means average transportation cost incurred during a specified period.*

**4.9** *Equalized freight means average freight.*

#### 5. Maintenance of records for ascertaining Transportation Cost

**5.1** *Proper records shall be maintained for recording the actual cost of transportation showing each element of cost such as freight, cartage, transit insurance and others after adjustment for recovery of transportation cost. Abnormal costs relating to transportation, if any, are to be identified and recorded for exclusion of computation of average transportation cost.*

**5.2** *In case of a manufacturer having his own transport fleet, proper records shall be maintained to determine the actual operating cost of vehicles showing details of various elements of cost, such as salaries and wages of driver, cleaners and others, cost of fuel, lubricant grease, amortized cost of tyres and battery, repairs and maintenance, depreciation of the vehicles, distance covered and trips made, goods hauled and transported to the depot.*

**5.3** *In case of hired transport charges incurred for despatch of goods, complete details shall be recorded as to date of despatch, type of transport used, description of the goods, destination of buyer, name of consignee, challan number, quantity of goods in terms of weight or volume, distance involved, amount paid, etc.*

**5.4** *Records shall be maintained separately for inward and outward transportation cost specifying the details particulars of goods despatched, name of supplier / recipient, amount of freight etc.*

- 5.5 *Separate records shall be maintained for identification of transportation cost towards inward movement of material (procurement) and transportation cost of outward movement of goods removed /sold for both home consumption and export.*
- 5.6 *Records for transportation cost from factory to depot and thereafter shall be maintained separately.*
- 5.7 *Records for transportation cost for carrying any material / product to job-workers place and back should be maintained separately so as include the same in the transaction value of the product.*
- 5.8 *Records for transportation cost for goods involved exclusively for trading activities shall be maintained separately and the same will not be included for claiming any deduction for calculating assessable value excisable goods cleared for home consumption.*
- 5.9 *Records of transportation cost directly allocable to a particular category of products should be maintained separately so that allocation in appendix –3 can be made.*
- 5.10 *For common transportation cost, both for own fleet or hired ones, proper records for basis of apportionment should be maintained.*
- 5.11 *Records for transportation cost for exempted goods, excisable goods cleared for export shall be maintained separately.*
- 5.12 *Separate records of cost for mode of transportation other than road like ship, air etc are to be maintained in appendix –2 which will be included in total cost of transportation.*

## 6. Treatment of cost:

- 6.1 *Inward transportation costs shall form the part of the cost of procurement of materials which are to be identified for proper allocation/ apportionment to the materials / products.*
- 6.2 *Outward transportation cost shall form the part of the cost of sale and shall be allocated / apportioned to the materials and goods on a suitable basis.*

Explanation :

Outward transportation cost of a product from factory to depot or any location of sale shall be included in the cost of sale of the goods available for sale.

- 6.3 *The following basis may be used, in order of priority, for apportionment of outward transportation cost depending upon the nature of products, unit of measurement followed and type of transport used:*
- (i) *Weight*
  - (ii) *Volume of goods*
  - (iii) *Tonne-Km*
  - (iv) *Unit / Equivalent unit*
  - (v) *Value of goods*
  - (vi) *Percentage of usage of space*

*Once a basis of apportionment is adopted, the same should be followed consistently.*

- 6.4 *For determining the transportation cost per unit, distance shall be factored in to arrive at weighted average cost.*

**6.5 Abnormal and non recurring cost shall not be a part of transportation cost.**

Explanation

Penalty, detention charges, demurrage and cost related to abnormal break down will not be included in transportation cost.

**7. Cost Sheet**

*The cost sheets shall be prepared and presented in a form as per Appendices 1,2 and 3 or as near thereto. Appendix 1 and Appendix 2 show the details of information to be maintained for compilation of transport cost for own fleet and hired transportation charges respectively. Appendix 1 is applicable where the organization is having its own fleet.*

*The directly allocable cost of own fleet (outward) shall be identified against different categories of products as shown in Appendix 3 and same shall be indicated there. Similarly, total common cost of own fleet (outward) shall be apportioned to different categories of products as shown in Appendix 3 on a basis which should be specified. The basis of apportionment may be adopted depending on the nature of product as indicated in para 6.3. Similar approach shall also be applied for hired outward transport charges.*

*More columns may be required to be shown in Appendix 3 specifying different types of transactions. For example : Sale on specific rate basis, sale of waste, scrap, return from customer, goods sent for job work, goods received after job work etc.*

*Unit of Measurement (UM) may vary depending upon the nature of the product. For example, Number, MT, Meter, Litre etc.*

*Proper records shall be maintained to show separately the Transportation Cost relating to sending of jobs to job contractors/convertors and receipt back of processed jobs/converted materials.*

*An enterprise shall be required to maintain cost records and other books of account in a manner which would facilitate preparation and verification of cost of transportation and other related charges and its apportioning to various products.*

**8. Transaction value :**

*'Transaction value' shall have the meaning assigned to it in Section 4 of The Central Excise Act, 1944 or Section 14 of The Customs Act , 1962 or as defined in any other Act or Regulations as the case may be.*

**9. The standard will be operative from the date of issue.**

Name of the Manufacturer:

Address of the Manufacturer:

**Statement of Operating Cost of own Fleet for the period.....**

SI No		
<b>A</b>	<b>QUANTITATIVE INFORMATION</b>	
A1	Number of Vehicles	
A2	Number of trips	
A3	Goods Transported – inward (UM)	
A4	Goods transported – outward (UM)	
A5	Goods transported – inward – Km	
A6	Goods transported – outward – Km	
A7	Total Goods transported inward – basis of apportionment ( Specify)	
A8	Total Goods transported outward – basis of apportionment ( Specify)	
<b>A9</b>	<b>Total ( A7+A8)</b>	
<b>B</b>	<b>COST INFORMATION</b>	(₹)
	Cost of Operation	
	Variable Cost	
B1.	Salaries & Wages of Drivers, Cleaners and others	
B2.	Fuel & Lubricants	
B3.	Consumables	
B4.	Amortized cost of Tyre, Tube & Battery	
B5.	Spares	
B6.	Repair & Maintenance	
B7.	Other Variable Cost ( specify)	
<b>B8.</b>	<b>Total Variable Cost (B1 to B7)</b>	
	<b>Fixed Cost</b>	
B9.	Insurance	
B10.	Licence Fee, Permit Fee and Taxes	
B11.	Depreciation	
B12.	Other Fixed Costs ( Specify)	
<b>B13.</b>	<b>Total Fixed Cost ( B9 to B12)</b>	
<b>B14.</b>	<b>Total Operating Cost (B8+B13)</b>	
<b>C</b>	<b>APPORTIONMENT (Basis to be specified) - usage</b>	
C1.	Inward Transport Cost (B14 × A7/ A9)	
C2.	Outward Transport Cost (B14 × A8/A9)	
C3.	Transit insurance for inward movement	
C4.	Transit insurance for outward movement	
C5.	Total transportation cost for inward movement (C1 + C3)	
C6.	Total transportation cost for outward movement (C2 + C4)	

**Note :**

1. Cost of Battery, and Tyres and Tubes shall to be amortised over its useful life.
2. Asset Register shall be maintained for determination of depreciation and amortization cost.
3. Separate Cost Sheet shall be prepared for different types of vehicles

**Name of the Manufacturer:**

Address of the Manufacturer:

**Statement of Hired Outward Transportation Cost for the period ending.....**

<b>A</b>	<b>Quantitative Information</b>	
A1	Quantity of goods transported – outward (UM)	
<b>B</b>	<b>(COST INFORMATION)</b>	(₹)
B1	Hired Transport Charges	
B2	Transit Insurance	
B3	Other ( specify)	
B4	Total Transportation cost ( B1 to B3)	

**Appendix -3**

**Name of the Manufacturer:**

Address of the Manufacturer:

**Statement of apportionment of Outward Transportation Cost to different goods and Determination of Averaged Outward Transport Cost for the period ending.....**

A	Quantitative Information	Total	Excisable goods			Specific Rated Goods	Goods Cleared for Export	Exempted Goods	Goods Cleared On MRP Basis	Goods Cleared from Factory to Customer	Goods Cleared from Depot to Customer	Others
			Product-Group 1	Product-Group 2	Product-Group 3							
A1	Goods transported Outwards (UM *)											
A2	Goods Transported Outward (KM)											
<b>B</b>	<b>Outward Transport Cost (₹)</b>											
B1	Directly allocated own fleet transportation cost (₹)											

B2	Basis of Apportionment of own fleet Cost (Specify)											
B3	Common own fleet transport cost to be apportioned											
B4	Directly allocated hired transportation charges (₹)											
B5	Basis of Apportionment of hired transportation cost (Specify)											
B6	Common hired transport charges to be apportioned											
B7	Total Transport Cost (B1+ B3+ B4 + B6)											
B8	Averaged transport cost per unit (B7/A1) (₹)											

\* UM is the Unit of measurement

Seal and signature of Company’s authorized representative

I /We, have verified above data and calculation in the appendix 1, 2 and 3 on test check basis with reference to the books of account, cost accounting records and other records. Based on the information and explanations given to me/us, and on the basis of generally accepted cost accounting principles and practices followed by the industry, I / We certify that the above cost data reflect true and fair view of averaged transport cost.

Date: Seal & Signature of Cost Accountant

Place: Membership No. ....

**CAS-6**  
**COST ACCOUNTING STANDARD ON MATERIAL COST**  
**(Revised 2017)**

The following is the COST ACCOUNTING STANDARD 6 (CAS 6) issued by the Council of The Institute of Cost Accountants of India on “**MATERIAL 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 principles and methods of determining the Material Cost.

Material for the purpose of this standard includes raw materials, process materials, additives, manufactured / bought out components, sub-assemblies, accessories, semi finished goods, consumable stores, spares and other indirect materials. This standard does not deal with Packing Materials as a separate standard is being issued on the subject.

**1.2** *This standard deals with the principles and methods of classification, measurement and assignment of material cost, for determination of the Cost of product or service, and the presentation and disclosure in cost statements.*

**1.3** The Standard deals with the following issues.

- Principle of Valuation of receipt of materials.
- Principle of Valuation of issue of materials.
- Assignment of material cost to cost objects.

## 2. Objective

*The objective of this standard is to bring uniformity and consistency in the principles and methods of determining the material cost with reasonable accuracy.*

## 3. Scope

*This standard should be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of material 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 (Adapted from CAS-1 Para 6.5.19).*

**4.2** **Administrative overheads:** *Cost of all activities relating to general management and administration of an entity.*

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

**4.4** **Defectives:** *Materials, products or intermediate products that do not meet quality standards. This may include reworks or rejects.*

**4.4.1 Reworks:** *Defectives which can be brought up to the standards by putting in additional resources.*

Rework includes repairs, reconditioning and refurbishing.

**4.4.2 Rejects:** *Defectives which cannot meet the quality standards even after putting in additional resources.*

Rejects may be disposed off as waste or sold for salvage value or recycled in the production process.

**4.5 Intermediate Product:** *An intermediate product is a product that requires further processing before it is saleable.*

**4.6 Materials:**

**4.6.1 Direct Materials:** *Materials the costs of which can be attributed to a cost object in an economically feasible way (Adapted from CAS 1-6.2.3).*

**4.6.2 Indirect Materials:** *Materials, the costs of which cannot be directly attributed to particular cost object (Adapted from CAS 1– 6.2.8).*

**4.7 Material Cost:** *The cost of material used for the purpose of production of a product or rendering a service.*

**4.8 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.

**4.9 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.

**4.10 Scrap:** *Discarded material having no or insignificant value and which is usually either disposed off without further treatment (other than reclamation and handling) or reintroduced into the process in place of raw material.*

**4.11 Standard Cost:** *A predetermined cost of a product or service based on technical specifications and efficient operating conditions*

The standard cost serves as a basis of cost control and as a measure of productive efficiency when ultimately posed with an actual cost. It provides management with a medium by which the effectiveness of current results is measured and responsibility for deviation is placed (Adapted from CAS 1\_ Para 6.7.5). Standard costs are used 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.

**4.12 Waste and spoilage:**

**4.12.1 Waste:** *Material lost during production or storage and discarded material which may or may not have any value.*

**4.12.2 Spoilage:** *Production that does not meet the quality requirements or specifications and cannot be rectified economically.*

## 5. Principles of Measurement

### 5.1. Principle of valuation of receipt of materials:

**5.1.1** *The material receipt should be valued at purchase price including duties and taxes, freight inwards, insurance, and other expenditure directly attributable to procurement (net of trade discounts, rebates, taxes and duties refundable or to be credited by the taxing authorities) that can be quantified with reasonable accuracy at the time of acquisition.*

Examples of taxes and duties to be deducted from cost are cenvat credits, credit for countervailing customs duty, sales tax set off/ vat credits and other similar items of credit recovered/ recoverable.

**5.1.2** *Finance costs incurred in connection with the acquisition of materials shall not form part of material cost.*

**5.1.3** *Self manufactured materials shall be valued including direct material cost, direct employee cost, direct expenses, factory overheads, share of administrative overheads relating to production but excluding share of other administrative overheads, finance cost and marketing overheads. In case of captive consumption, the valuation shall be in accordance with Cost Accounting Standard 4.*

**5.1.4** *Items such as spare parts, stand-by equipment and servicing equipment are 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 these are consumed.*

**5.1.5** *Normal loss or spoilage of material prior to reaching the factory or at places where the services are provided shall be absorbed in the cost of balance materials net of amounts recoverable from suppliers, insurers, carriers or recoveries from disposal.*

**5.1.6** *Losses due to shrinkage or evaporation and gain due to elongation or absorption of moisture etc., before the material is received shall be absorbed in material cost to the extent they are normal, with corresponding adjustment in the quantity.*

The adjustment for moisture will depend on whether dry weight is used for measurement.

**5.1.7** *The forex component of imported material cost shall be converted at the rate on the date of the transaction. Any subsequent change in the exchange rate till payment or otherwise shall not form part of the material cost.*

Explanation: The date on which a transaction (whether for goods or services) is recognised in accounting in conformity with generally accepted accounting principles.

**5.1.8** *Any demurrage or detention charges, or penalty levied by transport or other authorities shall not form part of the cost of materials.*

**5.1.9** *Subsidy/Grant/Incentive and any such payment received/receivable with respect to any material shall be reduced from cost for ascertainment of the cost of the cost object to which such amounts are related.*

### 5.2 Principle of valuation of issue of material

**5.2.1** *Issues shall be valued using appropriate assumptions on cost flow.*

E.g. First In First Out, Last In First Out, Weighted Average Rate.

The method of valuation shall be followed on a consistent basis.

- 5.2.2** *Where materials are accounted at standard cost, the price variances related to materials shall be treated as part of material cost.*
- 5.2.3** *Any abnormal cost shall be excluded from the material cost.*
- 5.2.4** *Wherever, material costs include transportation costs, determination of costs of transportation shall be governed by CAS 5 – Cost Accounting Standard on Determination of Average (Equalized) Cost of Transportation.*
- 5.3** *Self manufactured components and sub-assemblies shall be valued including direct material cost, direct employee cost, direct expenses, factory overheads, share of administrative overheads relating to production but excluding share of other administrative overheads, finance cost and marketing overheads. In case of captive consumption, the valuation shall be in accordance with Cost Accounting Standard 4.*
- 5.4** *The material cost of normal scrap/ defectives which are rejects shall be included in the material cost of goods manufactured. The material cost of actual scrap / defectives, not exceeding the normal shall be adjusted in the material cost of good production. Material Cost of abnormal scrap /defectives should not be included in material cost but treated as loss after giving credit to the realisable value of such scrap / defectives.*
- 6. Assignment of costs**
- The basis of assignment of costs to the cost of product or service is dealt within this section.
- 6.1 Assignment of costs – Materials**
- 6.1.1** *Assignment of material costs to cost objects: Material costs shall be directly traced to a Cost object to the extent it is economically feasible and /or shall be assigned to the cost object on the basis of material quantity consumed or similar identifiable measure and valued as per the principles laid under Paragraph 5.*
- 6.1.2** *Where the material costs are not directly traceable to the cost object, these may be assigned on a suitable basis like technical estimates.*
- 6.2 Assignment of costs – Direct Expenses**
- 6.2.1** *Where a material is processed or part manufactured by a third party according to specifications provided by the buyer, the processing/ manufacturing charges payable to the third party shall be treated as part of the material cost.*
- 6.2.2** *Wherever part of the manufacturing operations / activity is subcontracted, the subcontract charges related to materials shall be treated as direct expenses and assigned directly to the cost object.*
- 6.3 Assignment of costs– Indirect materials**
- 6.3.1** *The cost of indirect materials shall be assigned to the various Cost objects based on a suitable basis such as actual usage or technical norms or a similar identifiable measure.*
- 6.3.2** *The cost of materials like catalysts, dies, tools, moulds, patterns etc, which are relatable to production over a period of time shall be amortized over the production units benefited by such cost.*
- 6.3.3** *The cost of indirect material with life exceeding one year shall be included in cost over the useful life of the material.*

## 7. Presentation

Cost Statements governed by this standard, shall present material costs as detailed below:

### 7.1 *Direct Materials shall be classified in the cost statement under suitable heads.*

E.g.

- Raw materials,
- Components,
- Semi finished goods and
- Sub-assemblies

### 7.2 *Direct Materials shall be classified as Purchased - indigenous, imported and self manufactured.*

### 7.3 *Indirect Materials shall be classified in the cost statement under suitable heads.*

Indirect materials may be grouped under major heads like tools, stores and spares, machinery spares, jigs and fixtures, consumable stores, etc., if they are significant.

## 8. Disclosures

The following information should be disclosed in the cost statements dealing with determination of material cost.

### 8.1 *Quantity and rates of major items of materials shall be disclosed. Major items are defined as those who form 5% of cost of materials.*

### 8.2 *The basis of valuation of materials shall be disclosed.*

### 8.3 *Any change in the cost accounting principles and methods applied for the determination of the material cost during the period covered by the cost statement which has a material effect on the cost of the material shall be disclosed. Where the effect of such change is not ascertainable wholly or partly, the fact shall be indicated.*

### 8.4 *Any abnormal cost excluded from the material cost shall be disclosed.*

### 8.5 *Any demurrage or detention charges, penalty levied by transport or other authorities excluded from the material cost shall be disclosed.*

### 8.6 *Any Subsidy/Grant/Incentive or any such payment reduced from material cost shall be disclosed.*

### 8.7 *Cost of Materials procured from related parties (Related party as per the applicable legal requirements relating to the cost statement as on the date of statements) shall be disclosed*

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

### 8.9 *Disclosures may be made in the body of the Cost statement or as a footnote or as a separate schedule.*

## CAS – 7

## COST ACCOUNTING STANDARD ON EMPLOYEE COST

(Revised 2017)

The following is the COST ACCOUNTING STANDARD 7 (CAS - 7) issued by the Council of The Institute of Cost 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 (Adapted from CAS 1 paragraph 6.5.19).***
- 4.2 ***Abnormal Idle time: An unusual or atypical idle time occurrence of which is 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: Cost of all activities relating to general management and administration of an entity.***
- 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 ***Direct Employee Cost: Employee cost, which can be attributed to a Cost object in an economically feasible way (Adapted from CAS 1 paragraph 6.2.4 (Direct labour cost)).***
- 4.6 ***Distribution Overheads: Distribution overheads, also known as distribution costs, are the costs incurred in handling a product or service from the time it is ready for despatch or delivery until it***

*reaches the ultimate consumer including the units receiving the product or service in an inter-unit transfer*

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

**4.7 Employee cost: Employee benefits paid or payable in all forms of consideration given for the services rendered by employees (including temporary, part time and contract employees) of an entity.**

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.
- 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.
- Interest free or subsidised loans.
- Any other free or subsidised facility.
- Cost of Employees' stock option.

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

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

**4.10 *Indirect Employee Cost: Employee cost, which can not be directly attributed to a particular cost object (Adapted from CAS 1 paragraph 6.2.10).***

**4.11 *Marketing overheads: Marketing overheads comprise of selling overheads and distribution overheads.***

**4.12 *Overtime Premium: The extra amount payable beyond the normal wages and salaries for beyond the normal working hours.***

**4.13 *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.

**4.14 *Selling Overheads: Selling overheads are the expenses related to sale of products or services and include all indirect expenses incurred in selling the products or services.***

**4.15 *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 *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.*
- 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 (Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement).*
- 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.*

**CAS-8**  
**COST ACCOUNTING STANDARD ON COST OF UTILITIES**  
**(Revised 2017)**

The following is the COST ACCOUNTING STANDARD – 8 (CAS-8) issued by the Council of The Institute of Cost Accountants of India on “**COST OF UTILITIES**”, for comments. 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 cost of utilities.

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

**3. Scope**

3.1 *This standard shall be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of cost of utilities including those requiring attestation.*

3.2 *For determining the cost of production to arrive at an assessable value of excisable utilities used for captive consumption, Cost Accounting Standard 4 on Cost of Production for Captive Consumption (CAS 4) shall apply.*

3.3 *This standard shall not be applicable to the organizations primarily engaged in generation and sale of utilities.*

3.4 *This standard does not cover issues related to the ascertainment and treatment of carbon credits, which shall be dealt with in a separate standard.*

**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 (Adapted from CAS 1 paragraph 6.5.19).*

4.2 *Committed Cost: The cost of maintaining stand-by utilities shall be the committed cost.*

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

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

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

*Examples are:*

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.

**4.6 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 ( Adapted from CAS 2 paragraph 4.4).*

In case of any standby utility the normal capacity will be the same as actual production of the utility.

The normal capacity of a utility meant for captive consumption would be based on the normal capacity for the production facility of the end product of the consuming unit.

**4.7 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.

**4.8 Stand-by utilities:** *Any utility created as backup against any failure of the main source of utilities.*

**4.9 Utilities:** *Significant inputs such as power, steam, water, compressed air and the like which are used for manufacturing process but do not form part of the final product.*

## 5. Principles of measurement

**5.1** *Each type of utility shall be treated as a distinct cost object.*

**5.2** *Cost of utilities purchased shall be measured at cost of purchase including duties and taxes, transportation cost, insurance and other expenditure directly attributable to procurement (net of trade discounts, rebates, taxes and duties refundable or to be credited) that can be quantified with reasonable accuracy at the time of acquisition.*

**5.2.1** *Cost of self generated utilities for own consumption shall comprise direct material cost, direct employee cost, direct expenses and factory overheads.*

**5.2.2** *In case of Utilities generated for the purpose of inter unit transfers, the distribution cost incurred for such transfers shall be added to the cost of utilities determined as per paragraph 5.3.1.*

**5.2.3** *Cost of Utilities generated for the inter company transfers shall comprise direct material cost, direct employee cost, direct expenses, factory overheads, distribution cost and share of administrative overheads.*

**5.2.4** *Cost of Utilities generated for the sale to outside parties shall comprise direct material cost, direct employee cost, direct expenses, factory overheads, distribution cost, share of administrative overheads and marketing overheads.*

The sale value of such utilities will also include the margin.

**5.3** *Finance costs incurred in connection with the utilities shall not form part of cost of utilities.*

**5.4** *The cost of utilities shall include the cost of distribution of such utilities.*

The cost of distribution will consist of the cost of delivery of utilities up to the point of consumption.

