COST RECORDS & COST AUDIT NOTIFICATIONS-2011

Compiled by

Asit Kumar Roy
M.Com,MBA(F),AICWA
Email-akroy2508@yahoo.com
Cell: 09910149595

Table of content

General Circular No. 15/2011

52/5/CAB-2011
Government of India
Ministry of Corporate Affairs
Cost Audit Branch
*****

'B-1' Wing, 2nd Floor,
Paryavaran Bhawan,
CGO Complex, Lodhi Road,
New Delhi – 110 003

Dated the April 11, 2011

To,

The President,
Institute of Cost and Works Accountants of India,
12, Sudder Street,
Kolkata – 700 016

Subject: Appointment of Cost Auditor by Companies

Sir,

Ministry has reviewed the existing procedure followed by the companies for seeking prior approval of the Central Government for appointment of cost auditor under section 233B (2) of the Companies Act, 1956. In supersession of any earlier order/circular issued in this regard, the revised procedure to be followed by the companies and cost auditor shall be as under:

(a) The company required to get its cost records audited under section 233B (1) of the Companies Act, 1956 shall appoint a cost auditor who is a cost accountant as defined in clause (b) of sub-section (1) of section 2 of the Cost and Works Accountants Act, 1959 (23 of 1959) and who holds a valid certificate of practice under sub-section (1) of section 6 of that Act and includes a firm of cost accountants.

(b) The Audit Committee of the Board shall be the first point of reference regarding the appointment of cost auditors.

(c) The Audit Committee shall ensure that the cost auditor is free from any disqualifications as specified under section 233B (5) read with section 224 and sub-section (3) or sub-section (4) of section 226 of the Companies Act, 1956.

(d) While a cost auditor shall have prime responsibility to ensure that he does not violate the limits specified under section 224 (1-B) of the Companies Act 1956, the Audit Committee shall also be responsible for such compliance by the cost auditor.

(e) The Audit Committee shall obtain a certificate from the cost auditor certifying his/its independence and arm's length relationship with the company.

(f) The company shall e-file its application with the Central Government on www.mca.gov.in portal, in the prescribed form 23C within ninety days from the date of commencement of each financial year, along with the prescribed fee as per the Companies (Fees on Applications) Rules, 1999 as amended from time-to-time and other documents as per existing practice i.e. (i) certified copy of the Board Resolution proposing appointment of the cost auditor; and (ii) copy of the certificate obtained from the cost auditor regarding compliance of section 224 (1-B) of the Companies Act, 1956.

(g) On filing the application, the same shall be deemed to be approved by the Central Government, unless contrary is heard within thirty days from the date of filing such application.

(h) If within thirty days from the date of filing such application, the Central Government directs the company to re-submit the said application with such additional information or explanation, as may be specified in that direction, the period of thirty days for deemed approval of the Central Government shall be counted from the date of re-submission by the company.

(i) After expiry of thirty days, as the case may be, the company shall issue formal letter of appointment to the cost auditor, as approved by the Board.

(j) Within thirty days of receipt of formal letter of appointment from the company, the cost auditor shall inform the Central Government in the prescribed form, alongwith a copy of such appointment. An e-form for the same is being developed and will be notified shortly.

(k) The company shall disclose full particulars of the cost auditor, along with the due date and actual date of filing of the cost audit report by the cost auditor, in its Annual Report for each relevant financial year.

(l) In those companies where constitution of an Audit Committee of the Board is not required by law, the words "Audit Committee" shall stand substituted by the words "Board of Directors".

2. If a company contravenes any provisions of this circular, the company and every officer thereof who is in default, including the persons referred to in sub-section (6) of section 209 of the Act, shall be punishable as provided under sub-section (2) of section 642 read with sub-sections (5) and (7) of section 209 and sub-section (11) of section 233B of Companies Act, 1956.

3. If default is made by the cost auditor in complying with the aforesaid provisions, he shall be punishable with fine, which may extend to five thousand rupees.

4. The modified procedure contained in this circular shall be effective from the financial year commencing on or after the 1st day of April, 2011.

5. The Institute is requested to bring this to the general information of all Members in practice, and of the corporate sector.

Yours faithfully,

(B.B.Goyal)
Adviser (Cost)

Copy to:

1. Director (NK), E-Governance Cell, Ministry of Corporate Affairs, Shastri Bhavan, New Delhi with a request to upload this circular on the MCA's website http://www.mca.gov.in/Ministry/circulars.html
2. All the Regional Directors and Registrars of Companies (via e-mail)

F. No. 52/26/CAB-2010
Ministry of Corporate Affairs
Cost Audit Branch
*****

B-1 Wing, 2nd Floor,
Paryavaran Bhawan,
CGO Complex, Lodhi Road,
New Delhi-110 003

Dated the 2nd May, 2011

ORDER

In exercise of the powers conferred by sub-section (1) of section 233B of the Companies Act, 1956 (1 of 1956), the Central Government, being of the opinion that it is necessary to do so, hereby directs that all companies to which any of the following rules apply, and wherein, the aggregate value of net worth as on the last date of the immediately preceding financial year exceeds five crores of rupees; or wherein the aggregate value of the turnover made by the company from sale or supply of all products or activities during the immediately preceding financial year exceeds twenty crores of rupees; or wherein the company's equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India, shall get its cost accounting records, in respect of each of its financial year commencing on or after the 1st day of April, 2011, audited by a cost auditor who shall be, either a cost accountant or a firm of cost accountants, holding valid certificate of practice under the provisions of Cost and Works Accountants Act, 1959 (23 of 1959).

(a) Cost Accounting Records (Bulk Drugs) Rules, 1974
(b) Cost Accounting Records (Formulations) Rules, 1988
(c) Cost Accounting Records (Fertilizers) Rules, 1993
(d) Cost Accounting Records (Sugar) Rules, 1997
(e) Cost Accounting Records (Industrial Alcohol) Rules, 1997
(f) Cost Accounting Records (Electricity Industry) Rules, 2001
(g) Cost Accounting Records (Petroleum Industry) Rules, 2002
(h) Cost Accounting Records (Telecommunications) Rules, 2002

2. Every company to which these orders apply shall follow the revised procedure for appointment of cost auditor as laid down vide Ministry of

Corporate Affairs' General Circular No. 15/2011 [52/5/CAB-2011] dated 11th April 2011.

3. The audit shall be conducted in such manner as will enable the cost auditor to prepare the report in accordance with the Cost Audit (Report) Rules, 2001 as amended from time to time. The report of the cost auditor shall be forwarded to the Central Government in the prescribed format within the time stipulated under the said Rules.

4. These orders do not apply to a company which is a body corporate governed by any special Act.

5. All companies covered by these orders and wherein cost audit orders have been issued so far in respect of products/activities covered by the above mentioned rules shall continue to comply with the said orders until these orders become applicable on them.

6. If a company contravenes any provisions of these orders, the company and every officer thereof who is in default, including the persons referred to in sub-section (6) of section 209 of the Companies Act, 1956, shall be punishable as provided under sub-section (2) of section 642 read with sub-section (11) of section 233B of the Companies Act, 1956 (1 of 1956).

BBGoyal

(B.B.Goyal)
Adviser (Cost)

Copy to:

1. E-Governance Cell, Ministry of Corporate Affairs, Shastri Bhavan, New Delhi with a request to upload this order on the MCA's website.
2. The President, Institute of Cost and Works Accountants of India, 12, Sudder Street, Kolkata – 700016 with a request to bring this order to the general information of all Members in practice and of the corporate sector.

F. No. 52/26/CAB-2010
Ministry of Corporate Affairs
Cost Audit Branch
*****

B-1 Wing, 2nd Floor,
Paryavaran Bhawan,
CGO Complex, Lodhi Road,
New Delhi-110 003

Dated the 3rd May, 2011

ORDER

In exercise of the powers conferred by sub-section (1) of section 233B of the Companies Act, 1956 (1 of 1956), the Central Government, being of the opinion that it is necessary to do so, hereby directs that all companies to which any of the following rules apply, and wherein the aggregate value of the turnover made by the company from sale or supply of all products or activities during the immediately preceding financial year exceeds hundred crores of rupees; or wherein the company's equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India, shall get its cost accounting records, in respect of each of its financial year commencing on or after the 1st day of April, 2011, audited by a cost auditor who shall be, either a cost accountant or a firm of cost accountants, holding valid certificate of practice under the provisions of Cost and Works Accountants Act, 1959 (23 of 1959).

(a) Cost Accounting Records (Cement) Rules, 1997
(b) Cost Accounting Records (Tyres & Tubes) Rules, 1967
(c) Cost Accounting Records (Steel Plant) Rules, 1990
(d) Cost Accounting Records (Steel Tubes and Pipes) Rules, 1984
(e) Cost Accounting Records (Paper) Rules, 1975
(f) Cost Accounting Records (Insecticides) Rules, 1993

2. Every company to which these orders apply shall follow the revised procedure for appointment of cost auditor as laid down vide Ministry of Corporate Affairs' General Circular No. 15/2011 [52/5/CAB-2011] dated 11th April 2011.

3. The audit shall be conducted in such manner as will enable the cost auditor to prepare the report in accordance with the Cost Audit (Report)

Rules, 2001 as amended from time to time. The report of the cost auditor shall be forwarded to the Central Government in the prescribed format within the time stipulated under the said Rules.

4. These orders do not apply to a company which is a body corporate governed by any special Act.

5. All companies covered by these orders and wherein cost audit orders have been issued so far in respect of products/activities covered by the above mentioned rules shall continue to comply with the said orders until these orders become applicable on them.

6. If a company contravenes any provisions of these orders, the company and every officer thereof who is in default, including the persons referred to in sub-section (6) of section 209 of the Companies Act, 1956, shall be punishable as provided under sub-section (2) of section 642 read with sub-section (11) of section 233B of the Companies Act, 1956 (1 of 1956).

(B.B.Goyal)
Adviser (Cost)

Copy to:

1. E-Governance Cell, Ministry of Corporate Affairs, Shastri Bhavan, New Delhi with a request to upload this order on the MCA's website.
2. The President, Institute of Cost and Works Accountants of India, 12, Sudder Street, Kolkata – 700016 with a request to bring this order to the general information of all Members in practice and of the corporate sector.

[TO BE PUBLISHED IN THE GAZETTE OF INDIA, EXTRAORDINARY PART-II, SECTION-3, SUB-SECTION (i)]

MINISTRY OF CORPORATE AFFAIRS

Notification

New Delhi, dated the 3rd June, 2011

G.S.R.………(E) - In exercise of the powers conferred by clause (b) of sub-section (1) of section 642 read with clause (d) of sub-section (1) of section 209 of the Companies Act, 1956 (1 of 1956), and in supersession of the Cost Accounting Records Rules in so far as they relate to the Cost Accounting Records Rules published vide (i) G.S.R. 311 dated 2nd March, 1967, (ii) G.S.R. 1260 dated 10th August, 1967, (iii) G.S.R. 1447 dated 16th September, 1967, (iv) G.S.R. 1448 dated 18th September, 1967, (v) G.S.R. 1467 dated 20th September, 1967, (vi) G.S.R. 1503 dated 27th September, 1967, (vii) G.S.R. 2298 dated 15th September, 1969, (viii) G.S.R. 2574 dated 24th October, 1969, (ix) G.S.R. 334 dated 25th February, 1972, (x) G.S.R. 1529 dated 27th November, 1972, (xi) G.S.R. 590(E) dated 29th December, 1975, (xii) G.S.R. 601(E) dated 31st December, 1975, (xiii) G.S.R. 606 dated 20th April, 1976, (xiv) G.S.R. 605 dated 22nd April, 1976, (xv) G.S.R. 126(E) dated 24th March, 1977, (xvi) G.S.R. 157(E) dated 1st April, 1977, (xvii) G.S.R. 417(E) dated 28th June, 1977, (xviii) G.S.R. 45(E) dated 31st January, 1979, (xix) G.S.R. 506(E) dated 10th May, 1984, (xx) G.S.R. 688 dated 25th June, 1984, (xxi) G.S.R. 767 dated 7th July, 1984, (xxii) G.S.R. 664 dated 1st July, 1985, (xxiii) G.S.R. 574 dated 31st July, 1990, (xxiv) G.S.R. 258(E) dated 3rd March, 1993, (xxv) G.S.R. 677(E) dated 29th October, 1993, (xxvi) G.S.R. 678(E) dated 29th October, 1993, (xxvii) G.S.R. 186(E) dated 12th April, 1996, (xxviii) G.S.R. 202(E) dated 6th May, 1996, (xxix) G.S.R. 271(E) dated 9th July, 1996, (xxx) G.S.R. 537(E) dated 11th September, 1997, (xxxi) G.S.R. 536(E) dated 11th September, 1997, (xxxii) G.S.R. 704(E) dated 28th September, 2001, (xxxiii) G.S.R. 276(E) dated 24th April, 2001, (xxxiv) G.S.R. 277(E) dated 24th April, 2001, (xxxv) G.S.R. 685(E) dated 8th October, 2002, and (xxxvi) G.S.R. 562(E) dated 2nd September, 2004, except as respects things done or omitted to be done before such supersession, the Central Government hereby makes the following rules, namely:-

1. **Short Title and Commencement-** (1) These rules may be called The Companies (Cost Accounting Records) Rules, 2011.

   (2) They shall come into force on the date of their publication in the Official Gazette.

2. **Definitions and Interpretations. -** In these rules, unless otherwise so provided,---

   (a) "Act" means the Companies Act, 1956 (1 of 1956);

   (b) "Compliance Report" means compliance report duly authenticated and signed by a cost accountant in the prescribed form of compliance report;

   (c) "Cost Accountant" for the purpose of these rules means a cost accountant as defined in clause (b) of sub-section (1) of section 2 of the Cost and

Works Accountants Act, 1959 (23 of 1959) and who is either a permanent employee of the company or holds a valid certificate of practice under sub-section (1) of section 6 and who is deemed to be in practice under sub-section (2) of section 2 of that Act and includes a firm of cost accountants;

(d) "Cost Accounting Standards" means the standards of cost accounting, issued by the Institute;

(e) "Cost Records" means books of account relating to utilisation of materials, labour and other items of cost as applicable to the production, processing, manufacturing or mining activities of the company;

(f) "Form-A" means the form prescribed in these rules for filing compliance report and other documents with the Central Government in the electronic mode;

(g) "Form-B" means the form of the compliance report and includes Annexure to the compliance report;

(h) "Generally Accepted Cost Accounting Principles" means the principles of cost accounting issued by the Institute;

(i) "Institute" means the Institute of Cost and Works Accountants of India constituted under the Cost and Works Accountants Act, 1959 (23 of 1959);

(j) "Manufacturing Activity" includes any act, process or method employed in relation to -

  (i) transformation of raw materials, components, sub-assemblies, or parts into semi-finished or finished products; or

  (ii) making, altering, repairing, fabricating, generating, composing, ornamenting, furnishing, finishing, packing, re-packing, oiling, washing, cleaning, breaking-up, demolishing, or otherwise treating or adapting any product with a view to its use, sale, transport, delivery or disposal; or

  (iii) constructing, reconstructing, reconditioning, servicing, refitting, repairing, finishing or breaking up of any products.

(k) "Mining Activity" includes any act, process or method employed in relation to the extraction of ores, minerals, oils, gases or other geological materials from the earth's crust, including sea bed or river bed.

(l) "Processing Activity" includes any act, process, procedure, function, operation, technique, treatment or method employed in relation to-

  (i) altering the condition or properties of inputs for their use, consumption, sale, transport, delivery or disposal; or

  (ii) accessioning, arranging, describing, or storing products; or

(iii) developing, fixing, and washing exposed photographic or cinematographic film or paper to produce either a negative image or a positive image; or

(iv) printing, publishing, finishing, perforation, trimming, cutting, or packaging; or

(v) pumping oil, gas, water, sewage or any other product; or

(vi) transforming or transmitting, distributing power or electricity; or

(vii) harboring, berthing, docking, elevating, lading, stripping, stuffing, towing, handling, or warehousing products; or

(viii) preserving or storing any product in cold storage; or

(ix) constructing, reconstructing, reconditioning, repairing, servicing, refitting, finishing or demolishing of buildings or structures; or

(x) farming, feeding, rearing, treating, nursing, caring, and stocking of living organisms; or

(xi) telecasting, broadcasting, telecommunicating voice, text, picture, information, data or knowledge through any mode or medium; or

(xii) obtaining, compiling, recording, maintaining, transmitting, holding or using the information or data or knowledge; or

(xiii) executing instructions in memory to perform some transformation and/or computation on the data in the computer's memory.

(m) "Product" means any tangible or intangible good, material, substance, article, idea, know-how, method, information, object, service, etc. that is the result of human, mechanical, industrial, chemical, or natural act, process, procedure, function, operation, technique, or treatment and is intended for use, consumption, sale, transport, store, delivery or disposal.

(n) "Product Group" in relation to tangible products means a group of homogenous and alike products, produced from same raw materials and by using similar or same production process, having similar physical or chemical characteristics and common unit of measurement, and having same or similar usage or application; and in relation to intangible products means a group of homogenous and alike products or services, produced by using similar or same process or inputs, having similar characteristics and common unit of measurement, and having same or similar usage or application.

(o) "Production Activity" includes any act, process, or method employed in relation to -

(i) transformation of tangible inputs (raw materials, semi-finished goods, or sub-assemblies) and intangible inputs (ideas, information, know how) into goods or services; or

(ii) manufacturing or processing or mining or growing a product for use, consumption, sale, transport, delivery or disposal; or

(iii) creation of value or wealth by producing goods or services.

(p) "Turnover" means gross turnover made by the company from the sale or supply of all products or services during the financial year. It includes any turnover from job work or loan license operations but does not include any non-operational income;

(q) All other words and expressions used in these rules but not defined, and defined in the Act and rules made under clause (d) of sub-section (1) of section 209 of the Act shall have the same meanings as assigned to them in the Act or rules, as the case may be.

3. **Application-** (1) These rules shall apply to every company, including a foreign company as defined under section 591 of the Act, which is engaged in the production, processing, manufacturing, or mining activities and wherein, the aggregate value of net worth as on the last date of the immediately preceding financial year exceeds five crores of rupees; or wherein the aggregate value of the turnover made by the company from sale or supply of all products or activities during the immediately preceding financial year exceeds twenty crores of rupees; or wherein the company's equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India.

Provided that these rules shall not apply to a company which is a body corporate governed by any special Act;

Provided further that these rules shall not apply to the activities or products covered in any of the following rules,-

(a) Cost Accounting Records (Bulk Drugs) Rules, 1974
(b) Cost Accounting Records (Formulations) Rules, 1988
(c) Cost Accounting Records (Fertilizers) Rules, 1993
(d) Cost Accounting Records (Sugar) Rules, 1997
(e) Cost Accounting Records (Industrial Alcohol) Rules, 1997
(f) Cost Accounting Records (Electricity Industry) Rules, 2001
(g) Cost Accounting Records (Petroleum Industry) Rules, 2002
(h) Cost Accounting Records (Telecommunications) Rules, 2002

4. **Maintenance of records-** (1) Every company to which these rules apply, including all units and branches thereof shall, in respect of each of its financial year commencing on or after the 1st day of April, 2011, keep cost records.

