INITIAL DRAFT
OF
GUIDANCE NOTE
ON
COST ACCOUNTING STANDARD
ON MATERIAL COST (CAS-6)

Issued by

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

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Guidance Note on
Cost Accounting Standard on Material Cost (CAS-6)

Preface to Guidance Note

This Guidance Note on Cost Accounting Standard on Material Cost (CAS-6) deals in detail with the principles and methods as provided in the CAS-6 and practical aspects in connection with the determination of Cost of a product or service. The product also includes service as defined in Regulation 2(1) of the Competition Commission of India (Determination of Cost of Production) Regulations, 2009. This guidance note is to be read with CAS-6.

The topics of Cost Accounting Standard-6 on Material Cost (CAS-6) are:

In the guidance note, provisions of Cost Accounting Standard-6 (CAS-6) have been set in box in ***bold italic*** type and notes thereon in normal type.

Chapter 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.

Note on Para 1.1:

This para is introductory and self explanatory. It specifies the different types of materials being covered under this standard. Types of material covered under CAS-6 are raw materials, process materials, additives, manufactured / bought out components, sub-assemblies, accessories, semi finished goods, consumable stores, spares and other indirect materials.

Raw material is a basic / main material used in the manufacture of product. It varies with industry to industry. For example sugar cane is the raw material for production of sugar. Cotton is raw material for production of cotton yarn.

Process materials / additives are materials used in the process of manufacture in addition to raw material. Process material for sugar industry is lime, sulphur etc. In cement industry pozallana and gypsum are additive materials. In paper industry clay/china clay is additive material.

Self manufactured and bought out components form part of the finished product (e.g. fastener, fan belt, etc.) and these are fitted to the product without any further processing. In other words bought components are purchased items used in the assembly of main product. These items are developed by the supplier as per specification of manufacturer. Bought out component when used in the main product are called “Original equipment supplies (O.E). These items are also sold in the market for replacement of worn out parts and is called as spare /bought out parts.

“Subassembly” (also sometimes called as “aggregates”) means an assembly of various components with a distinct identity, and forms part of the finished product, e.g. gear, front axle, rear axle etc.

“Accessory” may be either a component or sub-assembly, which is not essential for the basic functioning of the product, but supplied as an optional item (e.g. an air conditioner or music system in an automobile). However, in the case of mining, earthmoving drilling equipment and other similar items of machinery, accessories are supplied with the basic equipment, depending upon the operating conditions in the field as standard equipment.

Consumable stores are items used in the maintenance of plant e.g. lubricant, cotton waste, paint etc.

Spares are purchased items used for replacement of worn out part of machinery etc.

Other indirect materials are items of small value such as bolt, nut nails, etc which cannot be directly identified economically with a product and are treated as indirect material.

This standard does not deal with Packing Materials since there is a separate standard CAS-9 on Packing Material Cost.

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.***

Note on Para 1.2
The principles and methods of classification of material cost of product or service have been described in the standard. It also deals with measurement, assignment, presentation and disclosure of material cost in cost statements.

Classification of material is the process of grouping the components of material cost under a common designation on the basis of similarities of nature, attribute or relations, source of supply etc. In terms of relationship, materials are classified as direct material and indirect material of product cost. On the basis of source of supply, materials are classified as indigenous materials / imported materials. Indigenous materials are manufactured within the country and imported materials are procured from other countries. Imported material may be procured locally through agents. Materials may be procured through e-procurement mode i.e. placement of order, confirmation of supply and payment etc. through electronic system.

Materials are also classified according to nature such as raw material, consumable stores, spares etc. For purpose of identification and convenience, each item of material is given a distinct name. Similar items are classified under sub-groups and number of such groups is classified under the main or major groups. For example, items of brass may be classified under sub-head 'non-ferrous metals' and under the main head 'metals'.

Measurement is determining the cost of material in terms of quantity and value of material and assigning the same to a product or service.

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.

Note on Para 1.3
This para specifies the issues covered viz. Principle of valuation of receipt, its issue and assignment to cost objects. These have been dealt in detail in the subsequent chapters.

Chapter 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.

Note on Para 2

The objective of the CAS-6 is to standardize the principles and methods of computation of cost of material in cost statement. The principles and methods adopted shall be applied consistently from one period to another and for reasonable uniformity between different products/units. For example if FIFO method is used for valuation of issue of materials, the same shall be followed from one period to another.

Chapter 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.

Note on Para 3

In the preparation of cost statement and its attestation, if any, material cost shall be determined with reference to CAS-6.

Chapter 4 *Definitions*

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.***

Note on para 4.1

Abnormal cost arises due to idle time for some heavy break-down or abnormal process loss. They are not considered in the cost of production for decision making and charged to profit & loss account.

Cost of material during trial run for production and loss due to fire and natural calamities are examples of abnormal cost, hence excluded from cost of material.

4.2 Administrative overheads: ***Expenses in the nature of indirect costs, incurred for general management of an organization.***

Note on Para 4.2

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.

Examples of items generally included in Administrative overheads are:

- Salaries of administration and other expenses related to employees such PF contribution, leave encashment, bonus etc
- General office expenses like rent, lighting, rates and taxes, telephone, internet, computer maintenance, printing & stationery, postage, local conveyance, travelling expenses, guest house expenses etc.
- Bank charges
- Audit fees and audit expenses
- Legal expenses
- Depreciation & repair and maintenance of office building / equipments.

Costs collected under above cost pools are to be analyzed and assigned to various cost objects.

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

Note on Para 4.3

Cost Object or Cost Centre is the logical sub-unit for collection of cost. Cost Object or Cost Centre may be classified in different ways like function-wise and nature wise:

Function wise	Production / Process, Utility wise such as Power, water, steam etc. Service e.g. Machine shop, Maintenance, stores, material handling.
Nature wise	Personal, Impersonal, e.g. Works manager, maintenance crew, machine shop

Thus cost object may be any customer, product service, contract, project, activity or other work unit for which a separate cost measurement is desired. For example, if it is desired to determine what it costs to produce a car, then the cost object is car. If it is desired to determine the operating cost of maintenance department within a plant, the cost object is maintenance department. Different costs can be assigned to the same cost object, depending on the purpose. For example, costs from all parts of the value chain could be assigned to a product for pricing decisions. The direct cost of one cost object may be the indirect cost of another cost object.

4.4 Defectives: ***End Product and/or intermediate product units that do not meet quality standards. This may include reworks or rejects.***

Note on Para 4.4:

When the product does not meet the specifications it is called defective. In the manufacturing process, imperfections may arise because of defective material or poor workmanship, or machine set up. If the unit can be reprocessed in one or more stages and made into a standard salable product, it is worthwhile to rework the defective unit. Defective unit can be corrected to meet specified standards with additional material, labour, and overhead.

4.4.1 Reworks: ***Defectives which can be brought up to the standards by putting in additional resources.***
Rework includes repairs, reconditioning and refurbishing.

Note on Para 4.4.1:

To convert the defective work to the good product involves additional material / labour / plant services. These items constitute re-operation or rework costs incurred in correcting imperfections so that the product meets the required quality.

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.

Note on Para 4.4.2

If defectives / spoiled work cannot be made into a saleable finished product with significant expenditure, it is to be disposed off as rejects.

Rejects or scrap or waste is discarded material having some value.

The rejection may occur in the following stages:

1. In course of manufacture
2. Rejection in testing at the finished stage
3. Rejection by customers after finished products has been dispatched from the factory.

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

Note on Para 4.5:

In economics, 'imputed' indicates an ascribed or estimated value when there is no criteria of absolute monetary value for such purpose. In simple word it is a cost which does not involve at any time any outright expenses or cash outlay. As such it does not appear in the financial books.

Example:

In farming operations, the wages or salaries of owner are imputed.

Imputed costs are similar to opportunity costs. Job workers are supplied material by the owner free of charge. In terms of CAS-4, cost of such input material supplied free is to be included in the cost of the production.

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*****.**

Note on Para 4.6.1:

Direct Materials are resources such as raw materials, parts and components that can be economically identified with a specific product. The term "economically feasible way" means that the cost of identifying the use of resource is less than the benefit of doing so.

Raw material varies with the type of product manufactured. Table below indicates the type of raw materials used in different industries.

Illustration	
Industry	**Type of Raw material required**
Cement	Clinker ,Lime stone gypsum
Caustic Soda	Salt
Cotton Fabrics	Cotton Yarn or cotton as the case may be
Sugar	Sugar cane/Beetroot
Detergent Powder	Linear Alkyl Benzene
Aluminum pipes	Aluminum Ingot
Steel tubes & pipes	Steel strips (HR/CR)

A list of products / industries and raw material used in their production is at *Annexure I*.

Raw materials consumed for production of a product or service which are identifiable in the product or service form the direct material cost. Direct Material cost includes cost of procurement, freight inwards, taxes & duties, insurance etc directly attributable to the acquisition. Trade discounts, rebates, duty drawbacks, refunds on account of MODVAT, CENVAT, sale tax / VAT and other similar items are deducted in determining the cost of direct material.

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

Note on Para 4.6.2

Materials not entering directly into production: Examples are supplies consumed in cleaning, oiling and maintenance. These cannot be directly identified with a product. Use of catalyst in some chemical industry is example of indirect material.

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

Note on Para 4.7

Material cost consists of – Raw Material, process material, colours and chemicals and packing materials. The cost of primary packing material is included in the cost of product and secondary packing material cost forms the part of cost of sales as dealt under CAS-9 on Packing Material Cost.