**5.5** *Cost of utilities shall not include imputed costs.*

**5.6** *Where cost of utilities is accounted at standard cost, the price variances related to utilities shall be treated as part of cost of utilities and the portion of usage variances due to normal reasons shall be treated as part of cost of utilities. Usage variances due to abnormal reasons shall be treated as part of abnormal cost.*

**5.7** *Any Subsidy/Grant/Incentive or any such payment received/receivable with respect to any cost of utilities shall be reduced for ascertainment of the cost to which such amounts are related.*

**5.8** *The cost of production and distribution of utilities shall be determined based on the normal capacity or actual capacity utilization whichever is higher and unabsorbed cost, if any, shall be treated as abnormal cost (Adapted from paragraph 5.7 of CAS 3). Cost of a Stand-by Utility shall include the committed costs of maintaining such a utility.*

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

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

**5.11** *Credits/recoveries relating to the utilities including cost of utilities provided to outside parties, material and quantifiable, shall be deducted from the total cost of utility to arrive at the net cost of utility.*

**5.12** *Any change in the cost accounting principles applied for the measurement of the cost of utilities 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** *While assigning cost of utilities, traceability to a cost object in an economically feasible manner shall be the guiding principle.*

**6.2** *Where the cost of utilities is not directly traceable to cost object, it shall be assigned on the most appropriate basis.*

6.3 *The most appropriate basis of distribution of cost of a utility to the departments consuming services is to be derived from usage parameters.*

## 7. Presentation

7.1 *Utilities costs shall be presented as a separate cost head for each type of utility in the cost statement, if material.*

7.2 *Where separate cost statements are prepared for utilities, cost of utilities shall be classified as purchased or generated. Such statement shall also include cost of utilities consumed along with quantitative information by individual consuming units, inter unit transfers, inter company transfers and sale to outside parties wherever applicable.*

## 8. Disclosures

8.1 *The cost statements shall disclose the following:*

1. *The basis of distribution of Cost of Utility to the consuming centres.*
2. *The cost of purchase, production, distribution, marketing and price with reference to sales to outside parties.*
3. *Where cost of utilities is disclosed at standard cost, the price and usage variances.*
4. *The cost and price of Utility received from/supplied to related parties (Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement).*
5. *The cost and price of Utility received from/supplied as inter unit transfers and intercompany transfers*
6. *Cost of utilities incurred in foreign exchange.*
7. *Any Subsidy/Grant/Incentive and any such payment reduced from Cost of utilities.*
8. *Credits/recoveries relating to the Cost of utilities.*
9. *Any abnormal cost excluded from Cost of utilities.*
10. *Penalties and damages paid etc excluded from cost of utilities.*

8.2 *Any change in the cost accounting principles and methods applied for the measurement and assignment of the Cost of utilities during the period covered by the cost statement which has a material effect on the Cost of utilities. 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.*

**CAS 9**  
**COST ACCOUNTING STANDARD ON PACKING MATERIAL COST**  
**(Revised 2017)**

The following is the COST ACCOUNTING STANDARD - (CAS - 9) issued by the Council of The Institute of Cost Accountants of India on “**PACKING MATERIAL COST**”, for comments. 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 Packing Material Cost.
- 1.2** *This standard deals with the principles and methods of classification, measurement and assignment of Packing Material Cost, for determination of the cost of product, and the presentation and disclosure in cost statements.*
- 1.3** *Packing Materials for the purpose of this standard are classified into primary and secondary packing materials.*

**2. Objective**

*The objective of this standard is to bring uniformity and consistency in the principles and methods of determining the packing material cost with reasonable accuracy.*

**3. Scope**

*This standard should be applied to cost statements, which require classification, measurement, assignment, presentation and disclosure of Packing Material 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 (Adapted from CAS 1 Para 6.5.19).*

For example: the cost of packing material which is rejected after issue due to abnormal causes such as misprinting, use of material of wrong specification etc. (net of realisable value) may be treated as abnormal cost.

- 4.2** *Administrative Overheads: Cost of all activities relating to general management and administration of an entity.* Administrative overheads shall exclude any overhead relating to production, operations and marketing.
- 4.3** *Cost Object: An activity, contract, cost centre, customer, process, product, project, service or any other object for which costs are ascertained.*

- 4.4 Direct Employee Cost:** *Employee cost, which can be attributed to a cost object in an economically feasible way (Adapted from CAS 7 Para 4.6).*
- 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 (Adapted from CAS 1 Para 6.2.6 and also proposed in the CAS on Direct Expenses).* 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.
- 4.6 Direct Materials:** *Materials, the costs of which can be attributed to a cost object in an economically feasible way.*
- 4.7 Distribution Overheads:** *Distribution overheads, also known as distribution costs, are the costs incurred in handling a product or service from the time it is ready for despatch or delivery until it reaches the ultimate consumer including the units receiving the product or service in an inter-unit transfer.*

For example:

- Secondary packing
- Transportation cost
- Warehousing cost
- Cost of delivering the products to customers etc.
- Clearing and forwarding charges
- Cost of mending or replacing packing materials at distribution point.

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

For example: packing material supplied by the customer.

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

*Examples are:*

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.

- 4.10 Marketing overheads:** *Marketing Overheads comprise of selling overheads and distribution overheads.*

**4.11 Packing Materials: Materials used to hold, identify, describe, store, protect, display, transport, promote and make the product marketable.**

**4.11.1 Defectives: Materials, products or intermediate products that do not meet quality standards. This may include reworks or rejects.**

**4.11.1.1 Reworks: Defectives which can be brought up to the standards by putting in additional resources (Adapted from CAS 6 Para 4.4.1).**

Rework includes repairs, reconditioning and refurbishing.

**4.11.1.2 Rejects: Defectives which can not meet the quality standards even after putting in additional resources (Adapted from CAS 6 Para 4.4.2).**

Rejects may be disposed off as waste or sold for salvage value or recycled in the production process.

**4.11.2 Packing Material Cost: The cost of material of any nature used for the purpose of packing of a product.**

**4.11.3 Primary Packing Material: Packing material which is essential to hold and preserve the product for its use by the customer.**

For example:

- Pharmaceutical industry: Insertions related to product, Foils for strips of tablets/capsules, vials.
- Industrial gases: Cylinders / bottles used for filling the gaseous products
- Confectionary Industry: Butter paper and wrappers.

**4.11.4 Reusable Packing Material: Packing materials that are used more than once to pack the product.**

**4.11.5 Scrap: Discarded material having no or insignificant value and which is usually either disposed off without further treatment (other than reclamation and handling) or reintroduced into the process in place of raw material.**

**4.11.6 Secondary Packing Material: Packing material that enables to store, transport, inform the customer, promote and otherwise make the product marketable.**

For example:

- Pharmaceutical industry: Cartons used for holding strips of tablets and card board boxes used for holding cartons.
- Textile industry: Card board boxes used for holding cones on which yarn is woven.
- Confectionary Industry: Jars for holding wrapped chocolates, Cartons containing packs of biscuits.

**4.12 Packing Material Development Cost:** *Cost of evaluation of packing material such as pilot test, field test, consumer research, feed back, and final evaluation cost.*

**4.13 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.

**4.14 Selling Overheads:** *Selling overheads are the expenses related to sale of products or services and include all indirect expenses incurred in selling the products or services.*

**4.15 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 Principle of valuation of receipts of packing material:

**5.1.1** *The packing material receipts should be valued at purchase price including duties and taxes, freight inwards, insurance, and other expenditure directly attributable to procurement (net of trade discounts, rebates, taxes and duties refundable or to be credited) that can be quantified at the time of acquisition.*

Examples of taxes and duties to be deducted from cost are CENVAT credits, credit for countervailing customs duty, sales tax set off/ vat credits and other similar items of credit recovered/ recoverable.

**5.1.2** *Finance costs directly incurred in connection with the acquisition of Packing Material shall not form part of Packing Material Cost.*

**5.1.3** *Self manufactured packing materials shall be valued including direct material cost, direct employee cost, direct expenses, job charges, factory overheads including share of administrative overheads comprising factory management and administration and share of research and development cost incurred for development and improvement of existing process or product.*

**5.1.4** *The valuation of captive consumption of packing materials shall be in accordance with paragraph 5 of Cost Accounting Standard 4.*

**5.1.5** *Normal loss or spoilage of packing material prior to receipt in the factory shall be absorbed in the cost of balance materials net of amounts recoverable from suppliers, insurers, carriers or recoveries from disposal.*

**5.1.6** *The forex component of imported packing material cost shall be converted at the rate on the date of the transaction. Any subsequent change in the exchange rate till payment or otherwise shall not form part of the packing material cost.*

Explanation: The date on which a transaction (whether for goods or services) is recognised in accounting in conformity with generally accepted accounting principles.

**5.1.7** *Any demurrage, detention charges or penalty levied by the transport agency or any authority shall not form part of the cost of packing materials.*

**5.1.8** *Any Subsidy/Grant/Incentive or any such payment received/receivable with respect to packing material shall be reduced for ascertainment of the cost to which such amounts are related.*

## **5.2 Principle of valuation of issue of packing material**

*Issues shall be valued using appropriate assumptions on cost flow.*

For example: First In First Out, Last In First Out, Weighted Average Rate.

The method of valuation shall be followed on a consistent basis.

**5.3** *Wherever, packing material costs include transportation costs, determination of costs of transportation shall be governed by CAS 5 – Cost Accounting Standard on determination of average (equalized) cost of transportation.*

**5.4** *Packing Material Costs shall not include imputed costs. However in case of Cost of Production of Excisable Goods for Captive Consumption the computation of cost shall be as per CAS 4.*

**5.5** *Where packing materials are accounted at standard cost, the price variances related to such materials shall be treated as part of packing material cost and the portion of usage variances due to normal reasons shall be treated as part of packing material cost. Usage variances due to abnormal reasons shall be treated as part of abnormal cost.*

**5.6** *The normal loss arising from the issue or consumption of packing materials shall be included in the packing materials cost.*

**5.7** *Any abnormal cost where it is material and quantifiable shall be excluded from the packing material cost.*

**5.8** *The credits/recoveries in the nature of normal scrap arising from packing materials if any, should be deducted from the total cost of packing materials to arrive at the net cost of packing materials.*

## **6. Assignment of Cost**

**6.1** *Assignment of packing material costs to cost objects: Packing material costs shall be directly traced to a cost object to the extent it is economically feasible.*

**6.2** *Where the packing material costs are not directly traceable to the cost object, these may be assigned on the basis of quantity consumed or similar measures like technical estimates.*

**6.3** *The packing material cost of reusable packing shall be assigned to the cost object taking into account the number of times or the period over which it is expected to be reused.*

**6.4** *Cost of primary packing materials shall form part of the cost of production.*

**6.5** *Cost of secondary packing materials shall form part of distribution overheads.*

## 7. Presentation

- 7.1 *Packing Materials shall be classified as primary and secondary and within this classification as purchased – indigenous, imported and self manufactured.*
- 7.2 *Where separate cost statements are prepared for packing costs, the cost of packing materials consumed shall be presented in terms of type of packing in which the materials are used (For example; Bale, Bag, Carton, Pallet). Such statements shall also include cost and quantitative information, wherever it is found material and quantifiable.*

## 8. Disclosures

### 8.1 *The cost statements shall disclose the following:*

1. *The basis of valuation of Packing Materials.*
  2. *Where Packing Materials Cost is disclosed at standard cost, the price and usage variances.*
  3. *The cost and price of Packing Materials received from/supplied to related parties (Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement).*
  4. *Packing Materials cost incurred in foreign exchange.*
  5. *Any Subsidy/Grant/Incentive and any such payment reduced from Packing Materials Costs.*
  6. *Credits/recoveries relating to the Packing Materials Costs.*
  7. *Any abnormal cost excluded from Packing Materials Costs.*
  8. *Penalties and damages paid etc. excluded from Packing Materials Costs.*
- 8.2 *Any change in the cost accounting principles and methods applied for the measurement and assignment of the Packing Materials Costs during the period covered by the cost statement which has a material effect on the Packing Materials Cost shall be disclosed. 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.*

**CAS-10**  
**COST ACCOUNTING STANDARD ON DIRECT EXPENSES**  
**(Revised 2017)**

The following is the COST ACCOUNTING STANDARD – 10 (CAS-10) issued by the Council of The Institute of Cost Accountants of India on “**DIRECT EXPENSES**”, for comments. 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 Direct Expenses.

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

**3. Scope**

*This standard should be applied to cost statements, which require classification, measurement, assignment, presentation and disclosure of Direct Expenses 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 (Adapted from CAS 1 paragraph 6.5.19).*

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

**4.3** *Direct Employee Cost: Employee cost, which can be directly attributed to a cost object in an economically feasible way (Adapted from CAS 1 paragraph 6.2.4 (Direct labour cost)).*

**4.4** *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 (Adapted from CAS 1 paragraph 6.2.6).*

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.

**4.5 *Direct Material Cost: The cost of material which can be attributed to a cost object in an economically feasible way (Adapted from CAS 1-6.2.3).***

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

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

Examples are:

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.

**4.8 *Overheads: Overheads comprise costs of indirect materials, indirect employees and indirect expenses.***

**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 *Identification of Direct Expenses shall be based on traceability in an economically feasible manner.***

**5.2.1 *Direct expenses incurred for the use of bought out resources shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of trade discounts, rebates, taxes and duties refundable or to be credited.***

**5.2.2 *Direct expenses other than those referred to in paragraph 5.2.1 shall be determined on the basis of amount incurred in connection therewith.***

Examples: in case of dies and tools produced internally, the cost of such dies and tools will include direct material cost, direct employee cost, direct expenses, factory overheads including share of administrative overheads relating to production comprising factory management and administration.

In the case of research and development cost, the amount traceable to the cost object for development and improvement of the process for the existing product shall be included in Direct Expenses.

**5.2.3 *Direct Expenses paid or incurred in lump-sum or which are in the nature of ‘one – time’ payment, shall be amortised on the basis of the estimated output or benefit to be derived from such direct expenses.***

Examples: Royalty or Technical know-how fees, or drawing designing fees, are paid for which the benefit is ensued in the future period. In such case, the production / service volumes shall be estimated for the effective period and based on volume achieved during the Cost Accounting period, the charge for amortisation be determined.

- 5.3 *If an item of Direct Expenses does not meet the test of materiality, it can be treated as part of overheads.*
  - 5.4 *Finance costs incurred in connection with the self generated or procured resources shall not form part of Direct Expenses.*
  - 5.5 *Direct Expenses shall not include imputed costs. In case of goods produced for captive consumption, treatment of imputed cost shall be in accordance with Cost Accounting Standard – 4 (CAS-4).*
  - 5.6 *Where direct expenses are accounted at standard cost, variances due to normal reasons shall be treated as part of the Direct Expenses. Variances due to abnormal reasons shall not form part of the Direct Expenses.*
  - 5.7 *Any Subsidy/Grant/Incentive or any such payment received/receivable with respect to any Direct Expenses shall be reduced for ascertainment of the cost of the cost object to which such amounts are related.*
  - 5.8 *Any abnormal portion of the direct expenses where it is material and quantifiable shall not form part of the Direct Expenses.*
  - 5.9 *Penalties, damages paid to statutory authorities or other third parties shall not form part of the Direct Expenses.*
  - 5.10 *Credits/ recoveries relating to the Direct Expenses, material and quantifiable, shall be deducted to arrive at the net Direct Expenses.*
  - 5.11 *Any change in the cost accounting principles applied for the measurement of the Direct Expenses 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 *Direct Expenses that are directly traceable to the cost object shall be assigned to that cost object.*
  7. **Presentation**
    - 7.1 **Direct Expenses, if material, shall be presented as a separate cost head with suitable classification.**  
e.g.
      - Subcontract charges
      - Royalty on production
  8. **Disclosures**
    - 8.1 *The cost statements shall disclose the following:*

1. *The basis of distribution of Direct Expenses to the cost objects/ cost units.*
  2. *Quantity and rates of items of Direct Expenses, as applicable.*
  3. *Where Direct Expenses are accounted at standard cost, the price and usage variances.*
  4. *Direct expenses representing procurement of resources and expenses incurred in connection with resources generated.*
  5. *Direct Expenses paid/ payable to related parties (Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement).*
  6. *Direct Expenses incurred in foreign exchange.*
  7. *Any Subsidy/Grant/Incentive and any such payment reduced from Direct Expenses.*
  8. *Credits/recoveries relating to the Direct Expenses.*
  9. *Any abnormal portion of the Direct Expenses.*
  10. *Penalties and damages excluded from the Direct Expenses*
- 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 Direct Expenses during the period covered by the cost statement which has a material effect on the Direct Expenses. Where the effect of such change is not ascertainable wholly or partly the fact shall be indicated.*

## CAS - 11

## COST ACCOUNTING STANDARD ON ADMINISTRATIVE OVERHEADS

(Revised 2017)

The following is the COST ACCOUNTING STANDARD – (CAS-11) issued by the Council of The Institute of Cost Accountants of India on “**ADMINISTRATIVE OVERHEADS**”. 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 administrative overheads.

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

**3. Scope**

*This standard should be applied to cost statements, which require classification, measurement, assignment, presentation and disclosure of administrative overheads 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 (Adapted from CAS 1 Para 6.5.19).*

**4.2** *Absorption of overheads: Assigning of overheads to cost objects by means of appropriate absorption rate.*

Overhead Absorption Rate = Overheads of the Cost object / Quantum of base.

**4.3** *Administrative Overheads: Cost of all activities relating to general management and administration of an entity.*

Administrative overheads shall exclude production overheads (Paragraph reference 4.13 CAS -9), marketing overheads (Paragraph reference 4.11 CAS -7) and finance cost. Production overheads includes administration cost relating to production, factory, works or manufacturing.

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

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

Examples are:

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.

**4.7 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 (Adapted from CAS 2 Para 4.4).*

**4.8 Overheads:** *Overheads comprise costs of indirect materials, indirect employees and indirect expenses.*

## 5. Principles of Measurement

**5.1 Administrative overheads shall be the aggregate of cost of resources consumed in activities relating to general management and administration of an organisation.**

It usually represents the cost of shared services, cost of infrastructure and general management costs. Administrative overheads comprise items such as employee costs, utilities, office supplies, legal expenses and outside services. The principles of measurement of Material Cost, Employee Costs, Utilities, Repairs and Maintenance and Depreciation found in the respective standards will apply to these elements included in administrative overheads.

**5.2 In case of leased assets, if the lease is an operating lease, the entire rentals shall be included in the administrative overheads. If the lease is a financial lease, the finance cost portion shall be segregated and treated as part of finance costs.**

**5.3 The cost of software (developed in house, purchased, licensed or customized), including up-gradation cost shall be amortised over its estimated useful life.**

When hardware requires up-gradation along with software up-gradation, it is recommended that compatible estimated lives be used for the two sets of cost.

**5.4 The cost of administrative services procured from outside 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.**

**5.5 Any Subsidy/Grant/Incentive or any amount of similar nature received/receivable with respect to any Administrative overheads shall be reduced for ascertainment of the cost of the cost object to which such amounts are related.**

**5.6 Administrative overheads shall not include any abnormal administrative cost.**

Example: Expense incurred in a situation of natural calamity.

**5.7 Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the administrative overheads.**

**5.8 Credits/ recoveries relating to the administrative overheads including those rendered without any consideration, material and quantifiable, shall be deducted to arrive at the net administrative overheads.**

5.9 *Any change in the cost accounting principles applied for the measurement of the administrative overheads 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 Cost

6.1 *While assigning administrative overheads, traceability to a cost object in an economically feasible manner shall be the guiding principle.*

6.2 *Assignment of administrative overheads to the cost objects shall be 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 (Adapted from of CAS 3 Para 5.1).*

The costs of shared services should be assigned to user activities on the basis of actual usage.

Where the resources by way of infrastructure are shared the cost should be assigned on a readiness to serve basis.

General management costs should be assigned on rational basis.

For example: Number of employees, turnover, investment size etc.

## 7. Presentation

7.1 *Administrative overheads shall be presented as a separate cost head in the cost statement.*

7.2 *Element wise details of the administrative overheads based on materiality shall be presented.*

## 8. Disclosures

8.1 **The cost statements shall disclose the following:**

- *The basis of assignment of administrative overheads to the cost objects.*
- *Any imputed cost included as a part of administrative overheads.*
- *Administrative overheads incurred in foreign exchange.*
- *Cost of administrative activities received from or supplied to related parties (Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement).*
- *Any Subsidy / Grant / Incentive or any amount of similar nature received / receivable reduced from administrative overheads.*
- *Credits / recoveries relating to the administrative overheads.*
- *Any abnormal portion of the administrative overheads.*
- *Penalties and damages excluded from the administrative overheads.*

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 administrative overheads during the period covered by the cost statement which has a material effect on the administrative overheads shall be disclosed. Where the effect of such change is not ascertainable wholly or partly the fact shall be indicated.*

## CAS – 12

## COST ACCOUNTING STANDARD ON REPAIRS AND MAINTENANCE COST

(Revised 2017)

The following is the COST ACCOUNTING STANDARD – 12 (CAS - 12) 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.*

Examples are:

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 (Adapted from CAS 2 paragraph 4.4).*

**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.*

**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 ₹ 10 crore and insurance spare for ₹ 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 ₹ 5 crore. As property, plant and equipment are depreciated when they are available for use, accordingly the depreciated value of new spare is ₹ 50 lakhs. The old spare was reconditioned and the cost of reconditioning is ₹ 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 ₹ 25 lakhs. The amount to be treated in repairs and maintenance is ₹ 35 lakhs as follows:

₹ In Crore		
A.	Equipment Cost	10.00
B.	Cost of New Spare	1.00
	Total Cost (A+B)	11.00
	Depreciation for 5 years	5.50
	Depreciated value of Equipment & Spare	<b>5.50</b>
	Reconditioning cost of old Spare	0.10
	Depreciated Value of old Spare	0.50
	<b>Book Value of Reconditioned spare</b>	<b>0.60</b>
	Less: Current market value of reconditioned spare to be restated in Book of Account	0.25
	<b>Amount to be treated in Repairs and Maintenance</b>	<b>0.35</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 (Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement).*
- 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.*

## CAS – 13

## COST ACCOUNTING STANDARD ON COST OF SERVICE COST CENTRE

(Revised 2017)

The following is the COST ACCOUNTING STANDARD – 13 (CAS - 13) issued by the Council of The Institute of Cost Accountants of India on “**COST OF SERVICE COST CENTRE**”. 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 cost of Service Cost Centre.
- 1.2 This standard covers the Service Cost Centre as defined in paragraph 4.11 of this standard. It excludes Utilities and Repairs & Maintenance Services dealt with in CAS-8 and CAS-12 respectively.
- 1.3 *This standard deals with the principles and methods of classification, measurement and assignment of Cost of Service Cost Centre, 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 Cost of Service Cost Centre with reasonable accuracy.*

**3. Scope**

*This standard should be applied to the preparation and presentation of cost statements, which require classification, measurement and assignment of Cost of Service Cost Centre, 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 (Adapted from CAS 1 paragraph 6.5.19).*
- 4.2 *Administrative Overheads: Cost of all activities relating to general management and administration of an entity.*  
  
Administrative overheads shall exclude production overheads (Paragraph reference 4.13 CAS -9), marketing overheads (Paragraph reference 4.11 CAS -7) and finance cost. Production overheads includes administration cost relating to production, factory, works or manufacturing.
- 4.3 *Cost Object: An activity, contract, cost centre, customer, process, product, project, service or any other object for which costs are ascertained.*
- 4.4 *Distribution Overheads: Distribution overheads, also known as distribution costs, are the costs incurred in handling a product or service from the time it is ready for despatch or delivery until it reaches the ultimate consumer including the units receiving the product or service in an inter-unit transfer.*

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

**4.5 Imputed Cost:** *Notional cost, not involving cash outlay, computed for any purpose.*

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

Examples are:

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.

**4.7 Marketing overheads:** *Marketing overheads comprise of selling overheads and distribution overheads.*

**4.8 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 (Adapted from CAS 2 paragraph 4.4).*

**4.9 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.

**4.10 Selling Overheads:** *Selling overheads are the expenses related to sale of products or services and include all indirect expenses incurred in selling the products or services.*

**4.11 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.

**4.12 Stand-by service:** *Any facility created as backup against any failure of the main source of service.*

**4.13 Support-Service Cost Centre:** *The cost centre which primarily provides auxiliary services across the entity.*

The cost centre which provides services to Production, Operation or other Service Cost Centre but not directly engaged in manufacturing process or operation is a service cost centre. A service cost centre renders services to other cost centres / other units and in some cases to outside parties.

Examples of service cost centres are engineering, workshop, research & development, quality control, quality assurance, designing, laboratory, welfare services, safety, transport, Component, Tool stores, Pollution Control, Computer Cell, dispensary, school, crèche, township, Security etc.

Administrative Overheads include cost of administrative Service Cost Centre.