(2) The cost records referred to in sub-rule (1) shall be kept on regular basis in such manner so as to make it possible to calculate per unit cost of production or cost of operations, cost of sales and margin for each of its products and activities for every financial year on monthly/quarterly/half-yearly/annual basis.

(3) The cost records shall be maintained in accordance with the generally accepted cost accounting principles and cost accounting standards issued by the Institute; to the extent these are found to be relevant and applicable. The variations, if any, shall be clearly indicated and explained.

(4) The cost records shall be maintained in such manner so as to enable the company to exercise, as far as possible, control over the various operations and costs with a view to achieve optimum economies in utilization of resources. These records shall also provide necessary data which is required to be furnished under these rules.

(5) All such cost records and cost statements, maintained under these rules shall be reconciled with the audited financial statements for the financial year specifically indicating expenses or incomes not considered in the cost records or statements so as to ensure accuracy and to reconcile the profit of all product groups with the overall profit of the company. The variations, if any, shall be clearly indicated and explained.

(6) All such cost records, cost statements and reconciliation statements, maintained under these rules, relating to a period of not less than eight financial years immediately preceding a financial year or where the company had been in existence for a period less than eight years, in respect of all the preceding years shall be kept in good order.

(7) It shall be the duty of every person, referred to in sub-section (6) and (7) of section 209 of the Companies Act, 1956 (1 of 1956), to take all reasonable steps to secure compliance by the company with the provisions of these rules in the same manner as he is liable to maintain accounts required under sub-section (1) of section 209 of the said Act.

5. **Form of the Compliance Report -** Every company to which these rules apply shall submit a compliance report, in respect of each of its financial year commencing on or after the 1st day of April, 2011, duly certified by a cost accountant, along with the Annexure to the Central Government, in the prescribed form.

6. **Time limit for submission of Compliance Report –** Every company shall submit the compliance report referred to in rule 5 to the Central Government within one hundred and eighty days from the close of the company's financial year to which the compliance report relates.

7. **Authentication of Annexure to the Compliance Report –** The Annexure prescribed with the compliance report, as certified by the cost accountant, shall be approved by the Board of Directors before submitting the same to the Central Government by the company.

8. **Penalties –** (1) If default is made by the cost accountant in complying with the provisions of these rules, he shall be punishable with fine, which may extend to five thousand rupees.

(2) If a company contravenes any provisions of these rules, the company and every officer thereof who is in default, including the persons referred to in sub-section (6) of section 209 of the Act, shall be punishable as provided under sub-section (2) of section 642 read with sub-sections (5) and (7) of section 209 of Companies Act, 1956 (1 of 1956).

9. **Savings-** The supersession of the Cost Accounting Records Rules, shall not in any way affect-

a) any right, obligation or liabilities acquired, accrued or incurred thereunder;

b) any penalty, forfeiture or punishment incurred in respect of any contravention committed thereunder; and

c) any investigation, legal proceeding or remedy in respect of any such right, privilege, obligation, liability, penalty, forfeiture or punishment as aforesaid, and; any such investigation, legal proceeding or remedy may be instituted, continued or enforced and any such penalty, forfeiture or punishment may be imposed as if those rules had not been superseded.

[F. No. 52/10/CAB-2010]

B.B.GOYAL
ADVISER (COST)

FORM-A	Form for filing Compliance Report and other documents with the Central Government
[Pursuant to section 209(1)(d), 600(3)(b) of the Companies Act, 1956 and rule 2 of The Companies (Cost Accounting Records) Rules, 2011]	

PART I - GENERAL INFORMATION

Note: All fields marked in * are to be mandatorily filled.

1 (a) *Corporate identity number (CIN) or foreign company registration number of the company | | **Pre-Fill**

(b) Global location number (GLN) of company

2 (a) *Name of the company

(b) *Address of the registered office or of the principal place of business in India of the company

(c) *E-mail Address of the company

3 (a) *Financial year covered by the compliance report

From ______ (DD/MM/YYYY)

To ______ (DD/MM/YYYY)

(b) *Date of Board of directors' meeting in which annexure to the compliance report was approved ______ (DD/MM/YYYY)

4. **Details of the cost accountant**

(a) *Category of the cost accountant ○ Individual ○ Cost accountant's firm

(b) In case of individual, whether the cost accountant is in permanent employment of the company or in practice ○ In Employment ○ In Practice

(c) *Name of the cost accountant or the cost accountant's firm who has certified the cost records of the company

(d) *Income tax permanent account number of the cost accountant or the cost accountant's firm

(e) *Membership number of cost accountant or cost accountant's firm's registration number

(f) Address of the cost accountant or cost accountant's firm

(i) Line I
Line II
(ii) City
(iii) State
(iv) Country
(v) Pin Code

(g) *E-mail ID of the cost accountant or cost accountant's firm

5. ***Quantitative Information**

Sno.	Name of the Product / Service Group	Unit	Annual Production (Qty.)	Net Sales	
				(Qty.)	**(Value in Rupees)**
A	Produced / Manufactured Product Groups				
	1.				
	2.				
	3. etc.				
B	Services Groups				
	1.				
	2.				
	3. etc.				
C	Trading Activities (Product Group-wise)				
	1.				
	2.				
	3. etc.				
D	Other Income				
Total Income as per Financial Accounts					

PART-II

Attachments:

1 Compliance report as per The Companies (Cost Accounting Records) Rules, 2011 **Attach**

2 Optional attachments(s) – if any **Attach**

List of attachments

Remove attachment

Verification:

To the best of my knowledge and belief, the information given in this form and its attachments is correct and complete.

☐ I have been authorised by the Board of directors' resolution number ☐ dated ☐ (DD/MM/YYYY) to sign and submit this form.

☐ I am authorised to sign and submit this form.

To be digitally signed by:

Managing Director or director or manager or secretary (in case of an Indian company)

or an authorised representative (in case of a foreign company)

Digital Signatures

*Designation

*Director identification number of the director or Managing Director; or Income-tax PAN of the manager or of authorised representative; or Membership number, if applicable or income-tax PAN of the secretary (secretary of a company who is not a member of ICSI may quote his/her income-tax PAN)

Director of the company

Director identification number of the director

Digital Signatures

Modify **Check Form** **Pre-scrutiny** **Submit**

This e-form has been taken on file maintained by the Central Government through electronic mode and on the basis of statement of correctness given by the filing company

---

FORM-B

FORM OF COMPLIANCE REPORT

[See rule 2, and rule 5]

I/We .... being in permanent employment of the company / in practice, and having been appointed as cost accountant under Rule 5 of the Companies (Cost Accounting Records) Rules, 2011 of …... *(mention name of the company)* having its registered office at .... *(mention registered office address of the company)* (hereinafter referred to as the company), have examined the books of account prescribed under clause (d) of sub-section (1) of section 209 of the said Act, and other relevant records for the period/year .... *(mention the financial year)* and certify as under:

1 I/We have/have not obtained all the information and explanations, which to the best of my/our knowledge and belief were necessary for the purpose of this compliance report.

2 In my/our opinion, proper cost records, as per Companies (Cost Accounting Records) Rules, 2011 prescribed under clause (d) of sub-section (1) of section 209 of the Companies Act, 1956, have/have not been maintained by the company so as to give a true and fair view of the cost of production/operation, cost of sales and margin of all the products/activities of the company.

3 Detailed unit-wise and product/activity-wise cost statements and schedules thereto in respect of the product groups/activities are/are not kept in the company.

4 In my/our opinion, the said books and records give/do not give the information required by the Companies Act, 1956 in the manner so required.

5 In my/our opinion, the said books and records are/are not in conformity with the generally accepted cost accounting principles and cost accounting standards issued by The Institute of Cost and Works Accountants of India, to the extent these are found to be relevant and applicable.

Dated: this ____ day of _________ 20__ at _________________ (*mention name of place of signing this report*)

SIGNATURE & SEAL OF THE COST ACCOUNTANT (S)
MEMBERSHIP NUMBER (S)

NOTES:

(i) Delete words not applicable.

(ii) If as a result of the examination of the books of account, the cost accountant desires to point out any material deficiency or give a qualified report, he shall indicate the same against the relevant para.

(iii) Briefly give your observations and suggestions, if any, relevant to the maintenance of cost accounting records by the company.

(iv) Cost accountant may use separate sheet(s) for (ii) and (iii) above, if required.

ANNEXURE TO THE COMPLIANCE REPORT
[See rule 2 and rule 5]

1. GENERAL:

a) Name of the company:
b) Registered office address:
c) Financial year to which the Compliance Report relates.

2. QUANTITATIVE INFORMATION:

Sno.	Name of the Product / Service Group	Unit	Annual Production (Qty.)	Net Sales	
				(Qty.)	(Value in Rupees)
A	**Produced / Manufactured Product Groups**				
	1.				
	2.				
	3. etc.				
B	**Services Groups**				
	1.				
	2.				
	3. etc.				
C	**Trading Activities (Product Group-wise)**				
	1.				
	2.				
	3. etc.				
D	**Other Income**				
Total Income as per Financial Accounts					

3. RECONCILIATION STATEMENT:

Net Margin (Profit/Loss) as per Cost Accounts	**(In Rupees)**
A. From Produced / Manufactured Product Groups	
B. From Services Groups	
C. From Trading Activities	
Total as per Cost Accounts	
Add: Incomes not considered in Cost Accounts (if any)	
Less: Expenses not considered in Cost Accounts (if any)	
Add/Less: Difference in Stock Valuation	
Profit/(Loss) as per Financial Accounts	

NOTES:

(i) For produced/manufactured product groups, use the nomenclature as used in the Central Excise Act/Rules, as applicable.

(ii) For services groups, use the nomenclature as used in the Finance Act/Central Service Tax Rules, as applicable.

SIGNATURE
NAME
COST ACCOUNTANT (S)
MEMBERSHIP NUMBER (S)
SEAL
DATE

[TO BE PUBLISHED IN THE GAZETTE OF INDIA, EXTRAORDINARY PART-II, SECTION-3, SUB-SECTION (i)]

MINISTRY OF CORPORATE AFFAIRS

Notification

New Delhi, dated the 3rd June, 2011

G.S.R………(E) - In exercise of the powers conferred by clause (b) of sub-section (1) of section 642 read with sub-section (4) of section 233B, and sub-section (1) of section 227 of the Companies Act, 1956 (1 of 1956), and in supersession of the Cost Audit Report Rules, 2001, except as respects things done or omitted to be done before such supersession, the Central Government hereby makes the following rules, namely:-

1. **Short Title and Commencement-** (1) These rules may be called The Companies (Cost Audit Report) Rules, 2011.

   (2) They shall come into force on the date of their publication in the Official Gazette.

2. **Definitions and Interpretations. -** In these rules, unless otherwise so provided,---

   (a) "Act" means the Companies Act, 1956 (1 of 1956);

   (b) "Cost Auditor" means an auditor appointed to conduct an audit of cost records, under sub-section (2) of section 233B of the Act;

   (c) "Form-I" means the Form prescribed in these rules for filing cost audit report and other documents with the Central Government in the electronic mode;

   (d) "Form-II" means the Form of the cost auditor's report and includes auditor's observations and suggestions, and Annexure to the cost audit report;

   (e) "Form-III" means the Form of the performance appraisal report;

   (f) "Product" means any tangible or intangible good, material, substance, article, idea, know-how, method, information, object, service, etc. that is the result of human, mechanical, industrial, chemical, or natural act, process, procedure, function, operation, technique, or treatment and is intended for use, consumption, sale, transport, store, delivery or disposal.

   (g) "Product Group" in relation to tangible products means a group of homogenous and alike products, produced from same raw materials and by using similar or same production process, having similar physical or chemical characteristics and common unit of measurement, and having same or similar usage or application; and in relation to intangible products means a group of homogenous and alike products or services, produced by using similar or same process or inputs, having similar characteristics and common unit of measurement, and having same or similar usage or application;

(h) "Report" means cost audit report duly audited and signed by the cost auditor in the prescribed form of cost audit report;

(i) All other words and expressions used in these rules but not defined, and defined in the Act and rules made under clause (d) of sub-section (1) of section 209 and sub-section (4) of section 233B of the Act shall have the same meanings as assigned to them in the Act or rules, as the case may be.

3. **Application** – (1) These rules shall apply to every company in respect of which an audit of the cost records has been ordered by the Central Government under sub-section (1) of section 233B of the Act.

(2) Every company as specified in sub-rule (1) shall, within ninety days of the commencement of every financial year, file an application with the Central Government seeking prior approval for appointment of the cost auditor, through electronic mode, in the prescribed form, alongwith the prescribed fee as per the Companies (Fees on Applications) Rules, 1999, and requisite enclosures.

(3) Every cost auditor appointed under sub-rule (2) shall, within thirty days of receipt of letter of appointment, inform his appointment to the Central Government through electronic mode, in the prescribed form, alongwith the requisite enclosures.

(4) Notwithstanding anything contained in sub-rule (2) and (3) above, every company and every cost auditor shall follow the procedure prescribed vide Ministry of Corporate Affairs' General Circular No. 15/2011 [File No. 52/5/CAB-2011] dated April 11, 2011.

4. **Form of the Report -** (1) Every cost auditor, who conducts an audit of the cost records of the company, shall submit the report along with auditor's observations and suggestions, and Annexure to the Central Government in the prescribed form and at the same time forward a copy of such report to the company.

(2) The cost audit report submitted on or after 1st day of April, 2012, irrespective of the financial year of the company to which it relates, shall be in the form prescribed under these rules.

(3) Every company as specified in sub-rule (1) of rule 3 shall, keep and maintain cost details, statements, schedules, etc. for each unit and each product or activity comprised in each product group, duly authenticated by atleast two Directors of the company and the cost auditor.

(4) The cost details, statements, schedules, etc. of every company, as specified in sub-rule (3), relating to a period of not less than eight financial years immediately preceding a financial year, or where the company had been in existence for a period less than eight years, in respect of all the preceding years shall be kept in good order:

(5) Every cost auditor, who submits a report under sub-rule (1), shall also furnish performance appraisal report, duly authenticated by the cost auditor, to the Board/Audit Committee of the company in the prescribed form.

(6) Every cost auditor, who submits a report under sub-rule (1), shall also give clarifications, if any, required by the Central Government on the cost audit report submitted by him, within thirty days of the receipt of the communication addressed to him calling for such clarifications.

5. **Time limit for submission of Report –** Every cost auditor shall forward his report referred to in sub-rule (1) of rule 4 to the Central Government and to the concerned company within one hundred and eighty days from the close of the company's financial year to which the report relates.

6. **Cost Auditor to be furnished with the cost accounting records etc. –** Without prejudice to the powers and duties the Cost Auditor shall have under sub-section (4) of section 233B of the Act, the company and every officer thereof, including the persons referred to in sub-section (6) of section 209 of the Act, shall make available to the cost auditor, such cost accounting records, cost statements, other books and documents, and Annexure to the Report, duly completed, as would be required for conducting the cost audit, and shall render necessary assistance to the cost auditor so as to enable him to complete the cost audit and submit his report within the time limit specified in rule 5.

7. **Authentication of Annexure to the Cost Audit Report –** The Annexure prescribed with the cost audit report shall be approved by the Board of Directors before submitting the same to the Central Government by the cost auditor. The Annexure, duly audited by the cost auditor, shall also be signed by the Company Secretary and at least one Director on behalf of the company. In the absence of Company Secretary in the company, the same shall be signed by at least two Directors.

8. **Penalties –** (1) If default is made by the cost auditor in complying with the provisions of rule 4 or rule 5, he/she shall be punishable with fine, which may extend to five thousand rupees.

   (2) If a company contravenes any provisions of these rules, the company and every officer thereof who is in default, including the persons referred to in sub-section (6) of section 209 of the Act, shall be punishable as provided under sub-section (2) of section 642 read with sub-sections (5) and (7) of section 209 and sub-section (11) of section 233B of Companies Act, 1956 (1 of 1956).

9. **Savings-** The supersession of the Cost Audit Report Rules, 2001, shall not in any way affect-

   a) any right, obligation or liabilities acquired, accrued or incurred thereunder;

   b) any penalty, forfeiture or punishment incurred in respect of any contravention committed thereunder; and

   c) any investigation, legal proceeding or remedy in respect of any such right, privilege, obligation, liability, penalty, forfeiture or punishment as aforesaid, and; any such investigation, legal proceeding or remedy may be instituted, continued or enforced and any such penalty, forfeiture or punishment may be imposed as if those rules had not been superseded.

[F. No. 52/10/CAB-2010]

B.B.GOYAL
ADVISER (COST)

# FORM-I	**Form for filing Cost Audit Report and other documents with the Central Government**

[Pursuant to section 233B(4), 600(3)(b) of the Companies Act, 1956 and rule 2 of The Companies (Cost Audit Report) Rules, 2011]

PART I - GENERAL INFORMATION

Note: All fields marked in * are to be mandatorily filled.

1 (a) *Corporate identity number (CIN) or foreign company registration number of the company — **Pre-Fill**

(b) Global location number (GLN) of company

2 (a) *Name of the company

(b) *Address of the registered office or of the principal place of business in India of the company

(c) *E-mail address of the company

3 (a) *Financial year — From (DD/MM/YYYY) — To (DD/MM/YYYY)

(b) *Date of Board of directors meeting in which annexure to the cost audit report was approved — (DD/MM/YYYY)

4 (a) *State number of Product Groups for which the Cost Audit Report is being submitted

(b) *Details of such Product Groups of the company ***(Number of rows depending on 4(a) above)***

Name of the Product Group	***Major Products/Activities Covered***

5 (a) *State number of Product Groups/Activities not covered in the Cost Audit Report

(b) *Details of such Product Groups/Activities of the company ***(Number of rows depending on 5(a) above)***

Name of the Product Group	***Major Products/Activities Covered***

6 **Details of the cost auditor**

(a) *Category of the cost auditor — ○ Individua ○ Cost accountant’s firm

(b) *Name of the cost auditor or the cost auditor’s firm appointed as cost auditor of the company

(c) *Income tax permanent account number of the cost auditor or cost auditor's firm

(d) *Membership number of cost auditor or cost auditor’s firm’s registration number

(e) Address of the cost auditor or cost auditor's firm
- (i) Line I
- Line II
- (ii) City
- (iii) State
- (iv) Country
- (v) Pin Code

(f) *E-mail ID of the cost auditor or cost auditor’s firm

7 (a) *Whether the cost auditor's report has been qualified or has any reservations or contains adverse remarks — ○ Yes ○ No

(b) *If yes, cost auditor's qualifications, reservations or adverse remarks as given in the cost auditor's report

8 (a) *Whether the cost auditor's report contain any observations or suggestions — ○ Yes ○ No

(b) *If yes, cost auditor's observations / suggestions

PART-II

Attachements:

1 Cost audit report as per The Companies (Cost Audit Report) Rules, 2011 **Attach**

2 Optional attachement(s) - if any **Attach**

List of attachements

Remove attachement

Verification:

To the best of my knowledge and belief, the information given in this form and its attachments is correct and complete.