Material can be also classified as direct material and indirect material. While direct material is a part of material cost of a product or object. Indirect material does not directly enter into the production of a product and form part of production overheads. Examples of indirect materials are supplies consumed in cleaning, oiling and maintenance, etc.

Material cost may consist of indigenous materials, imported materials, bought-out items and self-manufactured items depending upon the material requirement for a product.

4.8 Production Overheads: ***Indirect costs involved in the production process or in rendering service.***

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

Note on Para 4.8

Production overheads are indirect cost involved in the production process or in rendering service. These cannot be directly assigned to a product or service, but can only be apportioned to cost object. Production overheads include the following expenses:

I. Consumable stores and spares
II. Depreciation of plant and machinery, factory building etc.
III. Lease rent of production assets

IV. Repair and maintenance of plant and machinery, factory building, stores, machine shops etc
V. Indirect employee cost connected with production activities
VI. Drawing and Designing department cost relating to current production
VII. Insurance of plant and machinery, factory building, stock of raw material & WIP etc
VIII. Amortized cost of jigs, fixtures, tooling etc
IX. Service department cost such as Tool Room, Engineering & Maintenance, Pollution Control, canteen, crèche etc.

It also includes the cost of factory administration and management. Borrowing cost and other financial charges including foreign exchange fluctuations will not form the part of overheads.

4.9 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 in place of raw material.***

Note on para 4.9

Scrap results from processing of material. It is unavoidable residue material arising in the process of manufacture. It has some value. Examples of scrap are border material from stamping, shavings, filing, boring, turning operations etc. The scrap is collected in storage yard so that it can be sold to scrap dealers. Scraps have generally low recovery value as in the case of steel but it may have significant value in the case of gold. Thus its recovery value depends upon the type of material.

In some cases scrap can be reprocessed into useful raw material for subsequent production of basic products. For example the scrap material from sheets of metal from which parts have been stamped, may be melted and again formed into sheets from which more units may be stamped. Similarly scrap generated in steel foundry is put into furnace to melt and form steel castings.

4.10 Standard Cost: ***A predetermined norm applied as a scale of reference for assessing actual cost, whether these are more or less***

Note on Para 4.10

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. 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. In some process industries like refractory, pharma, formulations etc, standard mix of raw materials is used to determine the cost of material and variance between standards and actual is adjusted periodically.

4.11 Waste and Spoilage

4.11.1 Waste: ***Material loss 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 value.***

Note on Para 4.11.1

In certain types of process and operation, certain quantity of material physically disappears on account of shrinkage, evaporation etc with the result that the quantity of output is less than the quantity of input. In paper industry, wood is received with inherent moisture but its cost is determined on dry weight basis.

In other cases residue such as smoke, dust, gases, slag etc arises in the course of operation and has practically no measureable value or utility. In some cases, disposal of waste results in further cost to comply with regulatory requirements. In other cases waste may have value.

In textile industry while processing cotton two types of waste are generated. For example, as the cotton passes through from one department to another, portion of the cotton is lost due to visible and invisible waste. Some of the visible wastes produced can be reused whereas the balance will have to be disposed off in the market. In such cases, average cost of mixing in which such waste is to be used or market rate of such waste whichever is lower is to be taken for valuation of usable waste e.g. If waste of 44x40 is fed in 14x18 and if mixing rate of 14x18 exclusive of this waste is Rs 15.62 per kg. Then such waste shall be valued at Rs 15.62 per kg. If this waste is used in the same mixing i.e. 44x40 such waste shall be valued at the input rate of 44x40 mixing.

4.11.2 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.***

Note on Para 4.11.2

In case of spoilage, all costs have been incurred at the point of spoilage. Nature and cause of spoilage is to be ascertained. If spoilage is caused by an exacting specification, difficult processing or other unusual factors, the spoilage cost should be charged directly to that order. If spoilage is normal in the manufacturing process, the spoilage cost should be treated as production overhead and prorated over good production during the period. If spoiled product has some realizable value, the same shall be adjusted against spoilage cost.

Chapter 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.

Note on para 5.1.1:
The valuation of receipt of materials is to be based on the terms and conditions stated in the purchase /supply order, source of supply i.e. indigenous or imported etc.

Purchase of indigenous material
The purchase/supply order inter alia states

(1) Specification of material being purchased
(2) Purchase price
(3) Quantity of supply
(4) Time of supply
(5) Place of supply
(6) Payment terms
(7) Other commercial conditions regarding inspection, rejection, trade discount etc.

If purchase price is ex-works of purchaser, inward freight is inbuilt in the price structure. If purchase price is ex-works of supplier, inward freight is to be paid by the purchaser and it is to be included in the valuation of receipt. Other terms used in this regard are F.O.R destination / F.O.R of supplier's place. (F.O.R – means free on rail). If it is F.O.R destination, loading at the place of supplier and railway freight is in built in the material purchase price. Unloading and transportation from railway station to works is to be incurred by the purchaser and is to be charged to the material purchase value. In case of F.O.R supplier's place, railway freight is to the account of purchaser.

In addition to basic purchase price, duties and taxes, freight inwards, insurance and other expenditure directly attributable to procurement are to be taken into account while valuing the receipt if these can be quantified with reasonable accuracy at the time of receipt. If any of these items of expenditure cannot be quantified with reasonable accuracy, these shall be treated as material handling cost. Trade discount, rebates, taxes and duties refundable (or to be credited by the taxing authorities) are to be set off. Examples of taxes to be deducted from cost are:

- CENVAT Credit
- Countervailing/custom duty credit
- Vat credit etc

Illustration of valuation of receipt of indigenous procurement is tabulated below:

XYZ co Faridabad Inv.No.KKM/29[2009 M/s KLM, Noida			
Item	**Quantity Nos**	**Rate Rs/Unit**	**Amount Rs**
1.Bottom Cap 2.Top Cap	2200 2200	2.79 2.26	6138 4972
Total Assessable value			**11110**
Excise Duty		8%	889
E.Cess		2%	18
S& HE Cess		1%	9
Taxable Value			12026
Vat		4%	481
Freight & Cartage			0
Total			**12507**

Since in the above invoice there is no trade discount, no adjustment is to be made in the procurement cost of the material. No freight and cartage has been charged by the supplier as supply is ex-works of purchaser. In case inward freight is incurred, it shall form part of the cost of procurement of materials and is to be apportioned to the items purchased. In the above example it is to be apportioned between above items purchased on rational basis such as weight/number etc

Accounting entries in regard to above procurement will be as under:

	Accounting Entries		
Purchases – Material Basic Excise Duty Receivable A/c Education Cess Receivable A/c S.H. E Cess Receivable A/c Vat recoverable	Dr Dr Dr Dr Dr	11110 889 18 9 481	
To Supplier	Cr		12507
On Payment Supplier To Bank	 Dr Cr	 12507 	 12507

On manufacture, excise duty payable will be adjusted against the above account viz. Excise Duty payable will be debited and Basic Excise Duty receivable account will be credited to discharge the payment liability of excise.

In certain purchases there may be no excise duty etc and only VAT is paid. Entry will be in regard to purchase price and vat paid will be adjusted against VAT payment liability. VAT is a State subject. Provisions, rules and regulations governing this tax differ from State to State. A registered dealer can set-off VAT paid on inputs such as raw-materials and other supplies, (VAT credit) against VAT payable on outputs such as finished goods or traded goods (Vat liability). The underlying principle is similar to, CENVAT Scheme. In certain situation VAT credit is not available. These include:

- Dealers who are not registered under VAT.
- Dealers having a turnover below the threshold limit as fixed under the State Laws on VAT.
- Dealers engaged in works contract and option to pay tax by way of composition or
- Purchase of goods from unregistered dealers.
- Goods purchased in the course of inter state trade where vat is disallowed.

Imported Material:
Materials are imported from other countries depending upon the availability in the country/economics of import. Import license may be required in certain cases. Purchase condition inter alia may be FOB, CIF port/airport. FOB (Free on Board) means that goods are loaded on the ship and there is no additional charge relating to loading etc. Purchaser has to pay transit insurance and freight from place of import to its destination. In case of CIF (Cost, Insurance & Freight) price, price includes besides basic price, transit insurance and freight. On receipt of goods, bill of entry/lading is prepared and other custom formalities are to be complied with for clearance of the goods.

Following points are to be considered while valuing imported material:

a. Actual customs duty paid on the basis of classification by the customs authorities will be assigned, net of any credits.

b. Material imported free of duty or at concessional rate of duty under export incentive scheme will be accounted for at the actual rate of duty applicable so long as there is reasonable expectation that the enterprise will satisfy the conditions for the duty exemption or concession. In case the material is used other than the intended purpose, provision for import duty/penalty leviable if any may be provided .This entry may be offset when the material is available for export purposes at the imported parity rate of material.

c. Harbor dues, stevedoring charges, congestion charges, etc on the basis of actual, if imported singly. If the packing material is imported as part of a basket, then proportionate value will become the basis for assigning the above charges

d. Intermediate storage – actual charged by the storage provider

e. Commission Agent's Charges: will be added to cost of materials. Where other services are also provided by the commission agent besides procurement of orders, e.g. arranging for LC, the charges for such services will also be assigned to the materials covered on a suitable basis.

f. Adjustment of CENVAT /VAT as per applicable regulation

g. Duty drawback and other similar duties subsequently recovered shall also be deducted from the cost of material

h. LC Charges / Bank Charges on purchases will not form part of material cost.