## 5. Principles of Measurement

**5.1 Each identifiable service cost centre shall be treated as a distinct cost object for measurement of the**

*cost of services subject to the principle of materiality.*

- 5.2.1 *Cost of service cost centre shall be the aggregate of direct and indirect cost attributable to services being rendered by such cost centre.*
- 5.2.2 *Cost of in-house services shall include cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources used in such service.*

Cost of other resources includes related overheads.
- 5.2.3 *Cost of services rendered by contractors within the facilities of the entity shall include charges payable to the contractor and cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources provided to the contractors for such services.*
- 5.2.4 *Cost of services rendered by contractors at their 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 resources provided to the contractors.*
- 5.2.5 *Cost of services for the purpose of inter unit transfers shall also include distribution costs incurred for such transfers.*
- 5.2.6 *Cost of services for the purpose of inter-company transfers shall also include distribution cost incurred for such transfers and administrative overheads.*
- 5.2.7 *Cost of services rendered to outside parties shall also include distribution cost incurred for such transfers, administrative overheads and marketing overheads.*
- 5.3 *Finance costs incurred in connection with the Service Cost Centre shall not form part of the cost of Service Cost Centre.*
- 5.4 *The cost of service cost centre shall not include imputed costs.*
- 5.5 *Where the cost of service cost centre is accounted at standard cost, the price and usage variances related to the services cost Centre shall be treated as part of cost of services. Usage variances due to abnormal reasons shall be treated as part of abnormal cost.*
- 5.6 *Any Subsidy / Grant / Incentive or any such payment received / receivable with respect to any service cost centre shall be reduced for ascertainment of the cost to which such amounts are related.*
- 5.7 *The cost of production and distribution of the service shall be determined based on the normal capacity or actual capacity utilization whichever is higher and unabsorbed cost, if any, shall be treated as abnormal cost (Adapted from Paragraph 5.7 of CAS 3). Cost of a Stand-by service shall include the committed costs of maintaining such a facility for the service.*
- 5.8 *Any abnormal cost where it is material and quantifiable shall not form part of the cost of the service cost centre.*
- 5.9 *Penalties, damages paid to statutory authorities or other third parties shall not form part of the cost of the service cost centre.*
- 5.10 *Credits/recoveries relating to the service cost centre including charges for services rendered to outside parties, material and quantifiable, shall be reduced from the total cost of that service cost centre.*
- 5.11 *Any change in the cost accounting principles applied for the measurement of the cost of Service Cost Centre shall 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 Cost

- 6.1 *While assigning cost of services, traceability to a cost object in an economically feasible manner shall be the guiding principle.*
- 6.2 *Where the cost of services rendered by a service cost centre is not directly traceable to a cost object, it shall be assigned on the most appropriate basis.*
- 6.3 *The most appropriate basis of distribution of cost of a service cost centre to the cost centres consuming services is to be derived from logical parameters which could be related to the usage of the service rendered. The parameter shall be equitable, reasonable and consistent.*

## 7. Presentation

- 7.1 *Cost of service cost centre shall be presented as a separate cost head for each type of service in the cost statement, if material.*

## 8. Disclosures

### 8.1 *The cost statements shall disclose the following:*

1. *The basis of distribution of cost of each service cost centre to the consuming centres.*
2. *The cost of purchase, production, distribution, marketing and price of services with reference to sales to outside parties*
3. *Where the cost of service cost centre is disclosed at standard cost, the price and usage variances*
4. *The cost of services received from / rendered to related parties (Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement).*
5. *Cost of service cost centre incurred in foreign exchange.*
6. *Any Subsidy/Grant/Incentive and any such payment reduced from cost of Service Cost Centre.*
7. *Credits/ recoveries relating to the cost of Service Cost Centre*
8. *Any abnormal cost excluded from cost of Service Cost Centre*
9. *Penalties and damages paid excluded from cost of Service Cost Centre.*

### 8.2 *Any change in the cost accounting principles and methods applied for the measurement and assignment of the cost of service cost centre during the period covered by the cost statement which has a material effect on the cost of service cost centre shall be disclosed. Where the effect of such change is not ascertainable wholly or partly the fact shall be disclosed.*

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

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

## CAS - 14

## COST ACCOUNTING STANDARD ON POLLUTION CONTROL COST

(Revised 2017)

The following is the Cost Accounting Standard - 14 (CAS - 14) issued by the Council of The Institute of Cost Accountants of India on “**POLLUTION CONTROL 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**

This standard deals with principles and methods of determining the Pollution control costs.

*This standard deals with the principles and methods of classification, measurement and assignment of pollution control costs, for determination of 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 Pollution Control Costs with reasonable accuracy.*

**3. Scope**

*This standard should be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of Pollution Control Costs including those requiring attestation.*

**4. Definitions**

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

- 4.1 *Air pollutant: Means any solid, liquid or gaseous substance (including noise) present in the atmosphere in such concentration as may be or tend to be injurious to human beings or other living creatures or plants or property or environment (Section 2 (a) of The Air (Prevention and Control of Pollution) Act, 1981).*
- 4.2 *Air Pollution: Air pollution means the presence in the atmosphere of any air pollutant (Section 2 (b) of The Air (Prevention and Control of Pollution) Act, 1981).*
- 4.3 *Cost Object: An activity, contract, cost centre, customer, process, product, project, service or any other object for which costs are ascertained.*
- 4.4 *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 (Adapted from Paragraph 4.4 of CAS - 10).*
- 4.5 *Environment: Environment includes water, air and land and the inter-relationship which exists among and between water, air and land, and human beings, other living creatures, plants, micro-organism and property (Section 2 (a) of The Environment (Protection) Act, 1986).*
- 4.6 *Environmental Pollutant: Environmental Pollutant means any solid, liquid or gaseous substance present in such concentration as may be, or tend to be, injurious to environment (Section 2 (b) of The Environment (Protection) Act, 1986).*

- 4.7 Environment Pollution:** *Environmental pollution means the presence in the environment of any environmental pollutant (Section 2 (c) of The Environment (Protection) Act, 1986).*
- 4.8 Imputed Costs:** *Notional cost, not involving cash outlay, computed for any purpose.*
- 4.9 Interest and Finance charges:** *Interest and Financing Charges are interest and other costs incurred by an entity in connection with the financing arrangements.*

Examples are:

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.

- 4.10 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 (Adapted from CAS 2 paragraph 4.4).*

- 4.11 Pollution Control:** *Pollution Control means the control of emissions and effluents into environment. It constitutes the use of materials, processes, or practices to reduce, minimize, or eliminate the creation of pollutants or wastes. It includes practices that reduce the use of toxic or hazardous materials, energy, water, and / or other resources.*

- 4.12 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.

- 4.13 Soil Pollutant:** *Soil Pollutant is a substance which is the source of soil contamination.*

- 4.14 Soil Pollution:** *Soil pollution means the presence of any soil pollutant(s) in the soil which is harmful to the living beings when it crosses its threshold concentration level.*

- 4.15 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.

- 4.16 Water pollution:** *Water pollution means such contamination of water or such alteration of the physical, chemical or biological properties of water or such discharge of any sewage or trade effluent or of any other liquid, gaseous or solid substance into water (whether directly or indirectly) as may, or is likely to, create a nuisance or render such water harmful or injurious to public health or safety, or to domestic, commercial, industrial, agricultural or other legitimate uses, or to the life and health of animals or plants or of aquatic organisms (Section 2 (e) of The Water (Prevention and Control of Pollution) Act, 1974).*

**5. Principles of Measurement:**

**5.1 *Pollution Control costs shall be the aggregate of direct and indirect cost relating to Pollution Control activity.***

Direct cost includes the cost of materials, consumable stores, spares, manpower, equipment usage, utilities, resources for testing & certification and other identifiable resources consumed in activities such as waste processing, disposal, remediation and others.

Indirect cost includes the cost of resources common to various Pollution Control activities such as Pollution Control Registration and such like expenses.

**5.2 *Costs of Pollution Control which are internal to the entity should be accounted for when incurred. They should be measured at the historical cost of resources consumed.***

**5.3 *Future remediation or disposal costs which are expected to be incurred with reasonable certainty as part of Onerous Contract or Constructive Obligation, legally enforceable shall be estimated and accounted based on the quantum of pollution generated in each period and the associated cost of remediation or disposal in future.***

For example future disposal costs of solid waste generated during the current period should be estimated on, say, a per tonne basis.

**5.4 *Contingent future remediation or disposal costs e.g. those likely to arise on account of future legislative changes on pollution control shall not be treated as cost until the incidence of such costs become reasonably certain and can be measured.***

External costs of pollution which are generally the costs imposed on external parties including social costs are difficult to estimate with reasonable accuracy and are excluded from general purpose cost statements.

Social costs of pollution are measured by economic models of cost measurement. The cost by way of compensation by the polluting entity either under future legislation or under social pressure cannot be quantified by traditional models of cost measurement. They are best kept out of general purpose cost statements.

**5.5 *Cost of in-house Pollution Control activity shall include cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources used in such activity.***

**5.6 *Cost of Pollution Control 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.***

**5.7 *Cost of Pollution Control 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.***

**5.8 *Cost of Pollution Control 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.***

**5.9 *Each type of Pollution Control e.g. water, air, soil pollution shall be treated as a distinct activity, if material and identifiable.***

**5.10 *Finance costs incurred in connection with the Pollution Control activities shall not form part of Pollution Control costs.***

- 5.11** *Pollution Control costs shall not include imputed costs.*
- 5.12** *Price variances related to Pollution Control, where standard costs are in use, shall be treated as part of Pollution Control cost. The portion of usage variances attributable to normal reasons shall be treated as part of Pollution Control cost. Usage variances attributable to abnormal reasons shall be excluded from Pollution Control cost.*
- 5.13** *Subsidy / Grant / Incentive or amount of similar nature received / receivable with respect to Pollution Control activity, if any, shall be reduced for ascertainment of the cost of the cost object to which such amounts are related.*
- 5.14** *Any Pollution Control cost resulting from abnormal circumstances, if material and quantifiable, shall not form part of the Pollution Control cost.*
- 5.15** *Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the Pollution Control cost.*
- 5.16** *Credits / recoveries relating to the Pollution Control activity, material and quantifiable, shall be deducted to arrive at the net Pollution Control cost.*
- 5.17** *Research and development cost to develop new process, new products or use of new materials to avoid or mitigate pollution shall be treated as research and development costs and not included under pollution control costs. Development costs incurred for commercial development of such product, process or material shall be included in pollution control costs.*
- 5.18** *Any change in the cost accounting principles applied for the measurement of the Pollution Control 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** *Pollution Control costs shall be traced to a cost object to the extent economically feasible.*

Direct costs of pollution control such as treatment and disposal of waste shall be assigned directly to the product, where traceable economically.

Where these costs are not directly traceable to the product but are traceable to a process which causes pollution, the costs shall be assigned to the products passing through the process based on the quantity of the pollutant generated by the product.

### **6.2** *Where the Pollution Control cost is not directly traceable to cost object, it shall be treated as overhead and 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.*

Typical of such costs are costs such as administration costs relating to pollution control activities, costs of certification such as ISO 14000 and registration fees payable to pollution control authorities

### **6.3** *If the Pollution Control 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** *Pollution Control cost, if material, shall be presented in the cost statement as a separate item of cost.*

**7.2** *Pollution control costs shall be presented duly classified as follows:*

- (a) Direct and Indirect cost*
- (b) Internal and External costs*
- (c) Current and future costs*
- (d) Domain area e.g. water, air and soil.*

**7.3** *Activity wise details of Pollution Control cost, if material, shall be presented separately.*

**8. Disclosures**

**8.1** *The cost statements shall disclose the following:*

- 1.** *The basis of distribution of Pollution Control cost to the cost objects/ cost units.*
- 2.** *Where standard cost is applied in Pollution Control cost, the price and usage variances.*
- 3.** *Pollution Control cost of Jobs done in-house and outsourced separately.*
- 4.** *Pollution Control cost paid/ payable to related parties (Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement)*
- 5.** *Pollution Control cost incurred in foreign exchange.*
- 6.** *Any Subsidy / Grant / Incentive or any amount of similar nature received / receivable reduced from Pollution Control cost.*
- 7.** *Any credits / recoveries relating to the Pollution Control cost.*
- 8.** *Any abnormal portion of the Pollution Control cost.*
- 9.** *Penalties and damages excluded from the Pollution Control cost.*

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

**8.3** *Cost incurred on pollution control relating to prior periods and taken to reconciliation directly shall be disclosed separately.*

**8.4** *Where estimates are made of future costs to be incurred on pollution control, the basis of estimate shall be disclosed separately.*

**8.5** *If a descriptive note dealing with the social cost of pollution caused by the entity and the control of such pollution is contained in the same document as the cost statement, the cost Statement shall carry a reference to such descriptive note.*

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

**8.7** *Any change in the cost accounting principles and methods applied for the measurement and assignment of the Pollution Control cost during the period covered by the cost statement which has a material effect on the Pollution Control cost shall be disclosed. Where the effect of such change is not ascertainable wholly or partly the fact shall be indicated.*

## CAS - 15

## COST ACCOUNTING STANDARD ON SELLING AND DISTRIBUTION OVERHEADS

The following is the COST ACCOUNTING STANDARD -15 (CAS-15) issued by the Council of The Institute of Cost Accountants of India on “**SELLING AND DISTRIBUTION OVERHEADS**”. 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

This standard deals with the principles and methods of determining the Selling and Distribution Overheads.

*This standard deals with the principles and methods of classification, measurement and assignment of Selling and Distribution Overheads, for determination of the cost of sales 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 Selling and Distribution Overheads with reasonable accuracy.*

### 3. Scope

*This standard should be applied to cost statements, which require classification, measurement, assignment, presentation and disclosure of Selling and Distribution Overheads 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 (CAS 3 (Revised 2011) Para 4.1).*

**4.2 Absorption of overheads:** *Assigning of overheads to cost objects by means of appropriate absorption rate.*

Overhead Absorption Rate = Overheads of the Cost object / Quantum of base.

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

**4.4 Distribution overheads:** *Distribution overheads, also known as distribution costs, are the costs incurred in handling a product or service from the time it is ready for despatch or delivery until it reaches the ultimate consumer including the units receiving the product or service in an inter-unit transfer.*

The cost of packing, repacking, labelling, etc. at an intermediate storage location will be part of distribution cost.

For Example:

1. Packing, repacking / labelling at an intermediate storage location
2. Transportation cost
3. Cost of warehousing (cover depots, godowns, storage yards, stock yards etc.)

**Note:**

In case of machinery involving technical help in installation, such expenses for installation are part of cost of production and not considered as cost of Selling and Distribution Overheads.

- 4.5 ***Imputed Costs: Notional cost, not involving cash outlay, computed for any purpose.***
- 4.6 ***Indirect expenses: Expenses which cannot be directly attributed to a particular cost object.***
- 4.7 ***Marketing Overheads: Marketing overheads comprise of selling overheads and distribution overheads.***
- 4.8 ***Overheads: Overheads comprise costs of indirect materials, indirect employees and indirect expenses.***
- 4.9 ***Selling Overheads: Selling overheads are the expenses related to sale of products or services and include all indirect expenses incurred in selling the products or services.***

For Example:

1. Salaries of sales personnel
2. Travelling expenses of sales personnel
3. Commission to sales agents
4. Sales and brand promotion expenses including advertisement, publicity, sponsorships, endorsements and similar other expenses.
5. Receivable Collection costs
6. After sales service costs
7. Warranty costs

## 5. Principles of Measurement

- 5.1 ***Selling and Distribution Overheads shall be the aggregate of the cost of resources consumed in the selling and distribution activities of the entity. The cost of resources procured from outside shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discounts), taxes and duties refundable or to be credited by the Tax Authorities.***

Post sales costs such as warranty cost, product liability cost, after sales service shall be estimated on a reasonable basis.

- 5.2 ***Selling and Distribution Overheads, the benefits of which are expected to be derived over a long period, shall be amortised on a rational basis.***
- 5.3 ***Selling and distribution overheads shall not include imputed cost.***
- 5.4 ***Cost of after Sales Service provided in terms of sale agreement for a class of transactions, shall be determined on rational and scientific basis, net of any recovery on the service.***

- 5.5 *Any Subsidy / Grant / Incentive or any such payment received / receivable with respect to any Selling and Distribution Overheads shall be reduced from the cost of the sales of the cost object.*
- 5.6 *Any abnormal cost relating to selling and distribution activity shall be excluded from the Selling and Distribution Overheads.*
- 5.7 *Any demurrage or detention charges, or penalty levied by transportation or other authorities in respect of distribution activity shall not form part of the Selling and Distribution Overhead.*
- 5.8 *Penalties and damages paid to statutory authorities or other third parties shall not form part of the Selling and Distribution Overheads.*
- 5.9 *Credits / recoveries relating to the Selling and Distribution Overheads including those rendered without any consideration, material and quantifiable, shall be deducted to arrive at the net Selling and Distribution Overheads.*
- 5.10 *Any change in the cost accounting principles applied for the measurement of the Selling and Distribution Overheads shall 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 entity.*

## 6. Assignment of Cost

- 6.1 *Selling and Distribution Overheads directly traceable shall be assigned to the relevant product sold or services rendered.*
- 6.2 *Transportation cost relating to distribution shall be assigned as per CAS – 5, where relevant and applicable.*
- 6.3 *Assignment of Selling and Distribution Overheads to the cost objects shall be 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.*

## 7. Presentation

- 7.1 *Selling and Distribution overheads shall be presented as a separate cost head in the cost statement.*  
A reporting entity may use the term marketing Oveheads in place of Selling and Distribution overheads.
- 7.2 *Element wise details of the Selling and Distribution overheads shall be presented, if material.*

## 8. Disclosures

- 8.1 *The cost statements shall disclose the following:*
1. *The basis of distribution of Selling and Distribution Overheads to the cost objects.*
  2. *Selling and Distribution Overheads incurred in foreign exchange.*
  3. *Cost of Selling and Distribution services rendered to related parties (Related party as per the*

*applicable legal requirements relating to the cost statement as on the date of the statement).*

4. *Any Subsidy / Grant / Incentive and any such payment reduced from Selling and Distribution Overheads.*
5. *Credits / recoveries relating to the Selling and Distribution Overheads.*
6. *Penalties and damages excluded from the Selling and Distribution Overheads.*

8.2 *Disclosures shall be made only where material and significant.*

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 Selling and Distribution Overheads during the period covered by the cost statement which has a material effect on the Selling and Distribution Overheads shall be disclosed. Where the effect of such change is not ascertainable wholly or partly the fact shall be indicated.*

**9. Effective date:**

This Cost Accounting Standard shall be effective from the period commencing on or after 1st April 2013 for being applied for the preparation and certification of General Purpose Cost Accounting Statements.

## CAS -16

## COST ACCOUNTING STANDARD ON DEPRECIATION AND AMORTISATION

(Revised 2017)

The following is the COST ACCOUNTING STANDARD – 16 (CAS – 16) issued by the Council of The Institute of Cost Accountants of India on “**DEPRECIATION AND AMORTISATION**”. 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

**This standard deals with the principles and methods of measurement and assignment of Depreciation and Amortisation 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 Depreciation and Amortisation with reasonable accuracy.*

### 3. Scope

*This standard shall be applied to cost statements which require measurement, assignment, presentation and disclosure of Depreciation and Amortisation, including those requiring attestation.*

### 4. Definitions

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

#### 4.1 *Amortisation: Amortisation is the systematic allocation of the depreciable amount of an intangible asset over its useful life.*

It refers to expensing the acquisition cost minus the residual value of intangible assets such as Franchise, Patents and Trademarks or Copyrights in a systematic manner over their estimated useful economic life so as to reflect their consumption in the production of goods and services.

#### 4.2 *Asset: An Asset is a resource;*

- (a) controlled by an entity as a result of past events; and*
- (b) from which future economic benefits are expected to flow to the entity.*

An asset is a resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise. In case of some assets which are acquired for safety or environmental reasons, the acquisition of such assets may not provide future economic benefits directly but may be necessary for an entity to obtain the future economic benefits from other assets. Such items also qualify for recognition as assets.

- 4.3 Cost Object:** *An activity, contract, cost centre, customer, process, product, project, service or any other object for which costs are ascertained.*
- 4.4 Current asset:** *An entity shall classify an asset as current when :*
- (a) *it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;*
  - (b) *it holds the asset primarily for the purpose of trading;*
  - (c) *it expects to realise the asset within twelve months after the reporting period; or*
  - (d) *the asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.*
- 4.5 Depreciation:** *Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.*
- 4.6 Depreciable amount:** *The cost of an asset, or other amount substituted for cost in the financial statement, less its residual value.*
- 4.7 Depreciable 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.*
- Land is not a depreciable asset as it does not have a defined useful life.
- 4.8 Impairment Loss:** *An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.*
- 4.9 Intangible Asset:** *An intangible asset is an identifiable non-monetary asset without physical substance.*
- 4.10 Residual (salvage) value:** *The estimated amount that an entity would currently obtain from disposal of an asset, after deducting the estimated costs of disposal, if the assets were already of the age and in the condition expected at the end of its useful life.*
- 4.11 Useful life of asset:** *Useful life of asset is either:*
- (a) *the period over which a asset is expected to be available for use by an entity ; or*
  - (b) *the number of production or similar units expected to be obtained from use of the asset by the entity.*

## 5. Principles of Measurement

- 5.1 Depreciation and Amortisation shall be measured based on the depreciable amount and the useful life.**

The residual value of an intangible asset shall be assumed to be zero unless:

- (a) there is a commitment by a third party to purchase the asset at the end of its useful life; or

- (b) there is an active market for the asset and:
1. residual value can be determined by reference to that market; and
  2. it is probable that such a market will exist at the end of the asset's useful life.
  3. The residual value of a property, plant and equipment shall be considered as zero if the entity is unable to estimate the same with reasonable accuracy.

The minimum amount of depreciation to be provided shall not be less than the amount calculated as per principles and methods as prescribed by any law or regulations applicable to the entity and followed by it.

**5.2 *In case of regulated industry the amount of depreciation shall be the same as prescribed by the concerned regulator.***

**5.3 *While estimating the useful life of a depreciable asset, consideration shall be given to the following factors:***

- (a) *Expected physical wear and tear;*
- (b) *Obsolescence; and*
- (c) *Legal or other limits on the use of the asset.*

**5.4 *The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights, but may be shorter depending on the period over which the entity expects to use the asset.***

If the contractual or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost. The useful life of a re-acquired right recognised as an intangible asset in a business combination is the remaining contractual period of the contract in which the right was granted and shall not include renewal periods.

The useful life of an intangible asset, in any situation, shall not exceed 10 years from the date it is available for use.

**5.5 *Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.***

An asset which is used only when the need arises but is always held ready for use.

Example: fire extinguisher, stand by generator, safety equipment shall be considered to be an asset available for use.

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) or the date that the asset is de-recognized.

**5.6 *Depreciation of any addition or extension to an existing depreciable asset which becomes an integral part of that asset shall be based on the remaining useful life of that asset.***

- 5.7 *Depreciation of any addition or extension to an existing depreciable asset which retains a separate identity and is capable of being used after the expiry of the useful life of that asset shall be based on the estimated useful life of that addition or extension.*
- 5.8 *The impact of higher depreciation due to revaluation of assets shall not be assigned to cost object.*
- 5.9 *Impairment loss on assets shall be excluded from cost of production.*
- 5.10 *The method of depreciation used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.*
- 5.11 *An entity can use any of the methods of depreciation to assign depreciable amount of an asset on a systematic basis over its useful life.*

For example:

- (a) Straight-line method;
- (b) Diminishing balance method; and
- (c) Units of production method.

- 5.12 *The method of amortisation of intangible asset shall reflect the pattern in which the economic benefits are expected to be consumed by the entity.*
- 5.13 *The methods and rates of depreciation applied shall be reviewed at least annually and, if there has been a change in the expected pattern of consumption or loss of future economic benefits, the method applied shall be changed to reflect the changed pattern.*
- 5.14 *Items such as spare parts, stand-by equipment and servicing equipment are 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.*
- 5.15 *Cost of small assets shall be written off in the period in which they were purchased as per the accounting policy of the entity.*
- 5.16 *Depreciation of an asset shall not be considered in case cumulative depreciation exceeds the original cost of the asset, net of residual value.*
- 5.17 *Where depreciation for an addition of an asset is measured on the basis of the number of days for which the asset was used for the preparation and presentation of financial statements, depreciation of the asset for assigning to cost of object shall be measured in relation to the period, the asset actually utilized.*

## 6. Assignment of Costs

- 6.1 *Depreciation shall be traced to the cost object to the extent economically feasible.*
- 6.2 *Where the depreciation 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 a process or operation or activity and effect is the incurrence of cost.*

ii. *Benefits received– depreciation is to be apportioned to the various cost objects in proportion to the benefits received by them.*

6.3 *Depreciation on an asset which if remains idle or temporarily retired from production of goods and services or remains idle shall be considered as abnormal cost for the period when the asset is not in use.*

6.4 *The depreciation charged for a period is usually recognised in cost of goods or services.*

6.5 *Similarly, wherever the property plant & equipment are used for producing another asset, the related depreciation shall form part of cost of such asset.*

## 7. Presentation

*Depreciation and Amortisation, if material, shall be presented in the cost statement as a separate item of cost.*

## 8. Disclosures

8.1 *The cost statement shall disclose the following:-*

1. *The basis of distribution of Depreciation and Amortisation to the cost objects.*
2. *Any credits / recoveries relating to Depreciation and Amortisation.*
3. *Additional Depreciation on account of revaluation of asset, which is not included in cost.*
4. *Amount of depreciation that is not included in cost because of temporary retirement of assets from production of goods and services.*

8.2 *Disclosure 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 in a separate schedule.*

8.4 *Any change in the cost accounting principles and methods applied for the measurement and assignment of Depreciation and Amortisation during the period covered by the cost statement which has a material effect on Depreciation and Amortisation shall be disclosed. Where the effect of such change is not ascertainable wholly or partly, the fact shall be indicated.*

## CAS-17

**COST ACCOUNTING STANDARD ON INTEREST AND FINANCING CHARGES**

[Revised 2017]

The following is the Cost Accounting Standard (CAS 17) issued by the Council of The Institute of Cost Accountants of India for determination of “**INTEREST AND FINANCING CHARGES**”. 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**

*This standard deals with the principles and methods of classification, measurement and assignment of Interest and Financing Charges.*

**2. Objective**

*The objective of this standard is to bring uniformity and consistency in the principles, methods of determining and assigning the Interest and Financing Charges with reasonable accuracy.*

**3. Scope**

*This standard should be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of Interest and Financing Charges including those requiring attestation.*

This standard does not deal with costs relating to risk management through derivatives.