☐ I have been authorised by the Board of directors' resolution number ☐ dated ☐ (DD/MM/YYYY) to sign and submit this form.

☐ I am authorised to sign and submit this form.

To be digitally signed by:

Managing Director or director or manager or secretary (in case of an Indian company) or an authorised representative (in case of a foreign company) — Digital Signatures

*Designation

*Director identification number of the director or Managing Director; or Income-tax PAN of the manager or of authorised representative; or Membership number, if applicable or income-tax PAN of the secretary (secretary of a company who is not a member of ICSI may quote his/her income-tax PAN)

Director of the company — Digital Signatures

Director identification number of the director

*Cost Auditor — Digital Signatures

Whether associate or fellow ◯ Associate ◯ Fellow

Membership number

Modify **CheckForm** **Prescrutiny** **Submit**

This e-form has been taken on file maintained by the Central Government through electronic mode and on the basis of statement of correctness given by the filing company and the cost auditor

FORM-II

FORM OF THE COST AUDIT REPORT

[See rule 2 and rule 6]

I/We,.. having been appointed as Cost Auditor(s) under Section 233B of the Companies Act, 1956 (1 of 1956) of ....*(mention name of the company)* having its registered office at .... *(mention registered office address of the company)* (hereinafter referred to as the company), have audited the books of account prescribed under clause (d) of sub-section (1) of section 209 of the said Act, and other relevant records in respect of the .... (mentions name/s of product group/s) for the period/year .... *(mention the financial year)* maintained by the company and report, in addition to my/our observations and suggestions in para 2.

(i) I/We have/have not obtained all the information and explanations, which to the best of my/our knowledge and belief were necessary for the purpose of this audit.

(ii) In my/our opinion, proper cost records, as per Companies (Cost Audit Report) Rules, 2011 prescribed under clause (d) of sub-section (1) of section 209 of the Companies Act, 1956, have/have not been maintained by the company so as to give a true and fair view of the cost of production/operation, cost of sales and margin of the product/activity groups under reference.

(iii) In my/our opinion, proper returns adequate for the purpose of the Cost Audit have/have not been received from the branches not visited by me/us.

(iv) In my/our opinion and to the best of my/our information, the said books and records give/do not give the information required by the Companies Act, 1956, in the manner so required.

(v) In my/our opinion, the said books and records are/are not in conformity with the Cost Accounting Standards issued by The Institute of Cost and Works Accountants of India, to the extent these are found to be relevant and applicable.

(vi) In my/our opinion, company has/has not adequate system of internal audit of cost records which to my/our opinion is commensurate to its nature and size of its business.

(vii) Detailed unit-wise and product/activity-wise cost statements and schedules thereto in respect of the product groups/activities under reference of the company duly audited and certified by me/us are/are not kept in the company.

(viii) As required under the provisions of The Companies (Cost Audit Report) Rules, 2011, I/we have furnished Performance Appraisal Report, to the company, on the prescribed form.

2 Observations and suggestions, if any, of the Cost Auditor, relevant to the cost audit.

Dated: this ____ day of _________ 20__
at _________ (mention name of place of signing this report)

SIGNATURE & SEAL OF THE COST AUDITOR (S)
MEMBERSHIP NUMBER (S)

NOTES:

(1) Delete words not applicable.

(2) If as a result of the examination of the books of account, the Cost Auditor desires to point out any material deficiency or give a qualified report, he shall indicate the same against the relevant para (i) to (viii) only in the prescribed form of the Cost Audit Report giving details of discrepancies he has come across.

(3) The report, suggestions, observations and conclusions given by the Cost Auditor under this paragraph shall be based on verified data, reference to which shall be made here and shall, wherever practicable, be included after the company has been afforded an opportunity to comment on them.

ANNEXURE TO THE COST AUDIT REPORT

[See rule 2 and rule 6]

1. GENERAL INFORMATION:

1. CIN or GLN of the company:
2. Name of the company:
3. Registered office address:
4. Corporate office address:
5. E-mail address of the company:
6. Company's financial year to which the Cost Audit Report relates:
7. Name, address, membership number and e-mail of the Cost Auditor(s):
8. SRN Number and date of Filing of Form 23C with the Central Government:
9. Date of Board of Directors' meeting wherein the Annexure to the cost audit report were approved:
10. No. of Audit Committee meetings held by the company, and attended by the Cost Auditor during the

2. COST ACCOUNTING POLICY:

(1) Briefly describe the cost accounting policy adopted by the Company keeping in view the requirements of the Companies (cost Accounting Records) Rules, 2011, the Companies (Cost Audit Report) Rules, 2011, cost accounting standards and its adequacy or otherwise to determine correctly the cost of production/operation**,** cost of sales, sales realization and margin of the product/activity groups under reference separately for each product/activity group. The policy should cover, inter alia, the following areas:

a) Identification of cost centres/cost objects and cost drivers.

b) Accounting for material cost including packing materials, stores and spares etc., employee cost, utilities and other relevant cost components.

c) Accounting, allocation and absorption of overheads

d) Accounting for Depreciation/Amortization

e) Accounting for by-products/joint-products, scarps, wastage etc.

f) Basis for Inventory Valuation

g) Methodology for valuation of Inter-Unit/Inter Company and Related Party transactions.

h) Treatment of abnormal and non-recurring costs including classification of other non-cost items.

i) In case the Company has adopted IFRS, variations (if any) in treatment of cost accounting arising out of adoption of IFRS in Financial Accounting.

j) Other relevant cost accounting policy adopted by the Company

(2) Briefly specify the changes, if any, made in the cost accounting policy for the product/activity group(s) under audit during the current financial year as compared to the previous financial year.

(3) Observations of the Cost Auditor regarding adequacy or otherwise of the Budgetary Control System, if any, followed by the company.

3. PRODUCT GROUP DETAILS (for the company as a whole)

Sno.	Name of each Product Group	Names of Products/ Activities included in the Product Group	Net Sales (net of taxes, duties, etc.) (Rs. Lakh)	Covered under Cost Audit
				(Yes/No)
A	**Manufactured Product Groups**			
	1.			
	2.			
	3.			
	4. etc.			
	Sub-Total (A)			
B	**Services Groups**			
	1.			
	2.			
	3.			
	4. etc.			
	Sub-Total (B)			
C	**Trading Activities (Product Group-wise)**			
	1.			
	2.			
	3.			
	4. etc.			
	Sub-Total (C)			
D	**Other Incomes**			
E	**Total Income as per Audited Annual Report (A+B+C+D)**			

NOTES:

(1) For manufactured product groups, use the nomenclature as used in the Central Excise Act and Rules, as applicable.

(2) For service groups, use the nomenclature as used in the Finance Act / Central Service Tax Rules, as applicable.

4. QUANTITATIVE INFORMATION (for each product group separately)

Name of the Company			
Name of the Product Group			
Name of the Products covered in the Product Group			
Financial Year	From __________ To ___________		
Particulars	**Unit**	**Current Year**	**Previous Year**
1. Available Capacity			
(a) Installed Capacity			
(b) Capacity enhanced during the year, if any			
(c) Capacity available through leasing arrangements, if			
(d) Capacity available through loan license / third parties			
(e) Total available Capacity			
2. Actual Production			
(a) Self manufactured			
(b) Produced under leasing arrangements			
(c) Produced on loan license / by third parties on job work			
(d) Total Production			
4. Production as per Excise Records			
4. Capacity Utilization (in-house)			
5. Stock Purchased for Trading			
(a) Domestic Purchase			
(b) Imports			
(c) Total Purchases			
6. Stock & Other Adjustments			
(a) Change in Stock of Finished Goods			
(b) Self / Captive Consumption (incl. samples etc.)			
(c) Other Quantitative Adjustments, if any (wastage etc.)			
(d) Total Adjustments			
7. Total Available Quantity for Sale [2(e) + 5(c) - 6(d)]			
8. Actual Sales			
(a) Domestic Sales (manufacturing)			
(b) Domestic Sales (trading)			
(c) Export Sale (manufacturing)			
(d) Export Sale (trading)			
(e) Total Quantity Sold			

5. ABRIDGED COST STATEMENT (for each product group separately)							
Sno.	**Particulars**	**Units**	**Quantity**	**Rate (Rs.)**	**Amount (Rs.)**	**Rate per Unit (Rs.)**	
						Current Year	**Previous Year**
1	Materials Consumed (specify details)						
	a) Indigenous Purchased						
	b) Imported						
	c) Self Manufactured / Produced						
2	Process Materials/Chemicals (specify)						
3	Utilities (specify details)						
4	Direct Employees Cost						
5	Direct Expenses						
6	Consumable Stores & Spares						
7	Repairs & Maintenance						
8	Quality Control Expenses						
9	Research & Development Expenses						
10	Technical know-how Fee / Royalty, if any						
11	Depreciation/Amortization						
12	Other Production Overheads						
13	Total (1 to 12)						
14	Add/Less: Work-in-Progress Adjustments						
15	Less: Credits for Recoveries, if any						
16	Primary Packing Cost						
17	Cost of Production/Operations (12 + 13 to 17)						
18	Increase/Decrease in Stock of Finished Goods						
19	Less: Self/Captive Consumption (incl. Samples, etc.)						
20	Other Adjustments (if any)						
21	Cost of Production/Operation of Goods/Services Sold (17 + 18 to 20)						
22	Administrative Overheads						
23	Secondary Packing Cost						
24	Selling & Distribution Overheads						
25	Interest & Financing Charges						
26	Cost of Sales (21 + 22 to 25)						
27	Net Sales Realization (Net of Taxes and Duties)						
28	Margin [Profit/(Loss) as per Cost Accounts] (27 - 26)						
	NOTES:						
1.	Separate cost statement shall be prepared for each product/activity group						
2.	The items of cost shown in the Proforma are indicative and the same should be reflected keeping in mind the materiality of the item of cost in the product/activity group.						
3.	The Proforma may be suitably modified to meet the requirement of the industry/product/activity group.						
4.	In case the company follows a pre-determined or standard costing system, the above cost statement should reflect figures at actuals after adjustment of variances, if any.						

6. OPERATING RATIO ANALYSIS (for each product group separately)

Sno.	Particulars	Units	Current Year	Previous Year-1	Previous Year-2
	<u>**Ratio of Operating Expenses to Cost of Sales**</u>				
1	Materials (incl. Process Materials) Cost	%			
2	Utilities Cost	%			
3	Direct Employees Cost	%			
4	Direct Expenses	%			
5	Consumable Stores & Spares	%			
6	Repairs & Maintenance Cost	%			
7	Depreciation / Amortization Cost	%			
8	Packing Cost	%			
9	Other Expenses	%			
10	Stock Adjustments	%			
11	Production Overheads	%			
12	Administrative Overheads	%			
13	Selling & Distribution Overheads	%			
14	Interest & Financing Charges	%			
15	Total	%			

7. PROFIT RECONCILIATION (for the company as a whole)				
Sno.	**Particulars**	**Current Year**	**1st Previous Year**	**2nd Previous Year**
1	Profit or Loss as per Cost Accounting Records			
	(a) For the audited product groups			
	(b) For the un-audited product groups			
2	Add: Incomes not considered in cost accounts:			
	(a) (specify)			
	(b)			
	(c)			
	(d)			
	(e)			
3	Less: Expenses not considered in cost accounts:			
	(a) (specify)			
	(b)			
	(c)			
	(d)			
	(e)			
4	Add: Overvaluation of closing stock in financial accounts			
5	Add: Undervaluation of opening stock in financial accounts			
6	Less: Undervaluation of closing stock in financial accounts			
7	Less:: Overvaluation of opening stock in financial accounts			
8	Adjustments for others, if any (specify)			
9	Profit or Loss as per Financial Accounts			

8. VALUE ADDITION AND DISTRIBUTION OF EARNINGS (for the company as a whole)

(Rupees in Lakh)

Sno.	Particulars	Current Year	Previous Year-1	Previous Year-2
	Value Addition:			
1	Gross Sales (excluding returns)			
2	Less: Excise duty, etc.			
3	Net Sales			
4	Add: Export Incentives			
5	Add/Less: Adjustment in Finished Stocks			
6	Less: Cost of bought out inputs			
	(a) Cost of Materials Consumed			
	(b) Process Materials / Chemicals			
	(c) Consumption of Stores & Spares			
	(d) Utilities (e.g. power & fuel)			
	(e) Others, if any			
	Total Cost of bought out inputs			
7	Value Added			
8	Add: Income from any other sources			
9	Earnings available for distribution			
	Distribution of Earnings to:			
1	Employees as salaries & wages, retirement benefits, etc.			
2	Shareholders as dividend			
3	Company as retained funds			
4	Government as taxes (specify)			
5	Others, if any (specify)			
	Total distribution of earnings			

9. FINANCIAL POSITION AND RATIO ANALYSIS (for the company as a whole)

Sno.	Particulars	Units	Current Year	Previous Year-1	Previous Year-2
A.	**Financial Position**				
1	Paid-up Capital	Rs/Lakh			
2	Reserves & Surplus	Rs/Lakh			
3	Loans (secured & unsecured)	Rs/Lakh			
4	(a) Gross Fixed Assets	Rs/Lakh			
	(b) Net Fixed Assets	Rs/Lakh			
5	(a) Total Current Assets	Rs/Lakh			
	(b) Less: Current Liabilities & Provisions	Rs/Lakh			
	(c) Net Current Assets	Rs/Lakh			
6	Capital Employed	Rs/Lakh			
7	Net Worth	Rs/Lakh			
B.	**Financial Performance**				
1	Cost of Production	Rs/Lakh			
2	Cost of Sales	Rs/Lakh			
3	Net Sales	Rs/Lakh			
4	Value Added	Rs/Lakh			
5	Profit before Tax (PBT)	Rs/Lakh			
C.	**Profitability Ratios**				
1	PBT to Capital Employed (B5/A6)	%			
2	PBT to Net Worth (B5/A7)	%			
3	PBT to Net Sales (B5/B3)	%			
4	PBT to Value Added (B5/B4)	%			
D.	**Other Financial Ratios**				
1	Debt-Equity Ratio	%			
2	Current Assets to Current Liabilities	%			
3	Valued Added to Net Sales	%			
E.	**Working Capital Ratios**				
1	Net Working Capital to Cost of Sales excl. depreciation	Months			
2	Raw Materials Stock to Consumption	Months			
3	Stores & Spares to Consumption	Months			
4	Work-in-Progress Stock to Cost of Production	Months			
5	Finished Goods Stock to Cost of Sales	Months			

Notes:

(1) **Capital Employed** means average of net fixed assets (excluding intangible assets, effect of revaluation of fixed assets, and capital work-in-progress) plus net current assets existing at the beginning and close of the financial year.

(2) **Net Worth** means share capital plus reserves and surplus (excluding revaluation reserves) less accumulated losses and intangible assets.

10. RELATED PARTY TRANSACTIONS (for the company as a whole)

Sno.	Name & Address of the Related Party	Name of the Product / Service Group	Nature of Transaction (Sale, Purchase, etc.)	Quantity	Transfer Price	Amount	Normal Price	Basis adopted to determine the Normal Price
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								
11								
12								
13								
14								
15								
16								
17								
18								
19								
20								

NOTES:

(1) Details should be furnished for each sale / purchase separately.

(2) Details of Related Party transactions without indicating the Normal Price and the basis thereof shall be considered as incomplete information.

11. RECONCILIATION OF INDIRECT TAXES (for the company as a whole)

Particulars	Assessable Value	Excise Duty	Service Tax	Cess & Others	VAT
Total Clearances					
Domestic					
Export					
Stock Transfers (Net)					
Others, if any					
Total					
Duties/Taxes Payable					
Duties/Taxes Paid					
Cenvat/VAT Credit Utilised - Inputs					
Cenvat/VAT Credit Utilised - Capital Goods					
Cenvat/VAT Credit Utilised - Input Services					
Cenvat/VAT Credit Utilised - Others					
Total					
Paid through PLA/Cash					
Total Duties/Taxes Paid					
Duties/Taxes Recovered					
Difference between Duties/Taxes Paid and Recovered					
Interest/Penalty/Fines Paid					

SIGNATURE	SIGNATURE	SIGNATURE
NAME	NAME	NAME
COST AUDITOR (S)	COMPANY SECRETARY/DIRECTOR	DIRECTOR
MEMBERSHIP NUMBER (S)	MEMBERSHIP/DIN NUMBER	DIN NUMBER
SEAL	STAMP	STAMP
DATE	DATE	DATE

Notes:

(1) Wherever, there is any significant variation in the current year's figure over the previous year's figure for any item shown under each para of the Annexure to the Cost Audit Report, reasons thereof shall be given by the Cost Auditor.

(2) Wherever, duration of the current year or the previous year is not 12 (twelve) months, same shall be clearly indicated in the Report.

FORM-III

FORM OF THE PERFORMANCE APPRAISAL REPORT

Name of Company: __________________________ Period of Report: ______________

(indicative list of areas to be covered in the report)

1. Capacity Utilization Analysis
2. Productivity/Efficiency Analysis
3. Utilities/Energy Efficiency Analysis
4. Key-Costs & Contribution Analysis
5. Product/Service Profitability Analysis
6. Market/Customer Profitability Analysis
7. Working Capital & Inventory Management Analysis
8. Manpower Analysis
9. Impact of IFRS on the Cost Structure, Cash-Flows and Profitability
10. Application of Management Accounting Tools

Date: ____________ Signature of the Cost Auditor(s)

Place: ____________ Membership Number(s)

Notes:

1. *Areas included in this form are indicative; these are to be included/excluded depending upon the size/scale and type of operations, nature of the industry, management requirements, etc.*
2. *Frequency of this report viz. half yearly/annual to be decided by the Company Management.*

F. No. 52/26/CAB-2010
Government of India
Ministry of Corporate Affairs
Cost Audit Branch
*****

B-1 Wing, 2nd Floor,
Paryavaran Bhawan,
CGO Complex, Lodhi Road,
New Delhi-110 003

Dated the 30th June, 2011

ORDER

Consequent upon notification of the Companies (Cost Accounting Records) Rules, 2011 published vide G.S.R. 429(E) dated 3rd June 2011 and in modification of the earlier Order of even number dated 3rd May 2011, the Central Government hereby makes the following Order.

In exercise of the powers conferred by sub-section (1) of section 233B of the Companies Act, 1956 (1 of 1956), the Central Government, being of the opinion that it is necessary to do so, hereby directs that all companies to which the Companies (Cost Accounting Records) Rules, 2011 apply, and which are engaged in the production, processing, manufacturing or mining of the following products/activities, including intermediate products and articles or allied products thereof, and wherein the aggregate value of the turnover made by the company from sale or supply of all products or activities during the immediately preceding financial year exceeds hundred crores of rupees; or wherein the company's equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India, shall get its cost accounting records, in respect of each of its financial year commencing on or after the 1st day of April, 2011, audited by a cost auditor who shall be, either a cost accountant or a firm of cost accountants, holding valid certificate of practice under the provisions of Cost and Works Accountants Act, 1959 (23 of 1959).