Illustrations of two invoices (on FOB and CIF basis) are tabulated below:
Landed Cost of imported material on FOB is illustrated below:

Calculation of landed cost of Imported material on FOB Basis				
Party's name	Xyz			
Invoice No. MRR Date LC/TT No.	49 15.9.2009 Xxx			
FOB/CIF	FOB			
Bill of Entry No. and date	Xxx dt 8.10.2009			
Item	**Qty (Kgs)**	**Rate per unit**	**Bill Value**	**($ = Rs 50.55)**
P .Black	10800	$3.00	$ 32,400	1637820
			Rs	
Assessable value B/E			1680665	
Basic Custom Duty	7.50%		126049.80	
Education cess on BCD	2%		2524.50	
Higher Edn cess on BCD	1%		1260.5	
CVD (on AV+BCD)	8%		144537	
Education cess on CVD	2%		2891	
Higher Edn Cess on CVD	1%		1445	
Custom Edn cess	1%		2949	
Custom Higher Edn Cess	1%		1474	
Special Addl. Duty	4%		78552	
TOTAL CUSTOM DUTY				361683
Freight				23,751
Insurance				124,035

Clearing & Forwarding expenses				6801
Total Purchase value	10800 kg			2,154,090
Less CVD			144537	
Less Education Cess on CVD			2891	
Less Higher Edn Cess on CVD			1445	
Less Special Addl.Duty			78552	(-)227425
Net Purchase Value				1926,665
Landed Cost per unit				178.39

It may be noted that assessable value is different viz Rs 1680665 as against purchase value in Rs 1637820, due to different rate adopted by the Custom authorities. Freight and insurance have been incurred by the purchaser.

Another example of imported material on CIF basis with accounting entries to be passed is tabulated below:

Calculation of landed cost of Imported material on FOB Basis				
Party's name	Xyz			
Invoice No. MRR Date LC/TT No.	49 5th April, 2009 Xxx			
FOB/CIF	**CIF**			
Bill of Entry No. and date	Xxx dt			
Item	**Qty (Kgs)**	**Rate per unit**	**Bill Value Foreign Currency**	**($ = Rs 51.15)**
H Melt	300	$ 7.70	$2310	118157
			Rs	
Assessable value B/E			119338	
Basic Custom Duty	20.00%		23867.60	
Education cess on BCD	2%		480.80	
Higher Edn cess on BCD	1%		238.70	
CVD(on AV +BCD)	8%		11456.00	
Education cess on CVD	2%		229.00	
Higher Edn Cess on CVD	1%		115.00	
Custom Edn cess	1%		234.00	
Custom Higher Edn Cess	1%		117.00	
Special Addl. Duty	4%		6243	
TOTAL CUSTOM DUTY				42981

Freight				0
Insurance				0
Clearing & Forwarding expenses				5530
Total Purchase value	300kg			166667.00
Less CVD			11456	
Less Education Cess on CVD			229	
Less Higher Edn Cess on CVD			115	
Less Special Addl.Duty			6243	(-)18043
Net Purchase Value				148624
Landed Cost per unit	300 KG			495.41

Accounting Entries (in Rupees)

Bank Charges on opening of Letter of credit & claiming Cenvat credit on Bank charges.			
Bank Charges (Import Bills) To Bank A/c	Dr	1378.75	 1378.75
Service Tax Recoverable – Service Tax Education Cess Recoverable – Service Tax Higher Education Cess Recoverable – Service Tax To Bank charges (import bill)	Dr Dr Dr	125.00 2.50 1.25	 128.75
Purchase Booking			
Purchases To Supplier (Booking of Import purchase at Exchange rate shown in Bill of Entry)	Dr	118157	 118157
Payment of Bill amount to supplier			
Supplier To Bank (Using RBI Exchange Rate/Card rate of the Bank at the date of payment – This rate is lower than the exchange rate adopted in the bill of entry resulting fluctuation gain)	Dr	115223.00	 115223.00
Supplier To Foreign Exchange Fluctuation (import) (Profit on import payment (115223 +2934.00= 118157)	Dr	2934.00	 2934.00
Unit is exporter also. It has benefit of DEPB License . Part of the payment of custom duty is adjusted against the DEPB benefit as under			
Custom Duty Raw Material To Bank To Balance with DEPB License (Payment of custom duty through Bank and through DEPB facility)	Dr	42981.13	 18394.00 24587.13
Taking claim of CVD			
Basic Excise Duty (Input)	Dr	17699.50	

Basic Education Cess (Input Basic S & H Edn cess(input) To Custom Duty Raw Material (Taking Cenvat claim for countervailing duty,E Cess & S H E Cess +Add.special duty)	Dr DR	229.13 114.57	 18043.20
Clearing & Forwarding Expenses			
Clearing & Forwarding (import) Service Tax Recoverable – service Tax Education Cess Recoverable – service Tax Higher Education Cess Recoverable – service tax To Party Clearing agent (for TDS) To Party To TDS (booking of clearing and forwarding	Dr Dr Dr Dr	5530 400 8 4	 5807 135
Party TDS To Bank Payment to Clearing Agent & TDS)	Dr Dr	5807 135	 5942
Bank Charges on Payment to supplier /claiming service tax on bank charges			
Bank Charges (Import bill) To Bank	Dr	2000	 2000
Service Tax Recoverable – service tax Education Cess Recoverable – service tax Higher Education Cess Recoverable – service tax To Bank Charges (import Bill) (included in the above bank charges)	Dr Dr Dr	181.32 3.63 1.81	 186.76

Preparatory cost:

All costs for bringing the material up to the place of manufacture are to be reckoned. This may include all traceable cost of acquisition to the extent possible. This may also include preparatory costs in many industries. For example the procurement of cane involves considerable efforts and resources which can be directly identified e.g. sugar cane development costs incurred, dressing of sugar cane before crushing, etc. Similarly, in mining industry raw ore undergoes changes through many stages and cost up to each stage is considered separately and transferred to next stage.

In paper industry bamboo, hardwood, wood waste (Veneer waste, Rulla etc. from Plywood industry) is used as raw material. Before these materials can be used, various preparatory operations such as cutting, debarking, chipping and screening to make proper size of wood chips are performed to make the material fit for use. This preparatory cost forms part of the material cost.

Wood requires seasoning and the cost of cutting, seasoning should be treated as material cost. Seasoning of raw material for wine is another example of preparatory cost.

Cost incurred for acquisition, inspection, storage, movement of materials and insurance is also to be assigned to material cost on rational basis.

Handling costs upto works / factory gate

If handling cost is a. specific and handled singly it is to be assigned to the material handled. If regular cadre of people is employed, for handling the material, it is to be apportioned on the basis of time taken by them. In other cases where handling charges are included in the carrier responsibility there will be no assignable cost due to handling.

Incoming Inspection

If the material calls for inspection by a third party, specific cost will be assigned to the material inspected. Inspection is also carried out internally. If its cost is significant, it is to be apportioned on the basis of time spent on inspection or other suitable measure of effort. If the inspection is part of the vendor's responsibility and certification no separate inspection cost will be assigned.

Other cost incurred for material acquisition is insuring of material. If insurance premium is specific and insured singly, it is to be assigned to the specific material insured. In case it is part of a comprehensive policy then the assignment of the insurance premium will be on the basis of the proportionate value insured. If insurance becomes part of the carrier's responsibility no separate cost will be assigned in this regard.

Trade discount will be deducted while arriving at the cost of materials

Treatment of containers for materials purchased:

The following situations are considered below.

Illustrations:

Container not separately charged:

The containers cost is included in the materials cost. An estimated residual value of the containers may be reduced for ascertainment of materials cost if sold for some value from time to time. If the value is not so significant, it may be credited to manufacturing overheads like cement bags, oil drums etc.

The container is returnable, but charged in invoice and refunded, when returned

As refunds are made, the cost of material will be net of the charge for returnable container. Necessary physical controls will be operative. Containers not returned in time may be charged to the enterprise. Instances of not returning in time may be very few. The amount so charged by the supplier may be aggregated with manufacturing overheads.

Returnable for part value of charged amount

The cost borne by the enterprise will only be added to the cost of material. If charged value is Rs 100/= per container and return credit is for Rs 40/-, Rs 60/- is the cost to be included in material cost.

Container is charged separately in the invoice and not returnable
This will be included in material cost.

Containers sold as scrap
The value may be reduced from material cost if material and significant otherwise sale value of scrap be adjusted against manufacturing overheads.

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

Note Para 5.1.2
Finance costs are interest etc on borrowed funds. Finance costs are excluded from cost of materials.

Bank charges are in the nature of handling charges and are not for any credit term. These charges do not form part of the finance cost. Similarly, the letters of credit charges are for credit risk or a transaction risk (demand bill) and are part of bank charges.

Sometimes goods are kept in bonded warehouse and clearance of goods is delayed. This may happen due to any financial stringency delaying the payment to the bank. Such payments of storage are to be excluded from cost of materials calculation and are dealt with in the financial accounts.

> **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.***

Note on Para 5.1.3
Self manufactured materials include material, components assemblies and subassemblies, accessories etc manufactured internally for making the final product. For example, gear box assembly, steering system assemblies etc are made separately and used in the final product assembly.