**4. Definitions**

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

**4.1 Asset: An Asset is a resource;**

- (a) *controlled by an entity as a result of past events; and*
- (b) *from which future economic benefits are expected to flow to the entity.*

**4.2 Cost Object: An activity, contract, cost centre, customer, process, product, project, service or any other object for which costs are ascertained.****4.3 Current asset: An entity shall classify an asset as current when :**

- (a) *it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;*
- (b) *it holds the asset primarily for the purpose of trading;*
- (c) *it expects to realise the asset within twelve months after the reporting period; or*
- (d) *the asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.*

**4.4 Current Liabilities: An entity shall classify a liability as current when :**

- (a) *it expects to settle the liability in its normal operating cycle;*
- (b) *it holds the liability primarily for the purpose of trading;*

- (c) *the liability is due to be settled within twelve months after the reporting period ; or*
- (d) *it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.*

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

**4.6 Intangible Asset:** *An intangible asset is an identifiable non-monetary asset without physical substance.*

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

Examples are:

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.

**4.8 Net current asset:** *Net current asset is the excess of current assets over current liabilities*

Current Liabilities shall include *short term borrowings and that part of long term borrowings which are classified as current liabilities*

Short term borrowing is the borrowing which is repayable within one year from the date of disbursement as per Loan Agreement.

Long term borrowing is the borrowing which is repayable after one year from the date of disbursement as per Loan Agreement.

## 5. Principles of Measurement:

**5.1 Interest and Financing Charges shall be measured in accordance with the Accounting Standards notified by the Central Government under the Companies (Accounting Standards) Rules 2006 or with the Indian Accounting Standards notified under the Companies (Indian Accounting Standards) Rules 2015, as applicable.**

**5.2 Interest and Financing Charges incurred shall be identified for :**

- (a) *acquisition / construction/ production of qualifying assets; and*
- (b) *Other finance costs for production of goods/ operations or services rendered which cannot be classified as qualifying assets.*

**5.3 Interest and Financing Charges directly attributable to the acquisition /construction/ production of a qualifying asset shall be included in the cost of the asset.**

**5.4 Interest and Financing Charges shall not include imputed costs.**

**5.5 Subsidy / Grant / Incentive or amount of similar nature received / receivable with respect to Interest and Financing Charges if any, shall be reduced to ascertain the net interest and financing charges.**

**5.6 Penal Interest for delayed payment, Fines, penalties, damages and similar levies paid to statutory**

*authorities or other third parties shall not form part of the Interest and Financing Charges.*

In case the company delays the payment of Statutory dues beyond the stipulated date, interest paid for delayed payment shall not be treated as penal interest.

**5.7** *Interest paid for or received on investment shall not form part of the other financing charges for production of goods / operations or services rendered;*

## **6. Assignment of costs**

**6.1** *Assignment of Interest and Financing Charges to the cost objects shall be based on either of the following principles;*

*(a) Cause and effect- cause is the process or operation or activity and effect is the incurrence of cost.*

*(b) Benefits received- Interest and Financing Charges are to be apportioned to the various cost objects in proportion to the benefits received by them.*

## **7. Presentation**

*Interest and Financing Charges shall be presented in the cost statement as a separate item of cost of sales.*

## **8. Disclosures**

**8.1** *The cost statements shall disclose the following:*

- 1. The basis of distribution of Interest and Financing Charges to the cost objects/ cost units.*
- 2. Where predetermined cost is applied in Interest and Financing Charges, the rate and usage variances.*
- 3. Interest and Financing Charges paid/ payable to related parties.*
- 4. Interest and Financing Charges incurred in foreign exchange.*
- 5. Any Subsidy / Grant / Incentive or any amount of similar nature received / receivable reduced Interest and Financing Charges.*

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

**8.3** *Interest and Financing Charges incurred relating to prior periods and taken to reconciliation directly shall be disclosed separately.*

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

**8.5** *Any change in the cost accounting principles and methods applied for the measurement and assignment of the Interest and Financing Charges during the period covered by the cost statement which has a material effect on the Interest and Financing Charges shall be disclosed. Where the effect of such change is not ascertainable wholly or partly the fact shall be indicated.*

## CAS -18

## COST ACCOUNTING STANDARD ON RESEARCH AND DEVELOPMENT COSTS

The following is the Cost Accounting Standard-18 (CAS-18) issued by the Council of The Institute of Cost Accountants of India for determination of “**RESEARCH AND DEVELOPMENT COSTS**”. 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***

***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 (Adapted from CAS 1 paragraph 6.5.19).***

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

4.3 ***Direct Employee Cost: Employee cost, which can be attributed to a Cost Object in an economically feasible way (Adapted from CAS 1 Para 6.2.4 (Direct labour cost)).***

4.4 ***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 (Adapted from CAS 1 Para 6.2.6).***

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.

4.5 ***Direct Materials: Materials, the cost of which can be attributed to a cost object in an economically feasible way (Adapted from CAS 1-6.2.3).***

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

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

**4.8 Indirect Material Cost:** *Material cost that 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 costs of indirect materials, indirect employees and indirect expenses.*

**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 (Adapted AS 26).*

**4.11.2 Development cost:** *Development cost is the cost for application of research finding or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems, or services before the start of commercial production or use.*

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

## **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 thereto net of trade discounts, rebates, taxes and duties refundable or to be credited.
3. The salaries, 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.*
- 5.4 *Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the Research, and Development Cost.*
- 5.5 *The amortisation of an intangible asset arising from the development activity shall be treated as set out in the CAS 16 relating to Depreciation and Amortisation.*
- 5.6 *Research, and Development costs shall not include imputed costs.*
- 5.7 *Credits/recoveries relating to Research, and Development cost, if material and quantifiable, including from the sale of output produced from the Research and Development activity shall be deducted from the Research and Development cost.*
6. **Assignment of costs**
- 6.1 *Research, and Development costs attributable to a specific cost object shall be assigned to that cost object directly.*
- Research, development costs that are not attributable to a specific product or process shall not form part of the product cost.
- 6.2 *Development cost which results in the creation of an intangible asset shall be amortised over its useful life*
- 6.3 *Assignment of Development Costs shall be based on the principle of “benefits received”.*
- 6.4 *Research and Development Costs incurred for the development and improvement of an existing process or product shall be included in the cost of production.*
- In case the Research and Development activity related to the improvement of an existing process or product continues for more than one accounting period, the cost of the same shall be accumulated and amortised over the estimated period of use of the improved process or estimated period over which the improved product will be produced by the entity after the commencement of commercial production, as the case may be, if the improved process or product is distinctly different from the existing process or product and the product is marketed as a new product. The amount allocated to a particular period shall be included in the cost of production of that period. If the expenditure is only to improve the quality of the existing product or minor modifications in attributes, the principle shall not be applied.
- 6.5 *Development costs attributable to a saleable service e.g providing technical know-how to outside parties shall be accumulated separately and treated as cost of providing the service.*
7. **Presentation**
- 7.1 *Research and Development costs relating to improvement of the process or products or services shall be presented as a separate item of cost in the cost statement under cost of production.*
- 7.2 *Research, and Development costs which are not related to improvement of the process, materials, devices, processes, systems, product or services shall be presented as a part of the reconciliation statement.*
8. **Disclosures**
- 8.1 *The cost statements shall disclose the following:*
1. *The basis of accumulation and assignment of Research and Development costs.*

2. *The Research, and Development costs paid to related parties(Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement).*
  3. *Credit/recoveries from related parties*
  4. *Research, and Development cost incurred in foreign exchange.*
  5. *Any Subsidy/Grant/Incentive and any such payment reduced from Research, and Development cost.*
  6. *Credits/recoveries deducted from the Research, and Development cost.*
  7. *Any abnormal cost excluded from Research, and Development cost including cost of abandoned projects and research activities considered abnormal.*
  8. *Penalties and damages paid etc. excluded from Research, and Development cost.*
- 8.2 *Any change in the cost accounting principles and methods applied for the measurement and assignment of the Research, and Development cost during the period covered by the cost statement that has a material effect on the Research, and Development cost shall be disclosed. 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.*

## CAS-19

## COST ACCOUNTING STANDARD ON JOINT COSTS

The following is the Cost Accounting Standard – 19 (CAS - 19) issued by the Council of The Institute of Cost Accountants of India for determination of “**JOINT COSTS**”. 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

*The standard deals with the principles and methods of measurement and assignment of Joint Costs and the presentation and disclosure in cost statement.*

### 2. Objective

*The objective of this standard is to bring uniformity, consistency in the principles, methods of determining and assigning Joint Costs with reasonable accuracy.*

### 3. Scope

*The standard shall be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of Joint Costs including those requiring attestation.*

### 4. Definitions

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

- 4.1 *By-Product: Product with relatively low value produced incidentally in the manufacturing of the product or service.*
- 4.2 *Cost Object: An activity, contract, cost centre, customer, process, product, project, service or any other object for which costs are ascertained.*
- 4.3 *Imputed Cost: Notional cost, not involving cash outlay, computed for any purpose*
- 4.4 *Joint Costs: Joint costs are the cost of common resources used to produce two or more products or services simultaneously.*
- 4.5 *Joint product: Products or services that are produced simultaneously, by the same process, identifiable at the end of the process and recognised as main products or services having sufficient value.*
- 4.6 *Scrap: Discarded material having no or insignificant value and which is usually either disposed off without further treatment (other than reclamation and handling) or reintroduced into the process in place of raw material.*
- 4.7 *Split off point: The point in the production process at which joint products become separately identifiable.*

The terms split off point and separation point are used interchangeably.

**4.8** *Waste: Material lost during production or storage and discarded material which may or may not have any value.*

## **5. Principles of Measurement**

**5.1** *The principles and methods for measuring Joint costs upto the split off point will be the same as stipulated in other cost accounting standards.*

**5.2** *Cost incurred after split-off point on product separately identifiable shall be measured for the resources consumed for each Joint/By-Product.*

**5.3** *Cost incurred after split- off point for further processing of joint product/By-Product shall be the aggregate of direct and indirect costs.*

**5.4** *Cost of further processing of joint product/By-Product carried out by outside parties shall be determined at invoice or agreed price including duties and taxes, net of discounts (other than cash discount) taxes and duties refundable or to be credited and other expenditure directly attributable to such processing. This cost shall also include the cost of resources provided to outside parties.*

**5.5** *In case the production process generates scrap or waste, realized or realizable value, net of disposal cost, of scrap and waste shall be deducted from the cost of Joint Product.*

**5.6** *Any Subsidy / Grant / Incentive or any such payment received / receivable with respect to any joint product /By-Product shall be reduced for ascertainment of the cost to which such amounts are related.*

**5.7** *Penalties, damages paid to statutory authorities or other third parties shall not form part of the cost of the joint product /By-Product.*

## **6. Assignment of Costs**

**6.1** *Joint cost incurred shall be assigned to joint products based on benefits received, which is measured using any of the following methods:*

- (a) Physical Units Method.
- (b) Net Realisable Value at split-off point.

*Net realisable value for this purpose means the net selling price per unit multiplied by quantity (Quantity sold). Net realizable value is to be adjusted for the post- split off costs.*

- (c) Technical estimates

**6.2** *The value of By-Product shall be estimated using any of the following methods for adjusting joint costs :*

### **a. Net realizable value**

Net realizable value for this purpose means the net selling price per unit multiplied by quantity (Quantity sold). Net realizable value is to be adjusted for the post- split off costs.

**b. Technical Estimates**

This method may be adopted where the By-Product is not saleable in the condition in which it emerges or comparative prices of similar products are not available.

**7. Presentation**

*The Cost Statement shall present the element wise cost of individual products produced jointly and the value assigned to By-Products.*

**8. Disclosures**

**8.1** *The Cost statement shall disclose the basis of allocation of Joint costs to individual products and the value assigned to the By-Products*

**8.2** *The Cost statement shall also disclose:*

**8.3** *The disclosure should be made only where material, significant & quantifiable.*

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

**8.5** *Any change in the cost accounting principles and methods applied for the measurement and assignment of the Joint costs and the value assigned to by-product during the period covered by the cost statement which has a material effect on the Joint/ By-Products shall be disclosed. Where the effect of such change is not ascertainable wholly or partly the fact shall be indicated.*

**9. Effective date:**

This Cost Accounting Standard shall be effective from the period commencing on or after 1<sup>st</sup> April, 2014 for being applied for the preparation and certification of General Purpose Cost Accounting Statements.

## CAS-20

## COST ACCOUNTING STANDARD ON ROYALTY AND TECHNICAL KNOW-HOW FEE

[Revised 2017]

The following is Cost Accounting Standard- (CAS-20) issued by the council of The Institute of Cost Accountants of India for determination of “**ROYALTY AND TECHNICAL KNOW-HOW FEE**”. 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 amount of Royalty and Technical Know-how Fee.
- 1.2** *This standard deals with the principles and methods of classification, measurement and assignment of the amount of Royalty and Technical Know-how Fee, for determination of the cost of product or service, and their 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 amount of Royalty and Technical Know-how Fee with reasonable accuracy.*

**3. Scope**

*This standard should be applied to cost statements, which require classification, measurement, assignment, presentation and disclosure of the amount of Royalty and Technical Know-how Fee 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** *Imputed Costs: Notional cost, not involving cash outlay, computed for any purpose.*
- 4.3** *Interest and Finance charges: Interest and Financing Charges are interest and other costs incurred by an entity in connection with the financing arrangements.*

Examples are:

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.

**4.4 *Royalty: Royalty is any consideration for the use of asset (tangible and/or intangible) to the owner.***

Royalty is often expressed as a percentage of the revenues obtained by use of the owners asset (tangible and/or intangible); per unit of production or sales value. It may relate to use of: Non-renewable resource (petroleum and mineral resources); Patents; Trade marks; Franchise rights; Copy rights; art-work, software and the like.

The terms Assets, tangible assets and intangible assets will have the same meaning as in the Accounting Standards notified by the Central Government under the Companies (Accounting Standards) Rules, 2006.

**4.5 *Technical service fee: Technical service fee is any consideration payable to provider of technical or managerial services.***

**5. Principles of Measurement:**

**5.1 *Royalty and Technical Know-how Fee paid or incurred in lump-sum or which are in the nature of 'one – time' payment, shall be amortised on the basis of the estimated output or benefit to be derived from the related asset.***

Examples: Amortisation of the amount of Royalty or Technical Know-how fee paid for which the benefit is ensued in the current or future periods shall be determined based on the production / service volumes estimated for the period over which the asset is expected to benefit the entity .

**5.2 *Amount of the Royalty and Technical Know-how Fee shall not include finance costs and imputed costs.***

**5.3 *Any Subsidy/Grant/Incentive or any such payment received/receivable with respect to amount of Royalty and Technical Know-how fee shall be reduced to measure the amount of royalty and technical know- how fee.***

**5.4 *Penalties, damages paid to statutory authorities or other third parties shall not form part of the amount of Royalty and Technical Know-how fee.***

**5.5 *Credits/ recoveries relating to the amount Royalty and Technical Know-how fee, material and quantifiable, shall be deducted to arrive at the net amount of Royalty and Technical Know-how fee.***

**5.6 *Any change in the cost accounting principles applied for the measurement of the amount of Royalty and Technical Know-how Fee 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 *Royalty and Technical Know-how fee that is directly traceable to a cost object shall be assigned to that cost object. In case such fee is not directly traceable to a cost object then it shall be assigned on any of the following basis:***

**a. *Units produced***

- b. Units sold*
- c. Sales value*

**6.2** *The amount of Royalty fee paid for mining rights shall form part of the cost of material.*

**6.3** *The amount of Royalty and Technical Know-how fee shall be assigned on the nature/ purpose of such fee.*

The amount of royalty and technical know-how fee related to product or process know how shall be treated as cost of production; if it is related to trademarks or brands shall be treated as cost of sales.

## **7. Presentation**

**7.1** *The amount Royalty and Technical Know-how fee shall be presented as a separate cost head with suitable classification.*

## **8. Disclosures**

**8.1** *The cost statements shall disclose the following:*

- 1. The basis of distribution of the amount Royalty and Technical Know-how fee to the cost objects/ cost units.*
- 2. Quantity and the related rate of items of the amount of Royalty and Technical Know-how fee, as applicable.*
- 3. Royalty and Technical Know-how fee paid/ payable to related parties (Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement) .*
- 4. Royalty and Technical Know-how fee incurred in foreign exchange.*
- 5. Any Subsidy/Grant/Incentive and any such payment reduced from the amount of Royalty and Technical Know-how fee.*
- 6. Credits/recoveries relating to the amount of Royalty and Technical Know-how fee.*
- 7. Penalties and damages excluded from the amount of Royalty and Technical Know-how fee*

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

**8.3** *Any change in the cost accounting principles and methods applied for the measurement and assignment of the amount Royalty and Technical Know-how fee during the period covered by the cost statement which has a material effect on the amount Royalty and Technical Know-how fee. Where the effect of such change is not ascertainable wholly or partly the fact shall be indicated.*

**CAS-21**  
**COST ACCOUNTING STANDARD ON QUALITY CONTROL**  
**[Revised 2017]**

The following is the Cost Accounting Standard (CAS -21) issued by the Council of The Institute of Cost Accountants of India for determination of “**QUALITY CONTROL**”. In this standard, the standard portions have been set in **bold italic** type. These are to be read in context of the background material which has been set in normal type.

**1. Introduction**

*The standard deals with the principles and methods of measurement and assignment of Quality Control cost and the presentation and disclosure in cost statement.*

**2. Objective**

*The objective of this standard is to bring uniformity, consistency in the principles, methods of determining and assigning Quality Control cost with reasonable accuracy.*

**3. Scope**

*The standards shall be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of Quality Control 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 (Adopted from CAS 1 paragraph 6.5.19).*

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

**4.3** *Defectives: Materials, products or intermediate products that do not meet quality standards. This may include reworks or rejects.*

**4.3.1** *Rework: Defectives which can be brought up to the standards by putting in additional resources.*

Rework includes repairs, reconditioning and refurbishing.

**4.3.2** *Rejects: Defectives which cannot meet the quality standards even after putting in additional resources.*

Rejects may be disposed off as waste or sold for salvage value or recycled in the production process.

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

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

Examples are:

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.

**4.6 Overheads:** *Overheads comprise costs of indirect materials, indirect employees and indirect expenses.*

**4.7 Quality:** *Quality is the conformance to requirements or specifications.*

*The quality of a product or service is fitness of that product or service for meeting its intended use as required by customer.*

**4.8 Quality control:** *A procedure or a set of procedures exclusively designed to ensure that the manufactured products or performed service adhere to a defined set of quality criterion or meets requirement of the client or the customer.*

**4.9 Quality Control cost:** *Cost of resources consumed towards quality control procedures*

**4.10 Scrap:** *Discarded material having no or insignificant value and which is usually either disposed off without further treatment (other than reclamation and handling) or reintroduced into the process in place of raw material.*

**4.11 Waste and spoilage:**

**4.11.1 Waste:** *Material lost during production or storage and discarded material which may or may not have any value.*

**4.11.2 Spoilage:** *Production that does not meet the quality requirements or specifications and cannot be rectified economically.*

## 5. Principles of Measurement:

**5.1 Quality Control cost incurred in-house shall be the aggregate of the cost of resources consumed in the Quality Control activities of the entity. The cost of resources procured from outside shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discounts), taxes and duties refundable or to be credited by the Tax Authorities.**

Such cost shall include:

- Cost of conformance to quality: (a) prevention cost; and (b) appraisal cost.

**5.2 Identification of Quality Control costs shall be based on traceability in an economically feasible manner.**

**5.3 Quality Control costs other than those referred to in paragraph 5.2 shall be determined on the basis of amount incurred in connection therewith.**

**5.4 Finance costs incurred in connection with the self generated or procured resources shall not form part of Quality Control cost.**

**5.5 Quality Control costs shall not include imputed costs.**

**5.6 Any Subsidy/Grant/Incentive or any such payment received/receivable with respect to any Quality Control cost shall be reduced for ascertainment of the cost of the cost object to which such amounts**

*are related.*

- 5.7 *Any abnormal portion of the Quality Control cost where it is material and quantifiable shall not form part of the Cost of Quality Control.*
- 5.8 *Penalties, damages paid to statutory authorities or other third parties shall not form part of the Quality Control cost.*
- 5.9 *Any change in the cost accounting principles applied for the measurement of the Quality Control cost shall 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 *Quality Control cost that is directly traceable to the cost object shall be assigned to that cost object.*
- 6.2 *Assignment of Quality Control cost to the cost objects shall be based on benefits received by them.*
  - (i) *Benefits received – Quality Control cost is to be apportioned to the various cost objects in proportion to the benefits received by them.*

For example : On the basis of number of tests performed for a product.

## 7. Presentation

- 7.1 *Quality Control cost, if material, shall be presented as a separate cost head with suitable classification.*

## 8. Disclosures

- 8.1 *The cost statements shall disclose the following:*
  - 8.1.1 *The basis of distribution of Quality Control cost to the cost objects/ cost units.*
  - 8.1.2 *Quantity and Cost of resources used for Quality Control cost as applicable.*
  - 8.1.3 *Quality Control cost paid/ payable to related parties (Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement).*
  - 8.1.4 *Quality Control cost incurred in foreign exchange.*
  - 8.1.5 *Any abnormal portion of the Quality Control cost.*
  - 8.1.6 *Penalties and damages excluded from the Quality Control 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 Quality Control cost during the period covered by the cost statement which has a material effect on the Quality Control cost shall be disclosed. Where the effect of such change is not ascertainable wholly or partly the fact shall be indicated.*

## CAS – 22

## COST ACCOUNTING STANDARD ON MANUFACTURING COST

[Revised 2017]

The following is the COST ACCOUNTING STANDARD – 22 (CAS - 22) issued by the Council of The Institute of Cost Accountants of India for determination of “**MANUFACTURING 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 **Manufacturing Cost of excisable goods**.
- 1.2 *This standard deals with the principles and methods of classification, measurement and assignment for determination of the Manufacturing Cost of excisable goods 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 Manufacturing Cost of excisable goods.*

## 3. Scope

*This standard should be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of Manufacturing Cost of excisable goods.*

## 4. Definitions

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

4.1 ***Abnormal and non-recurring 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 ***Administrative Overheads:*** *Cost of all activities relating to general management and administration of an organisation.*

Administrative overheads need to be analysed in relation to production/manufacturing activities and other activities. Administrative overheads in relation to production/manufacturing activities shall be included in the manufacturing cost.

Administrative overheads in relation to marketing, projects management, corporate office or any other expense not related to the manufacturing activity shall be excluded from manufacturing cost.

4.3 ***Captive Consumption:*** *Captive Consumption means the consumption of goods manufactured by one division or unit and consumed by another division or unit of the same organization or related undertaking for manufacturing another product(s), as defined in section 4(3) of the Central Excise Act, 1944.*

4.4 ***Defectives:*** *End Product and/or intermediate product units that do not meet quality standards. This may include reworks or rejects.*

An intermediate product is a product that might require further processing before it is saleable to the ultimate consumer.

**4.4.1 Reworks:** *Defectives which can be brought up to the standards by putting in additional resources.*

Rework includes repairs, reconditioning, retro-fitment and refurbishing.

**4.4.2 Rejects:** *Defectives which cannot meet the quality standards even after putting in additional resources.*

Rejects may be disposed off as waste or sold for salvage value or recycled in the production process.