Sno.	Name of the Industry	Relevant Chapter Heading of the Central Excise Tariff Act, 1985
1.	Cement	Chapter 25, 38 and 68
2.	Tyres & Tubes	Chapter 40

Sno.	Name of the Industry	Relevant Chapter Heading of the Central Excise Tariff Act, 1985
3.	Steel	Chapter 72 and 73
4.	Paper	Chapter 47 and 48
5.	Insecticides*	Chapter 38
6.	Glass	Chapter 70
7.	Paints & Varnishes	Chapter 32
8.	Aluminum	Chapter 76

Note: Intermediate products and articles or allied products of above industries if included under any other Chapter of the Central Excise Tariff Act, 1985 not mentioned above shall also be covered under these orders.

**Includes all classes of Insecticides as defined under clause (e) of Section 3 of the Insecticides Act. 1968 (46 of 1968) and included in the schedule annexed to the said Act and as amended from time to time.*

2. Every company to which these orders apply shall follow the revised procedure for appointment of cost auditor as laid down vide Ministry of Corporate Affairs' General Circular No. 15/2011 [52/5/CAB-2011] dated 11th April 2011. For companies covered first time under these modified orders and wherein their financial year has already commenced between the 1st day of April, 2011 and the date of these orders, the period of ninety days for e-filing their applications with the Central Government in the prescribed form 23C for appointment of cost auditors shall be counted from the date of these orders.

3. The audit shall be conducted in such manner as will enable the cost auditor to prepare the report in accordance with the Companies (Cost Audit Report) Rules, 2011 published vide G.S.R. 430(E) dated 3rd June 2011. The report of the cost auditor shall be forwarded to the Central Government in the prescribed format within the time stipulated under the said Rules.

4. These orders do not apply to a company which is a body corporate governed by any special Act.

5. All companies covered by these orders and wherein cost audit orders have been issued so far in respect of products/activities covered by any or all of the Cost Accounting Records Rules as they existed before their supersession by the Companies (Cost Accounting Records) Rules, 2011

published vide G.S.R. 429(E) dated 3rd June 2011 shall continue to comply with the said orders until these orders become applicable on them.

6. If a company contravenes any provisions of these orders, the company and every officer thereof who is in default, including the persons referred to in sub-section (6) of section 209 of the Companies Act, 1956, shall be punishable as provided under sub-section (2) of section 642 read with sub-section (11) of section 233B of the Companies Act, 1956 (1 of 1956).

BBGoyal

(B.B.Goyal)
Adviser (Cost)

Copy to:

1. E-Governance Cell, Ministry of Corporate Affairs, Shastri Bhavan, New Delhi with a request to upload this order on the MCA's website.
2. The President, Institute of Cost and Works Accountants of India, 12, Sudder Street, Kolkata – 700016 with a request to bring this order to the general information of all Members in practice and of the corporate sector.

Frequently Asked Questions on Companies (Cost Accounting Records) Rules, 2011

1. **What is the legal authority of the Companies (Cost Accounting Records) Rules 2011?**

   Central Government, in exercise of the powers conferred by clause (b) of sub-section (1) of section 642 read with clause (d) of section 209 of the Companies Act, 1956 (1 of 1956), has notified Companies (Cost Accounting Records) Rules 2011.

2. **What is the effective date from which Companies (Cost Accounting Records) Rules 2011 come into force?**

   The Companies (Cost Accounting Records) Rules, 2011 have been published vide G.S.R. 429(E) dated 3rd June, 2011. As per sub-rule (2) of Rule 1, these rules have come into force on the date of publication in the Official Gazette.

3. **What is the status of the 44 Cost Accounting Records Rules issued till the date of issue of Companies (Cost Accounting Records) Rules 2011 and what is its applicability?**

   The Companies (Cost Accounting Records) Rules 2011 has superseded 36 cost accounting record rules [refer Annexure 1 of this FAQ].

   The said Rules are applicable to all companies engaged in production, processing, manufacturing and mining activities as defined under Rules 2(j), 2(k), 2(l) or 2(o) respectively and where:

   a) the aggregate value of net worth as on the last date of the immediately preceding financial year exceeds five crores of rupees; or
   b) the aggregate value of the turnover made by the company from sale or supply of all products or activities during the immediately preceding financial year exceeds twenty crores of rupees; or
   c) the company's equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India.

   Any company meeting the above criteria would be required to maintain cost accounting records and file a Compliance Report in the prescribed format from financial year commencing on and from 1st April 2011.

   These Rules are not applicable to a company which is a body corporate governed by a Special Act.

   Further, the Companies (Cost Accounting Records) Rules 2011 is not applicable to activities or products covered in any of the following rules:

   (a) *Cost Accounting Records (Bulk Drugs) Rules, 1974*
   (b) *Cost Accounting Records (Formulations) Rules, 1988*
   (c) *Cost Accounting Records (Fertilizers) Rules, 1993*
   (d) *Cost Accounting Records (Sugar) Rules, 1997*
   (e) *Cost Accounting Records (Industrial Alcohol) Rules, 1997*
   (f) *Cost Accounting Records (Electricity Industry) Rules, 2001*

(g) Cost Accounting Records (Petroleum Industry) Rules, 2002
(h) Cost Accounting Records (Telecommunications) Rules, 2002

In case a company is engaged in activities, in addition to the activities covered by the above 8 Rules, such activities shall be covered under the Companies (Cost Accounting Records) Rules 2011.

4. The Companies (Cost Accounting Records) Rules 2011 have not prescribed any specific formats for the cost statements. In what manner and format would the cost statements be kept under these Rules?

As per sub rule (2) of Rule 4, the companies are required to maintain cost records on regular basis in such manner so as to make it possible to calculate per unit cost of production or cost of operations, cost of sales and margin for each of its products and activities for every financial year on monthly/quarterly/half-yearly/annual basis. The cost statements are to be prepared for every unit and every product produced, processed, manufactured or mined.

As per sub rule (3), the cost records are to be maintained in accordance with the generally accepted cost accounting principles and cost accounting standards issued by the Institute; to the extent these are found to be relevant and applicable.

These Rules have not prescribed any specific formats for the cost statement. A guidance note on the subject is under preparation by ICWAI, inter alia, containing model formats for cost records, statements, schedules etc.

5. What does turnover mean under these Rules? Is gross turnover Inclusive of excise duty?

As per Rule 2(p), "Turnover" means gross turnover made by the company from the sale or supply of all products or services during the financial year. It includes any turnover from job work or loan license operations but does not include any non-operational income.

From a reading of the Rules, it appears that the word "Gross" denotes "total". Hence, the "Turnover" under these Rules would exclude duties and taxes.

***6.* Who can authenticate the Compliance Report as per the Companies (Cost Accounting Records) Rules 2011?**

As per Rule 5, the Compliance Report and annexure thereto is required to be certified by a "cost accountant" as defined under Rule 2(c)**.**

As per Rule 7, the annexure to the Compliance Report is to be duly approved by the Board of Directors.

A "cost accountant" within the definition of these Rules does not include:

a) A member holding a part-time certificate of practice; or

b) A member who is in full time employment whose membership fees are in arrears;

c) A member of ICWAI who has been admitted as a member through reciprocal arrangement of membership by virtue of being a member of Institute of Management Accountants USA.

7. Will companies engaged in the eight (8) products/activities, which have been excluded from the purview under Rule 3(a) to 3(h) of Companies (Cost Accounting Records) Rules 2011, be required to file Compliance Report?

Companies engaged in activities or products to which the cost accounting records rules listed under Rule 3(a) to 3(h) apply will not be required to file a Compliance Report until these Rules are amended.

However, if the concerned company is also engaged in other activities covered under the Companies (Cost Accounting Records) Rules 2011, in that case the company would be required to file a Compliance Report.

8. Is there any ceiling on the number of Compliance Reports which can be authenticated by a practicing cost accountant or a cost accountant in permanent employment of the company?

There is no ceiling on the number of Compliance Reports that can be authenticated by a cost accountant in whole-time practice. A cost accountant working as permanent employee can authenticate the Compliance Report of the company where he is employed provided his membership dues are not in arrears. He cannot authenticate Compliance Report of any other company even under the same group.

9. Can a cost accountant who is working as permanent employee of a company and responsible for maintenance of cost records therein authenticate Compliance Report of the same company?

Yes.

10. Can a cost accountant who has been appointed as cost auditor of the company authenticate the Compliance Report of that company?

Yes.

11. What constitutes the cost records under Rule 2(e)? Whether the format of "Abridged Cost statement" prescribed in the Companies (Cost Audit Report) Rules, 2011 can be considered as a sample cost statement?

Books of account and other records relating to utilization of materials, labour and other items of cost that provides data/information to compute the cost of production, cost of sales and margin of each of the products/activities of the company on monthly/quarterly/half-yearly/annual basis are considered part of the cost records. It includes statistical, quantitative and other records which enable the company to exercise, as far as possible, control over the various operations and costs with a view to achieve optimum economies in utilization of resources. Cost records are required to be maintained on continuous basis from the basic stage of inputs to the final output.

There cannot be any exhaustive list of cost records. This would depend on the materiality of cost components in the cost of the product/activity.

The abridged cost statement can be used as a sample cost statement. This may be modified according to the need of the company.

12. Whether production, processing, manufacturing or mining involving manual operation, without the use of power will be also covered under these Rules?

Yes. The definition of product in Rule 2(m) includes manual operation as well. Therefore, any production, processing, manufacturing or mining activity – whether by use of power or not – are included for the purposes of these Rules.

13. Whether product manufactured for 100% captive / self consumption shall be covered under the Companies (Cost Accounting Records) Rules 2011?

The test of inclusion under the Rules is whether it is a production, processing, manufacturing or mining activity resulting in a product [*for definition of "product" refer to Rule 2(m)*] intended for use, consumption, sale, transport, store, delivery or disposal and whether the company carrying out the activity falls within the criteria mentioned under Rule 3(1). If the company meets requirement of Rule 3(1), the activity – whether or not for captive/self consumption – will come under the ambit of these Rules.

14. Will the companies subject to cost audit be also required to file Compliance Report under these Rules?

Every company covered under Companies (Cost Accounting Records) Rules 2011 is required to file a Compliance Report irrespective of whether all or any of its products are covered under cost audit. Thus the Compliance Report shall include product groups covered under cost audit as well as product groups not covered under cost audit.

15. Whether the Compliance Report is to be prepared for the 'company as a whole'.

Yes, the Compliance Report is to be prepared for the 'company as a whole' under different product groups.

16. A company with multiple product range is having cost audit for some of its products. What would be the applicability of cost audit on other products now covered under Companies (Cost Accounting Records) Rules 2011?

The status of the company so far as applicability of cost audit is concerned will remain unchanged until cost audit orders are issued for its other products/activities now covered under Companies (Cost Accounting Records) Rules 2011. The company would now be required to maintain cost records for all the products/activities irrespective of whether these are under cost audit or not and also file a Compliance Report.

17. Is it necessary to first prepare "unit wise" and "product/activity-wise" cost statements and then merge into product group-wise cost statement for the company as a whole?

It is mandatory to prepare unit-wise and product/activity-wise cost statements as per the Companies (Cost Accounting Records) Rules 2011. For Compliance Certificate purposes, no cost statement is required to be submitted.

However, if any or all the products/activities of the company is also covered under Cost Audit, then for the purposes of submission of Cost Audit Report under the Companies (Cost Audit Report) Rules 2011, a consolidated cost statement for the product group(s) under cost audit is required to be prepared.

Frequently Asked Questions on Companies (Cost Audit Report) Rules, 2011

1. **Under which authority the Companies (Cost Audit Report) Rules are issued?**

   Central Government, in exercise of the powers conferred by clause (b) of sub-section (1) of section 642 read with sub-section (4) of section 233B, and sub-section (1) of section 227 of the Companies Act, 1956 (1 of 1956), and in supersession of the Cost Audit Report Rules, 2001 has issued these rules.

2. **From which date is Companies (Cost Audit Report) Rules, 2011 effective from?**

   The Companies (Cost Audit Report) Rules, 2011 have been issued by the Ministry of Corporate Affairs vide Notification no. 430(E) dated 3rd June 2011. Cost Audit Reports submitted on or after 1st day of April, 2012, irrespective of the financial year for which the cost audit report is submitted, shall be governed by these Rules. Cost Audit Reports submitted till 31.3.2012 will be governed by the Cost Audit Report Rules, 2001.

3. **Who is a "Cost Auditor" within the scope of Cost Audit Report Rules, 2011?**

   "Cost Auditor" means an auditor appointed to conduct an audit of cost records, under sub-section (2) of section 233B of the Act and shall be a cost accountant within the meaning of the Cost and Works Accountants Act,1959. "Cost Accountant" for the purpose of these rules means a cost accountant as defined in clause (b) of sub-section (1) of section 2 of the Cost and Works Accountants Act, 1959 (23 of 1959) and who holds a valid certificate of practice under subsection (1) of section 6 and who is deemed to be in practice under subsection (2) of section 2 of that Act and includes a firm of cost accountants.

4. **Can a Cost Accountant in employment be a Cost Auditor?**

   No person in employment can be appointed as a cost auditor.

5. **What is the applicability of the Companies (Cost Audit Report) Rules, 2011 to different types of Companies?**

   These rules shall apply to every company in respect of which an audit of the cost records has been ordered by the Central Government under sub-section (1) of section 233B of the Act.

6. **After superseding of 36 cost accounting records rules, what will happen to company-wise orders already issued under the superseded Rules?**

   All companies wherein cost audit orders had been issued so far in respect of products/activities covered by any or all of the Cost Accounting Records Rules as they existed before their supersession by the Companies (Cost Accounting Records) Rules, 2011 published vide G.S.R. 429(E) dated 3rd June 2011 shall continue to comply with the said cost audit orders until these are superseded by fresh orders.

The earlier orders issued in respect of companies engaged in certain activities falling under the superseded Cost Accounting Records Rules have now been issued fresh orders including other companies engaged in these activities where cost audit orders were not issued earlier. All such companies will now comply with cost audit orders issued vide No. 52/26/CAB-2010 dated 3rd May 2011 and 30th June 2011.

Hence, the companies wherein fresh orders have not yet been issued so far would continue to comply with the earlier orders still in vogue.

7. Is it mandatory to submit Performance Appraisal Report to company management or can it be a NIL report? Can Form III relating to Performance Appraisal be modified or it has to be strictly followed as prescribed?

Vide sub-rule 5 of Rule 4 of the Companies (Cost Audit Report) Rules, 2011, every cost auditor, who submits a cost audit report shall also furnish Performance Appraisal Report, duly authenticated by the cost auditor, to the Board/Audit Committee of the company in the prescribed format (Form III). There cannot be NIL report since list of the areas to be covered in the report as per Form III are relating to company's operations being audited by the cost auditor. However, the frequency of this report viz. half yearly/annual (or even quarterly) is to be decided by the Company Management.

The contents of the Performance Appraisal Report as given in Form III are "indicative". Depending on the nature of business and activity of the company, the management and the cost auditor in consultation with each other can add or delete the indicative areas to be covered under the Performance Appraisal Report. The intention of the law appears to assign a role to the cost auditor to provide an independent view of the performance of the company to enable the management to take corrective steps wherever necessary. The Institute is also going to bring out a Guidance Note on the subject.

8. What is the time limit within which the central government can seek clarification from the cost auditor?

There is no time limit within which the Central Government can seek clarification from the cost auditor. The Rules have now specified that the Company would be required to maintain the cost accounting records for the preceding eight financial years in good order. The cost auditor is required to provide reply to any clarification sought for by the Central Government from the cost auditor in writing within 30 days of the receipt of the communication addressed to him calling for such clarifications.

9. **The revised structure of the Compliance Report as well as the Cost Audit Report has stipulated reporting at the "Product Group" level. What would be the basis of determining a "Product Group" for a multi-product company?**

   "Product" and "Product Group" have been defined under both the Companies (Cost Accounting Records) Rules 2011 and Companies (Cost Audit Report) Rules 2011. To assist the members and the industry, the Institute is going to issue a detailed Guidance Note on the subject.

10. **The Information under Para 3, 4, 5 & 6 is required to be furnished for the Company as a whole. In case of companies manufacturing the same product or rendering same service at different units, should the "product group wise cost sheets" of all units be merged into one and shown as a "cost sheet of single product group" or to be shown separately for each Unit?**

    The unit-wise product-wise cost statements duly certified by the cost auditor and the management are to be kept in the Company. The "product group-wise" cost statement of all the products and all units combined together will form part of the cost audit report.

11. **What is the difference between Cost Accounting policy and Cost Accounting system?**

    Cost Accounting Policy of a company should state the policy adopted by the company for treatment of individual cost components in cost determination.

    The Cost Accounting system of a company, on the other hand, would provide a flow of the cost accounting data/information across the activity flow culminating in arriving at the cost of final product/activity.

12. **Whether Value Addition is to be computed based on Cost record data or audited financial data?**

    Value Addition statement is to be computed based on audited financial data.

13. **How export benefits are to be treated and shown in the Abridged Cost Statement?**

    Export Benefit is to be considered as a part of Sales.

14. **Who are the persons responsible for authentication of the Cost Audit Report and Annexures thereto?**

    The Annexure prescribed with the cost audit report shall be approved by the Board of Directors before submitting the same to the Central Government by the cost auditor. The Annexure, duly audited by the cost auditor, shall also be signed by the Company Secretary and at least one Director on behalf of the company. In the absence of Company Secretary in the company, the same shall be signed by at least two Directors. The Cost Audit Report is to be signed by the Cost Auditor.

15. For how many years, does a company under these rules require to preserve the Cost details?

The cost details, statements, schedules, etc. of every company, as specified in these Report Rules, relating to a period of not less than eight financial years immediately preceding a financial year, or where the company had been in existence for a period less than eight years, in respect of all the preceding years shall be kept in good order.

16. What is the Time limit for submission of Report?

The cost auditor shall forward his report referred to in sub rule (1) of the rule 4 to the Central Government and to the concerned company within one hundred and eighty days from the close of the company's financial year to which the report relates.

17. What are the duties of the Company under the Cost Audit Report Rules, 2011?

Every company as specified in sub-rule (1) shall, within ninety days of the commencement of every financial year, file an application with the Central Government seeking prior approval for appointment of the cost auditor, through electronic mode, in the prescribed form, along with the prescribed fee as per the Companies (Fees on Applications) Rules, 1999, and requisite enclosures. However, where a company is covered under cost audit for the first time vide cost audit order dated 30th June 2011, the period of 90 days shall be counted from the date of this order.

Every company shall follow the procedure prescribed vide Ministry of Corporate Affairs' General Circular No. 15/2011 [File No. 52/5/CAB-2011] dated April 11, 2011.

The company and every officer thereof, including the persons referred to in sub-section (6) of section 209 of the Companies Act, 1956 shall make available to the cost auditor, such cost accounting records, cost statements, other books and documents, and Annexure to the Report, duly completed, as would be required for conducting the cost audit, and shall render necessary assistance to the cost auditor so as to enable him to complete the cost audit and submit his report within the time limit specified in rule 5, i.e., within 180 days from the close of the Company's financial year to which the report relates.