Self manufactured materials are classified into two categories viz intermediate products (used in the assembly of main product) which are exempt from excise duty. Other self manufactured components if captively consumed, are subject to levy of excise duty on cost of production to be determined as per CAS-4. Para 5 of CAS-4 provides for the determination of cost production for captive consumption. While determining the cost of self manufactured material for captive consumption and for other use, the following elements of costs are to be considered:

a. Material consumed (indigenous, imported, bought out items, self manufactured items, process material etc.)
b. Direct employee cost (as per CAS-7)
c. Direct expenses (e.g. cost of utilities, royalty, technical know-how charges for design, quality control, etc.)
d. Research and Development
e. Share of factory overhead (including factory administration and management expenses)

Finance cost and marketing overhead are not to be considered while valuing the self manufactured material.

Para 5.1.4: ***Spares which are specific to an item of equipment shall not be taken to inventory, but shall be capitalized with the cost of the specific equipment. Cost of capital spares and/or insurance spares, whether procured with the equipment or subsequently, shall be amortised over a period, not exceeding the useful life of the equipment.***

Note on Para 5.1.4

The spares which are specific to any equipment supplied at the time of purchase are amortized. Sometimes, capital spares are not separately invoiced but merged with the cost of equipment supplied. Such value may be amortized with the cost of machinery over its service life. It may be charged to cost based on machine hours utilized.

Spares which are termed as Insurance spares are stored to meet a contingency such as failure of a critical part in order to have Insurance against stoppage of production. Such spares may be used for replacing a defective part. These are special purpose spares specific to a specific machinery or group. These are also to be amortized within the service life of the machinery.

Para 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.

Note on para 5.1.5

Sometimes materials are lost in transit or spoiled. Treatment of loss will depend upon the terms and conditions of purchase order. If the purchase order does not specify any level of loss, and supplier is responsible to supply good quantity, in such cases the loss is to be recovered from suppliers or insurers as the case may be.

In case transit loss is to the account of purchaser, it has to fix the level of loss to be treated as normal or abnormal if it is recurring feature. The normal loss is to be absorbed by the good production. Abnormal loss of material is to be charged to Costing profit loss account and does not form part of the cost of material. In case of spoiled material if there is any realizable value, loss is to be accounted net of such value if economically feasible.

Illustration

S.No.	Particulars		Amount Rs
M/s OPM purchases 1000 pieces of Sealing Ring @ Rs 60/- per piece and pays Rs 2000 for freight for the above consignment thus total amount paid works out to Rs 62000/-.OPM on inspection of the consignment found that 100 pieces were broken and rejected. There is no scrap value for the rejected part. No refund of the broken material is admissible as per the terms of the contract. OPM considers 40 pieces as normal loss and 60 as abnormal loss. Normal loss is to be borne by the good pieces and abnormal loss is charged to profit & loss account as details below:			
A.	Invoice value @ Rs 60/- per piece for 1000 Freight Total Per piece		60,000 2,000 62,000 62
		Nos	
B	Quantity received as per invoice. Less Normal Loss Normal Receipt Good units	1000 40 960 ==== 900	 62,000
C	Abnormal Loss Total Cost of material Abnormal loss 62000/1000*60	60	 372
D	Cost of Good pieces	900	61,628
E	Unit cost of material for issue to production= 61628/900	Per piece	68.47

The net loss (after adjustment of recovery) if considered normal, should be absorbed by the good production. Any loss in excess of the normal allowance may be considered abnormal, if it arises due to unusual events like fire, major accident.

An illustration is given below:
Material ordered 100 tonnes @ 100 per tonne CIF Rs 10000
Less lost in transit considered normal) 1 tonne
Less recoveries from transporter of loss during transportation Rs 50

Net cost Rs 10000-50 = 9950 for 99 tonnes = Rs 9950/99 per tonne . = Rs 100.50 per ton

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.

Note on para 5.1.6
In case of certain materials before its receipt, losses due to shrinkage /evaporation and gain due to elongation or absorption of moisture arises. An anticipated level for such losses or gains

for each type of material is to be predetermined. Unit price of material is reduced or inflated to cover the cost of the normal percentage of loss or gain.

Example:
1000 units of material X purchased @ Rs 4/- per unit = Rs 4000
Anticipated loss due to shrinkage: 4% i.e. 40 units
Receipt will be 960 units and price inflated = Rs 4000/(1000-40 Units) = Rs 4.17 per unit
If there is gain in the quantity, issue rate will be reduced

Certain material contains moisture at the time of purchase which may evaporate during summer, thereby losing some weight or moisture may be absorbed during monsoon resulting in gain of some weight. One method of dealing with such material is to record the material as dry weight after deducting the moisture percentage which is considered normal. For any variation in moisture, suitable adjustment shall be made to record weight in term of dry weight.

Loss in quantity due to excess moisture over the normal percentage will not form part of the material cost.

Para 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.

Note on 5.1.7:
Forex conversion has to be on the date of transaction. This will be governed by the generally accepted accounting principles. The cost and financial accounts will have the same basis for alignment. Normally the date of dispatch of the document or the date on which the property in goods passes as per the purchase contract is adopted as the date of transaction. The difference between the actual payment and the amount taken as material cost of goods received is taken to a separate financial account to show the exchange rate variations (not becoming part of cost calculations.) This aspect has been illustrated in earlier para.

Another illustration of an item material imported is furnished below:
XYZ components imported Quantity 5000 kilos .Rate US $ 30 per kilo.
Total contracted rate Us $ 1,50,000 CIF Chennai. Letter of credit established demand bill basis documents against payment

Date of dispatch of goods 1st Dec 2007
(Conversion rate per US Dollar = Rs 44.Market rate published by RBI ,
Date of dispatch of documents 2nd Dec . (Rs 45 per $ as per market rate published by RBI
Date of receipt of documents 6th Dec … (Rs 43 per $)
Date of payment by the Bank 8th Dec Rs 42 used by the Bank in India)
The cost of materials will be taken @ Rs 45 per US$ being the date of dispatch of documents.. The rate used by their bank for debit is the market rate at the time of conversion with in a day which need not tally with the published rate)

The difference between Rs 45 and Rs 42 per $ will be considered in financial accounts as under.:

Us $ 1,50,000 @ 45 per $= Rs 67,50,000
US $ 1,50,000 @42 per $= Rs 63,00,000

The short / (gain) of Rs 4,50,000 will be credited to exchange rate fluctuations / adjustment account. It does not form part of material cost.

The bank charges are not in the nature of Finance costs as it supports only a demand bill. and is treated as part of administrative overheads.

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.

Note para 5.1.8
Demurrage and penalties are levied by the transporter /custom authorities for delay in clearance of wagon/vessel etc.

Illustrations are:

- Demurrages levied by transporter for not removing goods,
- penalties for keeping hazardous goods in unauthorized places in transit without proper safeguards.
- As regards imported goods, items such as penalties or interest levied by customs for delayed clearance.

Demurrage and penalties are an abnormal cost and are not includible in the material cost. It is charged to profit & Loss account.

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.

Note on para 5.1.9
Subsidy and grant received should be recognized on a systematic basis. These should be matched with the related cost for which these are intended to compensate over the period. Subsidy received for any material is to be reduced from the cost of the object.

Illustration:
There can be some subsidy for using materials produced by a specific priority industry or energy saving device etc. Such subsidy is to be adjusted against the cost of the cost object.

Incentives received from the Government for exports should be reduced from the cost of production of the products in respect of which the incentives are received. There can be some

difficulty to match incentive with the cost of production due to possible timing differences among the period of production, period of exports and the period of receipt of the incentives. Export incentives are sometimes recorded on the basis of receipt. In such a situation matching becomes difficult. It will be desirable that accounting entries relating to export incentives are passed on accrual basis to reflect the true and fair position of the cost of the product in the cost statements. Export incentive should not be reduced from the cost of production. In India export product pricing is not competitive as compared to domestic product pricing. So Export incentive should be credited to income so as to compensate the pricing for exports

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.

Note on Para 5.2.1
The CAS-6 is flexible in regard to method of valuation of issues. Method of valuation of issues once adopted shall be followed consistently from one period to another and with uniformity between different product/units. If method of valuation is changed, its impact on costs of material shall be disclosed.

CAS6 provides for the following methods:

- FIFO (First –in-First out)
- LIFO (Last in First out)
- Weighted Average Rate

The FIFO formula assumes a cost flow that the items of materials that were purchased or produced first are issued first while LIFO assumes the exactly opposite cost flow charging the current price to cost. Under the weighted average cost formula, the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period and the cost of similar items purchased or produced during the period. The average may be calculated on a periodic basis, or as each additional shipment is received, depending upon the circumstances of the enterprise.

Accounting Standard AS-2 in normal circumstances provides for two cost formula, viz : FIFO (First-in-First-out) and Weighted Average cost. Most of the organizations are adopting one of above two cost formulae for the purpose. If any other cost formula is adopted, the differences between with financial accounts and cost accounts shall be disclosed in the reconciliation of profit as per cost records and the financial accounts.

LIFO method can be gainfully applied while estimating /projection of cost as it reflects current price cost.