**4.5 Depreciation:** *Depreciation is a measure of the wearing out, consumption or other loss of value of a depreciable asset arising from use, efflux of time or obsolescence through technology and market changes. Depreciation does not include impairment loss.*

*Depreciation is allocated so as to charge a fair proportion of the depreciable amount in each accounting period during the estimated useful life of the asset.*

*Depreciable amount of a depreciable asset is its historical cost, or other amount substituted for historical cost in the financial statements, less the estimated residual value.*

*Useful life of asset is either*

- (i) the period over which a depreciable asset is expected to be used by the enterprise; or*
- (ii) the number of production or similar units expected to be obtained from the use of the asset by the entity.*

Depreciation that is charged in audited financial statement should be considered.

**4.6 Direct Expenses:** *Expenses relating to manufacture of an excisable good, which can be identified to such excisable good other than direct material cost and direct employee cost.*

**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 amount paid or payable on behalf of employee. This is also known as Labour Cost.*

**4.7.1 Direct Employee Cost:** *The cost of employees which can be attributed to an excisable good in an economically feasible way.*

**4.7.2 Indirect Employee Cost:** *The cost of employees which cannot be directly attributed to a particular excisable good.*

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

Examples are:

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.

**4.9 *Manufacturing Cost: Manufacturing cost of an excisable good is the aggregate of costs of all resources used in the process of its manufacturing.***

Manufacturing cost includes cost of Materials (including process materials), Employee Cost, Cost of Utilities, Packing Cost, Direct Expenses, Repairs & Maintenance Cost, Pollution Control Cost, Quality Control Cost, Research & Development Cost, Cost of Inputs received free of cost or received at concessional value from the buyer of the excisable good, Depreciation and Amortisation (including amortisation cost of free tools, patterns, dies, drawings, blue prints, technical maps, charts, engineering, development, art work, design work, plans, sketches, packaging material and the like necessary for production of excisable goods), Cost of Rework, reconditioning, retro-fitment, Manufacturing Overheads, other costs allocable to such activity, adjustment for stock of work-in-process and recoveries for sales of scrap and wastages and the like but does not include expenses of the above nature incurred for post manufacturing purposes.

Manufacturing Cost and Cost of Production are used interchangeably.

**4.10 *Manufacturing Overheads: Indirect costs involved in the manufacturing process***

The terms Manufacturing Overheads, Factory Overheads, Works Overheads and Production Overheads have the same meaning and are used interchangeably. Manufacturing overheads shall include administration cost relating to production, factory, works or manufacturing and depot.

Manufacturing Overheads shall be classified on the basis of behaviour as Variable Manufacturing Overheads and Fixed Manufacturing Overheads.

Variable Manufacturing Overheads comprise of expenses which vary in proportion to the change in volume of production. For example, cost of utilities etc.

Fixed Manufacturing overheads comprise of expenses which does not change with the change in volume of production. For example, salaries, rent, repairs & maintenance, etc.

**4.11 *Material Consumed: Material Consumed includes materials directly identified for production of excisable goods such as:***

- (a) *Indigenous materials*
- (b) *Imported materials*
- (c) *Bought out items*
- (d) *Self-manufactured items*
- (e) *Process materials and other items*
- (f) *Materials received free of cost or at concessional value from the buyer*
- (g) *Accessories, on which cenvat credit is admissible, and which are cleared along with the final product*
- (h) *goods used for providing free warranty for excisable goods*

*Cost of material consumed consists of cost of material, duties and taxes, freight inwards, insurance and other expenditure directly attributable to procurement. Trade discount, rebates and other similar items are deducted for determining the cost of materials. Cenvat credit, credit for Countervailing*

*Customs Duty, Sales Tax set off, VAT, duty draw back and other similar duties subsequently recovered/recoverable by the entity are also deducted.*

- 4.12** *Normal Capacity is the production achieved or achievable on an average over a period or season under normal circumstances taking into account the loss of capacity resulting from planned maintenance.*

Capacity may be determined in terms of units of production or equivalent machine or man hours.

- 4.13** *Packing Material Cost: The cost of material of any nature used for the purpose of packing of excisable good.*

- 4.14** *Quality Control Cost: The quality control cost is the expenses incurred relating to quality control activities for adhering to quality standard. These expenses include salaries & wages relating to employees engaged in quality control activity and other related expenses.*

- 4.15** *Repairs & 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.*

- 4.16** *Research and Development Cost: The research and development cost incurred for development and improvement of the process or the excisable good.*

- 4.17** *Royalty: Royalty is compensation/periodic payments for the use of asset (tangible and/or intangible) to the owner for use of his asset in the production/manufacture, selling and distribution by an entity.*

- 4.18** *Scrap: Discarded material having some value in few cases and which is usually either disposed of without further treatment (other than reclamation and handling) or reintroduced into the production process.*

- 4.19** *Technical Know-how Fee: Technical Know-how Fee is a lump sum or periodical amount payable to provider of Technical Know-how in the form of design, drawings, training of personnel, or practical knowledge, skills or experience.*

- 4.20** *Waste and Spoilage:*

**4.20.1** *Waste: Material lost during production or storage due to various factors such as evaporation, chemical reaction, contamination, unrecoverable residue, shrinkage, etc., and discarded material which may or may not have any value.*

**4.20.2** *Spoilage: Production that does not meet with dimensional or quality standards in such a way that it cannot be rectified economically and is sold for a disposal value. Net Spoilage is the difference between costs accumulated up to the point of rejection and the salvage value.*

## **5. Principles of Measurement**

- 5.1** *Manufacturing cost for each excisable good shall be measured separately.*

- 5.2** *Manufacturing cost of each excisable good shall be the aggregate of direct and indirect cost relating to manufacturing activity.*

- 5.3** *Material cost shall be measured separately for each type of material, that is, for indigenous material, imported material, bought out components and process materials, self-manufactured items, accessories for each type of excisable good.*

Cost of Inputs received free of cost or at concessional value from the buyer of the excisable good shall be considered for determination of manufacturing cost.

**5.4** *The material cost of normal scrap/defectives which are rejects shall be included in the material cost of excisable goods manufactured. The material cost of actual scrap/ defectives, not exceeding the normal quantity shall be adjusted in the material cost of good production. Realized or realizable value of scrap or waste shall be deducted for determination of manufacturing cost. Material Cost of abnormal scrap/defectives should not be included in material cost but treated as loss after deducting the realisable value of such scrap / defectives.*

**5.5** *Employee Cost for each excisable good shall be measured separately.*

**5.6** *The cost of utilities consumed for manufacturing of excisable good shall be measured for each type of utility.*

**5.7** *Packing material cost used for each type of excisable good shall be measured separately.*

If excisable goods are transferred/dispatched duly packed, the cost of such packing shall include cost of all types of packing in which the excisable goods are removed from the place of removal.

**5.8** *The Direct Expenses for manufacturing of excisable goods shall be measured for each excisable good separately.*

**5.9** *Repairs and maintenance cost for manufacturing of excisable goods shall be measured for each excisable good separately.*

**5.10** *Depreciation and Amortisation cost for manufacturing of excisable goods shall be measured for each excisable good separately.*

**5.11** *Research & Development cost for manufacturing of excisable goods shall be measured for each excisable good separately.*

**5.12** *Cost incurred for manufacturing of excisable goods after split-off point shall be measured for each Joint/By-Product.*

In case the manufacturing process generates scrap or waste, realized or realizable value net of cost of disposal, of such scrap and waste shall be deducted from the cost of Joint Product.

**5.13** *Royalty and Technical Know-how Fee for manufacturing of excisable goods paid or incurred in lump-sum or which are in the nature of 'one-time' payment, shall be amortised on the basis of the estimated output or benefit to be derived from the related Technical Know how.*

Royalty paid on sales shall not form part of manufacturing cost of excisable good.

**5.14** *Quality Control cost incurred in-house for manufacturing of excisable goods shall be the aggregate of the cost of resources used in the Quality Control activities in relation to each excisable good. The cost of resources procured from outside shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts, taxes and duties refundable or to be credited as input credit.*

**5.15** *Manufacturing Overheads for excisable goods representing procurement of resources shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts; taxes and duties refundable or to be credited as input credit.*

Manufacturing Overheads other than those referred to above shall be determined on the basis of cost incurred in connection therewith.

**5.16** *Any abnormal cost, where it is material and quantifiable, shall not form part of the manufacturing cost of excisable good.*

- 5.17** *Interest and other Finance costs are not part of manufacturing cost of excisable good.*
- 5.18** *Manufacturing cost of excisable good shall include cost of inputs received free of cost or at concessional value from the buyer of excisable good and amortisation cost of free tools, pattern, dies, drawings, blue prints, technical maps, charts, engineering, development, art work, design work, plans, sketches, and the like necessary for production of excisable good. It shall also include cost of rework, reconditioning, retro-fitment, Manufacturing Overheads and other costs allocable to such activity, adjustment for stock of work-in-process and recoveries from sales of scrap and wastages and the like necessary for production of excisable good.*

In case any input material, whether of direct or indirect nature, including packing material, is supplied free of cost or at concessional value by the buyer of the excisable good, the cost of such material shall be included in the manufacturing cost.

For example: Amortisation Cost of Moulds, Tools, Dies & Patterns and Cost of Packing Material etc. received free of cost or at concessional value from the buyer of excisable good shall be included in manufacturing cost.

- 5.19** *Any Subsidy/Grant/Incentive or any such payment received/receivable, from other entity, other than the buyer with respect to any manufacturing cost of excisable good shall be deducted for ascertainment of the manufacturing cost of excisable good to which such amounts are related.*
- 5.20** *The manufacturing cost of excisable good shall be determined based on the normal capacity or actual capacity utilization whichever is higher and unabsorbed cost, if any, shall be treated as abnormal cost.*
- 5.21** *Fines, penalties, damages, demurrage and similar levies paid to statutory authorities or other third parties shall not form part of the manufacturing cost of excisable good.*
- 5.22** *The forex component of imported material or other element of cost shall be converted at the rate on the date of the transaction. Any subsequent change in the exchange rate till payment or otherwise shall not form part of manufacturing cost of excisable good.*
- 5.23** *Credits/recoveries relating to the manufacturing cost, which are material and quantifiable, shall be deducted from the total manufacturing cost to arrive at the net manufacturing cost of excisable good.*
- 5.24** *Work in process/progress stock shall be measured at cost computed for different stages of completion.*

Stock of work-in-process/progress shall be valued at cost on the basis of stages of completion as per cost accounting principles. Opening and closing stock of work-in-process/progress shall be adjusted for computation of manufacturing cost of an excisable good.

## **6. Assignment of Cost**

- 6.1** *While assigning various elements of manufacturing cost of excisable goods, traceability to an excisable good in an economically feasible manner shall be the guiding principle. The cost which can be traced directly to each excisable good shall be directly assigned.*
- 6.2** *Assignment of manufacturing cost of excisable goods, which are not directly traceable to the excisable good shall be based on either of the following two principles;*
- 6.2.1** *Cause and Effect – Cause is the process or operation or activity and effect is the incurrence of cost.*

*6.2.2 Benefits received – to be apportioned to various cost objects in proportion to the benefits received by them.*

**6.3** *The variable manufacturing/production overheads shall be absorbed based on actual production.*

**6.4** *The fixed manufacturing/production overheads and other similar item of fixed costs such as quality control cost, research and development costs and administrative overheads relating to manufacturing shall be absorbed in the manufacturing cost on the basis of the normal capacity or actual capacity utilization of the plant, whichever is higher.*

**6.5** *In case a production process results in more than one product being produced simultaneously, treatment of joint products and by-products shall be as under:*

*6.5.1 In case joint products are produced, joint costs are allocated between the products on a rational and consistent basis.*

*6.5.2 In case by-products are produced, the net realisable value of by-products is credited to the manufacturing cost of the main product.*

**6.6** *Miscellaneous Income relating to production/manufacture shall be adjusted in the determination of manufacturing cost.*

For example, income from sale of empty containers used for procurement of raw material shall be deducted in determination of manufacturing cost.

## **7. Presentation**

**7.1** **Cost statement as per Appendix 1 to this standard or as near thereto shall present following information:**

*7.1.1 Actual capacity utilization in absolute terms and as a percentage of normal capacity.*

*7.1.2 Cost information relating to various elements of Cost shall be presented separately.*

## **8. Disclosures**

**8.1** *Disclosure shall be made only where material, significant and quantifiable.*

**8.2** *If there is any change in cost accounting principles and practices during the period under review which may materially affect the manufacturing cost of excisable good in terms of comparability with previous period(s), the same shall be disclosed.*

## **9. Effective date**

This Cost Accounting Standard shall be effective from the period commencing on or after 1st April 2015 for being applied for the preparation and certification of Cost Accounting Statements for excisable goods.

**Cost Statement showing Manufacturing Cost of (Name of excisable good) for the period:**

	Name of the Manufacturer		
	Address of the Manufacturer		
	Excise Registration Number		
	Name of the unit		
	Address of the unit		
	Central Excise Tariff Heading		
<b>A</b>	<b>Quantitative Information</b>	<b>Unit</b>	<b>Quantity</b>
1	Normal/Installed Capacity		
2	Production		
3	Captive Consumption		
4	Production as %age of Normal/Installed Capacity		

<b>B</b>	<b>Cost Information</b>	<b>Unit</b>	<b>Quantity</b>	<b>Rate</b>	<b>Amount</b>	<b>Cost per Unit</b>
1	Materials (specify)					
	A					
	B					
	C					
	D					
	<b>Total Materials Consumed</b>					
2	Process Materials					
3	Utilities					
4	Direct Employee Cost					
5	Direct Expenses					
6	Consumable Stores and Spares					
7	Repairs and Maintenance Cost					
8	Quality Control Cost					
9	Research & Development Cost					
10	Technical Know-how Fee/Royalty, if any					
11	Depreciation/Amortization					

12	Other Manufacturing Overheads					
13	Total(1 to 12)					
14	Add/Less: Work-in-Progress Adjustments					
15	Less: Credit for Recoveries , if any					
16	Packing Cost					
17	Cost of Inputs Received Free or at concessional value from the buyer of the excisable good					
18	Manufacturing Cost (13 to 17)					

Date:

Seal & Signature of the  
Company's Authorised Representative

I/We have verified above data on test check basis with reference to the books of account, cost accounting records and other records. Based on the information and explanations given to me/us, and on the basis of generally accepted cost accounting principles and practices and Cost Accounting Standards followed by the entity, I/we certify that the above cost data reflects true and fair view of the manufacturing cost of the above excisable good.

Date:

Seal & Signature of Cost Accountant

Place:

Membership No.:

Firm Regn. No. :

**Note: Separate Cost Statement(s) shall be prepared for each excisable good**

## CAS-23

## COST ACCOUNTING STANDARD ON OVERBURDEN REMOVAL COST

(Revised 2023)

The following is the Cost Accounting Standard (CAS-23) (Revised) on “**OVERBURDEN REMOVAL COST**” issued by the Council of the Institute of Cost Accountants of India<sup>1</sup>. This Standard replaces the CAS-23 on Overburden Removal Cost, which was released in the year 2016 and revised in the year 2017. In this standard, the standard portions have been set in ***bold Italic*** type. These are to be read in context of the background material which has been set in normal type.

**1. Introduction**

The standard deals with the principles and methods of measurement and assignment of Overburden Removal Cost and the presentation and disclosure in cost statements.

**2. Objective**

*The objective of this standard is to bring uniformity, consistency in the principles, methods of determining and assigning Overburden Removal Cost with reasonable accuracy.*

**3. Scope**

*The standard shall be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of Overburden Removal Cost including those requiring attestation.*

**4. Definitions**

The following terms are being used in this standard with the meaning specified. Any term not defined in this Standard shall have the same meaning and expression as set out in the Glossary of Terms issued by the Council.

**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 operations.*

**4.2 *Administrative overheads:*** *Cost of all activities relating to general management and administration of an entity.*

**4.3 *Amortization:*** *Amortization is the systematic allocation of the depreciable amount of an intangible asset over its useful life.*

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

Activity includes mining operations also.

**4.5 *Current Ratio:*** *the ratio of overburden removed to mineral produced in a particular patch of mine during the year.*

Quantity of mineral includes production and mineable mineral lying exposed.

Quantity of overburden removed is the net quantity after adjustment of opening and closing advance stripping quantities.

**4.6 *Depreciation:*** *Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.*

<sup>1</sup> Revision to the explanation to Para 5.5 was approved by the Council in its 355th meeting held on 5th September 2024

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

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

Examples are:

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.

**4.9 Mines overheads:** *indirect costs involved in the mining process for rendering services.*

This relates to the activities of both Mineral extraction and Overburden Removal.

**4.10 Mining Plan:** *It is the plan expected to provide information required to measure the stripping activity with reasonable consistency.*

**4.11 Overheads:** *Overheads comprise costs of indirect materials, indirect employees and indirect expenses.*

**4.12 Overburden:** *It is the overlying materials generally having no commercial value.*

**4.13 Overburden Removal cost:** *is the cost incurred to remove the overlying material from the mine site.*

**4.14 Ratio Variance:** *It is the variance between current ratio and standard /average stripping ratio in terms of quantity of mineral produced during the period.*

**4.15 Repair 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.*

**4.16 Stripping Activity:** *It is the activity of overburden removal that benefits the identified component of an ore to be mined by the entity.*

**4.17 Stripping Ratio:** *Stripping ratio is ratio of excavation of overburden to ore.*

*Generally overburden is measured in cubic metres and ore in tonnes. Therefore, the Stripping ratio is equal to Volume of overburden (m<sup>3</sup>)/ Weight of ore (in tonnes).*

**4.18 Standard stripping ratio:** *this is the ratio between the total quantity of overburden to be removed (in cubic meters) and the total mineral to be extracted (in tonnes) during the Projected life of the project.*

The term Standard stripping ratio and Average stripping ratio denote the same meaning and are used interchangeably.

The Ratio shall be reviewed periodically, at least every five years, to take into account changes in geological factors such as actual behavior of the soil and the Ore body. The ratio shall be reviewed immediately if the geological factors alter radically, for example due to earthquake.

The reported quantity of Overburden is considered in cost statement where the variance between the reported quantity and the measured quantity is within the permissible limits. Reported quantity is the quantity of overburden that is necessary corresponding to actual quantity of mineral raised.

For example, 3:1 stripping ratio means that mining one Ton of ore will require mining three cubic meters of waste rock (overburden).

**4.19 Advance Stripping:** *Advance Stripping is the excess overburden removed in between the overburden bench and assumed angle of repose drawn from the starting of Mineral bench from the surface of Mineral than what is needed for extraction of Mineral.*

## 5. Principles of Measurement

**5.1. Overburden Removal Cost shall be the aggregate of direct and indirect cost relating to overburden removal activity.**

**5.2. Direct cost includes the cost of consumable stores, spares like machinery spares, explosives and detonators, manpower, equipment usage, utilities, payment made directly to contractors and other identifiable resources consumed in such activity.**

**5.3. Indirect cost includes the cost of resources common to various mining operation including overburden removal activity such as manpower, administrative overheads, loading and unloading equipment usage and other costs allocable to such activities.**

**5.4. The overburden removal cost attributable to a development phase of a mine area shall be capitalised as non-current asset when it is probable that future economic benefits to the area will flow to the entity and such cost can be identified and measured separately.**

**5.5. The overburden removal cost attributable to developed area of mine shall be charged to production of ore at the Standard stripping ratio.**

The overburden removal cost attributable to developed area of mine shall be charged to production of ore at the Standard stripping ratio, irrespective of the actual stripping ratio for each year in the cost statement. The difference, if any with the financial statement, shall be shown in the reconciliation statement.<sup>2</sup>

**5.6. Overburden shall be measured by multiplying the number of trips undertaken by equipment for Overburden removal or by any electronic mode. Measurement at regular intervals may be carried out by volume/ physical verification to arrive at fair quantity of overburden removed. Final assessment will be made based on scientific methodology.**

**5.7. Current ratio is determined by dividing the actual overburden removed (net quantity after due adjustment for opening & closing advance stripping quantity) with the actual production of mineral including adjustment for mineable quantity of mineral lying exposed during the period.**

**5.8. Cost of overburden removal activity carried out by outsourcing shall be determined at agreed price as per contract price including duties and taxes and other expenditure directly attributable thereto. The cost shall also include the cost of resources provided to the contractor by the company.**

**5.9. Cost of overburden removal activity of each mine shall be computed and considered separately.**

**5.10. Subsidy/ grant/ incentive or amount of similar nature received/ receivable with respect to overburden removal activity if any shall be reduced for ascertainment of the cost of the overburden removal for a patch/ plot to which the amounts are related.**

**5.11. Any overburden removal cost resulting from some abnormal circumstances if material and quantifiable shall not form part of the overburden removal cost.**

Examples are fire, cave-in, flooding and other similar events of abnormal circumstances.

**5.12. Fine, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the overburden removal cost.**

<sup>2</sup> Revision to the explanation to Para 5.5 was approved by the Council in its 355th meeting held on 5th September 2024

**5.13. Interest & Finance charges incurred in connection with the overburden removal shall not form part of the overburden removal cost.**

**5.14. Any change in the cost accounting principles applied for the determination of the overburden removal 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 Direct cost of overburden removal shall be assigned to the overburden removal activity.**

**6.2 The cost for equipment shall be assigned in the ratio of machine hours actually engaged for mineral and overburden removal or any other appropriate method that apportions the cost in an equitable manner.**

**6.3 Administrative overheads and other indirect expenses shall be apportioned to mineral and overburden on the basis of ratio of actual mineral produced and overburden removed during the period or on the basis of actual machine hours engaged for mineral extraction, and overburden removal or any other appropriate basis.**

## **7. Presentation**

**7.1. Overburden removal, absorption and cost details shall be presented separately for each mine.**

## **8. Disclosures**

**8.1 The cost statements shall disclose the following:**

- 1. The basis of determining the overburden removal cost.**
- 2. Where cost of removal is considered on the basis of standard ratio, any variation positive or negative from the current ratio.**
- 3. Any subsidy grant/ incentive and any such payment reduced from the cost of overburden removal.**
- 4. Credit/ recoveries relating to overburden removal.**
- 5. Any abnormal cost excluded from overburden removal cost.**
- 6. Penalties and damages excluded from the overburden removal 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 overburden removal cost during the period covered by the cost statement which has a material effect on the overburden removal cost shall be disclosed. Where the effect of such change is not ascertainable wholly or partly the fact shall be indicated.**

## **9. Effective date:**

This Cost Accounting Standard shall be effective from the period commencing on or after 1st April 2023 for being applied for the preparation and certification of the General Purpose Cost Statements.

## CAS - 24

## COST ACCOUNTING STANDARD ON TREATMENT OF REVENUE IN COST STATEMENTS

(Revised 2017)

The following is the COST ACCOUNTING STANDARD on “**TREATMENT OF REVENUE IN COST STATEMENTS**” (CAS-24) issued by the Council of the Institute of Cost Accountants of India. 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

*This standard deals with the principles and methods of classification, measurement, treatment and assignment of revenue and its presentation and disclosure in cost statements.*

### 2. Objective

*The objective of this standard is to bring uniformity and consistency in the principles and methods for treatment of revenue in cost statements with reasonable accuracy.*

### 3. Scope

*This standard shall be applied to cost statements which require classification, measurement, treatment, assignment, presentation and disclosure of revenue including those requiring attestation.*

### 4. Definitions

The following terms are being used in this standard with the meaning specified. Any term not defined in this Standard shall have the same meaning and expression as set out in the Glossary of Terms issued by the Council.

**4.1 By-product:** *Product with relatively low value produced incidentally in the manufacturing of the product or service.*

**4.2 Defectives:** *Materials, products or intermediate products that do not meet quality standards. This may include reworks or rejects.*

**4.3 Intermediate product:** *An intermediate product is a product that requires further processing before it is saleable.*

**4.4 Joint product:** *Products or services that are produced simultaneously, by the same process, identifiable at the end of the process and recognised as main products or services having sufficient value.*

**4.5 Net Sales Realization:** *is the revenue from operations net of discounts and indirect taxes.*

**4.6 Other Income:** *is the income that cannot be classified as revenue from operations.*

Examples:

- Profit on sale of property, plant and equipment and investments;

- Interest from investments or deposits outside the business;
- Insurance claims received, not adjusted against an item of cost;
- Penalties or liquidated damages received, not adjusted against an item of cost;
- Fees received, not adjusted against an item of cost;
- Rent or lease from properties leased (unless the primary activity itself is leasing);
- Grants received;
- Royalties received (unless it is a part of major activity of the entity);
- Credits for previous years' adjustments;
- Dividend income on investments (other than in a financial enterprise );
- Gain on foreign currency transaction and translation (other than considered as finance cost);
- Excess provisions written back;
- Credits on account of revaluation of capital assets;
- All items of abnormal revenue such as recoveries from book debts written off in the previous period; and
- Prior period income.