The Annexure prescribed with the cost audit report shall be approved by the Board of Directors before submitting the same to the Central Government by the cost auditor.

Certain Illustrative Examples:

1. **A steel tube manufacturing company is having turnover of Rs. 80 crores from all its activities. The company has filed its prospectus with SEBI for a public issue of equity shares and it hopes to complete the public offering by September 2011 end. Whether cost audit will become applicable to the company even when its turnover is less than Rs. 100 crore? If yes, then from which financial year will cost audit become applicable?**

   In the instant case, the company's equity is in the process of listing on a stock exchange in India. Hence, it meets the requirement of Rule 3(1) of the Companies (Cost Accounting Records) Rules 2011. Consequently, the said Rules are applicable to the company in place of erstwhile Cost Accounting Records (Steel Pipes & Tubes) Rules 1984.

   The cost audit order No. 52/26/CAB-2010 dated 3rd May 2011 has brought under the ambit of cost audit every company engaged in 6 specific industries, which includes Steel Tubes & Pipes. Though the turnover criteria of Rs. 100 crores is not met by the company, the company's equity is in the process of listing on a stock exchange in India. Hence, cost audit will be applicable to the company under the order dated 3rd May 2011 on and from the financial year 2011-12.

2. **A newly constructed cement factory will be operational from end June 2011. The projected turnover for the next 2 years is Rs. 500 crores per annum. Whether in coming years, the company will have to get cost audit done. If yes, then under which cost audit order number.**

   The company will come into commercial production in June 2011. Assuming that the turnover for the first year of operation is Rs. 100 crores or more, cost audit will be applicable to the company from the financial year 2011-12. In case the first year turnover is less that Rs. 100 crores but the company is a listed company or is in the process of getting listed, then also cost audit will be applicable from 2011-12. If both these criteria are not met during the first year of operation, the cost audit will be applicable from 2012-13.

   The cost audit will have to be conducted under cost audit order No. 52/26/CAB-2010 dated 3rd May 2011 modified vide Order dated 30th June 2011.

3. **A company has 2 wind mills. Turnover from the two wind mills is Rs. 2 crores. The company's total turnover is more than Rs. 100 crores. None of the products of the company is covered under cost audit at present. Whether, the company will need to get cost audit done of electricity generation activities under Cost Audit Order 52/26/CAB-2010 dated 02.05.2011.**

   Applicability of cost audit is based on turnover of the total company. Hence, any activity of a company, irrespective of the turnover of the particular activity, would be covered under cost audit if that particular activity is one of the activities listed in the cost audit order Nos. 52/26/CAB-2010 dated 2nd May 2011 or 52/26/CAB-2010 dated 3rd May 2011 (modified vide Order dated 30th June 2011).

   In the instant case, the company will be covered under cost audit for electricity generation, transmission and distribution.

4. **A company has one 1500 KVA captive Power Plant. Turnover of the company is more than Rs. 100 crores.**

   a) **Whether *Cost Accounting Records (Electricity Industry) Rules, 2001* shall be applicable to the company.**

   b) **Whether cost audit is to be conducted for electricity activities under Cost Audit Order 52/26/CAB-2010 dated 2nd May 2011:**

      i. **When the company is using the entire generated power for captive consumption;**

      ii. **When the company is consuming part of the generated power for captive consumption and part is sold outside.**

   In the instant case, the Cost Accounting Records (Electricity Industry) Rules, 2001 is applicable to the company for its captive power plant and the cost of generation determined is to be considered for captive consumption of power.

   When the company is utilizing the entire generated power for captive consumption and until such time no part of its generated power is sold outside, then cost audit will not be applicable for its electricity activity.

   When the company is consuming part of the generated power for captive consumption and part is sold outside, then cost audit is to be conducted as per Cost Audit Order 52/26/CAB-2010 dated 2nd May 2011, provided that the company meets the criteria of turnover or net worth or listing of equity or debt.

The Institute of Cost and Works Accountants of India
12, Sudder Street, Kolkata – 700 016

List of Cost Accounting Records Rules which have been superseded by the Ministry of Corporate Affairs vide Notification dated June 3, 2011

1. **Cost Accounting Records (Cycles) Rules, 1967** published vide G.S.R. 311 dated 2nd March, 1967.

2. **Cost Accounting Records (Tyres & Tubes) Rules, 1967** published vide G.S.R. 1260 dated 10th August, 1967.

3. **Cost Accounting Records (Air-Conditioners) Rules, 1967** published vide G.S.R. 1447 dated 16th September, 1967 and subsequently amended vide G.S.R. 668(E) dated 28th September, 1999.

4. **Cost Accounting Records (Refrigerators) Rules, 1967** published vide G.S.R. 1448 dated 18th September, 1967.

5. **Cost Accounting Records (Batteries other than Dry Cell Batteries) Rules, 1967** published vide G.S.R. 1467 dated 20th September, 1967 and subsequently amended vide G.S.R. 667(E) dated 28th July, 1999.

6. **Cost Accounting Records (Electric Lamps) Rules, 1967** published vide G.S.R. 1503 dated 27th September, 1967 and subsequently amended vide G.S.R. 670(E) dated 28th September, 1999.

7. **Cost Accounting Records (Electric Fans) Rules, 1969** published vide G.S.R. 2298 dated 15th September, 1969.

8. **Cost Accounting Records (Electric Motors) Rules, 1969** published vide G.S.R. 2574 dated 24th October, 1969.

9. **Cost Accounting Records (Aluminium) Rules, 1972** published vide G.S.R. 334 dated 25th February, 1972 and subsequently amended vide G.S.R. 703(E) dated 28th September, 2001.

10. **Cost Accounting Records (Vanaspati) Rules, 1972** published vide G.S.R. 1529 dated 27th November, 1972 and subsequently amended vide G.S.R. 287 dated 29h May, 1992.

11. **Cost Accounting Records (Jute Goods) Rules, 1975** published vide G.S.R. 590(E) dated 29th December, 1975.

12. **Cost Accounting Records (Paper) Rules, 1975** published vide G.S.R. 601(E) dated 31st December, 1975.

List of Cost Accounting Records Rules which have been superseded by the Ministry of Corporate Affairs vide Notification dated June 3, 2011

13. **Cost Accounting Records (Rayon) Rules, 1976** published vide G.S.R. 606 dated 20th April, 1976 and subsequently amended vide G.S.R. 694 dated 31st August, 2000.

14. **Cost Accounting Records (Dyes) Rules, 1976** published vide G.S.R. 605 dated 22nd April, 1976.

15. **Cost Accounting Records (Polyester) Rules, 1977** published vide G.S.R. 126(E) dated 24th March, 1977 and subsequently amended vide G.S.R. 692(E) dated 31st August, 2000.

16. **Cost Accounting Records (Nylon) Rules, 1977** published vide G.S.R. 157(E) dated 1st April, 1977 and subsequently amended vide G.S.R. 695(E) dated 31st August, 2000.

17. **Cost Accounting Records (Textiles) Rules, 1977** published vide G.S.R. 417(E) dated 28th June, 1977 and subsequently amended vide G.S.R. 29(E) dated 19th January, 1994.

18. **Cost Accounting Records (Dry Cell Batteries) Rules, 1978** published vide G.S.R. 45(E) dated 31st January, 1979.

19. **Cost Accounting Records (Steel Tubes and Pipes) Rules, 1984** published vide G.S.R. 506(E) dated 10th May, 1984.

20. **Cost Accounting Records (Engineering Industries) Rules, 1984** published vide G.S.R. 688 dated 25th June, 1984 and subsequently amended vide G.S.R. 279(E) dated 24th April, 2001.

21. **Cost Accounting Records (Electric Cables and Conductors) Rules, 1984** published vide G.S.R. 767 dated 7th July, 1984.

22. **Cost Accounting Records (Bearings) Rules, 1985** published vide G.S.R. 664 dated 1st July, 1985.

23. **Cost Accounting Records (Steel Plant) Rules, 1990** published vide G.S.R. 574 dated 31st July, 1990 and subsequently amended vide G.S.R. 281(E) dated 24th April, 2001.

24. **Cost Accounting Records (Insecticides) Rules, 1993** published vide G.S.R. 258(E) dated 3rd March, 1993.

25. **Cost Accounting Records (Soaps & Detergents) Rules, 1993** published vide G.S.R. 677(E) dated 29th October, 1993.

26. **Cost Accounting Records (Cosmetics & Toiletries) Rules, 1993** published vide G.S.R. 678(E) dated 29th October, 1993.

List of Cost Accounting Records Rules which have been superseded by the Ministry of Corporate Affairs vide Notification dated June 3, 2011

27. **Cost Accounting Records (Footwear) Rules, 1996** published vide G.S.R. 186(E) dated 12th April, 1996.

28. **Cost Accounting Records (Shaving Systems) Rules, 1996** published vide G.S.R. 202(E) dated 6th May, 1996.

29. **Cost Accounting Records (Industrial Gases) Rules, 1996** published vide G.S.R. 271(E) dated 9th July, 1996.

30. **Cost Accounting Records (Motor Vehicles) Rules, 1997** published vide G.S.R. 537(E) dated 11th September, 1997 and subsequently amended vide G.S.R. 328(E) dated 3rd June, 1998, G.S.R. 329(E) dated 3rd June, 1998 and G.S.R. 280(E) dated 24th April, 2001.

31. **Cost Accounting Records (Cement) Rules, 1997** published vide G.S.R. 536(E) dated 11th September, 1997.

32. **Cost Accounting Records (Milk Food) Rules, 2001** published vide G.S.R. 704(E) dated 28th September, 2001.

33. **Cost Accounting Records (Mining and Metallurgy) Rules, 2001** published vide G.S.R. 276(E) dated 24th April, 2001.

34. **Cost Accounting Records (Electronic Products) Rules, 2001** published vide G.S.R. 277(E) dated 24th April, 2001.

35. **Cost Accounting Records (Plantation Products) Rules, 2002** published vide G.S.R. 685(E) dated 8th October, 2002.

36. **Cost Accounting Records (Chemicals) Rules, 2004** published vide G.S.R. 562(E) dated 2nd September, 2004.

--Exposure Draft--

Generally Accepted Cost Accounting Principles (GACAP) Document

Issued by

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

(A Statutory Body under an Act of Parliament)

12, Sudder Street, Kolkata - 700 016

Delhi Office

ICWAI Bhawan,

3, Institutional Area, Lodi Road, New Delhi-110003

List of Contents

Chapter 1 Introduction

The compilation of Generally Accepted Cost Accounting Principles (GACAP) is unique. There have been compilations of financial accounting principles such as Paul Grady's work. ("Inventory of generally accepted accounting principles", American Institute of Certified Public Accountants, New York, 1961). While cost data is being used by various stakeholders, the focus has been more on management use. The absence of institutionalization of external cost reporting might explain this lacuna in theory. The Cost Accounting Standards issued by the Cost Accounting Standards Board in the United States is the nearest to such compilation but this is in the context of Defence Contract Costing.

The formalization of Cost Accounting Principles in use in India started acquiring a more cohesive form in the regime of administered prices ushered in the 1950 through the work of Tariff commission mandated to fix tariffs and prices in a variety of industries. The movement acquired further fillip through the work of other statutory price-fixing authorities including the Bureau of Industrial Costs and Prices, Ministry of Finance, (Cost Accounts Branch). Since the price enquiries by these bodies covered a wide range of industries, industry specific practices started unifying into a common body of cost accounting principles.

The introduction of the industry-wise Cost Accounting Record Rules further strengthened the evolution of a uniform body of cost accounting principles. Even though intended to prescribe the Cost Accounting records to be maintained by various industries, the Rules carried nuggets of Cost Accounting principles in the body of the Rules and in footnotes to format of cost statements prescribed. When some of these got repeated in the Rules prescribed for different industries, it helped towards the evolution of a generally accepted set of cost accounting principles. Thus the Rules contained directions on valuation of purchased materials (all direct costs up to the works), the treatment of major repairs (to be prorated over the period benefited by such repairs), the costing of transfers of raw materials from own farms (sugar cane at government controlled price) and the like. This is not to deny that the Rules framed from time to time did have contradictions for example the valuation of sugarcane from own farm to be valued at market price and valuation of wood from own forest to be valued at cost) but the Cost Accounting Record Rules did play a major part in unifying cost accounting principles as applied to various industries.

Similarly the regulatory agencies in charge of individual industries, particularly the Fertilizer Industry Co-ordination Committee, the Drug Price Control Authority, the Central Electricity

Regulatory Commission, Telecom Regulatory Authority of India- all played a role in evolving a more consistent set of cost accounting principles.

The Cost Audit Report Rules as amended from time to time did not lay down any cost accounting principles as such but by requiring disclosure of principles and methods used, it focused attention on them. The amendment of the Rules in 2001 prescribing a single proforma for cost reporting for all industries was a landmark event. It ushered in "General Purpose Cost Statement", which is unique in the global practice of cost accounting.

The requirement for determination of cost of production of manufactured goods used for captive consumption further focussed attention on the subject of GACAP. According to the Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000, the assessable value of goods used for captive consumption is 110% of cost of production of such goods, or as may be prescribed by the Government from time to time. The cost accounting principles for determination of cost of production were also well established. Their codification and standardization in a single document viz. Cost Accounting Standard 4 (CAS 4) issued on January 3, 2003 became a landmark event. The standard contains a format for reporting the cost of production of products manufactured. The Certificate at the end of the format carried a reference to the basis being "Generally Accepted Cost Accounting Principles and Practices". Thus was born the phrase forming the title of this document.

The Expert Group constituted by the Ministry of Corporate Affairs under the Chairmanship of Mr. B.B. Goyal acknowledged the existence of an uncodified set of generally accepted cost accounting principles in use in Indian industries and by the practicing cost accountants for attestation of Cost Statements. The Expert Group suggested that the principles be codified to provide a formal basis for the practice of Cost Accounting. The Expert Group also recommended review of alternate treatment of items in cost accounting thus eliminating needless diversities in practice leading to the development of cost accounting standards.

The Ministry of Corporate Affairs decided to implement the recommendations of the Expert Group and notified the Companies (Cost Accounting Records) Rules, 2011 on June 3, 2011. These Rules introduced a common set of record rules for industries other than regulated industries specified in the Rules, in place of industry specific rules in vogue earlier. The Rules require every company to which the rules apply, including all units and branches thereof to keep cost records in respect of each of its products and activities on regular basis. The cost records are to be maintained in accordance with the generally accepted cost accounting principles and cost accounting standards issued by the Institute of Cost and Works Accountants of India (ICWAI) to the extent these are found to be relevant and applicable. The variations, if any, are to be clearly indicated and explained.

The present effort of codifying the GACAP and presenting them in a single volume is the culmination of all the above developments in the practice of cost accounting in India.

Whereas Cost Accounting Standard 4 (CAS 4) issued in 2003 focused attention on GACAP, The Companies (Cost Accounting Records) Rules, 2011 which require maintenance of cost records according to Cost Accounting Standards and GACAP gave the mandate for a compilation of GACAP. Moreover, the supersession of the erstwhile industry-wise detailed Rules providing guidance on cost accounting principles and practices to be followed by the companies further necessitated the issuance of this document.

Chapter 2 *Objectives*

The objectives of this document are;

1. to codify the GACAP as applied in the Indian industry;
2. to narrow down diversities in cost accounting practices facilitating the process of development of cost accounting standards;
3. to provide a reference source to industry and practitioners in preparation and attestation of Cost Statements, where specific cost accounting standards are yet to be issued;
4. to provide a reference source to all the stakeholders in the understanding and interpreting the cost statement;
5. to provide a base for monitoring the evolution of new concepts and practices in cost accounting and to codify them as and when they become generally accepted;

Chapter 3 Scope

The scope is to codify the cost accounting principles presently being followed by business entities and others in India in preparing and presenting cost information – more particularly the General Purpose Cost Statements covered by Cost Audit. It also covers the widely used practices which implement these principles.

It draws on the Cost Accounting Record Rules which inter alia also lay down some principles, the Guidance Notes issued by the ICWAI, the Cost Accounting Standards 1-5 issued by ICWAI during 2001-2005 which have been applied in practice for some years now, Cost Accounting Standards 6-12 which have been on the Standards book for a period ranging upto three years and which have been mandated for application for more than a year now and the observed practices of Indian Corporate in preparing Cost Statements for audit purposes and by business entities and others.

Chapter 4 Nature of Content and Format

1. This document titled Generally Accepted Cost Accounting Principles (GACAP) contains a summary of the Cost accounting principles currently followed by business entities in India in preparing and presenting cost information in the context of general purpose cost statements for statutory reporting and covered by Cost Audit.
2. It explicitly incorporates the principles already contained in the Cost Accounting Standards 1-13 issued by the Cost Accounting Standards Board (CASB) in India without necessarily repeating them.
3. In areas not covered by the standards, it reflects the cost accounting principles found in the Cost Accounting Record Rules prescribed for the 44 industries in the past.
4. Where somewhat conflicting principles have been laid down by the CARR in different industries, it will attempt to harmonize the principles so as to evolve a generally acceptable framework. Where use of alternate principles are sanctioned by the Rules or where alternate principles are applied in practice in the absence of explicit guidance in Rules, the alternates will be mentioned with an indication of the preferred practice.
5. Because the Rules were framed at different points of time spread over many years, it is likely that the principles contained in the Rules and the practice based on them do not reflect current concepts. In such cases, the document reflects the current concepts.
6. It also reflects the Cost Accounting Principles contained in the Guidance Notes and other publications issued by ICWAI from time to time.
7. Cost Accounting principles which are gathering wide spread acceptance in Indian Companies for management reporting even though not adopted for statutory cost reporting (for example, Activity Based Costing) are mentioned with suitable caveats regarding their lack of applicability for general purpose cost statements for statutory reporting, where applicable.
8. The document stipulates the main principles in **bold letters** followed by explanation in normal type.

Chapter 5 Conceptual Frame Work

There is a need for a conceptual frame work that underlies the GACAP detailed in the succeeding sections. The conceptual frame work, as the name suggests, is a frame work and not a superset of cost accounting principles. It does not attempt to lay down a principle for any particular costing issue or to amplify the GACAP. The frame work helps to understand the GACAP that follow, in the appropriate perspective and guides in modifying them or developing new principles;

- **Focus on drivers of value**

Costing is necessary for an informed understanding of the organizational drivers of cost, revenue, profits and value. Costing has to fulfil this role both in a historical and in a forward looking context.

- **Cost for a purpose**

Over a long time it has been recognized that there is a cost concept relevant for a purpose. Thus external reporting requires historical and full absorption costing while performance evaluation requires attention directing and diagnostic information and planning and decision making requires analytical and predictive information. It is therefore not possible for the same set of cost data to fit all purposes, thereby resulting in a wide range of cost concepts from which preparers and users of cost information choose a concept relevant to the purpose.