Illustration of FIFO/LIFO/Weighted average cost

The following is the receipts and issues of January 2009:

Date	Receipts		Date	Issue (Qty)
	Units(tonnes)	Rupees/unit		
2-1-2009	300	4	7-1-2009	200
16-1-2009	500	6	18-1-2009	400
23-1-2009	450	5	29-1-2009	100

FIFO method:

Receipt				Issue			Balance		
	Qty	Rate(Rs)	Amt(Rs)	Qty	Rate(Rs)	Amt(Rs)	Qty	Rate(Rs)	Amt(Rs)
1-1-09							-	-	-
2-1-09	300	4	1200				***300***	***4***	***1200***
7-1-09				200	4	800	***100***	***4***	***400***
16-1-09	500	6	3000				100	4	400
							500	6	3000
							600		***3400***
18-1-09				100	4	400			
				300	6	1800	***200***	***6***	***1200***
23-1-09	450	5	2250				200	6	1200
							450	5	2250
							650		***3450***
29-1-09				100	6	600	100	6	600
							450	5	2250
							550		***2850***

LIFO method:

	Receipt			Issue			Balance		
	Qty	Rate(Rs)	Amt(Rs)	Qty	Rate(Rs)	Amt(Rs)	Qty	Rate(Rs)	Amt(Rs)
1-1-09							-	-	-
2-1-09	300	4	1200				***300***	***4***	***1200***
7-1-09				200	4	800	***100***	***4***	***400***
16-1-09	500	6	3000				100	4	400
							500	6	3000
							600		***3400***
18-1-09				400	6	2400	100	4	400
							100	6	600
							200		***1000***
23-1-09	450	5	2250				100	4	400
							100	6	600
							450	5	2250
							650		***3250***

29-1-09				100	5	500	100	4	400
							100	6	600
							350	5	1750
							550		***2750***

Weighted average method:

Date	**Receipts**			**Issue**			**Balance**		
	Qty	**Rate(Rs)**	**Amt(Rs)**	**Qty**	**Rate(Rs)**	**Amt(Rs)**	**Qty**	**Rate(Rs)**	**Amt(Rs)**
1-1-09							-	-	-
2-1-09	300	4	1200				***300***	***4***	***1200***
7-1-09				200	4	800	***100***	***4***	***400***
16-1-09	500	6	3000				***600***	***5.667****	***3400***
18-1-09				400	5.667	2000	***200***	***5.667***	***1133***
23-1-09	450	5	2250				***650***	***5.2****	***3383***
29-1-09				100	5.2	520	***550***	***5.2***	***2860***

Weighted average method:

*issue on18-1-09→(3400/600=5.667 **issue on 29-1-09→(1133+2250)/650=5.2

Any prescribed method of pricing of issue may be used. However whatever method of pricing is adopted, the same should be specified and followed consistently.

In case of some bulky / volumetric materials such as coal, limestone, gypsum, salt, slag etc, it is not always possible to weigh the same and therefore the quantities of receipts and issues of materials are mostly determined by volumetric measurements. Such volumetric measurements are also validated by the actual weighment of the stocks at random from time to time. However, it is necessary to check the stock of materials regularly and if any variation in the Book Stock and physical stock is found, the method of treating the same should be specified. Normally, adjustment in the variation of the book stocks and physical stocks are accounted in consumption of such material because of the approximation involved in the receipts and issue of the same.

Another material which requires special mention is petroleum product. For example, Fuel oil is supplied in KL (volume) and its price is also in terms of Rs/KL. This price is related to at a volume measured it 29.50 C (All India ambient temperature) and a Temperature variance allowance is given if the item is loaded at a higher temperature particularly bulk loading at refineries. Hence their conversion ratio from KL to tones will be different than the standard one.

Another feature is that pricing is done at 29.50 C temperature, ED is payable at volume measured at 150 C. Hence the quantity in terms of KL for ED will not be the same as for pricing.

Para 5.2.2: ***Where materials are accounted at standard cost, the price variances related to materials shall be treated as part of material cost.***

Note on Para 5.2.2

Standard Price method can also be applied for valuation of issue of material. In this method price of issues is predetermined for a stated period taking into account all the factors affecting price such as anticipated market trends, transportation charges and normal quantity of purchase. Standard prices are determined for each material and material requisitions are valued at standard price irrespective of the actual purchase price. Any difference between the standard and actual prices of purchase results in material price variance. The material price variance is to be treated as part of material cost.

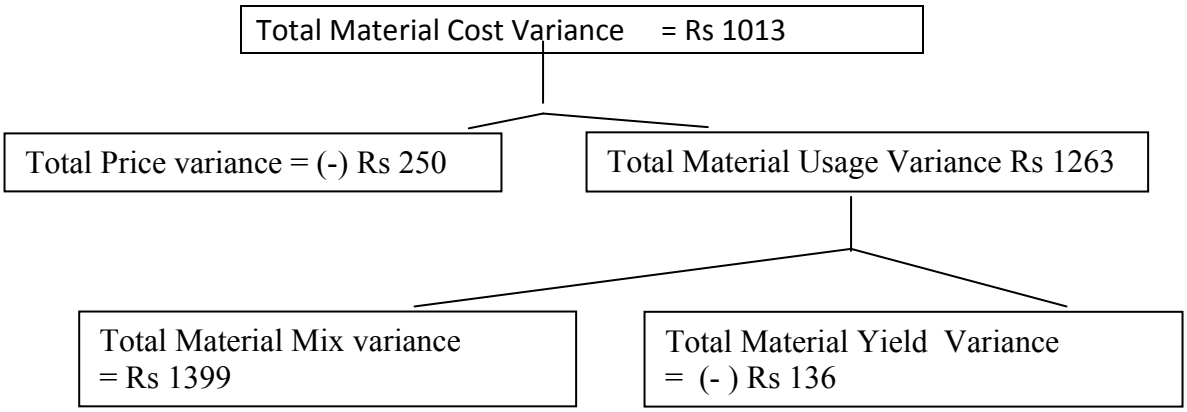
When standard costing system is in vogue, there can be other variances relating to usage during the course of production which may be due to normal or abnormal reasons. Variances due to normal reasons should be treated as cost while the variances due to abnormal\ reasons are treated outside the cost of production.

Example:

Examples of material cost variance (price, use, mix and Yield):
Material 'A' and 'B' are mixed in the proportion of 60% and 40% respectively and a standard loss of 5% is fixed. Standard and actual cost for a period is as under:-

	Standard Cost			**Actual Cost**		
Item	Qty (KG)	Rate per unit	Total	Qty (KG)	Rate per unit	Total
Material A	6000	6.00	36000	5000	6.50	32500
Material B	4000	4.00	16000	4500	3.50	15750
Total Loss 5%	10000 500	5.20	52000	9500	5.08	48250
Output	9500			9000		
Variances calculation:						
Material price variance : Actual qty(Standard Price – Actual price) Material A :5000x(6.00-6.50) =2,500 Material B 4500x(4.00-3.50) = 2250					(Adverse) Favourable Total	Rs (2500) 2250 (250)
Material Usage variance: (Actual production x standard material per unit – actual material)x standard price per unit {(9000x0.6)/0.95 – 5000} x Rs 6.00 = 4105 {9000x.0.4)/0.95 - 4500} x Rs 4.00 = 2842					Favourable Adverse Total	4105 (2842) 1263

Material Mix Variance (Actual quantity of material – quantity of material based on total material quantity split in standard proportion)x (weighted average cost per unit (Kg) – standard cost per unit(Kg)) A(5000 – 5700) x (5.079 – 6.00) = 644 B((4500 -3800) x (5.079 - 4.00) = 755		644 755 1399
Material Yield Vairance Standard material quantity allowed for actual output – actual material quantity input)x standard weighted average cost per unit (Kg) (9000/0.95 - 9500) x 5.08 = (136)		(136)



The variance account enables management to observe the extent to which actual materials costs are differing from planned objectives or predetermined estimates.

Para 5.2.3: ***Any abnormal cost shall be excluded from the material cost.***

Note on Para 5.2.3

Abnormal cost has been defined under para 4.1 of CAS6. The rationale of exclusion is that inclusion of such items in the cost will make the cost not comparable with a normal situation. Such an aberration is avoided to understand the cost in a better perspective for any purpose. For instance, the cost of materials cannot be loaded with losses due to an earthquake which is an abnormal event. Similarly, loss of production due to major fire accident or a major shutdown due to sudden and long machine breakdown for days together for want of a special part may be treated as Abnormal Cost.

Illustration: Material lost due to major fire accident, burglary, obsolescence If significant, material and quantifiable.

Treatment: Abnormal cost:
It shall not form part of cost of the production as not to distort the cost due to abnormal reasons. It is dealt with in the costing profit and loss account

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.***

Note on Para 5.2.4.

As per para 6.2 of CAS-5 inward transport costs shall form the part of the cost of procurement of materials which are to be identified for proper allocation/apportionment to the materials/cost. In case inward transport /freight charges are indicated in the invoice which is for more than one material, inward transport cost shall be allocated to the quantity of different materials indicated in the invoice on reasonable and appropriate basis such as weight, volume, nos etc.

If the material is carried singly it will be charged singly. If the material is carried by special carrier, it will be assigned to the specific material transported.

5.2.5 ***Material cost may include imputed costs not considered in financial accounts.***
Such costs which are not recognized in financial accounts may be determined by imputing a cost to the usage or by measuring the benefit from an alternate use of the resource.

Note on para 5.2.5
Imputation of cost is made even though a cost is not actually incurred. Such imputation may be needed to provide for comparison or better understanding. For example, materials supplied free of cost by an associate may require an imputation to arrive at the comparable cost of production. A benefit for a resource may be valued to bring it to the current situation of production if the historical value is not comparable. For example, if the cost of a gold ornament is to be ascertained, the value as on the date of valuation has to reflect the current cost for which the cost may be imputed to adjust to the current value.