**4.7 Reporting Period:** *is the period for which the cost statements are prepared.*

**4.8 Revenue:** *The term Revenue will have the same meaning as assigned in the Accounting Standards notified by the Central Government under the Companies (Accounting Standards) Rules 2006 or in the Indian Accounting Standards notified under the Companies (Indian Accounting Standards) Rules 2015, as applicable.*

The terms Revenue and Sales Realisation denote the same meaning and are used interchangeably.

**4.9 Revenue from operations:** *is the income arising in the course of the ordinary activities of an entity from the sale of goods or rendering of services.*

Revenue from operations represents income arising from the sale of goods or rendering of services and includes other operating revenue, such as sale of scrap, government subsidies, or incentives received. Revenue from operations is generally recognised at the net value excluding indirect taxes. Sometime, revenue is presented at the gross value including excise duty and the excise duty is presented as deduction from such gross value of the revenue.

Other Operating Revenue is the incidental income arising in the course of ordinary activities of an entity but not arising from the sale of main goods or services, and it does not include Other Income.

Examples:

- Sale of By-products;

- Sale of manufacturing scrap;
- Export incentives received from Government; and
- Product related subsidies or grants received from Government.

**4.10 Rejects:** *Defectives which cannot meet the quality standards even after putting in additional resources.*

**4.11 Scrap:** *Discarded material having no or insignificant value and which is usually either disposed off without further treatment (other than reclamation and handling) or reintroduced into the process in place of raw material.*

**4.12 Spoilage:** *Production that does not meet the quality requirements or specifications and cannot be rectified economically.*

**4.13 Waste:** *Material lost during production or storage and discarded material which may or may not have any value.*

Example of waste is hard waste and soft waste in textile industry.

## 5. Principles of Measurement

**5.1** *Revenue from sale of goods or services provided during a reporting period shall be measured based on the net sales realization.*

**5.2** *Revenue from sale of joint products shall be measured separately for each main product or service sold.*

**5.3** *Revenue from sale of goods or services shall be measured separately for each unit or location of an entity for each type of goods sold or service provided. It shall be sub-classified into revenue from exports, domestic sales, manufactured goods, operations, and trading activities.*

**5.4** *Revenue from sale of goods or services shall be measured separately for sale of each type of by-products, defectives, second grade products, rejects, scrap, spoilage, or wastes.*

**5.5** *If a by-product is further processed before sale, sales realisation of such by-product shall be net of further processing cost. Its net sales realisation shall be adjusted against the joint cost of production of relevant main products.*

**5.6** *Net Sales realization of defectives, second-grade products, rejects, scrap, spoilage, and waste products shall be adjusted against the cost of production of related goods sold.*

**5.7** *Revenue from sale of inputs, utilities, intermediate products, and shared or support services shall be adjusted against the cost of purchase or cost of production of the related input, utility, intermediate product and shared or support service.*

**5.8** *Other income shall not be considered in determining profit or loss as per cost accounts.*

**5.9** *Revenue generated from utilization of assets created under the CSR program shall not be considered in determining profit or loss as per cost accounts.*

**5.10** *Product or service related subsidies, grants, or incentives, received or receivable on sale of goods or rendering of services shall be part of revenue from operations and shall be identified with each product sold or service rendered.*

**5.11** *Any subsidy, grant, incentive or any such payment received or receivable to support the current operations of the entity other than those in the nature of capital grant and other than items referred in paragraph 5.10 above shall be treated as reduction in the related cost.*

Reference:

- para 5.6 of CAS-3, Cost Accounting Standard on *Production and Operation Overheads*;
- para 5.1.9 of CAS-6, Cost Accounting Standard on *Material Cost*;
- para 5.8 of CAS-7, Cost Accounting Standard on *Employee Cost*;
- para 5.8 of CAS-8, Cost Accounting Standard on *Cost of Utilities*;
- para 5.1.8 of CAS-9, Cost Accounting Standard on *Packing Material Cost*;
- para 5.7 of CAS-10, Cost Accounting Standard on *Direct Expenses*;
- para 5.5 of CAS-11, Cost Accounting Standard on *Administrative Overheads*;
- para 5.13 of CAS-12, Cost Accounting Standard on *Repair and Maintenance Cost*;
- para 5.6 of CAS-13, Cost Accounting Standard on *Cost of Service Cost Centre*;
- para 5.13 of CAS-14, Cost Accounting Standard on *Pollution Control Cost*;
- para 5.5 of CAS-15, Cost Accounting Standard on *Selling and Distribution Overheads*;
- para 5.4 of CAS-17, Cost Accounting Standard on *Interest and Financing Charges*;
- para 5.2 of CAS-18, Cost Accounting Standard on *Research and Development Costs*;
- para 5.6 of CAS-19, Cost Accounting Standard on *Joint Costs*;
- para 5.3 of CAS-20, Cost Accounting Standard on *Royalty and Technical Know-how Fee*;
- para 5.6 of CAS-21, Cost Accounting Standard on *Quality Control*; and
- para 5.19 of CAS-22, Cost Accounting Standard on *Manufacturing Cost*.

**5.12** *Any change in the cost accounting principles applied for the determination of revenue shall be made only if it is required by law or regulations or for compliance with the requirements of a cost accounting standard or the change would result in more appropriate preparation or presentation of cost statements of an entity.*

**6. Assignment of Revenue:**

*Revenue for each type of product or service shall be assigned directly to that product or service to the extent it is economically feasible.*

Economic feasibility implies that it is practically feasible to assign the revenue to a particular product or service with reasonable cost and efforts. Reasonable cost and efforts are matters of judgment.

**7. Presentation:**

*7.1 Net sales realization for each product or service shall be indicated separately for exports, domestic sales, manufactured goods, operations, and trading activities and matched against the cost of sales (net of duties) and margin of respective product or service.*

*7.2 The quantity of goods sold or services provided, where applicable, and selling price per unit shall be presented under each product or service.*

**8. Disclosures:**

*8.1 The cost statements shall disclose the following:*

- 1. Revenue from sale of goods or services made to each related party with basis of determining the selling price;*
- 2. Revenue from by-products and costs of further processing after split-off point, reduced from cost of relevant product;*
- 3. Amount and nature of any subsidy, grant or incentive received or receivable and included in the revenue.*

*8.2 Any change in the cost accounting principles and methods applied for the measurement and assignment of revenue during the period covered by the cost statement which has a material effect on the revenue shall be disclosed. 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 statements or as a foot note or as a separate schedule.*

**9. Effective date:**

*This Cost Accounting Standard shall be effective from the period commencing on or after 1<sup>st</sup> April, 2017 for being applied for the preparation and certification of Cost Accounting Statement for goods sold and services provided.*

# Guidance Notes on Cost Accounting Standards

## 4.2

The Institute had issued guidance notes on the Cost Accounting standards, from time to time, making it more explicit to understand the standards and for better application of the same in the record keeping and audit procedures. Normally the guidance notes are greatly required in the respect of the standards dealing with specific elements of cost, they may also be issued in respect of specific purpose standards also .

The Guidance Notes deals with principles and methods as provided in the respective CAS and practical aspects in connection with the subject matter of that CAS, as applicable in the determination of material cost of a product or service etc. So far the Institute has issue 13 Guidance Notes on various issues.

Serial No.	Title
1.	Guidance Note on CAS-2 (Revised 2015) Capacity Determination
2.	Revised Guidance Note on Cost Accounting Standard on Cost of Production for Captive Consumption (CAS-4)
3.	Guidance Note on Cost Accounting Standard Material Cost (CAS-6)
4.	Guidance Note on Cost Accounting Standard on Employee Cost (CAS-7)
5.	Guidance Note on Cost Accounting Standard on Cost of Utilities (CAS-8).
6.	Guidance Note on Cost Accounting Standard on Packing Material Cost (CAS-9)
7.	Guidance Note on Cost Accounting Standard on Direct Expenses (CAS-10).
8.	Guidance Note on Cost Accounting Standard on Administrative Overheads (CAS-11).
9.	Guidance Note on Cost Accounting Standard on Repairs and Maintenance Cost (CAS-12).
10.	Guidance Note on Maintenance of Cost Accounting Records for Construction Industry Including Real Estate and Property Development Activity
11.	Guidance Note on Treatment of Costs Relating to Corporate Social Responsibility (CSR) Activities
12.	Guidance Note on Cost Accounting Standard on Cost of Service Cost Center (CAS-13)
13.	Guidance Note on Compilation Engagements by a Cost Accountant

These Guidance Notes explain in detail and clarifies on the various requirements of compliance of the relevant standards and will have the sections of introduction, scope, definitions and then the specific guidance on the treatment and disclosure aspects. *Students are advised, like in the case of standards, to thoroughly go through all the guidance notes on standards, issued by the Institute for better understanding of the standards and their compliance.*

The guidance notes on the standards dealing with specific elements of cost will normally have the following Chapters / sections, elaborating the contents of the respective CAS, in the same logical sequence, as in the standard:

1. Introduction
2. Definitions
3. Principles of Measurement
4. Assignment of Cost
5. Presentation
6. Disclosures and
7. Annexures, as the need may be.

# Generally Accepted Cost Accounting Principles (GACAP)

## 4.3

The compilation of Generally Accepted Cost Accounting Principles (GACAP) by the Institute of Cost Accountants of India is a unique effort to record principles and practices in the discipline of Cost Accountancy in India.

The Expert Group constituted by the Ministry of Corporate Affairs acknowledged the existence of an un-codified set of generally accepted cost accounting principles in use in Indian industries and by the practicing cost accountants for attestation of Cost Statements. The Expert Group suggested that the principles be codified to provide a formal basis for the practice of Cost Accounting. The Expert Group also recommended review of alternate treatment of items in cost accounting thus eliminating needless diversities in practice leading to the development of cost accounting standards.

The Ministry of Corporate Affairs decided to implement the recommendations of the Expert Group and notified the Companies (Cost Records and Audit) Rules, 2014 on 30th June, 2014. These Rules introduced a common set of record rules for industries other than regulated industries specified in the Rules, in place of industry specific rules in vogue earlier. The Rules require every company to which the rules apply, including all units and branches thereof, to keep cost records in respect of each of its products and activities on regular basis. The cost records are to be maintained in accordance with the *generally accepted cost accounting principles* and *cost accounting standards* issued by the Institute of Cost Accountants of India to the extent these are found to be relevant and applicable. The variations, if any, are to be clearly indicated and explained.

GACAP, the Companies (Cost Records and Audit) Rules, 2014 require maintenance of cost records according to GACAP and Cost Accounting Standards gave the mandate for a compilation of GACAP.

### Objectives

The objectives of this document are:

1. to codify the GACAP as applied in the Indian industry;
2. to narrow down diversities in cost accounting practices facilitating the process of development of cost

accounting standards;

3. to provide a reference source to industry and practitioners in preparation and attestation of Cost Statements, where specific cost accounting standards are yet to be issued;
4. to provide a reference source to all the stakeholders in the understanding and interpreting the cost statement; and,
5. to provide a base for monitoring the evolution of new concepts and practices in cost accounting and to codify them as and when they become generally accepted.

### Scope

The scope is to codify the cost accounting principles to be followed by business and other entities in India in preparing and presenting cost information – more particularly the General Purpose Cost Statements covered by Cost Audit. This document also encompasses the generally accepted cost accounting practices presently being followed by such entities.

### Nature of Content and Format

1. This document titled Generally Accepted Cost Accounting Principles (GACAP) contains a summary of the Cost accounting principles currently followed by business entities in India in preparing and presenting cost information in the context of general purpose cost statements for statutory reporting and covered by Cost Audit.
2. It explicitly incorporates the principles already contained in the Cost Accounting Standards 1-24 issued by the Cost Accounting Standards Board (CASB) in India without necessarily repeating them.
3. In areas not covered by the standards, it reflects the cost accounting principles found in the Companies (Cost Records and Audit) Rules, 2014.
4. Where somewhat conflicting principles have been laid down by the Companies (Cost Records and Audit) Rules, 2014 in different industries, attempt has been made to harmonize the principles so as to evolve a generally acceptable framework. Where use of alternate principles are sanctioned by the Rules or where alternate principles are applied in practice in the absence of explicit guidance in Rules, the alternates have been mentioned with an indication of the preferred practice.
5. Because the Rules were framed at different points of time spread over many years, it is likely that the principles contained in the Rules and the practice based on them do not reflect current concepts. In such cases, the

document reflects the current concepts.

6. It also reflects the Cost Accounting Principles contained in the Guidance Notes and other publications issued by Institute of Cost Accountants of India from time to time.
7. Cost Accounting principles which are gathering wide spread acceptance in Indian Companies for management reporting, even though not adopted for statutory cost reporting (for example, Activity Based Costing), are mentioned with suitable caveats regarding their lack of applicability for general purpose cost statements for statutory reporting, where applicable.
8. The document stipulates the main principles in **bold letters** followed by explanation in normal type.

### **Conceptual Frame Work**

There is a need for a conceptual frame work that underlies the GACAP detailed in the succeeding sections. The conceptual frame work, as the name suggests, is a frame work and not a superset of cost accounting principles. It does not attempt to lay down a principle for any particular costing issue or to amplify the GACAP. The frame work helps to understand the GACAP that follow, in the appropriate perspective and guides in modifying them or developing new principles;

#### **(a) Focus on drivers of value**

Costing is necessary for an informed understanding of the organizational drivers of cost, revenue, profits and value. Costing has to fulfil this role both in a historical and in a forward looking context.

#### **(b) Cost for a purpose**

Over a long time it has been recognized that there is a cost concept relevant for a purpose. Thus external reporting requires historical and full absorption costing while performance evaluation requires attention directing and diagnostic information; planning and decision making requires analytical and predictive information. It is, therefore, not possible for the same set of cost data to fit all purposes, thereby resulting in a wide range of cost concepts from which preparers and users of cost information choose a concept relevant to the purpose.

#### **(c) Reality driven**

Cost models must reflect the entity's business model, its operational processes, its strategy, its organizational structure and its competitive environment. Organizational processes and activities drive the costs and these are in turn influenced by other factors mentioned above.

**(d) Materiality and cost effectiveness**

The selection of the methods of implementing the costing principles should have regard to the issues of materiality and cost effectiveness. Materiality of cost information is to be judged from the perspective of the user of that information. The degree of detail and accuracy required are governed by the perspective of materiality. From the preparers' viewpoint there is the need to balance the cost of maintaining a cost accounting system with corresponding benefits. This is the reason why in a number of places, while dealing with methods of implementing cost accounting principles, the expression "economically feasible way" has been used in this document.

Hence, for preparation and disclosure of cost information, one is required to judge the materiality aspect in conjunction with economic feasibility of maintaining such data and information. For example, maintenance of product/activity-wise cost details for each of the ancillary product or activity of an entity would neither be material nor economically feasible.

Any product or activity of an entity which is incidental to its main operations and does not constitute its main line of business and whose total turnover from the sale/supply of such product or activity does not exceed 2% of the total turnover of the entity or ₹20 crores, whichever is lower, should be treated as an ancillary product or activity.

**(e) Comparability and consistency**

Cost information should be prepared and presented in a way which provides for comparability over time and consistency. The methods used for preparing and presenting cost information should be changed only where for valid reasons such as those required by law, compliance with new cost accounting standards or on the ground that it would result in a more appropriate presentation of cost information.

**(f) Transparency and auditability**

Since cost information is used generally by various stakeholders like management, regulators and Government with a business outlook, there is a need for transparency regarding the definitions used and sources of data. It should be possible for those who wish to review such cost information to follow an audit trail. Auditability of cost information is a prerequisite to the effective use of such information.

### Principles Applicable to Elements of Cost

The following section deal with GACAP applicable to individual elements of cost.

Before proceeding with element-wise principles, it is useful to summarise the principles applicable to all elements of cost.

1. When an element of cost is accounted at standard cost, variances due to normal reasons are treated as a part of the element-wise cost. Variances due to abnormal reasons will not form part of the cost.
2. Any Subsidy/Grant/Incentive and any such payment received/receivable with respect to the input cost is reduced from cost for ascertainment of the cost of the cost object to which such amount pertains.
3. Any abnormal cost where it is material and quantifiable will not form part of the cost.
4. Penalties, damages paid to statutory authorities or other third parties will not form part of the cost.
5. Costs reported under various elements of cost will not include imputed costs.
6. Finance costs incurred in connection with acquisition of resources such as materials, utilities and the like will not form part of the cost of such resources.
7. Any credits or recoveries from employees or suppliers or other parties towards costs incurred by the entity for a resource will be netted against such costs.
8. Except otherwise stated, the measurement of costs for cost accounting purposes will follow the same principles as set out in Generally Accepted Accounting Principles, applicable to the concerned entity.

### Material Cost

1. Material Cost usually includes all costs required to bring the materials to the present condition and location.
2. Material receipt is valued at purchase price including duties and taxes, freight inwards, insurance, and other expenditure directly attributable to procurement (net of trade discounts, rebates, taxes and duties refundable or to be credited by the taxing authorities) that can be quantified with reasonable accuracy at the time of acquisition.
3. Procurement costs are not generally included in material cost. However, those costs which can be directly identified with a material are included in the material cost.
4. Development expenses incurred in respect of materials procured is included in the cost of material to the extent that the material procured is the result of such developments.
5. Where a material is acquired in exchange for other materials or services supplied, the cost of material acquired is taken as the cost of material supplied or services provided plus other applicable costs such as freight.

6. Normal loss or spoilage of material prior to reaching the factory or at places where the services are provided is absorbed in the cost of balance of materials net of amounts recoverable from suppliers, insurers, carriers or recoveries from disposal.
7. Losses due to shrinkage or evaporation and gain due to elongation or absorption of moisture etc., before the material is received is absorbed in material cost to the extent they are normal, with corresponding adjustment in the quantity.
8. Where the material procured represents an agricultural produce from own sources, the same is valued at market price or cost where it can be determined with reasonable accuracy.
9. The forex component of imported material cost is converted at the rate on the date of the transaction. Any subsequent change in the exchange rate till payment or otherwise will not form part of the material cost.
10. Self Manufactured Materials (and Self manufactured components and sub assemblies) are valued at cost including Direct Material Cost, Direct Employee Cost, Direct Expenses, Factory Overheads and share of Administrative Overheads relating to production. Share of other Administrative Overheads, Finance Cost and Marketing Overheads are excluded.
11. The material cost of normal scrap/defectives, which are rejects, is included in the material cost of goods manufactured. This cost not exceeding the normal is adjusted in the material cost of good production. Material cost of abnormal scrap/defectives should not be included in the material cost, but treated as loss after giving credit to the realizable value of such scrap/defectives.
12. Issues of materials are valued using appropriate assumptions on cost flow.  
Examples are FIFO, LIFO, and Weighted Average rate.
13. Material Costs are assigned to cost objects on the basis of material quantity consumed where traceable and where not traceable on technical norms or estimates.
14. When material is processed or part manufactured by a third party according to specifications provided by the buyer, the processing/ manufacturing charges payable to the third party is treated as part of the material cost.
15. When the part of the manufacturing operations/activity is subcontracted, the subcontract charges related to materials is treated as direct expenses and assigned directly to the cost object.
16. Cost of materials like catalysts, dies, tools, patterns etc., which are relatable to production over a period of time, is amortized over the production units benefited by such cost. Cost of materials with life exceeding one year is included in the cost over the useful life of the material.
17. Where the cost of materials is written off or written down in the financial books as per the accounting policy followed by the entity, such write off or write down amount is not treated as cost.

18. When the material referred to in paragraph 17 above, is subsequently issued, the issue is valued at the original cost in cost accounting records and the difference between the original cost and the carrying amount is presented in the reconciliation statement, wherever, economically feasible.

### **Employee Cost**

1. Employee cost or Labour cost is ascertained taking into account the gross pay including all allowances payable along with the cost to the employer of all benefits.
2. Bonus, whether payable as a statutory minimum or on a sharing of surplus and Ex gratia payable in lieu of or in addition to Bonus is treated as part of the employee cost.
3. Remuneration payable to Managerial Personnel including Executive Directors on the Board and other officers of a corporate body under a statute is 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.
4. Performance Incentives must be accumulated over the entire production and not recognised after the threshold limit for earning the incentive is reached.
5. Separation costs related to voluntary retirement, retrenchment, termination etc. should be amortized over the period benefiting from such costs.
6. Amount payable to employees during the lay off period or for the strike period or during suspension, is not included in cost.
7. Cost of employee share options is treated part of employee cost provided the same is not a notional cost and involves an actual cash outlay.
8. Gratuity, pension and other superannuation benefits, measured using actuarial valuation method or any other methods, are part of Employee Cost.
9. Amortized separation costs related to voluntary retirement, retrenchment, and termination etc. for the period is treated as indirect cost and assigned to the cost objects. Unamortized amount relating to discontinued operations should not be treated as employee cost.
10. Recruitment costs, Training costs and other such costs is treated as overheads and dealt with accordingly.
11. Overtime premium and idle time cost should be assigned directly to a cost object or treated as overheads depending on the economic feasibility and the specific circumstance requiring such overtime or idle time.
12. Where the employee service is directly traceable to a Cost object, such cost is assigned on the basis of time consumed.
13. When employee costs are not directly traceable to a Cost object, they are assigned on a suitable basis like estimates of time based on time study.

### Direct Expenses

1. The identification of Direct Expenses is based on traceability in an economically feasible manner.
2. Similarly if an item of the expense does not meet the test of materiality, it can be treated as part of overheads.
3. Expenses incurred for the use of bought out resources are determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of trade discounts, rebates, taxes and duties refundable or to be credited.
4. Other Direct Expenses other than those referred above are determined on the basis of amount incurred in connection therewith.
5. Expenses paid or incurred in lump sum or which is in the nature of 'one-time' payment, is amortized on the basis of the estimated output or benefit to be derived from such expenses.
6. Direct Expenses are by definition directly traceable to cost objects and hence no special principles are involved for them to be assigned to cost object.

### Utilities

1. The cost of utilities purchased is measured at cost of purchase including duties and taxes, transportation cost, insurance and other expenditure directly attributable to procurement (net of trade discounts, rebates, taxes and duties refundable or to be credited).
2. The cost of generated utilities includes direct materials, direct labour, direct expenses and factory overheads.
3. Cost of Utilities generated for the purpose of inter unit transfers is arrived as Cost of self generated utilities with Distribution cost added.
4. Cost of Utilities generated for Intercompany transfer is arrived as Cost of self generated utilities plus Distribution cost plus share of administrative overheads.
5. Cost of Utilities generated for sale to outside parties is arrived as Cost of self generated utilities plus Distribution cost plus share of administrative overheads plus marketing overheads.
6. The Cost of Utilities includes Cost of distribution of such utilities.
7. Cost of production and distribution of utilities is determined based on the normal or actual capacity whichever is higher and unabsorbed cost, if any, is treated as abnormal cost.
8. Cost of stand by utility includes the committed costs of maintaining such utility.
9. While assigning cost of utilities, traceability to a cost object in an economically feasible manner is the guiding principle.
10. The most appropriate basis for distribution of cost of a utility to the departments consuming services is to be derived from usage parameters.

### Repairs and Maintenance Cost

1. The cost of Repairs and Maintenance is the aggregate of direct and indirect cost relating to repairs and maintenance activity.
2. Cost of in-house Repairs and Maintenance activity will include cost of materials, consumable stores, spares, manpower, equipment usage, utilities and other resources used in the activity.
3. Cost of Repairs and Maintenance activity carried out by outside contractors inside the entity will include the charges payable to the contractor apart from the above in-house cost.
4. Cost of Repairs and Maintenance activity carried out by contractors at his premises is determined at invoice or agreed price including duties and taxes and other expenditure directly attributable net of discounts (other than cash discount), taxes and duties refundable or to be credited. It will also include the cost of other resources provided to the contractors.
5. Each type of Repairs and Maintenance is treated as a distinct activity, if material and identifiable.
6. The cost is measured for each major asset category separately.
7. Cost of spares replaced which do not enhance the future economic benefits of the existing asset beyond its previously assessed standard of performance is included under Repairs and Maintenance cost, when Repairs and Maintenance is considered as a separate cost centre, the cost of which is apportioned to user centres.
8. Where a high value spare is replaced, and the replaced spare is reconditioned and such spare is expected to result in future economic benefits, it is taken into stock. Such a spare is valued at an amount that measures its service potential in relation to a new spare, the amount of which will not exceed the cost of reconditioning the spare. The difference between the total of the cost of the new spare and the reconditioning cost and the value of the reconditioned spare should be treated as Repairs and Maintenance cost.
9. Cost of major overhaul is amortized on a rational basis.
10. Repairs and Maintenance cost is traced to a cost object to the extent economically feasible.
11. Where the Repairs and Maintenance cost is not directly traceable, it is assigned based on either of the principles of Cause and Effect or Benefits Received.