- **Reality driven**

Cost models must reflect the entity's business model, its operational processes, its strategy, its organizational structure and its competitive environment. Organizational processes and activities drive the costs and these are in turn influenced by other factors mentioned above.

- **Materiality and cost effectiveness**

The selection of the methods of implementing the costing principles should have regard to the issues of materiality and cost effectiveness. Materiality of cost information is to be judged from the perspective of the user of that information. The degree of detail and accuracy required are governed by the perspective of materiality. From the preparers' viewpoint there is the need to balance the cost of maintaining a cost accounting system with corresponding benefits. This is the reason why in a number of places, while dealing with methods of implementing cost accounting principles, the expression "economically feasible way" is used in this document.

- **Comparability and consistency**

Cost information should be prepared and presented in a way which provides for comparability over time and consistency. The methods used for preparing and presenting cost information should be changed only where for valid reasons such as those required by law, compliance with new cost accounting standards or on the ground that it would result in a more appropriate presentation of cost information.

- **Transparency and auditability**

Since cost information is used generally by various stakeholders like management, regulators and Government with a business outlook, there is a need for transparency regarding the definitions used and sources of data. It should be possible for those who wish to review such cost information to follow an audit trail. Auditability of cost information is a prerequisite to the effective use of such information.

Chapter 6 *Definitions*

See Glossary in the Appendix I at page 29.

Chapter 7 Principles applicable to Elements of Cost

The following sections deal with GACAP applicable to individual elements of cost.

Before proceeding with element-wise principles, it is useful to summarise the principles applicable to all elements of cost.

1. **When an element of cost is accounted at standard cost, variances due to normal reasons are treated as a part of the element-wise cost. Variances due to abnormal reasons will not form part of the cost.**

2. **Any Subsidy / Grant / Incentive and any such payment received / receivable with respect to the input cost is reduced from cost for ascertainment of the cost of the cost object to which such amount pertains.**

3. **Any abnormal cost where it is material and quantifiable will not form part of the cost.**

4. **Penalties, damages paid to statutory authorities or other third parties will not form part of the cost.**

5. **Costs reported under various elements of cost will not include imputed costs.**

6. **Finance costs incurred in connection with acquisition of resources such as materials, utilities and the like will not form part of the cost of such resources.**

7. **Any credits or recoveries from employees or suppliers or other parties towards costs incurred by the entity for a resource will be netted against such costs.**

8. **Except otherwise stated, the measurement of costs for cost accounting purposes will follow the same principles as set out in Generally Accepted Accounting Principles, applicable to the concerned entity.**

Material Cost

1. **Material Cost usually includes all costs required to bring the materials to the present condition and location.**

   In case of manufacturing units, the location means the factory gate / works. In case of service organisation, the location means the place from which the services are rendered or activities are carried out.

2. **Material receipt is valued at purchase price including duties and taxes, freight inwards, insurance, and other expenditure directly attributable to procurement (net of trade discounts, rebates, taxes and duties refundable or to be credited by the taxing authorities) that can be quantified with reasonable accuracy at the time of acquisition** (CAS 6-5.1.1)**.**

   The test that the expenditure must be capable of being quantified with reasonable accuracy at the time of acquisition is significant. For large volume small value purchases, it is usual to take freight or other costs at a predetermined percentage of purchase prices and recognise any difference as expense for the period when actual costs are booked as expenses of the period. For small value items of purchase, it is usual even to treat all freight on such purchases as overheads.

3. **Procurement costs are not generally included in material cost. However, those costs which can be directly identified with a material are included in the material cost.**

   Purchase Department overheads are not generally included in material cost. But the procurement expenses in the form of Expenses at Collection Centres in the paper industry such as Salaries & Wages, Stores, Repairs & Maintenance, Other expenses, Share of Forest Development expenses, if any, are included as part of the cost of wood. Similarly the overheads of cane collection centres are included in the cost of sugar cane procured by a Sugar Mill.

4. **Development expenses incurred in respect of materials procured is included in the cost of material to the extent that the material procured is the result of such developments.**

   For example, the Forest Development Expenses incurred by a paper mill is included in the cost of wood on an equitable basis. It is usual to relate the development expenses to the area under development and charge a share to the quantity of wood received during the period as a proportion of expected yield. It is less preferable to charge the Forest Development Expenses as period cost and charge the whole of it to the quantity of wood procured during the period.

5. **Where a material is acquired in exchange for other material or services supplied, the cost of material acquired is taken as the cost of material supplied or services provided plus other applicable costs such as freight.**

In the Paper industry where bagasse from the Sugar mills is obtained by the paper mill by supplying coal to the sugar mills, in the cost statement, the cost of coal supplied is included in the cost of bagasse procured.

6. **Normal loss or spoilage of material prior to reaching the factory or at places where the services are provided is absorbed in the cost of balance of materials net of amounts recoverable from suppliers, insurers, carriers or recoveries from disposal** (CAS 6-5.1.5).
7. **Losses due to shrinkage or evaporation and gain due to elongation or absorption of moisture etc., before the material is received is absorbed in material cost to the extent they are normal, with corresponding adjustment in the quantity** (CAS 6-5.1.6).
8. **Where the material procured represents an agricultural produce from own sources, the same is valued at market price or cost where it can be determined with reasonable accuracy.**

   The cane supplied from own farm to a Sugar Mill is charged at state advisory price / control rate and profit / loss on farm taken to profit & loss account directly. This is permitted by the Cost Accounting Record Rules for Sugar Industry. Such a treatment is advised where the correct determination of cost of the production of items procured from own farm, is fraught with difficulty. Costing of agricultural produce in many cases has not reached a level of maturity that the cost of an item produced by an agricultural process can be used in a General Purpose Cost Statement subject to attest function. The use of a fair market value is indicated in such cases.

   However in the Paper industry, where bamboo wood is grown in forests owned or taken on lease by the company and collection is made by departmental operations or by contract, detailed records are generally maintained in a suitable form so as to enable computation of the cost of such bamboo or wood. In such cases, cost is taken as the basis of valuation of material.
9. **The forex component of imported material cost is converted at the rate on the date of the transaction. Any subsequent change in the exchange rate till payment or otherwise will not form part of the material cost** (CAS 6-5.1.7).
10. **Self Manufactured Materials (and Self manufactured components and sub assemblies) are valued at cost including Direct Material cost, Direct Employee cost, Factory overheads and share of administrative overheads relating to production. Share of other administrative overheads, finance cost and marketing overheads are excluded** (CAS 6-5.1.3 and 6.5.3).
11. **Material cost of normal scrap/defectives, which are rejects, is included in the material cost of goods manufactured. This cost not exceeding the normal is adjusted in the material cost of goods production. Material cost of abnormal scarp/defectives should not be included in**

the material cost, but treated as loss after giving credit to the realizable value of such scrap/defectives (CAS 6-5.4)

12. **Issues of materials are valued using appropriate assumptions on cost flow** (CAS 6-5.2.1). Examples are FIFO, LIFO, and Weighted Average rate.

13. **Material Costs are assigned to cost objects on the basis of material quantity consumed where traceable and where not traceable on technical norms or estimates.** (CAS 6-2.1, 6-2.2 and 6-3.1).

14. **When material is processed or part manufactured by a third party according to specifications provided by the buyer, the processing/ manufacturing charges payable to the third party is treated as part of the material cost** (CAS 6-2.1).

15. **When the part of the manufacturing operations/activity is subcontracted, the subcontract charges related to materials is treated as direct expenses and assigned directly to the cost object** (CAS 6-2.2).

16. **Cost of materials like catalysts, dies, tools, patterns etc, which are relatable to production over a period of time, is amortized over the production units benefited by such cost. Cost of materials with life exceeding one year is included in the cost over the useful life of the material** (CAS 6-3.2).

17. **Where the cost of materials is written off or written down in the financial books as per the accounting policy, followed by the entity, such write off or write down amount is not treated as cost.**

It is usual for the companies to write off or write down the cost of non-moving / slow-moving items, say items which have not moved for three years or more.

18. **When the material referred to in paragraph 17 above, is subsequently issued, the issue is valued at the original cost in cost accounting records and the difference between the original cost and the carrying amount is presented in the reconciliation statement, wherever, economically feasible.**

When it is not economically feasible to apply the above principle, the issue is valued at the carrying amount in the cost accounting records.

Employee Cost

1. **Employee cost or Labour cost is ascertained taking into account the gross pay including all allowances payable along with the cost to the employer of all benefits** (CAS 7-5.1).
2. **Bonus, whether payable as a Statutory minimum or on a sharing of surplus and Ex gratia payable in lieu of or in addition to Bonus is treated as part of the employee cost** (CAS 7-5.2).
3. In some industries the following alternate treatments are also followed pursuant to the requirements of the Cost Accounting Records Rules prescribed for those industries;
   a. Treat the statutory minimum bonus as cost and the balance is treated as a non-cost item.
   b. Treat the entire bonus as a component of cost of sales.
4. **Remuneration payable to Managerial Personnel including Executive Directors on the Board and other officers of a corporate body under a statute is considered as part of the Employee Cost of the year under reference whether the whole or part of the remuneration is computed as a percentage of profits** (CAS 7-5.3).

   Remuneration of Non Executive Directors will not be considered as part of Employee cost but treated as part of administrative overheads.
5. **Performance Incentives must be accumulated over the entire production and not recognised after the threshold limit for earning the incentive is reached.**
6. **Separation costs related to voluntary retirement, retrenchment, termination etc. should be amortized over the period benefiting from such costs** (CAS 7-5.4).
7. **Amount payable to employees during the lay off period or for the strike period or during suspension, is a loss and consequently is not included in cost.**
8. **Cost of employee share options is treated as part of employee cost.**

   It is becoming common for employees to be compensated on the basis of share options. The GAAP generally requires that the compensations should be measured at the fair value of the stock options at the grant date. Often it is difficult to determine such costs at individual employee level and hence the cost of employee share option is usually treated as overhead.
9. **Gratuity, pension and other superannuation benefits, measured using actuarial valuation method or any other methods, are part of Employee Cost.**
10. **Amortized separation costs related to voluntary retirement, retrenchment, and termination etc. for the period is treated as indirect cost and assigned to the cost objects. Unamortized amount relating to discontinued operations should not be treated as employee cost.** (CAS 7-6.4).

11. **Recruitment costs, Training costs and other such costs is treated as overheads and dealt with accordingly.** (CAS 7-6.5).
12. **Overtime premium and idle time cost should be assigned directly to a cost object or treated as overheads depending on the economic feasibility and the specific circumstance requiring such overtime or idle time** (CAS 7-6.6 and 7-6.7).
13. **Where the employee service is directly traceable to a Cost object, such cost is assigned on the basis of time consumed.** (CAS 7-6.1).
14. **When employee costs are not directly traceable to a Cost object, they are assigned on a suitable basis like estimates of time based on time study** (CAS 7-6.2).

Direct Expenses

1. **The identification of Direct Expenses is based on traceability in an economically feasible manner** (CAS 10-5.1).

   Many expenses in real life may be capable of identified as Direct Expenses but often they are grouped as overheads because it is not economically feasible to trace them to cost objects.

2. **Similarly if an item of the expense does not meet the test of materiality, it can be treated as part of overheads.** (CAS 10-5.3).
3. **Expenses incurred for the use of bought out resources are determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of trade discounts, rebates, taxes and duties refundable or to be credited.** (CAS 10-5.2.1).
4. **Other Direct Expenses other than those referred above are determined on the basis of amount incurred in connection therewith.** (CAS 10-5.2.2).
5. **Expenses paid or incurred in lump sum or which is in the nature of 'one time' payment, is amortized on the basis of the estimated output or benefit to be derived from such expenses.** (CAS 10-5.1).
6. **Direct Expenses are by definition directly traceable to cost objects and hence no special principles are involved for them to be assigned to cost object** (CAS 10-6.1).

Utilities

1. **The cost of utilities purchased is measured at cost of purchase including duties and taxes, transportation cost, insurance and other expenditure directly attributable to procurement (net of trade discounts, rebates, taxes and duties refundable or to be credited** (CAS 8-5.2).

   This is subject to the usual condition that it can be quantified with reasonable accuracy at the time of acquisition.
2. **The cost of generated utilities includes direct materials, direct labour, direct expenses such as and a share of the factory overheads** (CAS 8-5.3.1).

   Example of Direct materials for utilities is fuel used in generation of power and for Direct Expenses, electricity tax for generation.
3. **Cost of Utilities generated for the purpose of inter unit transfers is arrived as Cost of self generated utilities with Distribution cost added** (CAS 8-5.3.2).
4. **A Cost of utilities generated for Intercompany transfer is arrived as Cost of self generated utilities plus Distribution cost plus Share of administrative overheads.** (CAS 8-5.3.3).
5. **Cost of utilities generated for sale to outside parties is arrived as Cost of self generated utilities plus Distribution cost plus Share of administrative overheads plus marketing overheads.** (CAS 8-5.3.4).
6. **The Cost of Utilities includes Cost of distribution of such utilities** (CAS 8-5.3.4).
7. **Cost of production and distribution of utilities is determined based on the normal or actual capacity whichever is higher and unabsorbed cost, if any, is treated as abnormal cost** (CAS 8-5.9).
8. **Cost of stand by utility includes the committed costs of maintaining such utility** (CAS 8-5.9).
9. **While assigning cost of utilities, traceability to a cost object in an economically feasible manner is the guiding principle** (CAS 8-6.1).

   Accurate recording of utilities consumed by various users' calls for significant investment in measuring instruments and manpower for recording and analysis of such metered data. The benefit from such expenditure needs to be justified.
10. **The most appropriate basis for distribution of cost of a utility to the departments consuming services is to be derived from usage parameters** (CAS 8-6.3).

Repairs and Maintenance Cost

1. **The cost of Repairs and Maintenance is the aggregate of direct and indirect cost relating to repairs and maintenance activity** (CAS 12-5.1).
2. **Cost of in-house repair and maintenance activity will include cost of materials, consumable stores, spares, manpower, equipment usage, utilities and other resources used in the activity** (CAS 12-5.2).
3. **Cost of repair and maintenance activity carried out by outside contractors inside the entity will include the charges payable to the contractor apart from the above in-house cost** (CAS 12-5.3).
4. **Cost of repair and maintenance activity carried out by contractors at his premises is determined at invoice or agreed price including duties and taxes and other expenditure directly attributable net of discounts (other than cash discount), taxes and duties refundable or to be credited. It will also include the cost of other resources provided to the contractors** (CAS 12-5.4).
5. **Each type of repairs and maintenance is treated as a distinct activity, if material and identifiable** (CAS 12-5.6.1).
6. **The cost is measured for each major asset category separately** (CAS 12-5.6.2).
7. **Cost of spares replaced which do not enhance the future economic benefits of the existing asset beyond its previously assessed standard of performance is included under Repairs and Maintenance cost** (CAS 12-5.7).
8. **Where a high value spare is replaced, and the replaced spare is reconditioned and such spare is expected to result in future economic benefits, it is taken into stock. Such a spare is valued at an amount that measures its service potential in relation to a new spare, the amount of which will not exceed the cost of reconditioning the spare. The difference between the total of the cost of the new spare and the reconditioning cost and the value of the reconditioned spare should be treated as Repairs and Maintenance cost** (CAS 12-5.8).
9. **Cost of major overhaul is amortized on a rational basis** (CAS 12-5.9).
   Major overhaul is the periodic (generally more than one year) repair work carried out to substantially restore the asset to the intended working condition.
10. **Repairs and Maintenance costs is traced to a cost object to the extent economically feasible** (CAS 12-6.1).
11. **Where it is not directly traceable, it is assigned based on either of the principles of Cause and Effect or Benefits received** (CAS 12-6.2).

Production Overheads

1. Overheads comprise of indirect material cost, indirect employee cost and indirect expenses. They are termed indirect because they are not directly identifiable or allocable to the ultimate cost object, usually a product or service, in an economically feasible way.
2. **Production Overheads are indirect costs involved in the production process or in rendering services.** Production overheads include **administration cost relating to production, factory, works or manufacturing.** Production related expenses incurred at corporate office e.g. design office expenses, materials management and industrial relations will also be covered by the term. (CAS-13-4.9)
3. The terms Production Overheads, Factory Overheads, Works Overheads and Manufacturing Overheads denote the same meaning and are used interchangeably. (CAS-13-4.2)
4. Since overheads cannot be economically traced to products and services, they are assigned to them on some equitable basis.
5. **While assigning overheads, traceability to a cost object in an economically feasible manner shall be the guiding principle. The cost which can be traced directly to a cost object shall be directly assigned.** (CAS-3(R-1) 6.1)
6. **Assignment of overheads to the cost objects shall be based on either of the following two principles;**

   i) Cause and Effect - Cause is the process or operation or activity and effect is the incurrence of cost.

   ii) Benefits received – overheads are to be apportioned to the various cost objects in proportion to the benefits received by them. (CAS-3(R-1) 6.2)
7. **Secondary assignment of overheads may be done by following either Reciprocal basis or Non-Reciprocal Basis. While reciprocal basis considers the exchange of service among the service departments, non-reciprocal basis considers only one directional service flow from a service cost centre to other production cost(s).** (CAS-3(R-1) 6.3.2)
8. **It is not a good practice to allocate overheads to Cost centres/ cost objects on the basis of "what the traffic will bear"- that is by size of the user.**
9. **There is a distinct preference for allocating overheads on the basis of "cause and effect" analysis. What or who causes the costs to be incurred is a more rational criterion to charge costs rather than size or benefits received.**
10. **In case of facilities created on a standby or ready to serve basis, the cost shall be assigned on the basis of expected benefits instead of actual.**
11. Production overheads are usually accumulated under production cost centres to facilitate absorption by products or services.

12. These costs are absorbed by the products on the basis of resources used by the product at the production centre.

13. The overheads assigned to the production cost centres are charged to products/ services through an overhead absorption rate for each cost centre.

Common bases for assignment of Production overheads to Cost Objects are:

Bases of denominator	***Applicability***
Unit of Production	***When single product is produced or various products are similar in specifications.***
Material Cost	***Where the overheads are mostly related to material***
Direct employee cost	***When conversion process is labour intensive and wage rates are substantially uniform***
Direct employee hour	***When conversion process is labour intensive***
Machine Hour or Vessel Occupancy or Reaction Hour or Crushing Hour etc	***When production mainly depends on performance of the base***

A preferred approach for assignment of overheads to cost objects is to use multiple drivers instead of a single driver such as machine hour, where feasible. (CAS-3(R-1) 6.4)

14. A preferred approach to assignment of overheads is the assigning of cost of resources to activities and assigning the cost of activities to Cost Objects through use of cost drivers, wherever feasible. (CAS-3(R-1) 6.5)

15. Also there are service cost centres through which the product does not pass through but which provide a support function to the production cost centres.

16. **Where the cost of services rendered by a service cost centre is not directly traceable to a cost object, it shall be assigned on the most appropriate basis.** (CAS 13-6.2)

17. **The most appropriate basis of distribution of cost of a service cost centre to the cost centres consuming services is to be derived from logical parameters which could be related to the usage of the service rendered. The parameter shall be equitable, reasonable and consistent.** (CAS 13-6.3)

18. Charging overheads on the basis of "benefits received" by the various users is preferred. This requires some measure of benefit to be developed.