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.***

Note on Para 5.3
Self manufactured components are valued at cost including production overheads. This is dealt with under Para 5.1.3 of the CAS-6 relating to receipt of self manufactured material, components etc. This also applies for valuation of issues of above materials.

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.***

Note on para 5.4

Normal scrap generated during process of manufacture is to be treated as a part of material cost. Scrap have generally low recovery value as in the case of steel but it may have significant value as in the case of gold. Thus its recovery value depends upon the type of material. There are several methods of accounting of scrap as detailed below:

1. Scrap sales credited to revenue
2. Scrap sales credited to production overhead
3. Scrap identifiable with a job, and its realizable value is credited to the job.

Treatment of scrap when reintroduced in production process:

An alternative to sale of scrap is that it can be reprocessed into useful raw material for subsequent production of basic products. For example the scrap material from sheets of metal from which parts have been stamped, may be melted and again formed into sheets from which more units may be stamped. If this scrap is of the type currently being purchased for processing into sheets, the more recent acquisition price may be used as the basis for valuing the scrap used. Another example is runners and risers generated in the course of dressing up of castings in foundry. Runners and risers are valued at weighted average cost at pouring stage (i.e. raw material cost plus conversion cost of molten metal). The material cost of abnormal scrap will not form part of the material cost.

Defectives may arise at any stage of production. If defectives are within the normal level fixed for the purpose, it will form part of the material cost. If the defective units are clearly identified with a specific job order and the defects are peculiar to the job, the cost to complete the defective units can be charged to the job. If defective units occur irregularly, the added cost is to be charged to factory overheads. In case the defective work is inherent in the process of manufacture, it is to be included in the cost of production. The cost of abnormal defective work should be charged to Costing Profit & Loss Account or Profit and Loss A/c as the case may be.

Before rectification work is taken up, it should be examined whether the estimated cost of rectification work would be commensurate with the value to be obtained and it would be more profitable than any other choice available.

Repairing of a defective end product may result in either being sold as a proper product, at a lesser price as seconds/ or as a rejected one. The quality and extent of damage to specifications in a product determines the necessary requirement of repairing.

If defectives / spoiled work cannot be made into a first-class / saleable finished unit with significant additional expenditure, it is to be disposed off as rejects. Rejects or scrap or waste is discarded material having some value.

It is not always possible to pinpoint the exact cause and location for rejects. Further recovery is not affected by the location. For example if cables are rejected at final stage, efforts shall be made to recover the conductor metals which can be reused. In compliance with the Central Excise rules, the cables are chopped off in very short lengths and grossed together irrespective of the actual occurrence of wastage i.e. in wire drawing stage or in finishing stage. The recovery is therefore not credited to various cost centers but an overall view is taken and suitable adjustments are made in the cost records.

Waste:
In production of yarn in textile industry, waste is generated. Waste cotton is reintroduced in blow room with a mix of raw materials again, but waste yarn may not be used in a similar manner. Waste may be also sold for salvage value or put into an alternative use in-house or outside the enterprise. The cost of wastage shall be shared by the good units introduced into the production process e.g.100 kg of materials is purchased at a price of Rs.2 per kg. Normal wastage is 10 %. The actual quantity available will be 90 kg. Now the issue price will be taken as Rs. 2.22 per kg. If additional cost is incurred to process the waste, such additional cost is taken as additional cost of production to the job/process or treated as departmental or manufacturing overheads appropriately. The cost of abnormal waste shall not be included in material cost and charged to profit and loss account.

In chemical industries, materials may be lost due to evaporation e.g. petroleum products. Materials mixed with alcohol etc may evaporate.

Spoilage:
Spoilage has been defined in para 4.11.2. It arises when the units produced do not meet the exact specification of the product. Spoilage is classified as normal spoilage and abnormal spoilage. Normal spoilage is to be absorbed by good production and abnormal spoilage is to be charged to profit and loss account.

For example:
Metal poured, due to time lost in pouring, is incomplete on account of loss of temperature. This has to be disposed off as such by re-melting or sale as scrap.

When the spoilage materials are sold:
This recovery is shared by all the good production as the cost of material is already shared by netting the good production. The material cost for the batch or process will get the benefit of this credit, if significant.

When spoilage is reused as raw material in another process or job, then the credit should be given to the process or job on the basis of the utility value of spoilage and charged to the job /

process using the material. Any additional cost incurred for further processing to make it fit for consumption will be reduced from the credit for benefit to the original job / process or charged to manufacturing overheads, if not so significant.

Chapter 6 Assignment of Cost

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.***

Note on Para 6.1.1:

Assignment of material cost involves establishing a suitable procedure to identify and record the resources consumed by the cost object. For direct material the source document is material requisition. Details of material issued for manufacturing a product are recorded in it. It records the job number, type of material, and items listed are priced at their acquisition cost. Thus material requisition represents the source of information for assigning the cost of material to cost object.

The quantity of material consumed is to be worked out from material issue records of stores for a product and return of unused material, if any. Such consumption in quantity may be derived by two methods.

Method (i): Based on actual issues for batch, unit or job - This method is preferred as it establishes direct relationship of actual material usage for the product.

Method (ii): Based on any method other than actual e.g. Standard .

Under this method material is issued as Standard Bill of material. The standard cost for each direct material is defined at the beginning of the year. The variances from standard on account of price / consumption etc are adjusted to consumption at the year end. Some organizations follow “Backflush Costing” system. It eliminates detailed accounting transaction. It focuses first on the output of the organization and then works backwards when allocating cost between goods sold and inventories. As soon as a finished good is ready for stock, material is backflushed (issued) as per the bill of material for that product. Any variation between the actual issues (both quantity and value) and the standard as accumulated over the period is charged off to consumption.

Standard Bill of material method is to be used in case of goods, where the direct link of actual consumption for product is not available. The manufacturer using this method should certify the quantitative requirement considered for calculation of material consumption as per Bill of Material etc. It may be ensured that usage variance is within reasonable limit and it should be adjusted in calculation of cost of production.

For tracing of material cost direct to a cost object, concept of “to the extent economic feasible” is also to be taken into account. This requires an exercise to analyse the cost involved, benefit

to accrue and over-riding requirement to identify material with the object. In other words material cost if not directly identified with the cost object on economic feasibility consideration, it shall not result in mis-statement of material cost of object.

Reconciliation of cost of material consumed - It is advisable that cost of the material consumed for working out cost of production is reconciled with financial books. For major direct materials, reconciliation is to be ensured both in quantity and value.

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.***

Note on Para 6.1.2:
Materials which cannot be directly traceable to cost object, are to be assigned on some rational basis consistently. These bases could be based on some factor linking to the utilization. Technical estimates help in arriving at such rational basis.

Illustration: Grease or lubricants used for maintenance work may be consumed by all the departments. It may not be economical to issue individual requisition to charge each time. It may be decided to take the total consumption per month and divide the cost between all the user cost centers based on a technical estimate based on a sample survey of usage during a selected period. Such studies may be reviewed periodically to correct for changes taking place affecting the consumption.

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.***

Note on Para 6.2.1
It is relating to a production operation out sourced. The material undergoes change and enters the work in process stage or semi finished goods stage. A part of the production operation is outsourced. The outsourcing charges paid to third party is treated as part of material cost.

Example (1): Casting requires trimming, machining and polishing, heat treatment after pouring etc. One of these operations is subcontracted. The activity subcontracted and its cost is part of the material cost.

Example (2) A metal sheet is given to another unit for conversion into specific measurement for use in a press, the materials cost is increased to take care of the change in shape done before using in production. Such cost is part of the material cost, as the material is prepared fit for the operation.

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.***

Note on Para 6.2.2

This provision covers a situation where the manufacturer gets part of the manufacturing operation subcontracted. For example steel strip is sent to slitter for smaller size, slitting charges paid to subcontract is to be treated as direct expenses and assigned directly to 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.***

Note Para 6.3

As defined earlier, indirect materials are those which are not directly traced to the cost object. It is therefore necessary to find some rational basis applying the cause and effect relationship of the cost object and the cost of indirect materials.

The cost of indirect materials shall be assigned to the various Cost centers or standing orders based on actual consumption determined on the basis of relevant documents like material requisition slips, invoices etc duly authorized by concerned official. The value of indirect materials shall therefore be collected in aggregate for each cost centre and stand distributed as overheads assigned to the cost object on an equitable basis.

It is possible that some of the indirect materials may be purchased based on a liberal delegation as may decided by the enterprise authorities at the departmental level directly from the market instead of routing through the purchase dept , stores etc. In such cases the indirect material cost will be assigned to the cost centre using the invoice document itself duly receipted with the proper head of account and the cost centre.

The cost of indirect materials shall be directly assigned to the cost centre where possible under suitable heads as may be economical to aggregate and report under heads like lubricants, tools, consumable stores (building stores, mechanical stores, electrical stores), spares etc. All the costs under different heads for the cost centers aggregated and collected shall be distributed to the production cost centers on an equitable basis.

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.***

Note on 6.3.2

Indirect materials like cost of catalysts, dies, tools, patterns etc. have longer service life. Special patterns are charged to the cost of the special jobs. But these patterns may be reused again. A notional cost may be applied to take care of such situations. Where reuse is anticipated and can be logically estimated, it should be amortised over the production units to be benefitted by such cost. This also applies to dies, tools and catalysts.