### Production Overheads

1. Overheads comprise of indirect material cost, indirect employee cost and indirect expenses. They are termed indirect because they are not directly identifiable or allocable to the ultimate cost object – usually a product or service – in an economically feasible way.
2. **Production Overheads are indirect costs involved in the production process or in rendering services.** Production Overheads include **administration cost relating to production, factory, works or manufacturing.** Production related expenses incurred at corporate office, e.g. design office expenses, materials management and industrial relations will also be covered by the term.
3. The terms Production Overheads, Factory Overheads, Works Overheads and Manufacturing Overheads denote the same meaning and are used interchangeably.
4. Since overheads cannot be economically traced to products and services, they are assigned to them on some equitable basis.

5. While assigning overheads, traceability to a cost object in an economically feasible manner shall be the guiding principle. The cost which can be traced directly to a cost object shall be directly assigned.
6. Assignment of overheads to the cost objects shall be 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.
7. Secondary assignment of overheads may be done by following either Reciprocal Basis or Non-Reciprocal Basis. While reciprocal basis considers the exchange of service among the service departments, non-reciprocal basis considers only one directional service flow from a service cost centre to other production cost(s).
8. It is not a good practice to allocate overheads to Cost Centres/ Cost Objects on the basis of “what the traffic will bear” – that is by size of the user.
9. There is a distinct preference for allocating overheads on the basis of “cause and effect” analysis. What or who causes the costs to be incurred is a more rational criterion to assign costs rather than size or benefits received.
10. In case of facilities created on a standby or ready to serve basis, the cost shall be assigned on the basis of expected benefits instead of actual.
11. Production Overheads are usually accumulated under production cost centres to facilitate absorption by products or services.
12. These costs are absorbed by the products on the basis of resources used by the product at the production centre.
13. The overheads assigned to the production cost centres are charged to products/ services through an overhead absorption rate for each cost centre.

Common bases for assignment of Production overheads to Cost Objects are:

Bases of assignment	Applicability
Unit of Production	When single product is produced or various products are similar in specifications.
Material Cost	Where the overheads are mostly related to material.
Direct employee cost	When conversion process is labour intensive and wage rates are substantially uniform.
Direct employee hour	When conversion process is labour intensive.
Machine Hour or Vessel Occupancy or Reaction Hour or Crushing Hour etc.	When production mainly depends on performance of the base.

A preferred approach for assignment of overheads to cost objects is to use multiple drivers instead of a single driver such as machine hour, where feasible.

14. A preferred approach to assignment of overheads is the assigning of cost of resources to activities and assigning the cost of activities to Cost Objects through use of cost drivers, wherever feasible.
15. Also there are service cost centres through which the product does not pass through but which provide a

support function to the production cost centres.

16. Where the cost of services rendered by a service cost centre is not directly traceable to a cost object, it shall be assigned on the most appropriate basis.
17. The most appropriate basis of distribution of cost of a service cost centre to the cost centres consuming services is to be derived from logical parameters which could be related to the usage of the service rendered. The parameter shall be equitable, reasonable and consistent.
18. Charging overheads on the basis of “benefits received” by the various users is preferred. This requires some measure of “receipt of benefit” to be developed.
19. Sometimes capacity in a service department is created in anticipation of demand for services. It is appropriate to allocate such capacity costs on the basis of “capacity to serve” rather than actual usage of services.

Ultimately all overheads must be charged to products of services. Hence the total production overheads of Production Cost Centres are applied to products passing through them using a suitable absorption base.

20. Before the final step of absorption, production overheads of production cost centres have to be segregated between fixed overheads and variable overheads. The fixed overheads are absorbed by products based on normal capacity or actual capacity utilization whichever is higher. Variable overheads are absorbed by products based on actual capacity utilization. This treatment is in line with Accounting Standard 2 as well.
21. Normal capacity is defined in Cost Accounting Standard 2 as the production achieved or achievable on an average over a period or season under normal circumstances taking into account the loss of capacity resulting from planned maintenance. It is practical capacity minus the loss of productive capacity due to external factors.
22. Under-absorbed fixed overheads are charged off to Costing Profit & Loss Account and shown as an item of Reconciliation with financial accounts.

### Depreciation

1. Depreciation, though part of overheads, generally appears as a separate line item in the cost statements instead of being grouped under overheads. This is because of its size in the technology driven business of today and its unique characteristic of being non-cash cost.
2. Amortization of intangible assets tends to be grouped with depreciation because intangible assets themselves are grouped with Fixed Assets in the presentation under Schedule III of the Companies Act 2013.
3. The measurement of depreciation in Cost accounts tends to mirror the practices in financial accounts.
4. However the treatment of depreciation in Cost Accounts must address the following issues:
  - Depreciation not calculated on period of use basis.
  - Depreciation an idle assets

- 100% of depreciation on certain class of assets
  - Write-off of small value assets
  - Depreciation on fully depreciated assets
  - Depreciation on revalued assets
5. Sometimes depreciation in books is not calculated on period of use, for example 50% of annual depreciation is taken for an asset put into use for a day in financial accounts keeping in mind Income Tax provisions. **Cost accounts will always use the depreciation computed on period of use basis and take the balance to Costing P & L or reconciliation with financial accounts.**
  6. Even where 100% of the depreciation is allowed in the first year for income tax purposes, companies are required to use regular rates of depreciation for cost accounting purposes. Even where an entity uses 100% depreciation rates in financial books of accounts, **depreciation based on estimated life is used for costing purposes with the difference taken to costing Profit & Loss or Reconciliation with Financial Accounts.**
  7. **Where small value items are written off fully at the time of purchase in financial accounts, the same is generally adopted for cost accounts.**
  8. **In the case of old plants, there is the special case for fully depreciated assets which however continue in regular service. Some entities continue to provide a notional depreciation on such assets for decision making purposes.**
  9. Depreciation on the amount by which the asset is written up on Revaluation is charged to Revaluation Reserve in financial books. **Some entities compute the depreciation on the revalued figure for costing purposes to reflect the true cost of depreciation.**
  10. **It goes without saying that the cumulative depreciation charged in the Cost Accounts against any individual item of fixed asset will not exceed the original cost of the asset.**
  11. The assignment of depreciation to various cost centres should not pose a problem so long as detailed Fixed Asset records are maintained by the Company. However there are some common items of fixed assets between cost centres e.g. yard piping carrying products from one process to another, common storage tanks and the like. **Depreciation on common assets are apportioned to individual cost centre on some suitable basis e.g. yard piping is assigned to the cost centre receiving the material.**

#### Administrative Overheads

1. **Administrative overheads are the aggregate cost of resources consumed in activities relating to general management and administration of an organisation.**  
The principles of measurement of Material Cost, Employee Cost, Utilities, Repairs & Maintenance and Depreciation found in the respective standards will apply if included in administrative overheads.
2. **In case of leased assets, if it is an operating lease – the entire rentals will be treated as a part of administrative overheads, while in case of a financial lease – the finance cost portion will be segregated and treated as a part of finance cost.**

**3. The cost of software (developed in house, purchased, licensed or customized), including up-gradation should be amortized over its useful life.**

When hardware requires up-gradation along with the software, it is recommended to use compatible estimated lives for the two sets of cost.

**4. The cost of the administrative services procured from outside is determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable net of discounts (other than cash discount), taxes and duties refundable or to be credited. The assignment of administrative overheads to cost objects is based on either of the principles of Cause and Effect or Benefits received, if it is not directly traceable.**

The cost of shared services is best assigned to user activities on the basis of actual usage, infrastructure costs on the basis of readiness to serve and general management costs on a rational basis. For e.g.: Number of employees, turnover, investment size etc.

**5. Since most administrative costs are fixed in nature, it is preferable to charge them to users on “readiness to serve” basis such as installed capacity, budgeted sales etc. rather than actual production or actual sales. Even the drivers mentioned in (9) above can be on the basis of expected driver qualities rather than actual.**

### **Selling and Distribution Overheads**

1. Selling costs can be recorded in a manner which will facilitate customer / product profitability analysis, as appropriate. Thus selling costs can be identified to markets, distribution channels, territories, salesman etc., before being assigned to customer / product as applicable.
2. The acceptable bases for apportionment of common selling costs to customers / products are:
  - a. Weight
  - b. Units / equivalent units
  - c. Value of goods
  - d. Any other appropriate and equitable basis
3. The acceptable bases for assigning common transport costs to products are:
  - a. Weight
  - b. Volume of goods
  - c. Tonne km
  - d. Units / equivalent units
  - e. Value of goods
4. The transportation costs assigned to products are charged to units based on some measure which factors in the distance e.g. tonne km.

### **Interest and Finance Charges**

1. Interest and Finance Charges have come to be included in cost of sales though not in cost of production. Such costs are also assigned to products before arriving at margins by product.
2. For the purpose of assignment, Interest charges are grouped under

- interest on long term funds
  - interest on working capital funds
3. The former is assigned to product lines based on fixed capital investment (including fixed assets and mould and dies) in such product lines. A portion of the interest is also charged to outside investments, if they exist, and excluded from cost of sales. For this purpose, it is usual to develop an average cost of long term funds and apply it to fixed capital investment in each product line.
  4. It is not the accepted practice to charge imputed interest on owners' funds in cost accounting.

### Sales

1. Cost of sales statements lead right up to margin and hence sales also have to be handled in Cost Accounting.
2. **Since costing is always by product, cost accounting requires product wise analysis of sales.** This is usually produced by other modules of the enterprise system.
3. What is critical is the value of sales produced by such analysis. Often sales analysis produce invoiced value of sales. **What is required for cost accounting is net value of sales net of trade discounts, returns, allowances, volume discounts, special discounts based on market conditions etc.**
4. Many of these deductions from sales are transacted through credit notes which also must be processed through the sales analysis to arrive at product wise break up.
5. **Some of these deductions from sales may be available only in total and hence may have to be allocated to products on a suitable basis, say, sales value.**
6. It is not unusual for businesses to focus on net realization from sales ex-factory gate. This means that freight (both primary and secondary), transit insurance, loading and unloading charges, handling charges and the like are deducted from net sales as arrived at in 3 above to arrive at net sales realization ex-factory gate. This also entails freight and other transport costs not being shown under the head Distribution costs. So long as these costs are shown separately as deductions from net sales value, the practice is acceptable.
7. Companies (Cost Records and Audit) Rules, 2014 require gross sales to be shown in addition to net sales in cost statement. This requires that excise duty, sales tax (VAT) etc is added to net sales to arrive at gross sales by product. However, in view of application of GST, w.e.f. 1/7/2017, the Gross sales becomes Net Sales.

### Joint Costs

1. Joint Costs are the costs of a production process that yields multiple products simultaneously, for example, in the refining of Petroleum which yields Petrol, Kerosene, Diesel, Naphta, Grease, Tar and several other products or the distillation of coal, which yields coke, natural gas, and other products.
2. The costs of the common process are the joint costs.
3. Joint costs are allocated
  - (a) Based on a measure of the number of units, weight, or volume of the joint products, or
  - (b) Based on the values attributed to the joint products.
4. By-product is a special case of Joint Product where one or more of the joint product has minor value compared to others.

- Such by-products are generally valued at their value at the split-off point with such value being credited to the costs of the main product. The split-off point value is arrived at on the basis of the ultimate realizable value of the by-product less the post split-off costs.

### Common Costs

- A common cost is the cost of operating a common facility, activity or service or that is shared by two or more cost objects.
- The common cost is generally lower than the stand-alone individual cost to each cost object was the facility not shared.
- Common costs are therefore allocated to each cost object based on the individual costs of the cost object.

### Presentation and Disclosure

Generally the presentation requirements of cost information for statutory purposes are laid down in the respective rules. Similarly the requirements of reporting for regulatory purposes are laid down by the regulatory agencies. Managements stipulate the presentation formats for managerial purposes. It is therefore not considered necessary to lay down any model statements or formats in this document.

However it is considered appropriate to stress certain disclosure practices which are generally applicable.

- Cost Statements must contain, besides total cost, unit cost per unit of output.
- Output quantities with unit of measure must appear in the Cost Statements.
- Input costs are best broken up as quantity and rate.
- The basis of valuation of inputs must be stated.
- The basis of distribution of costs to cost objects or cost centres must be disclosed.
- Costs incurred in foreign currency must be stated separately.
- Any costs excluded must be disclosed.
- Any credits or recoveries netted against cost must be disclosed separately.
- Transactions with related parties must be highlighted or disclosed separately.
- Cost elements, which are material for a product or activity, must be disclosed separately.
- Cost details of all ancillary products or activities may be maintained under a miscellaneous group and disclosed appropriately.
- Changes in the costing principles and methods applied must be disclosed with the effect.

### Conclusion

This document contains a discussion of the generally accepted cost accounting principles in the context of today and the times gone by. It must be understood that cost accounting principles and methods of applying them are in a constant flux influenced by fresh thinking by experts, regulatory influences, parallel developments in financial accounting standards and the like. Professional accountants will be well advised to use this document as a guide and not as a set of rules.

**Illustration 1.**

Burnet Ltd., a manufacturing unit, provides the following extracts from its records for the year ended March 31, 2023:

The Company's specifications capacity for a machine per hour	1,500 units
No. of shifts (each shift of 8 hours) per day	3 shifts
Paid Holidays in a year (365 days):	
(i) Sunday	52 days
(ii) Other holidays	12 days
Annual maintenance is done within these holidays	—
Preventive weekly maintenance for the machine is carried on during Sundays	
Normal idle capacity due to lunchtime, shift changes etc. per shift	1 hour
Production based on sales expectancy in past 5 years (units in lakh):	75.70
	87.42
	65.38
	77.97
	76.08
Actual Production for the year (units in lakh)	81.50

You are required to calculate:

- (i) Installed Capacity
- (ii) Practical Capacity
- (iii) Actual Capacity (%)
- (iv) Normal Capacity
- (v) Idle Capacity (%)
- (vi) Abnormal Capacity

Keeping in view of the relevant Cost Accounting Standard (CAS-2).

**Solution:****Calculation of different capacities****Burnett Ltd.**

- (i) Installed Capacity: days in year  $\times$  working hours per day  $\times$  unit per hour  
 $365 \times 8 \times 3 \times 1500 = 131.40$  lakh units
- (ii) Practical capacity: days available  $\times$  available hour per shift  $\times$  shifts  $\times$  units per hour  
 $(365-52-12) \times (8-1) \times 3 \times 1500 = 94.815$  lakh units

(iii) Actual capacity Utilization:  $\text{Current production} / \text{Installed capacity}$

$$(81.50 / 131.40) \times 100 = 62.02\%$$

(iv) Normal capacity:  $(75.70+87.42+65.38+77.97+76.08) / 5 = 76.51$  lakh units

(v) Idle Capacity: Installed capacity – Actual capacity

$$(131.40-81.50) = 49.90 / 131.40 = 0.3798 = 37.98\%$$

(vi) Abnormal Idle capacity:  $(94.815 - 81.50) = 13.315$  lakh units

**Illustration 2.**

The following information pertains to REACON CEMENT LTD., a manufacturing cement company for the year that ended as follows:

The year ended March 31	2022-23	2021-22
Rated Capacity per Hr (in MT)	80	80
Break down (Hrs)	2,177	1,015
Planned Maintenance (Hrs)	247	422
Power restrictions (Hrs)	1,237	1,481
Shortfall (there are no orders) (Hrs)	792	677
Want of wagons (Hrs)	495	635
Total stoppage (Hrs)	4,948	4,230
Total running (Hrs)	3,888	4,582
Total available Hours	8,836	8,812
Production during the year (in MT)	2,48,844	3,29,928
Hourly Rate of Production (in MT)	64	72
Capacity Utilization (%)	62.21	82.48
Annual Installed Capacity (in MT)	4,00,000	4,00,000

Based on information stated above, you as a Cost Auditor are required to offer your comments on:

- (i) The performance of the company
- (ii) Your suggestion for improvement.

**Solution:**

**Reacon Cement Ltd.**  
**Performance analysis**

- (i)
- (a) Rated capacity = 80 MT/Hr : Rated capacity achieved in 2021-22 =  $(72/80) \times 100 = 90\%$   
 Rated capacity achieved in 2022-23 =  $(64/80) \times 100 = 80\%$ . The capacity achievement as % of rated capacity has declined from 90% to 80% in 2021-22.  
 Further the Capacity Utilization has gone down to 62.21% in 2022-23 from 82.48% of previous year; a reduction of 20.27%.
- (b) From the data available the following observations are noted:-
1. Breakdown hours have gone up from 1,015 hours to 2,177 hrs, an increase by 114.48%
  2. Planned Maintenance hrs has reduced from 422 hrs to 247 hrs i.e. by 41.47%
  3. Shortfall hrs due to lack of orders has increased from 677 hrs to 792 hrs i.e. by 16.99%
  4. The total stoppage hrs. has increased from 4,230 hrs to 4,948 hrs i.e. by 16.97%
  5. The total running hrs has come down from 4,582 hrs to 3,888 hrs i.e. by 15.15%
  6. The production has come down from 3,29,928 MT to 2,48,844 MT i.e. by 24.58% From the above findings, it can be pointed out that the under utilization of capacity to the extent of little over 20% can be attributed mainly to:-
    - Increased total stoppage hours of 4,948 of 2022-23 as against that of 4,230 hrs in 2021-22 and
    - The net increase of 718 hrs (4,948-4,230) is again due to increase of break down by 1,162 hrs (2,177-1,015) in the year 2022-23

**(ii) Suggestion:**

Therefore, the Company should look into the aspect of proper maintenance, securing sufficient orders to avoid lost time. Better utilization of capacity can be also be achieved by improving availability of wagons. The company may also carry out a cost-benefit analysis to have captive source of power.

**Illustration 3.**

The following data have been available of Sunflag Dolon Limited:

	2020 - 21	2021 - 22	2022 - 23
Installed Capacity—Ton	250	250	250
Production—Ton	240	230	125
Cost Per Ton (₹)	1,000	1,077	1,660

The poor capacity utilisation in 2022-23 was due to abnormal power-cut. The escalation in costs were 5% in 2021-22 and 7% in 2022-23 based on 2020-21

- (i) Calculate the abnormal cost due to power cut.
- (ii) How would you treat these abnormal cost?

**Solution:**

	2020-21	2021-22	2022-23
Installed Capacity – Ton	250	250	250
Production – Ton	240	230	125
% of Capacity Utilisation	96	92	50
Cost per Unit (₹/Ton)	1,000	1,077	1,660
Escalation factor	100	105	107
Cost at base year price	1,000	$\left(1077 \times \frac{100}{105}\right)$ i.e. 1,026	$\left(1660 \times \frac{100}{107}\right)$ i.e. 1,551
Total cost of production (₹)	2,40,000	2,35,980	1,93,875
Variable Cost/Ton (₹)	402	402	401
Fixed Cost/Ton	598	624	1,150
Fixed Cost @ 100% utilisation (₹)	574		

Hence, increase in Fixed Cost/Ton due to poor capacity utilization in 2022-23

$$= (1,150 - 574) = ₹ 576$$

- (i) Total abnormal cost due to power cut =  $576 \times 125 = ₹ 72,000$
- (ii) The abnormal cost must be excluded from computation of cost and has to be shown under Para 7 of the Cost Audit Report as “Abnormal Non-Recurring Cost”.
- (iii) The 50% under utilisation of capacity being due to power-cut only, the Company should consider possibility of captive generation, if the power-cut is likely to persist. Accordingly, the investment needed, potential savings, etc. must be computed to determine the viability of such a decision.

**Working Notes:**

	2021-22	2022-23
Difference in Total Cost	$[2,40,000 - 2,35,980] = 4,020$	$[2,35,980 - 1,93,875] = 42,105$
Difference in production	10	105
<b>Hence, Variable Cost</b>	<b>402</b>	<b>401</b>

**Illustration 4.**

GLORY LTD., a manufacturing company provides the following extracts from its Cost Accounting Records for the year ended March 31, 2023:

The total capacity for 5 Machines per hour as per the company’s specification.	2500 Units
No. of shifts (each shift of 8 hours) per day	3
Paid holidays in a year (365 days):	
(i) Weekly holidays	52
(ii) Other holidays	10
Annual maintenance is done within these holidays (i.e. 10)	

Preventive maintenance for the machines is carried on during weekly off day.	
Normal idle capacity due to lunchtime, shift changes etc. per shift	0.5 hour
Production based on sales expectancy in past 3 years (units in lakh):	154.50
	159.54
	166.66
Actual production for the year ended March 31, 2023:	158.80

You are required to calculate:

- (1) Installed Capacity
- (2) Practical Capacity
- (3) Actual Capacity (%)
- (4) Normal Capacity
- (5) Idle Capacity (%)
- (6) Abnormal Capacity — Keeping in view of the relevant Cost Accounting Standard (CAS-2).

**Solution:**

**GLORY LTD.**

**CALCULATION OF DIFFERENT CAPACITIES FOR THE COMPANY**

(1)	Installed Capacity : $365 \times 8 \times 3 \times 2500 = 21900000$ i.e. 219 lakh units
(2)	Practical capacity: $(365 - 52 - 10) \times (8 - 0.5) \times 3 \times 2500 = 17043750$ i.e. 170.4375 lakh units
(3)	Actual capacity (given) = 158.80 lakhs units
	Actual capacity utilization: $(158.80/219) \times 100 = 72.51\%$
(4)	Normal Capacity: $(154.50 + 159.54 + 166.66)/3 = 160.23$ lakh units
(5)	Idle capacity: $(219 - 158.80) = 60.20$ lakh unit i.e. $(60.20/219) = 27.49\%$
(6)	Abnormal Idle capacity: $(170.4375 - 158.80) = 11.6375$ lakh units i.e. $(11.6375/170.4375) = 6.83\%$ .

**Illustration 5.**

A plant operates 3 shifts of 8 hours each for all days except Sundays and 8 holidays.

Preventive maintenance is taken care in Sundays and annual maintenance in 8 hoildays.

Normal idle time for food, shift change and other work for the workers is 1 hour per shift.

Installed Capacity of the machine = 1200 units per hour.

Production during last 5 years & Current year are 69.4, 72.6, 71.4, 70.5, 70.8, 69.9 lakh units

Determine according to CAS 2, Installed capacity, Actual capacity, Idle capacity, Abnormal idle capacity.

**Solution:**

- (i) Installed capacity = days in year × working hours per day × unit per hour  
 $= 365 \times 8 \times 3 \times 1200 \text{ unit} = 105.12 \text{ lakh units}$
- (ii) Available capacity = days available × available hour per shift × shifts × units per hour  
 $= (365 - 52 - 8) \times (8 - 1) \times 3 \times 1200 = 76.86 \text{ lakh units}$
- (iii) Normal capacity =  $69.4 + 72.6 + 71.4 + 70.5 + 70.8 / 5 = 70.94 \text{ Lakhs units}$
- (iv) Actual capacity = Current production / Installed capacity =  $69.9 / 105.12 = 66.50 \%$
- (v) Idle capacity = Installed capacity – Actual capacity =  $105.12 - 69.90 = (35.22/105.12) \times 100 = 33.50\%$
- (vi) Abnormal Idle capacity = Normal capacity – Actual capacity  
 $= 76.86 - 69.9 = 6.96 \text{ lakh units}$

**Illustration 6.**

The following particulars pertaining to production of yarn are extracted from the records of Balarampur Textiles Ltd. for the year ended March 31, 2023:

Particulars	₹ '000
Direct Material Cost per unit	2,560
Direct Wages & Salaries	1,540
Direct Expenses	450
Indirect Materials	533
Factory Overheads	897
Administrative Overheads (40% relating to Production activities)	1,250
Quality Control Cost	565
Research and Development Cost	600
Interest on Working Capital	350
Sale of Scrap Realised	460

You are to determine the cost of production for the purpose of captive consumption in terms of the Rule 30 of the Central Goods & Services Tax Rules 2017 and as per the CAS-4 (Revised) and the Assessable Value for the purpose of paying GST on applicable transactions.