19. Sometimes capacity in a service department is created in anticipation of demand for services. It is appropriate to allocate such capacity costs on the basis of "capacity to serve" rather than actual usage of services.

Ultimately all overheads must be charged to products of services. Hence the total production overheads of Production Cost Centres are applied to products passing through them using a suitable absorption base.

20. Before the final step of absorption, production overheads of production cost centres have to be segregated between fixed overheads and variable overheads. The fixed overheads are absorbed by products based on normal capacity or actual capacity utilization whichever is higher. Variable overheads are absorbed by products based on actual capacity utilization. This treatment is in line with Accounting Standard 2 as well.

21. **Normal capacity is defined in Cost Accounting Standard 2 as the production achieved or achievable on an average over a period or season under normal circumstances taking into account the loss of capacity resulting from planned maintenance. It is practical capacity minus the loss of productive capacity due to external factors** (CAS 2-4.4).

22. Under absorbed fixed overheads are carried to Costing Profit & Loss Account or Reconciliation with financial accounts.

Depreciation

1. Depreciation, though part of overheads, generally appears as a separate line item in the cost statements instead of being grouped under overheads. This is because of its size in the technology driven business of today and its unique characteristic of being non-cash cost.
2. Amortization of intangible assets tends to be grouped with depreciation because intangible assets themselves are grouped with Fixed Assets in the presentation under Schedule VII of the Companies Act 1956.
3. The measurement of depreciation in Cost accounts tends to mirror the practices in financial accounts.
4. However the treatment of depreciation in Cost Accounts must address the following issues:
   - Depreciation not calculated on period of use basis.
   - Depreciation an idle assets
   - 100% of depreciation on certain class of assets
   - Write-off of small value assets
   - Depreciation on fully depreciated assets
   - Depreciation on revalued assets
5. Sometimes depreciation in books is not calculated on period of use for example 50% of annual depreciation is taken for an asset put into use for a day. **Cost accounts will always use the depreciation computed on period of use basis and take the balance to costing P & L or reconciliation with financial accounts.**
6. Even where 100% of the depreciation is allowed in the first year for tax purposes, companies are required to use regular rates of depreciation for accounting purposes. Even where an entity uses 100% depreciation rates in books of accounts, **depreciation based on estimated life is used for costing purposes with the difference taken to costing Profit & Loss or Reconciliation with Financial Accounts.**
7. **Where small value items are written off fully at the time of purchase in financial accounts, the same is generally adopted for cost accounts.**
8. **In the case of old plants, there is the special case for fully depreciated assets which however continue in regular service. Some entities continue to provide a notional depreciation on such assets for costing purposes, with the amount being shown in reconciliation with financial accounts.**
9. Depreciation on the amount by which the asset is written up on Revaluation is charged to Revaluation Reserve in financial books. **Some entities compute the depreciation on the revalued figure for costing purposes as reflecting the true cost of depreciation.**

10. **It goes without saying that the cumulative depreciation charged in the Cost Accounts against any individual item of fixed asset will not exceed the original cost of the asset.**

11. The assignment of depreciation to various cost centres should not pose a problem so long as detailed Fixed Asset records are maintained by the Company. However there are some common items of fixed assets between cost centres e.g. yard piping carrying products from one process to another, common storage tanks and the like. **Depreciation on common assets are apportioned to individual cost centre on some suitable basis e.g. yard piping is assigned to the cost centre receiving the material.**

Administrative Overheads

1. **Administrative overheads are the aggregate cost of resources consumed in activities relating to general management and administration of an organization.** (CAS 11-5.1).

   The principles of measurement of Material cost, Employee costs, Utilities, Repairs and Maintenance and Depreciation found in the respective standards will apply if included in administrative overheads.

2. **In case of leased assets, if it is an operating lease – the entire rentals will be treated as a part of administrative overheads, while in case of a financial lease – the finance cost portion will be segregated and treated as a part of finance costs** (CAS 11-5.2).

3. **The cost of software (developed in house, purchased, licensed or customized), including up-gradation should be amortized over its useful life.** (CAS 11-5.3).

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

4. **The cost of the administrative services procured from outside is determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable net of discounts (other than cash discount), taxes and duties refundable or to be credited.** (CAS 11-5.4). **The assignment of administrative overheads to cost objects is based on either of the principles of Cause and Effect or Benefits received, if it is not directly traceable** (CAS 11-6.2).

   The cost of shared services is best assigned to user activities on the basis of actual usage, infrastructure costs on the basis of readiness to serve and general management costs on a rational basis. For e.g.: Number of employees, turnover, investment size etc.

5. Since most administrative costs are fixed in nature, it is preferable to change them to users on "readiness to serve" basis such as installed capacity, budgeted sales etc., rather than actual production or actual sales. Even the drivers mentioned in (9) above can be on the basis of expected driver qualities rather than actual.

Selling and Distribution Overheads

1. **Selling costs are best recorded or assigned to marketing segments first before being assigned to product. Thus selling costs must first be identified to markets, distribution channels, territories, salesman etc., before being assigned to orders and to products.**
2. **Selling costs of a marketing segment are assigned to customer orders relating to the segment and then to products based on sales quantity or value.**

   It facilitates customer profitability analysis when the order becomes the focal point of reference in cost accounting.
3. **The acceptable bases for assigning common transport costs to products are:**
   a. **Weight**
   b. **Volume of goods**
   c. **Tonne km**
   d. **Units / equivalent units**
   e. **Value of goods**
4. **The transportation costs assigned to products are charged to units based on some measure which factors in the distance e.g. tonne km.**

Interest and Finance Charges

1. **Interest and Finance Charges have come to be included in cost of sales though not in cost of production. Such costs are also assigned to products before arriving at margins by product.**
2. **For the purpose of assignment, Interest charges are grouped under**
   - **interest on long term funds**
   - **interest on working capital funds**
3. **The former is assigned to product lines based on fixed capital investment (including fixed assets and mould and dies) in such product lines. A portion of the interest is also charged to outside investments, if they exist, and excluded from cost of sales. For this purpose, it is usual to develop an average cost of long term funds and apply it to fixed capital investment in each product line.**
4. **It is not the accepted practice to charge imputed interest on owners' funds in cost accounting.**

Sales

1. Cost of sales statements lead right up to margin and hence sales also have to be handled in Cost Accounting.
2. **Since costing is always by product, cost accounting requires product wise analysis of sales.** This is usually produced by other modules of the enterprise system.
3. What is critical is the value of sales produced by such analysis. Often sales analysis produce invoiced value of sales. **What is required for cost accounting is net value of sales net of trade discounts, returns, allowances, volume discounts, special discounts based on market conditions etc.,**
4. Many of these deductions from sales are handled through credit notes which also must be processed through the sales analysis to arrive at product wise break up.
5. **Some of these deductions from sales may be available only in total and hence may have to be allocated to products on a suitable basis, say, sales value.**
6. It is not unusual for businesses to focus on net realization from sales ex-factory gate. This means that freight (both primary and secondary) transit insurance, loading and unloading charges, handling charges and the like are deducted from net sales as arrived at in 3 above to arrive at net sales realization ex-factory gate. This also entails freight and other transport costs not being shown under the head Distribution costs. So long as these costs are shown separately as deductions from net sales value, the practice is acceptable.
7. Some Cost Accounting Record Rules require gross sales to be shown in addition to net sales in cost statement. This requires that excise duty, sales tax (VAT) etc is added to net sales to arrive at gross sales by product.

Joint Costs

1. **Joint Costs are** the costs of a production process that yields multiple products simultaneously, for example, in the refining of Petroleum which yields Petrol, Kerosene, Diesel, Naphta, Grease, Tar and several other products or the distillation of coal, which yields coke, natural gas, and other products.
2. The costs of the common process are the joint costs
3. **Joint costs are allocated**

   (a) Based on a measure of the number of units, weight, or volume of the joint products, or

   (b) Based on the values attributed to the joint products.
4. By-product is a special case of Joint Product where one or more of the joint product has minor value compared to others.
5. **Such by-products are generally valued at their value at the split-off point with such value being credited to the costs of the main product. The split-off point value is arrived at on the basis of the ultimate realizable value of the by-product less the post split-off costs.**

Common Costs

1. A common cost is the cost of operating a common facility, activity or service or that is shared by two or more cost objects.
2. The common cost is generally lower than the stand-alone individual cost to each cost object was the facility not shared.
3. **Common costs are therefore allocated to each cost object based on the individual costs of the cost object.**

Chapter 8 Presentation and Disclosure

Generally the presentation requirements of cost information for statutory purposes are laid down in the respective rules. Similarly the requirements of reporting for regulatory purposes are laid down by the regulatory agencies. Managements stipulate the presentation formats for managerial purposes. It is therefore not considered necessary to lay down any model statements or formats in this document.

However it is considered appropriate to stress certain disclosure practices which are generally applicable.

1. Cost Statements must contain besides total cost, unit cost per unit of output.
2. Output quantities with unit of measure must appear in the Cost Statements.
3. Input costs are best broken up as quantity and rate.
4. The basis of valuation of inputs must be stated.
5. The basis of distribution of costs to cost objects or cost centres must be disclosed.
6. Costs incurred in foreign currency must be stated separately.
7. Any costs excluded must be disclosed.
8. Any credits or recoveries netted against cost must be disclosed separately.
9. Transactions with related parties must be highlighted or disclosed separately.
10. Changes in the costing principles and methods applied must be disclosed with the effect.

Chapter 9 Conclusion

This document contains a discussion of the generally accepted cost accounting principles in the context of today and the times gone by. It must be understood that cost accounting principles and methods of applying them are in a constant of flux influenced by fresh thinking by experts, regulatory influences, parallel developments in financial accounting standards and the like. Professional accountants will be well advised to use this document as a guide and not as a set of rules.

Appendix I

Glossary

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.***

Abnormal idle Capacity: ***is the difference between practical capacity and normal capacity or actual capacity utilization whichever is higher.***

Abnormal Idle time*: An unusual or atypical employee idle time occurrence of which is usually irregular and unexpected or due to some abnormal situations.*
E.g. Idle time due to a strike, lockout or an accident

Absorption of overheads: ***Absorption of overheads is charging of overheads to Cost Objects by means of appropriate absorption rate.***
Overhead Absorption Rate = Overheads of the Cost object / Quantum of base.

Actual Capacity Utilization: ***is the volume of production achieved in relation to installed capacity.***

Administrative Overheads: ***Cost of all activities relating to general management and administration of an organisation.***
Administrative overheads shall exclude production overheads, marketing overheads and finance cost. Production overheads includes administration cost relating to production, factory, works or manufacturing.

Allocation of overheads*: Allocation of overheads is assigning a whole item of cost directly to a cost centre.*
An item of expense which can be directly related to a cost centre is to be allocated to the cost centre. For example, depreciation of a particular machine should be allocated to a particular cost centre if the machine is directly attached to the cost centre.

Apportionment of overhead: ***Apportionment of overhead is distribution of overheads to more than one cost centre on some equitable basis.***
When the indirect costs are common to different cost centres, these are to be apportioned to the cost centres on an equitable basis. For example, the expenditure on general repair and maintenance pertaining to a department can be allocated to that department but has to be apportioned to various machines (Cost Centres) in the department. If the department is involved in the production of a single product, the whole repair & maintenance of the department may be allocated to the product.

Captive Consumption*: Captive Consumption means the consumption of goods manufactured by one division or unit and consumed by another division or unit of the same organization or related undertaking for manufacturing another product(s).*

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

Collection of Overheads: *Collection of overheads means the pooling of indirect items of expenses from books of account and supportive/ corroborative records in logical groups having regards to their nature and purpose.*

Overheads are collected on the basis of pre-planned groupings, called cost pools. Homogeneity of the cost components in respect of their behaviour and character is to be considered in developing the cost pool. Variable and fixed overheads should be collected in separate cost pools under a cost centre. A great degree of homogeneity in the cost pools are to be maintained to make the apportionment of overheads more rational and scientific. A cost pool for maintenance expenses will help in apportioning them to different cost centres which use the maintenance service.

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

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

Manufacturing of goods or rendering services involves consumption of resources. Cost is measured by the sacrifice made in terms of resources or price paid to acquire goods and services. The type of cost is often referred in the costing system depends on the purpose for which cost is incurred. For example material cost is the price of materials acquired for manufacturing a product.

Cost Centre*: Any unit of Cost Accounting selected with a view to accumulating all cost under that unit. The unit may be a product, a service, division, department, section, a group of plant and machinery, a group of employees or a combination of several units. This may also be a budget centre.*

Cost Centre or Cost Object is the logical sub-unit for collection of cost. Cost Centre may be of two types – personal and impersonal cost centres. Personal cost centre consists of a person or a group of persons. Cost centres which are not personal cost centres are impersonal cost centres. Again Cost centres may be divided into broad types i.e. Production Cost Centres and Service Cost Centres. Production Cost Centres are those which are engaged in production like Machine shop, Welding shop, Assembly shop etc. Service Cost centres are for rendering service to production cost centre like Power house, Maintenance, Stores, Purchase office etc.

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

Cost of Production***: Cost of production shall consist of Material Consumed, Direct Wages and Salaries, Direct Expenses, Works Overheads, Quality Control cost, Research and Development Cost, Packing cost, Administrative Overheads relating to production.***

To arrive at cost of production of goods dispatched for captive consumption, adjustment for Stock of work-in-Process, finished goods, recoveries for sales of scrap, wastage etc shall be made.

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

Explanation:

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

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

Defectives: ***Packing materials that do not meet quality standards. This may include reworks or rejects.***

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

Depot includes warehouses, go-downs, storage yards, stock yards etc.

Direct Expenses: ***Expenses relating to manufacture of a product or rendering a service, which can be identified or linked with the cost object other than direct material cost and direct employee cost.***

Examples of Direct Expenses are royalties charged on production, job charges, hire charges for use of specific equipment for a specific job, cost of special designs or drawings for a job, software services specifically required for a job, travelling Expenses for a specific job.

Direct Employee Cost: ***The cost of employees which can be attributed to a cost object in an economically feasible way.***

Direct Material Cost: ***The cost of material which can be attributed to a cost object in an economically feasible way.***

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

For example:

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

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

Explanation:

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

Employee cost includes payment made in cash or kind.

For example:

- **Employee cost**
  - Salaries, wages, allowances and bonus / incentives.
  - Contribution to provident and other funds.
  - Employee welfare
  - Other benefits
- **Employee cost – Future benefits**
  - Gratuity.
  - Leave encashment.
  - Other retirement/separation benefits.
  - VRS/ other deferred Employee cost.
  - Other future benefits
- **Benefits generally include**
  - Paid holidays.

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

Equalized Freight ***means average freight.***

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

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

Finance Costs: ***Costs incurred by an enterprise in connection with the borrowing of funds.*** This will include interest and commitment charges on bank borrowings, other short term and long term borrowings, amortisation of discounts or premium related to borrowings, amortisation of ancillary cost incurred in connection with the arrangements of borrowings, finance charges in respect of finance leases, other similar arrangements and exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest costs. The terms Finance costs and Borrowing costs are used interchangeably.

Fixed Cost: ***is the cost which does not vary with the change in the volume of activity in the short run. These costs are not affected by temporary fluctuation in activity of an enterprise. These are also known as period costs.***

Freight: ***is the charge paid or payable to an outside agency for transporting materials/ goods from one place to another place.***

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

Idle time: ***The difference between the time for which the employees are paid and the employees' time booked against the cost object.***
The time for which the employees are paid includes holidays, paid leave and other allowable time offs such as lunch, tea breaks.

Imputed Costs: ***Hypothetical or notional costs, not involving cash outlay, computed for any purpose.***

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

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

Installed Capacity: ***is the maximum productive capacity according to the manufacturers' specification of machines / equipments. Installed capacity of the unit / plant is determined after taking into account imbalances in different machines / equipment in the various departments / production cost centres in the unit / plant and number of working shifts.***

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

Licensed Capacity: ***is the production capacity of the plant for which license has been issued by an appropriate authority.***

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

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

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

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

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

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

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

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

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

Practical or Achievable Capacity: ***is the maximum productive capacity of a plant reduced by the predictable and unavoidable factors of interruption pertaining to internal causes.***
Thus, practical capacity is the installed capacity minus the inevitable interruptions due to time lost for preventive maintenance, repairs, set ups, normal delays, weekly off-days and holidays etc. Practical capacity does not consider the external factors causing reduction in production e.g. lack of orders.

Primary Packing Material: Packing material which is essential to hold the product and bring it to a condition in which it can be used by or sold to a customer.
For example:

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

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

Rejects: ***Defectives which cannot meet the quality standards even after putting in additional resource***

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

Repairs and maintenance cost: ***Cost of all activities which have the objective of maintaining or restoring an asset in or to a state in which it can perform its required function at intended capacity and efficiency.***

Repairs and Maintenance activities for the purpose of this standard include routine or preventive maintenance, planned (predictive or corrective) maintenance and breakdown maintenance. The repair or overhaul of an asset which results in restoration of the asset to intended condition would also be a part of Repairs and Maintenance activity. Major overhaul is a periodic (generally more than one year) repair work carried out to substantially restore the asset to intended working condition.

Research & Development Cost: ***is the cost for undertaking research to improve quality of a present product or improve process of manufacture, develop a new product, market research etc and commercialization thereof.***

Research Cost comprises the cost of development of new product and manufacturing process; improvement of existing products, process and equipment; finding new uses for known products; solving technical problem arising in manufacture and application of products etc. Development cost includes the cost incurred for commercialization / implementation of research findings.

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

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

Rework includes repairs, reconditioning and refurbishing.

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.***

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

For example:

- Pharmaceutical industry: Cartons used for holding strips of tablets and card board boxes used for holding cartons.
- Textile industry: Card board boxes used for holding cones on which yarn is woven.

- Confectionary Industry: Jars for holding wrapped chocolates, Cartons containing packs of biscuits.

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

Semi Variable Costs: ***contain both fixed and variable elements. They are partly affected by fluctuation in the level of activity.***

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

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

Administrative Overheads include cost of administrative Service Cost Centre.

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.***

Standard Cost: ***A predetermined cost of resource inputs for the cost object computed with reference to set of technical specifications and efficient operating conditions.***
Standard costs are used as scale of reference to compare the actual costs with the standard cost with a view to determine the variances, if any, and analyse the causes of variances and take proper measure to control them. Standard costs are also used for estimation.