If certain chemicals are used as catalyst having life of more than one year the cost of such items shall be amortised over the production units benefitted by such costs.

In a process industry like steel plant, the materials like refractory, rolls and other process materials like catalysts, useful life is determined by many parameters like production, quality, metallurgical requirement and many other techno operational parameters. It may be difficult to ascertain the life of the process material in certain cases. In such cases it may be charged off as and when it is issued for consumption.

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.***

Note Para 6.3.3

Gives a general principle where the life of any indirect material is estimated beyond a year for amortization. Para 6.3.2 and 6.3.3 are complementary to each other. Para 6.3.2 is applicable where the estimates of production for the life of material are possible so that it serves as a basis of amortization. Para 6.3.3 Gives a principle of amortization over a period of life of the product leaving the basis which could be based on some logical or technical estimates or relating to the period used or machine hours, employee hours of production.

Chapter 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.***
For example:

1. Raw materials,
2. Components,
3. Semi finished goods and
4. Sub-assemblies

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

Note on Paras 7.1 and 7.2

Para 7.1 specifies illustration of heads under which Direct Materials is to be exhibited in the Cost statement viz by type of material - Raw material, components, semi-finished goods and sub-assemblies. It further specifies classification of material on the basis of source of supply viz indigenous, imported and self manufactured. For example raw material used may be indigenous, imported material. or self manufactured. Raw Material cost is to be indicated separately for indigenous and imported raw material consumed. This requirement of presentation by source wise also apply to other items of material viz components, semi-finished and sub-assemblies also. In process industry direct material is classified as raw material, additives/filler, process chemicals and dyes. Presentation of material cost in cost statement is exhibited in Annexure 2, 3, 4, and also under "Chapter 8. Disclosures"

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.

Note para 7.3

Indirect material consumed is to be grouped under major heads like tools, stores and machinery spares etc. It forms part of the repairs and maintenance cost. Repairs and maintenance cost shall be exhibited in two parts viz (i) stores and spares and (ii) others. It is further grouped in building repair, mechanical repair, electrical repair etc.

Chapter 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.***

Note on para 8.1

It provides that major items of raw materials indicating quantity and rates to be disclosed in the cost statement which constitute more than 5% of the cost of materials. An item of cost is considered as major and significant if that item forms at least 5 % of the cost of materials. If for instance, imported direct materials is say 4 percent of the total direct materials cost it is not material and significant to warrant a separate disclosure. Significant items should be classified and disclosed separately while the other items could be aggregated.

Tabulated below are examples of presentation and disclosures:

Engineering industry					
S.No.	**Description**	**Unit**	**Qty**	**Rate**	**Amount**
A	Direct Material			RS	Rs
1.	Sheet	Kgs	10	200	2000
2. 2(a)	Bought out components **Imported**				
.	Crank shaft	No.	1	6900	6900
	Cylinder block	No	1	12500	12500
	Hydraulic lift value	No.	1	7200	7200
	Wheel Assembly Rear	No.	2	3230	6460
2b)	**Indigenous**				
	Injection pump	No.	1	18500	18500
	Tyres	Nos	5	3000	15000
	Battery	No.	1	7500	7500
3	Others constituting less than 5% of the Total material cost				175000
4	Total				250160

Process Industry - Paper					
S.No.	**Description**	**Unit**	**Qty**	**Rate**	**Amount**
A	Direct Material – Raw material				
1.	Wood pulp (self manufactured)	MT	250	20000	50,00,000
2.	Imported pulp	MT	10	35000	3,50,000
3.	Broke	MT	10	12000	1,20,000
B	Process chemicals/additives				
1	Filler	MT	12	8500	1,02,000
2	Sizing	MT	3	19000	57,000
3	Alum	MT	10	9400	9 400

4	Dyes Fluorescent	KG	13	150	1,950
5	Other chemicals				1,05,210
	Total				57,45,560

In the above example Broke, Filler, sizing, alum dyes has been indicated separately which are individually less than 5% of the total material cost, but considering their significance these items have been presented and disclosed separately. Other chemicals which were not significant have been grouped under item B-5.

Materiality and significance:
Each major item of material which forms 5% of the cost of materials is considered material and should be disclosed in the cost statement; whereas items below 5% of the cost of materials should be aggregated preferably under respective classification of materials. If any item of material is less than 5 percent of the total cost of materials, and warrants a separate disclosure due to its significance/nature, same shall be disclosed separately.

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

Note on Para 8.2
Standard (para 5.2) provides various methods of valuation of issues of material such as FIFO, LIFO, weighted average, etc. Method adopted for valuation of material cost shall be disclosed in the cost sheet.

Disclosure Examples
Basis of valuation of material cost:
Periodic quarterly weighted average is used for pricing the issues of material. In the Cost accounting records, all major and significant items are included in the direct materials identified with the product. Direct materials forming more than 5 percent of the total materials cost have been separately classified. Items forming less than 5 percent of the total materials cost have been suitably grouped and shown under others under direct materials. Components which are individually small but collectively form more than 5 percent of the material cost are classified as components. Direct materials constitute 75 percent of the total material cost.

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.***

Note on para 8.3
The cost accounting principles and methods adopted for determining the material cost is to be followed consistently from one period to subsequent period and applied uniformally for different products and divisions. If there is any change in the cost accounting principles and methods during the period resulting in material effect on the cost, the same shall be disclosed indicating its impact in the cost statement.

Disclosure Example:

Change in principle and methods:

Last year FIFO was used for issue pricing of materials. This year onwards periodic quarterly weighted average is used as decided by the accounting policy approved by the Board. Had FIFO been used the cost of direct materials would have been less by Rs 40 lacs and the cost per unit would have been less by Rs. 2 per unit. The impact of such a change is not specifically ascertainable for indirect materials which are quite large in number but not so significant to materially affect the cost.

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

Note on para 8.4

Abnormal cost has been defined in para 4.1 (of the Guidance note). If there is abnormal cost during the period of cost statement, the same is to be disclosed.

Example of Abnormal cost disclosure:

Abnormal cost of Rs 3 lacs has been excluded in calculating the material cost. This cost is considered abnormal due to a fire accident which took place on 12.02.2009 due to which materials issued for production was lost. The loss of material has been assessed by a surveyor. As the position of allowable claim has not yet been ascertained no credit has been taken for claims recoverable.

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

Note on para 8.5

As discussed in earlier para, any demurrage, detention, penalty is to be excluded from material cost.

Example of disclosure:

Demurrage of Rs 6.5 lacs have been paid to the Railways in view of the delay in clearing the goods. This was an exceptional matter due to heavy rains and non availability of cranes for moving the goods. However, the matter has been submitted to the railways for reconsideration.

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

Note on para 8.6

Any subsidy / grant / incentive received relating to materials is to be reduced from the cost of materials and disclosure made accordingly.

Example
The State Government has been subsidizing the transport cost of moving the goods in view of the location for a period of five years. Such subsidies received and receivable are reduced from transport cost of the materials specified by the Government. Such subsidies received and receivable amounting to an aggregate of Rs 5.4 lacs have been reduced from direct materials cost in the statement.

8.7 ***Cost of Materials procured from related parties shall be disclosed.***

Note on para 8.7
The related parties have been defined under various Acts viz. Companies Act 1956, Central Excise Act 1944, Income Tax Act 1961 etc. If any material is procured from related parties, its relationship, nature of transaction viz. quantity, rate, other terms / conditions of procurement are to be disclosed. The objective of disclosure is to ascertain that the transaction is at arm's length and on purely commercial terms.

For example:

Related party → XYZ Ltd
Nature of relationship → *We and our a*ssociates own 51 percent of their Equity.
Nature of transactions*:* XYZ Ltd supplies the engines for the assembly of equipments manufactured by us. The engines are specially designed for this purpose and engines of four specific Hp are supplied. There are no other parties supplying similar engines.
Volume of transaction: During this year 2500 engines for value aggregating Rs 215 lacs were supplied by XYZ Ltd. Of these, 2200 items of engines valued at Rs 198 lacs were consumed and they are shown under the bought out components in the direct materials cost in the cost statement. The price fixed is based on the assessable value for Excise duty plus 10 percent markup on that. This valuation has been consistent and considered as reasonable. by the management.

There are no other related parties relating to materials cost.

8.8 ***Any cost imputed in arriving at the material cost shall be disclosed.***

Note on para 8.8
As defined in the standard, imputed cost is a notional cost. It does not involve any cash outlay. It is computed only for the purpose of decision making. If any cost is imputed in arriving at material cost, it is to be disclosed to provide information that there is no cash outlay and it is only for decision making.

For example:
In the production of caustic soda, Hydrogen is produced as by-product. It is used as fuel to be burnt in the boiler besides sales. For the quantity burnt as fuel, hydrogen is priced after

converting the quantity to thermal equivalent quantity of LSD oil and valued at the price of the LSD Oil.

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

Note on Para 8.9

Standard provides that any item of materials forming 5% of the total cost of materials is to be disclosed both in quantity, rate and value. Further materiality and significance of a piece of information depends on nature, size and complexity of manufacturing operation. An item of material for use in the production of a product may have significance considering the nature of the product. For example, a critical part has been imported under export incentive scheme. It is to be used in the products to be exported. Though its value is less than 5% of the total cost of materials, it is to be disclosed in terms of export requirement. Hence it is significant. In the context of cost statement, materiality is to be judged in terms of quantity and nature of material and in particular context of its omission. A piece of information is material, if its non-disclosure could influence the decision of the user.