**Solution:**

According to the Rule 30 of the Central Goods & Services Tax Rules 2017, the Assessable Value of goods used for captive consumption is 110% of cost of production of such goods. The manner of determination of cost of production for captive consumption is laid down in CAS-4.

Particulars	₹ in '000
Direct Material	2,560
Direct Wages and Salaries	1,540
Direct Expenses	450
Indirect Materials	533
Factory Overheads	897
Administrative Overheads (40% on ₹1,250)	500
Quality Control Cost	565
R& D Cost	600
<b>Total cost</b>	<b>7,645</b>
Less: Realisation of scrap	460
Cost of production as per CAS-4	7,185

**Note :**

1. The cost of Working Capital Interest is not chargeable to Cost of Production
2. Assessable value as per Rule 30 of CGST Rules, 2017 is ₹ 79,03,500 (110 % × 71,85,000)

**Illustration 7.**

ABUNA ELECTRONICS LTD. is engaged in the manufacture of LED TV sets having its factories at Patna and Gujarat. The company manufactures picture tube at Patna which is consumed to produce LED TV sets at Gujarat factory. The following information pertaining to captively consumed picture tubes are extracted from the records of the company for the half year ended March 31, 2023.

(₹ in Thousand)

Direct material	950
Direct wages and salaries	357
Direct expenses	80
Indirect materials	70
Factory overheads	320
Administrative overheads (20% relating to production activities)	640
Quality control cost	100
Research and development cost	125
Selling and distribution expenses	225
Sale of scrap realized	130
Profit margin	15%

You are required to determine:

- (i) The cost of production for purpose of captive consumption in terms of Rule 30 of the Central Goods & Services Tax Rules 2017 and as per CAS-4 (Revised), and
- (ii) Assessable Value for the purpose of paying GST on applicable transactions.

**Solution:**

**ABUNA ELECTRONIC LTD.**

**Computation of Cost of Production (As per CAS-4)**

Amount in ₹ thousand

Direct materials	950
Direct wages and salaries	357
Direct expenses	80
Factory overheads (320+70)	390
Quality control cost	100
Research and development cost	125
Administrative overheads (to the extent relates to Production activities)	128
Less: Sale of scrap realized	(130)
<b>Cost of production</b>	<b>2,000</b>
Add: 10% as per Rule 30 of CGST Rules, 2017 (10% of ₹ 2,000)	200
Assessable Value as per Rule 30 of CGST Rules, 2017	<b>2,200</b>

**Illustration 8.**

Purchase of Materials ₹ 3,00,000 (inclusive of GST of ₹ 15,715); Free on Board ₹12,000; Import Duty paid ₹15,000; Freight inward ₹ 20,000; Insurance paid for import by sea ₹ 10,000; Rebates allowed ₹ 4,000; Cash discount ₹ 3,000; Subsidy received from the Government for importation of these materials ₹ 20,000. Compute the landed cost of material (i.e. value of receipt of material).

**Solution:**

**Computation of Material Cost Sheet**

	<b>Particulars</b>	<b>Amount (₹)</b>
	Purchase price of Material	3,00,000
<b>Add:</b>	Free on Board	12,000
<b>Add:</b>	Import Duties of purchasing the material	15,000
<b>Add:</b>	Freight Inward during the procurement of material	20,000
<b>Add:</b>	Insurance paid	10,000
	<b>Total</b>	<b>3,57,000</b>
<b>Less:</b>	Rebates	4,000
<b>Less:</b>	GST Input Tax Credit	15,715
<b>Less:</b>	Subsidy received from the Government for importation of materials	20,000
	<b>Value of Receipt of Material</b>	<b>3,17,285</b>

**Note:**

- (i) Cash discount is not allowed, as it is a financial item.
- (ii) Subsidy received, rebates and GST Input Tax Credit are to be deducted for the purpose of computing the material cost.

**Illustration 9.**

Purchase of Materials \$ 50,000 [Forward contract rate \$ = ₹64.40 but \$ = ₹64.60 on the date of importation]; Import Duty paid ₹5,65,000; Freight inward ₹1,62,000; Insurance paid for import by road ₹48,000; Cash discount ₹33,000; Payment made to the foreign vendor after a month, on that date the rate of exchange was \$ = ₹65.20. Compute the landed cost of material.

**Solution:****Computation of Landed Cost of Material**

	Particulars	Amount (₹)
	Purchase price of Material [50,000 × 64.60]	32,30,000
<b>Add</b>	Import duties of purchasing the material	5,65,000
<b>Add</b>	Freight Inward during the procurement of material	1,62,000
<b>Add</b>	Insurance paid	48,000
	<b>Value of Receipt of Material</b>	<b>40,05,000</b>

- (i) Excess payment made to the vendor due to exchange fluctuation is not an includible cost, hence not considered.
- (ii) Though the forward contract rate was \$ = ₹64.40, but the exchange rate on the date of importation is considered. Hence, included in the cost of materials. Accordingly, the purchase cost is computed considering the \$ = ₹64.60.

**Illustration 10.**

Opening stock of raw materials (5,000 units) ₹ 1,80,000; Purchase of Raw Materials (17,500 units) ₹ 7,00,000; Closing Stock of Raw Materials 3,500 units; Freight Inward ₹ 85,000; Self-manufactured packing material for purchased raw materials only ₹60,000 (including share of administrative overheads related to marketing sales ₹8,000); Demurrage charges levied by transporter for delay in collection ₹ 11,000; Normal Loss of materials due to shrinkage in transit 1% of materials purchased; Abnormal Loss due to absorption of moisture before receipt of materials 100 units. Calculate the value of Closing Stock (Average Cost Method).

**Solution:**

Computation of value of closing stock of raw materials [Average Cost Method]

	Particulars	Quantity (Units)	Amount (₹)
	Opening Stock of Raw Materials	5,000	1,80,000
<b>Add</b>	Purchase of raw materials	17,500	7,00,000
<b>Add</b>	Freight inwards		85,000
			9,65,000

<b>Less</b>	Abnormal Loss of raw materials ( due to absorption of moisture before receipt of materials) = $[(7,00,000 + 85,000) \times 100]/17,500$	(100)	(4,486)
<b>Less</b>	Normal loss of materials due to shrinkage in transit [1% of 17,500 units]	(175)	-----
<b>Add</b>	Cost of self-manufactured packing materials for purchased raw materials only (60,000 – 8,000)		52,000
	<b>Cost of raw materials</b>	<b>22,225</b>	<b>10,12,514</b>
<b>Less:</b>	Value of Closing Stock  = $\left( \frac{\text{Total Cost}}{\text{Total units} - \text{Units of Normal Loss}} \right) \times \text{Closing Stock units}$  = $\left( \frac{10,12,514}{5,000 + 17,500 - 175} \right) \times 3,500$	(3,500)	(1,58,737)
	<b>Cost of Raw Materials Consumed</b>	<b>18,725</b>	<b>8,53,777</b>

**Note:**

- (i) Units of normal loss adjusted in quantity only and not in cost, as it is an includible item
- (ii) Cost of self-manufactured packing materials does not include any share of administrative overheads or finance cost or marketing overheads. Hence, marketing overheads excluded.
- (iii) Abnormal loss of materials arose before the receipt of the raw materials, hence, valuation done on the basis of costs related to purchases only. Value of opening stock is not considered for arriving at the valuation of abnormal loss.

**Illustration 11.**

A Steel Company which produces Iron Casting Pipes and rod iron is covered under the Cost Audit according to the Companies (Cost Records and Audit) Rules 2014. From the expenditure data relating to 2021-22, determine the employees cost according to CAS -7.

₹ in Lakh

(i)	Salary, wages and other allowances	750
(ii)	Bonus	100
(iii)	Contribution to Provident Fund	90
(iv)	Wages to contractors employees	100
(v)	Employees welfare	40
(vi)	Abnormal cost due to strike	80
(vii)	VRS payment for closure of Rod Iron section of the plant	62
(viii)	Arrear Salary (2020-21)	210
(ix)	Compensation paid against the past periods against Court order	67

**Solution:**

The following items will not be included according to CAS-7:

- (i) VRS paid for closure of an unit
- (ii) Abnormal cost charges to Profit and Loss A/C
- (iii) Area salary not related to the current year
- (iv) Compensation paid against past periods
- (v) Wages paid to contractor employees.

[As per explanation(1) of CAS-7 under para-4.7: Contract employees include employees directly engaged by the employer on contract basis but does not include employees of any contractor engaged in the organisation.]

Thus, employees cost :

	₹ lakh
(i) Salary and wages	750
(ii) Contribution to PF	90
(iii) Employees welfare	40
(iv) Bonus	100
Total	980

**Illustration 12.**

A manufacturing firm has up its own power plant to cater its need in manufacturing process.

Its one month data is given below :

Number of units produced = 100 lakh units of which 5% is used by generating unit.

Material and utility used :

- (i) Coal 300 MT @ ₹ 30,000 per MT
- (ii) Oil 5 MT @ ₹ 1,60,000 MT
- (iii) Cost of Water extraction and treatment : 6 lakh litres @ ₹ 3 per litre
- (iv) Steam boiler cost ₹ 55 lakh with residual value 5 lakhs after life of 10 years.
- (v) Cost of Generating Plant is ₹ 90 lakhs with no residual value. Depreciation is charged on straight line method @ 10%
- (vi) Generating Plant : 100 skilled workers @ ₹ 30,000 & 150 helpers @ ₹ 20,000 pm.
- (vii) Boiler plant : 60 semi-skilled workers @ ₹ 25,000 & 100 helpers @ ₹ 20,000 pm
- (viii) Repair & Maintenance of generating plant & Boiler is ₹ 5.0 lakhs
- (ix) Share of Administrative charges ₹ 20 lakh
- (x) Realization from Sale of ash disposed is ₹ 1.5 lakh

Prepare a cost sheet for Electricity Generating Cost and calculate cost per unit.

**Solution:**

	Calculation	₹ Lakh
Material cost		
Coal	$300 \times 30,000$	90.00
Oil	$5 \times 1,60,000$	8.00
Water	$6 \times 3$	18.00
Total Material Cost		116.00
Wages for Generator Plant	$(100 \times 30,000) + (150 \times 20,000)$	60.00
Wages for Boiler plant	$(60 \times 25,000) + (100 \times 20,000)$	35.00
Depreciation - Generating Plant	$90 \times 0.10$	9.00
Depreciation- boiler plant	$(55-5) / 10$	5.00
Repair & Maintenance of generating plant & boiler		5.00
Administrative Exp		20.00
Total Cost		250.00

As generating unit consumes 5%, effective unit produced for manufacturing = 95 lakh

Realisation from Sale of Ash : 1.5 lakhs. Cost per unit = ₹  $(250 \text{ lakhs} - 1.5 \text{ lakhs}) / 95 = 284.5 / 95 = ₹ 2.6158$

**Illustration 13.**

During the Energy Audit of Reliable Engineering Ltd., the following figures relating to usage of power were placed before the Auditor:

	2022-23	2021-22	2020-21
Total Power consumed (kWh)	2642720	2744360	2393250
Rate per kWh (₹)	6.29	5.42	4.90
Total Production (in million kg.)	422.16	416.36	376.08

Compute the necessary productivity measures and (i) Price Variance and (ii) Volume Variance of power usage during these years.

**Solution:**

The power usage of Reliable Engineering Ltd. is given below along with the productivity measures and Price Variance and Volume Variance.

	2022-23	2021-22	2020-21
1. Power consumed (kWh)	26,42,720	27,44,360	23,93,250
2. Production (in million kg.)	422.16	416.36	376.08
3. Rate per kWh (₹)	6.29	5.42	4.90
4. Power Cost (₹) [1 × 3]	16,622,709	14,874,431	11,726,925
5. Power Cost/‘000 kg. (₹) (W.N.-2)	39.375	35.725	31.182
6. Price Variance (₹) (W.N.-1)	22,99,166	14,27,067	
7. Volume Variance (₹) (W.N.-1)	2,28,375	14,39,003	

**Workings:**

(1)

	2022-23	2021-22
Price Variance : $26,42,720 \times (6.29 - 5.42)$	22,99,166	
: $27,44,360 \times (5.42 - 4.90)$		14,27,067
Volume Variance : [ $\text{₹} 39.375 \times (422.16 - 416.36) \times 1,000 \text{ kg.}$ ]	2,28,375	
: [ $\text{₹} 35.725 \times (416.36 - 376.08) \times 1,000 \text{ kg.}$ ]		14,39,003

(2)

1 Million kg = 10,00,000 kg

422.16 Million kg. = 42,21,60,000 kg

Hence, for 1000 kg. = 4,22,160

For 2022-23, Power Cost/ '000 kg

$$= \frac{\text{₹} 1,66,22,709}{4,22,160} = \text{₹} 39.375 \text{ and so on}$$

**Illustration 14.**

TROMA LTD., a manufacturing unit, produces two products PB and PS. The following information is extracted from the Books of the Company for the year ended March 31, 2023:

Particulars	Product PB	Product PS
Units Produced (Qty.)	2,10,000	1,68,000
Units sold (Qty.)	1,68,000	1,36,500
Machine hours utilized	1,26,000	84,000
Design charges (₹)	1,57,500	1,89,000
Software development charges (₹)	2,62,500	3,78,000

Royalty paid on sales ₹6,09,000 [ @ ₹ 2 per unit sold for both the products].

(i) Royalty paid on units produced ₹3,78,000 [ @ ₹1 per unit produced for both the products].

(ii) Hire charges of equipment used in the manufacturing process of product PB only ₹53,000.

**Note:** No adjustments are to be made related to units held i.e. Closing Stock.

You are required to compute the Direct Expenses—keeping in view of Cost Accounting Standard (CAS-10).

**Solution:**

**TROMA LTD.**  
**Computation of Direct Expenses (As per CAS-10)**

Amount in ₹

Particulars	Product PB	Product PS
Royalty paid on sale	3,36,000	2,73,000
Add: Royalty paid on units produced	2,10,000	1,68,000
Add: Hire charges of equipment used in the manufacturing process of product-PB only	53,000	—
Add: Design charges	1,57,500	1,89,000
Add: Software development charges related to production	2,62,500	3,78,000
<b>Direct expenses (total)</b>	<b>10,19,000</b>	<b>10,08,000</b>

**Illustration 15.**

As per the CAS-12, how should high value spare, when replaced by a new spare and reconditioned, be treated?

**Solution:**

As per CAS-12 on Repairs and Maintenance Cost, high value Spare, when replaced by a new spare and reconditioned, should be recognised as property, plant and equipment when they meet the definition of property, plant and equipment and depreciated accordingly. Otherwise, such items are to be classified as inventory and recognised in cost as and when they are consumed.

**Example:** A Company purchased equipment for ₹10 crore and the insurance spare was ₹ 1 crore. If the company is covered under Ind AS, such spare is capitalized as Property, Plant and equipment. After use for five years, the equipment broke down and a part was replaced with the aforesaid insurance spare. After 5 years, the depreciated value of equipment is ₹5 crore. As property, plant and equipment are depreciated when they are available for use, accordingly the depreciated value of new spare is ₹50 lakh. The old spare was reconditioned and the cost of reconditioning is ₹10 lakh. As per the estimated life of the old spare for future economic benefits, the current market value of the reconditioned old spare has been estimated at ₹25 lakh. The amount to be treated in repairs and maintenance is ₹ 35 lakh as follows:

	(₹ in Crores)
A. Equipment Cost	10.00
B. Cost of New Spare	1.00
<b>Total Cost</b>	<b>11.00</b>
Depreciation for 5 years	5.50

Depreciated value of equipment and spare [₹ 5 + 0.50]		5.50
Reconditioning cost of old spare	0.10	
Depreciated value of old spare	0.50	
<b>Book value reconditioned spare</b>		<b>0.60</b>
Current market value of reconditioned spare to be restated in Books of Account		0.25
<b>Amount to be treated in Repairs and Maintenance</b>		<b>0.35</b>

### Illustration 16.

Standard Material requirement to produce 1000 units of product X is 1200 units of material at a standard price of ₹60 per unit. The Standard allows for reject of 25% of input. It is estimated that one third of rejects can be reworked at an additional cost of ₹ 20 per unit. Scrap units can be sold at ₹ 5 per unit.

During a particular period, units produced were 19500 with 24000 units of materials at standard cost of ₹ 60 per unit, 7000 units were rejected out of which 2500 units were reworked at a cost of ₹ 51,000. The balance units were sold as scrap for ₹ 5 per unit.

Calculate Material Quality Variance and Scrap Variance.

### Solution:

Quality control cost is the cost of resources used for quality control procedures.

### Standard Material Cost :

Units	Particulars	Amount
Material 1200 units	Standard Cost (₹)	72,000
Rejection 300 units		
Reworked Unit =100	Rework cost (₹)	2,000
Scrap of 200 units	Sale value of scrap (₹)	-1,000
		₹ 73,000
Unit Produced 1000 (1200 - 200)	Standard Cost per unit	₹ 73.00

### Actual Material Cost :

Units	Particulars	Amount
Material 24000 units	Actual Cost (₹)	14,40,000
Rejection 7000 units		
Reworked Unit = 2500	Rework cost (₹)	51,000
Scrap of 4500 units	Sale value of scrap (₹)	-22,500
		₹ 14,68,500
Unit Produced 19500 (24,000 - 4,500)	Actual Cost per unit	₹ 75.31

Material Quality Variance = Actual Material Cost – Actual Quantity × Std Rate

$$= ₹ 14,68,500 - (19500 \times 73) = 14,68,500 - 14,23,500 = ₹ 45,000 \text{ (A)}$$

Material Usage Variance = Actual Quantity × Standard Rate – Standard Quantity × Std Rate

$$\begin{aligned} &= \text{Standard Rate (Actual Quantity – Standard Quantity)} = 60 \times [24,000 - (19,500 \times 6/5)] \\ &= 60 \times (24,000 - 23,400) = 60 \times 600 = ₹ 36,000 \text{ (A)} \end{aligned}$$

For Scrap Variance

Actual scrap = ₹ 22,500

Scrap value as per standard =  $19,500 \times (1/5) \times 5 = ₹ 19,500$

Scrap Variance = ₹ 3,000 (F)

$$\text{Material cost/unit} = \frac{₹ 72,000}{1200} = ₹ 60 \text{ /unit}$$

## Exercise

### Theoretical Questions

#### ⊙ Multiple Choice Questions

1. CAS-17 deals with \_\_\_\_\_ .
  - (a) Royalty and Technical Knowhow fee
  - (b) Material Cost
  - (c) Research & Development Cost
  - (d) Interest & Financing charges
2. CAS 21 deals with \_\_\_\_\_ .
  - (a) Cost of service cost centre
  - (b) Quality Control
  - (c) Capacity determination
  - (d) Cost classification.
3. The foreign exchange component of imported material is converted at the rate on \_\_\_\_\_ .
  - (a) Date of Payment
  - (b) Date of Delivery
  - (c) Date of Transaction
  - (d) Date of Use
4. Which of the following is not forming part of Cost of transportation?
  - (a) Cost of transport
  - (b) Transit insurance
  - (c) Demurrage Charge
  - (d) Local Octroi charges
5. Idle capacity is the difference between \_\_\_\_\_ .
  - (a) Installed capacity and Actual Capacity Utilisation
  - (b) Installed capacity and Normal Capacity
  - (c) Abnormal Idle capacity and Normal Capacity
  - (d) Installed capacity and Normal Capacity

6. Remuneration of the Non-Executive Directors is treated as \_\_\_\_\_ .
  - (a) Employee Costs
  - (b) Administrative Overheads
  - (c) Non-Cost Item
  - (d) Selling & Distribution Overhead
  
7. Which of the following is not part of the Employee Cost as per CAS-7?
  - (a) Leave with Pay
  - (b) Medical benefits to the Employees and dependents
  - (c) Compensation for Lay off period
  - (d) Cost of Employees' stock option
  
8. Total Cost Accounting Standards issued by Cost Accounting Standard Board of CMA Institute as on today are :
  - (a) 10
  - (b) 15
  - (c) 20
  - (d) 24
  
9. Total Guidance Notes for By Cost Accounting Standard Board of CMA Institute as on today are:
  - (a) 5
  - (b) 7
  - (c) 10
  - (d) 13
  
10. Which Cost Accounting Standards deals with Material Cost ?
  - (a) CAS 1
  - (b) CAS 2
  - (c) CAS 6
  - (d) CAS 10
  
11. Till today Guidance note for Cost Accounting Standard \_\_\_\_\_ is not issued by Cost Accounting Standard Board of CMA Institute
  - (a) CAS 2
  - (b) CAS 7

- (c) CAS 12
- (d) CAS 17

12. Details of Raw Material Procurement Cost ( Rs / Kg )

Purchase Price	100
Transportation	10
Demurrage	10

As per CAS-6, Raw Material Cost to be considered shall be

- (a) 100
- (b) 110
- (c) 120
- (d) None of the above

13. Details of Employee Cost for Cost Records :

Gross Employee Cost	100
TDS Deducted	30

As per CAS 7, Employee Cost to be considered shall be :

- (a) 100
- (b) 30
- (c) 70
- (d) None of the Above

14. CAS \_\_\_\_\_ pertains to Cost of Utilities

- (a) 1
- (b) 4
- (c) 8
- (d) 14

15. CAS 10 deals with :

- (a) Raw Material Cost
- (b) Packing Material Cost
- (c) Utilities Cost
- (d) Direct Expenses

16. Find the Direct Expenses as per CAS-10 from the following :

- 1) Finance Charges on lease of Design 10 Lacs
- 2) Special Design Charges 20 Lacs
- 3) Software Development Charges related to Production 15 Lacs
- 4) Travelling Abroad for Training 7 Lacs

Direct Expenses as per CAS-10 shall be :

- (a) 52 Lacs
- (b) 10 Lacs
- (c) 30 Lacs
- (d) 42 Lacs

⊙ **State True or False**

1. As per CAS-7, any Cost incurred by company for providing ESOP to it's employee is not forming part of Employee Cost.
2. Remuneration paid by the company to its Executive Directors and Non-Executive Directors on the Board will be considered as part of the Employee Cost.
3. Fines paid by company to the State Pollution Control Boar for violation environmental guideline is a part of the Pollution Control cost as per CAS-14.
4. The Companies (cost records and audit) Amendment Rules, 2019, issued vide notification No. GSR 752E dt. 15.10.2019 is effective from 15.10.2019.
5. Cost Accounting Standards are issued by Ministry of Corporate Affairs.

⊙ **Fill in the blanks**

1. Cost of repairs and maintenance measured as per principles and methods defined under CAS \_\_\_\_\_.
2. The cost incurred to remove the overlying material from the mine site is measured as per CAS \_\_\_\_\_.
3. CAS – 1 Classification of cost is effective from \_\_\_\_\_.
4. Employee cost, which cannot be directly attributed to a particular cost object is called \_\_\_\_\_.
5. Interest on Working capital is part of \_\_\_\_\_ Cost.

⊙ **Short Essay Type Questions**

1. What is cost centre and what are the types of cost centre?
2. Write note on Secondary Packing Material and its treatment as per CAS-9?

**Answer:****Multiple Choice Questions**

1.	(d) Interest & Financing charges.
2.	(b) Quality Control
3.	(c) Date of Transaction
4.	(c) Demurrage Charge
5.	(a) Installed capacity and Actual Capacity Utilisation
6.	(b) Administrative Overheads
7.	(c) Compensation for Lay off period
8.	(d) 24
9.	(d) 13
10.	(c) CAS 6
11.	(d) CAS 17
12.	(b) 110
13.	(a) 100
14.	(c) 8
15.	(d) Direct Expenses
16.	(d) 42 lacs

**State True or False**

1.	False- As per CAS-7, any Cost incurred by company for providing ESOP to it's employee is forming part of Employee Cost.
2.	False -Remuneration paid to Executive Directors is a part of Employee cost whereas remuneration to non-executive directors shall part of Administrative Overheads.
3.	False -As per CAS -14, Fines, penalties and similar levies paid to statutory authorities shall not form part of the Pollution Control cost.
4.	False - The Companies (Cost Records and Audit) Amendment Rules, 2019, issued vide notification No. GSR 752E dt. 15.10.2019 is effective from 01.04.2018.
5.	False - Cost Accounting Standards are issued by Institute of Cost Accountants of India with the prior approval from Ministry of Corporate Affairs.

**Fill in the Blanks**

1.	CAS-12
2.	CAS-23
3.	01.04.2015
4.	Indirect Employee Cost
5.	Finance