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

Note on Para 8.10

Disclosures may be made in the body of the cost statement as foot note. If there are many items of disclosures, the same may be in schedule of Notes to the cost statement.

Annexure I

S.No.	Description	Names of important raw materials
1	Sugar	Sugarcane and/or Beetroot
2	Milk powder	Whole fresh milk/skimmed milk as the case may be
3	Tea	Green Tea leaves
4	Motor Spirit	Crude Oil
5	Diesel oil	Crude Oil
6	Furnace Oil	Crude oil
7	Bitumen	Crude oil/coal
8	Soda Ash	Common salt
9	Caustic soda	Common salt
10	Sodium silicate	Soda Ash and Soluble glass
11	Sulphuric acid	Sulphur and/pyrite
12	Urea	Raw naphtha/ammonia/lignite/coal etc
13	Rayon and Synthetic Fibre & Yarn	Wood pulp/staple fibre
14	Cotton Yarn	Cotton
15	Wollen Fabrics	Woollen Yarns
16	Cement	Lime stone and gypsum
17	Zinc	Zinc ore
18	Aerated water	concentrate
19	Coffee powder	Coffee beans
20	Gear ,Pinion,shaft	Rough forging for such items

Annexure II

Details of material cost for production of Caustic Soda and power used for electrolysis process is treated as part of material cost					
B. Cost Information :					
Sl.	**Particulars**	**Unit**	**Quantity**	**Rate**	**Amount**
No.				**Rs./Unit**	**(Rs.)**
A	**Materials consumed**				
1	**Direct Material**				
a	**Purchased**				
i	**Indigenous**				
	Salt (Industrial Grade)	MT	997500	750	748125000
ii	**Imported**	0	0	0	0
iii	**Self Manufactured**				
	Power consumed in electrolyser	KWH	15250000	5	15250000
iv	**Total Direct Material**				763375000
2	**Process material**				
A	Barium Carbonate	KG	876600	19	16655400
B	Sodium Sulphite	KG	94300	16	1508800
C	Soda Ash	KG	42850	12	514200
D	Alpha Cellulose	KG	6750	96	648000
E	Floculant	KG	1700	315	535500
F	Total process material				19861900

Annexure III

Statement showing Cost of Sugarcane used for the Production of Sugar					
for the year ending 31st March 2009					
		Quantity (Tonnes)			
	Sugarcane	**Puchased**	**Received**	**Loss**	**% of loss**
(a)	Own farm	0	0	0	0
(b)	Gate	609073	609073	0	0
(c)	Road	362593	360548	2045	0.564
(d)	Rail	0	0	0	0
(e)	Other means of transport	0	0	0	0
		971666	969621	2045	0.564
	Particulars	**Unit**	**Quantity**	**Rate (Rs)**	**Amount (Rs)**
1	Total sugarcane purchased incl.				
	from own farm	MT	971666		
	Less--normal losses such as	,,	2045		
	actual driage	,,	969621	555.522	538645797
2	Commission paid			17.193	16670691
3	Other expenditure at cane collecting				
	Center				
	(a) Salaries and wags			7.257	7036968
	(b) Stores and stationery			1.128	1093750
	(c) Repairs and maintenance			0.609	590968
	(d) Other expenses			3.187	3090430
4	loading and unloading charges			3.922	3803259
5	Net harvesting charges			0	0
6	Taxes and levies				
	(a)Cane cess /purchases tax			17.537	17004162
	(b) Octroi			0	0
	(c) Other levies			0	0
	Total	**MT**	**969621**	**606.355**	**587936025**
7	Transport charges				
	(a) Transport cost			0	0
	(b) Others			12.765	12376961
8	Cane development expenses				
	(a) Salaries and wags of cane dev. Staff			1.429	1385747
	(b) Others			2.378	2305362
		MT	969621	622.927	604004095
9	Stock Adjustment if any				
	Add- opening stock	MT	156	476.692	74364
	less- closing stock	MT	294	584.844	171944
10	**TOTAL**	**MT**	**969483**		**603906515**

Annexure IV

Cost Statement showing the quantity and value of total cotton/manmade Fibre isssued for the manufacture fo carded/combed yarn and use of				
Waste				
S.No	**Particulars**	**Qty. (KG)**	**Mixing 'A'**	**Amount**
			Rate/ Kg Rs	**(Rs.)**
1	I. Composition of mixing			
	Cotton/Manmade Fibre			
	(a) X -1	171464	20	3429280
	(b) x-2…	185564	20	3711280
	II. Purchased Cotton Waste ;			
	(a)	0		
	(b)	0		
	III (A) Own Waste (used in same			
	mixing)			
	(a) Bonda	9700	18	174600
	(b) Ends	10770	18	193860
	(B) Own waste Higher mixing , if			
	any ;			
	(a) Comber waste 60/80	42862	15	642930
	(b) Ends 60/80	8300	19	157700
	Total	428660	19.39	8309650
2	Details of input, waste and output in each processing Centre			
	Blow Room			
	Input		428660	
	Less waste			
	Others	5.80%	24862.28	
	Invisible	3.10%	13288.46	
	Total waste	8.90%	38150.74	
	Transferred to Carding		390509.26	
	Carding			
	Input		390509.26	
	Less saleable waste	3%	11715.28	
	Transferred to Draw frames		378793.98	
	Draw frames			
	Input		378793.98	
	Usable waste	1.60%	6060.70	
	Transferred to slubbing		372733.28	
	Slubbing			
	Input		372733.28	

	Less: Saleable waste	0.40%	1490.93	
	Useable waste	0.70%	2609.13	
	Total wastes	1.10%	4100.07	
	Transferred to Ring frames		368633.21	
	Ring Frames		368633.21	
	Less: Saleable waste	1.40%	5160.86	
	Useable waste	3.30%	12164.90	
	Total wastes	4.70%	17325.76	
	Net output		**351307.45**	
3	Yarn produced			
	Warp			
	14s		4200	
	20s		258400	
	30s		42755	
	Weft 30 s		45952	
	Total (rounded)		**351307**	
4	SUMMARY			
	Total cotton issue	KG	428660	
	Less Total Yarn produced	KG	351307	
	Total waste	KG	77353	
	Waste %age on yard produced	%	22.02	
	Break of Waste Collected			
	Saleable waste	KG	18367.07	
	Useable waste	KG	45046.00	
	Total	KG	64064.09	
	Invisible waste	KG	13288.46	
	Total waste	KG	77352.55	
	Invisible waste %age of total waste	~~%~~	17.2	

Annexure V

(CAS-6)
COST ACCOUNTING STANDARD ON MATERIAL COST

The following is the COST ACCOUNTING STANDARD 6 (CAS 6) issued by the Council of The Institute of Cost and Works 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[1].***

4.2 Administrative overheads: ***Expenses in the nature of indirect costs, incurred for general management of an organization[2].***

4.3 Cost Object: ***This includes a product, service, cost centre, activity, sub-activity, project, contract, customer or distribution channel or any other unit in relation to which costs are ascertained.[3]***

[1] Adapted fromCAS-1 Para 6.5.19
[2] Adapted from CAS-1 Para 6.3.5
[3] Adapted from CIMA Terminology

4.4 Defectives: ***End Product and/or intermediate product units 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 Imputed Costs: ***Hypothetical or notional costs, not involving cash outlay, computed only for the purpose of the decision making[4].***

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[5].***

4.6.2 Indirect Materials: ***Materials, the costs of which cannot be directly attributed to a particular cost object[6].***

4.7 Material Cost: ***The cost of material of any nature used for the purpose of production of a product or a service[7].***

4.8 Production overheads: ***Indirect costs involved in the production process or in rendering service[8].***
The terms Production Overheads, Factory Overheads, Works Overheads and Manufacturing Overheads denote the same meaning and are used interchangeably.

4.9 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 in place of raw material[9].***

4.10 Standard Cost: ***A predetermined norm applied as a scale of reference for assessing actual cost, whether these are more or less.***
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.[10] 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.

4.11 Waste and spoilage:

4.11.1 Waste: ***Material loss 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 value[11].***

[4] CAS 1- Para 6.5.13
[5] Adapted from CAS 1-6.2.3
[6] Adapted from CAS 1– 6.2.8
[7] CAS-1-6.1.2
[8] Adapted from CAS-1 Para 6.3.3 and 6.3.4
[9] Adapted from Glossary of Management Accounting Terms- Page 62
[10] Adapted from CAS 1_ Para 6.7.5
[11] Adopted from Glossary of Management Accounting Terms page 70

4.11.2 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. 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 ***Spares which are specific to an item of equipment shall not be taken to inventory, but shall be capitalized with the cost of the specific equipment. Cost of capital spares and/or insurance spares, whether procured with the equipment or subsequently, shall be amortised over a period, not exceeding the useful life of the equipment.***

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.***

5.2.5 ***Material cost may include imputed costs not considered in financial accounts.*** Such costs which are not recognized in financial accounts may be determined by imputing a cost to the usage or by measuring the benefit from an alternate use of the resource.

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[12] shall be disclosed***

8.8 ***Any cost imputed in arriving at the material cost shall be disclosed.***

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

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

[12] Related party as per the applicable legal requirements relating to the cost statement as on the date of statements