Stand-by service: ***Any facility created to safeguard against the failure of the main source of service.***

Stand-by utilities: **A*ny utility created to safeguard against the failure of the main source of inputs.***

Transit Insurance Cost: ***is the amount of premium to be paid to cover the risk of loss /damage to the goods in transit.***

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

Variable Cost: ***is the cost of elements which tends to directly vary with the volume of activity. Variable cost has two parts – (a) Variable direct cost; and (b) Variable indirect costs. Variable indirect costs are termed as variable overhead.***

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.***

Appendix II

APPLICATION GUIDANCE

Material Cost

1. Under the erstwhile Cost Accounting Record Rules, the Cost of purchased materials is reckoned inclusive of all “direct charges up to works”. The term “works” can be taken to mean any place of operations.
2. The direct charges include in the case of indigenous materials, the invoice cost, freight, transit insurance, loading and unloading charges. In the case of imported materials, they include FOB value, overseas freight, insurance, customs duty, clearing charges, inland freight etc.
3. Demurrage or detention charges at port or by carrier or penalty levied by them are not treated as cost, being abnormal cost.
4. Penalties levied by tax authorities such as customs, excise sales tax authorities on consignments of goods are not treated as cost.
5. Taxes for which the buyer gets credit like Vat, cenvat, countervailing import duty are excluded from Cost.
6. Purchase tax is sometimes levied by State Governments on inputs with or without relief against tax payable on sale Such tax is to be taken as part of cost except to the extent it is allowed to be offset against tax on sale.
7. Octroi levied by local authorities on inputs entering the local limits must be added to cost. If subsequently the goods are taken out of local limits, the amounts can be retrenched from cost.
8. The levy of additional tax for non compliance with filing declaration forms e.g. ‘C’ or ‘D’ forms under central sales tax is treated differently with the additional tax being treated as part of cost if known at the time of recording the transaction.
9. Cost is net of trade discount. Cash discount is generally treated as a financial income and not netted against cost. But there may be circumstances in a transaction which suggest that the cash discount is not a prompt payment discount but a price discount offered in the garb of a cash discount.
10. Cost is to be taken net of Volume discounts to the extent these can be anticipated. Where there is uncertainty regarding the eligibility or the quantum, these may be netted against consumption as when they become confirmed.
11. Bank charges for negotiation of documents in connection with a purchase transaction are generally treated as finance costs and not included in material cost. This is based on the premise that sale documents are negotiated through bank to avoid credit risks or to avail bank finance. Hence Bank charges on bills negotiated through bank on collection or

acceptance basis are often added to material cost but are best excluded from material cost. Interest when charged by the supplier for the whole of part of the credit period extended is generally treated as a finance charge. This is so even if the interest appears on the face of the invoice.

12. Imports of materials from certain countries are often available with extended periods of credit with zero or concessional rate of interest. Whether the cost of material must be taken less an implicit interest for the elongated period of credit must be regarded as unsettled.
13. Exchange losses or gains incurred after the purchase transaction is completed is not treated as material cost but is to be treated as finance cost.
14. In some industries, the material purchased is the output of mining or quarrying operations form owned mines or quarries. For example, limestone which is a key raw material is obtained by a cement mill from its own mines. The cost of material mines is determined by taking into account royalty to government, cost of explosives used, and mining costs. The question of principle that arises is the treatment of mines development costs which occur regularly over the years. The cost of mines development is treated as cost of mining the output of the current year but there is much in favour of spreading the development costs over the period over based on a development to run-of-the mines ratio.
15. The cost of materials obtained in returnable containers where there is a credit on return is taken net of the credit. Where rent is payable for the period for which the container is retained, such rent is treated as overheads.
16. The rate to be adopted for a material in cost accounting is generally taken after adjusting material losses- in transit, in storage or other losses. This is however permissible only if the losses are normal. Transit losses can be reflected in the rate by deducting such losses from the billed quantity provided such losses are incidental to transport. The percentage of such normal losses can be quite high for some materials e.g. coal.
17. Apart from physical loss, there can be losses due to evaporation or shrinkage. They are also treated in the same way.
18. An abnormal loss in transit e.g. loss due to accident cannot be reflected in the rate. It will be treated as a loss and taken to Profit or Loss net of recoveries from insurance, or carrier.
19. Storage loses are also treated similarly provided they are incidental to storage and the period of storage is normal in the given case.
20. On a slightly different footing are moisture losses in transit or storage. Since most technical calculations are based on dry weight, it is advisable to account for materials which absorb moisture on a dry weight basis grossing up the rate. Dry weight can be air-dry or bone dry. In the case wood used in paper industry, given that wood contains some moisture, the rate

for wood is accounted on the basis of Air Dry weight which may be obtained after deducting standard or average moisture contents of such wood. Alternatively it can be accounted on bone-dry weight after deducting the entire moisture on actual basis.

21. Similar adjustments are called for when consumption quantities of materials in cost accounting are to be aligned with technical calculations which adjust physical quantities for strength, purity or other factors. In these cases also, the rates are grossed up to reflect quantity restatements.
22. Exchange losses or gains incurred after the purchase transaction is completed is not treated as material cost but is to be treated as finance cost.
23. Sometimes, materials are sent outside for pre-processing before it is used in the production process e.g. cotton for ginning / cleaning, steel rods for blanking etc. Charges paid to outsiders for pre-processing are added to material cost.
24. If the same operations are performed in-house, it is usual to treat them as production cost and not as part of material cost.
25. Material is often held for long periods for seasoning, maturing etc. The storage and interest cost for such storage is treated as part of material cost.
26. Some materials may require special storage facilities e.g. prawns in freezers. A cost of such special storage is often treated as part of material costs.
27. Materials may undergo discolouration, deterioration in quality or outline the shelf-life. Losses for such reasons are not treated as part of material cost.
28. Amount of recovery from disposable containers in which material is received is best treated as miscellaneous income and not reduced from material cost.
29. The treatment in the case of returnable containers where credit is obtained from the supplier on a regular basis can be different. Such credit is generally reduced from material cost. Where the container cost is not included in the price charged but a charge is made for non-return or late return, such charge is treated as abnormal cost and excluded from cost.
30. When material is supplied in returnable containers and a rent is charged for such container based on the period of use, the cost is treated as overheads.
31. Material is often held in storage under special conditions e.g. LSHS at higher than ambient temperature to prevent solidifying, the associated costs are not treated as part of material costs but as part of production costs.
32. The costs of operating and maintaining pipe lines for moving materials from storage to production are not treated as part of material costs but as part of production costs. So also the pumping charges for liquids. The feeding charge for materials to equipment at an elevated level is also treated as production costs.

Employee Costs

1. Employee Cost or Labour cost includes all remuneration paid to employees of the company including allowances, benefits or any payment made in behalf of employees.
2. Employee cost includes remuneration paid or payable and provisions made for future payments.
3. For cost accounting purposes, employee cost includes amounts paid to temporary, part time and casual or contract employees including benefits extended to them.
4. Bonus has been described by courts as "deferred wage" and customary payments by way of bonus have come to acquire the characteristic of mandatory payment. There is little reason to deny such payments the status of cost.
5. Ex-gratia payments are after often paid along with statutory bonus. These may take the form of
    a. Amount paid as a rate higher than the rate arrived at as per Payment of Bonus Act calculations.
    b. Extending full rate of bonus to those to whom the maximum bonus under the Payment of Bonus Act will apply- presently limited to Rs.8500/- per month by way of Basic + DA.
    c. Extending the bonus to employees not covered under the Payment of Bonus Act – presently Rs.10000/- per month or more by way of Basic + DA.
    d. These payments which are in the nature of goodwill payment by managements and are in no way related to the amount of allocable surplus are generally treated as part of employee cost.
6. Bonus under the Payment of Bonus Act must be distinguished from performance incentives which are generally related to output and not profits. These may take the form of incentives at
    - Individual employee level – based on his or her performance.
    - Group of employees level – based on performance of a group of employees or team
    - Unit level – where the incentives are paid on the basis of performance of the factory or other unit.

Incentives at all three levels may be based on performance covering the production of more than one product; then an assignment issue arises. It is generally accepted that the incentives have to be prorated over all the products on the production of which the incentive is earned, not merely to the products produced after the threshold limit for earning the incentive is reached.

7. There has been generally a reluctance to treat incentives based on sales as cost of production, even though it is paid to production employees. The basis for calculating the incentive or the timing .of payment should not determine the treatment of such incentive. The fact that such payment is computed on sales value of production or is payable only on sales of the product cannot change the character of an incentive – if it was originally conceived as an incentive for higher production.
8. Some will argue that managerial personnel are owners of the business and hence the payment to them must be regarded as return to owners. Others will argue that the remuneration to managerial personnel is as executive directors, manager etc and hence must be regarded as cost. The latter view gets higher credence with greater professionalization of management and whole-time Directors with no or little shareholding in the company drawing managerial remuneration which includes a commission as a % of profits.
9. In the case of sole proprietorships, salary paid to owner and in the case of a partnership fixed salary paid to a working partner must qualify as cost.
10. It is customary for senior management to be extended perquisites in the form of free housing, free car, services of waterman / gardener, free telephone, leave travel concession for self and family.
11. The Income-Tax rules provide for the valuation of these perquisites. But these cannot in anyway enter into cost calculations. Employee cost includes the cost to company of extending these benefits. The cost to company (CTC) calculations made at the time of appointment or later is a good guide on what should enter into employee cost. The fact that some portion of the perquisites is disallowed in the assessment of the employee as being personal in nature can not influence the treatment in cost accounts.
12. There are group benefits extended to employees such as Group Personal Accident Insurance, Group Medical Insurance Scheme etc., it is difficult to relate such costs to individual employees and therefore to cost centres or objects. These can only be allocated to cost centres or cost objects on the basis of no. of employees or employee cost of each cost centre or cost object.
13. Employee welfare expenses similarly represent a motley of benefits including canteen facilities, recreation facilities, gifts to individual employees on birthdays / marriage, dispensary facilities etc., These are legitimately treated as part of employee cost and allocated to cost centres or cost objects on the basis of no. of employees or employee cost of each centre or cost object.

14. Post-employment benefit schemes can take any two forms
    a. Fixed contribution to a fund by the employer with varying benefits to employees.
    b. Variable contribution to a fund by the employer to assure given benefit to the employees.
    c. The fixed contribution plans involves a defined cost per employee and can be readily assigned to cost centres or objects. The contribution under variable contribution plans are generally determined on an actuarial valuation The treatment of such benefits in Cost Accounts will be on the same basis as in financial accounts which is governed by AS15 in India.
    d. The allocation of the cost of such employee benefits to cost centres / Cost objects will be on the basis of no. of employees or employee cost.
15. Voluntary retirement plan costs have been treated in varying ways in India. Cost Accounting Standard 1 excludes them from cost. It is interesting to note that some Cost Accounting Records recommend the inclusion of such payment in employee cost with proration over the years benefited by such payment. This appears to be the preferred treatment though it may not be generally accepted in practice today.
16. It is usual for employee cost, particularly direct employee cost, to be converted to hourly rates for ease of assignment to jobs or products. Such hourly rate may reflect only payroll costs i.e. only basic + Dearness allowance + allowances or be comprehensive and include all benefits. The ultimate is for the rate to reflect the Cost to Company (CTC). Where the rate excludes some elements of employee cost, these will be treated as overheads and absorbed in cost.
17. Hourly rates are arrived at using the available hours as the divisor. Normal health breaks or rest allowances are excluded from available hours. It is important to note that any time like rest time which gets included in job times cannot be excluded from available hours.
18. It is not unusual for regular costing to proceed on the basis of standard hourly rates based on budgeted employee cost and budgeted hours and for the variances in labour rates to be treated as overheads or taken to costing P&L or reconciliation.
19. Labour cost falls into two categories.
    - Direct Employee cost
    - Indirect Employee cost
20. Early stages of technology witnessed a major role for the workmen in the manufacturing process with output being controlled mainly by the workmen's efforts. Hence elaborate systems were built to log workmen's time an individual jobs or products and operations and employee cost was assigned on the basis of seven time booking.

21. As technology grew, the importance of machines in production grew with decreasing nexus between workmen's efforts and production. Work men were assigned to more than one machine producing more than one product with his role being reduced to attending to controls.
22. Where technology is at an early stage, it is still common for direct employee cost to be assigned to products and operations on the basis of time booked. This is typical of engineering shops with conventional machines such as lathes, drilling machines, milling machines etc., and simple processing shops.
23. Where sophisticated technology is deployed such as computer numerically controlled machines are employed, it is usual for employee cost to be absorbed in products as part of a comprehensive machine hour rate.
24. Where a gang of workmen or a team of employees are assigned to a job, it is usual to assign direct employee cost on the basis of gang hours or time logged by the team.
25. The wheel turns a full circle when assembly operations are controlled in the main by robots and one or two work men control the whole assembly line only to attend to disruptions. Direct employee cost even the entire cost including equipment cost – in such cases is assigned on the time honoured direct labour hour basis.
26. In a balanced production live in a lean manufacturing set-up where workmen stand in fixed location, the belt carrying the work moves at fixed speed and work men are expected to complete their operations within the allotted time, it is usual to change employee cost as well as equipment cost on the basis of "Cycle time" rather than labour hours.
27. Overtime which is based on single rate posses no special issues in costing. But where overtime is compensated at double or triple rate, the overtime premium is handled in one of the following ways.
    - Where the overtime working is caused by a "rush order" of the customer or other special requirement of a job, the premium is assigned to the job or product.
    - In all other cases, it is usual to treat the premium as overheads and absorb the same as part of overheads.
28. Idle time of direct workmen is generally logged separately. Normal idle time is absorbed in product cost as part of overheads and abnormal idle time is taken to costing profit and loss or reconciliation.
29. Where direct workmen are expected to carry out maintenance on the machines attended by them, it is usual to log such time separately against maintenance work orders and treat the same as Repairs and Maintenance Cost.

30. Booking of time spent on jobs or products is relevant in job or batch operations but loses its relevance in continuous process industries where direct employee cost is treated as part of processing cost.
31. Changing direct employee cost on the basis of standard time is prevalent. In such cases, the efficiency variance is isolated and absorbed in product cost except where it is abnormal, where it is taken to costing P&L or reconciliation.

Direct Expenses

1. Direct expenses are those relating to manufacture of a product or rendering a service, which can be readily identified or linked with cost objects other than Direct Material and Direct Employee cost.
2. Examples are:
   a. Royalties charged on production,
   b. job charges,
   c. hire charges for use of specific equipment for a specific job,
   d. cost of special designs or drawings for a job,
   e. software services specifically required for a job,
   f. Travelling Expenses for a specific job.
3. The need for direct expenses to be amortised arises when for example Royalty or Technical know-how fees, or drawing designing fees, are paid for which the benefit accrues in the future period. In such case, the production / service volumes are estimated for the effective period and based on volume achieved during the current period, the charge for amortisation is determined.

Cost of Utilities

1. Utilities are a special class of service cost centres which generally produce a measurable output which are used as inputs in the process of manufacture of products and services but do not form of the products. Examples are power, steam, water (treated, dematerialized etc.,) compressed air and the like.
2. Utilities are generally meant for captive consumption even though it is not unusual for part of the output to be sold to a nearby plant of the same entity or another entity.
3. Utilities are also purchased by an entity from an outside source usually a public utility (e.g. power from an electricity authority) or steam from neighbouring plant.
4. It is also not usual for utilities produced to have more than one use – steam generated being used both to drive turbines to generate electricity (high pressure steam) and also for heating purposes in the process (low pressure steam) giving rise to interesting issues in costing.
5. Sometimes a utility is held to safeguard against the failure of the main source of input of the utility e.g. stand-by generators held against failure of power supply from the grid.
6. Administrative overheads are generally not allocated to captively used utilities. Where the utilities are largely meant for transfer to other units or sale to outside parties such as sale of generated power to the official grid, administrative overheads may also be allocated to the utilities.
7. Since the cost of utilities is significant in many entities and there is a measurable output, it is usual to do the costing of utilities with the same rigour as in the case of products and services. The Cost Accounting Record Rules generally require the preparation of separate cost statements for each major utility such as power, steam and the like. The Cost Accounting Standard 8 on Cost of utilities requires each type of utility to be treated as a separate cost object.
8. Costs of distributing the utilities e.g. power through distribution lines including transformers, motor control centres and the like are treated differently based on end use. Costs of distribution of utilities for captive use are often captured in a separate service cost centre and treated as a service cost centre. Cost of utilities used for inter unit transfer often include the proportionate cost of distribution.
9. Costs of utilities meant for sale to outside parties will include marketing costs if the generated utility is mainly meant for sale but this takes the context out of captive generation and consumption of utilities in the manufacture of products and rendering of services

10. Where part of the utility generated is used within the utility e.g. electricity used within the power house, such consumption is generally netted against the output and only the output meant for other users is costed. This has got the effect of grossing up the unit cost for the costs of internal consumption of utilities.
11. Output of utilities is generally distinguished in terms of quality. In the case of water, water generated from bore wells or pumped from a nearby river is identified as raw water, with the output of a water treatment plant identified as treated water, the output from a cooling tower as cooling water and the output from a chilling plant as chilled water. Similarly steam produced is classified as low pressure, medium pressure or high pressure or into bands of pressure rating.
12. Costs of generation of various types of water involve progressively additional costs while costs of steam generation have to be allocated to steam at different pressures based on some measure of work for e.g. British thermal units (BTUs)
13. The use of by-products from the manufacturing process as fuel in utilities e.g. bagasse as fuel in the boiler calls for special treatment. These by- products are evaluated on the basis of their calorific value in relation to the principal fuel used by the entity e.g. coal. If the by-product is the only fuel used by the entity, it is evaluated on the basis of its calorific value in relation to alternate fuels that can be used by the entity. In other cases, the market value of such by-product e.g. price of bagasse in open market sales can be used for valuing the by-product.
14. Sometimes, waste material recovered from input materials may be used as fuels in the utilities e.g. pith from bagasse or bark from wood used as raw material in a paper mill.
15. The methods of assignment of costs of generated utilities to the consuming centres vary considerably depending on the system of measurement of usage e.g. metering, instrumentation system and the like used in the entity. It may be safely said that it may be uneconomic to meter the consumption of utilities to the last unit. Some technical estimates may have to be used. The problem is complicated because distribution lines are not always laid out in such a way that measuring instruments can be installed at each distribution point. It is not uncommon to tap power from a nearby line carrying power to another consuming centre or to divert steam from a nearby pipe carrying steam to another consuming centre. These problems get accentuated as the plant advances in years when new requirements of utilities are met in an adhoc way such that the original drawings of distribution lines are no longer representative.
16. Wherever meters are installed, utility costs are assigned on the basis of actual usage as metered.

17. Alternatively, utility costs are assigned on the basis of ratings of consuming equipment weighted by a usage factor e.g. in the case of power, based on HP rating of equipment multiplied by number of hours in use. As a last resort, technical estimates based on process specifications of power or steam consumed are used to develop the bases for allocation.
18. Distribution losses or unaccounted consumption of utilities are netted against the generated quantity before assignment to consuming cost centres so as to reflect such cost in grossed- up unit rates.
19. Any abnormal losses like venting of large quantities of high pressure steam to avoid an accident will of course be costed separately and treated as loss in the costing Profit & Loss or the Reconciliation with financial accounts.

Repairs and Maintenance Cost

1. Repairs and Maintenance cost is the cost of all activities required to restore the asset to a condition to perform its function at intended capacity and efficiency.
2. Repairs and Maintenance cost includes cost of;
   a. repair materials
   b. spares
   c. consumable stores
   d. manpower
   e. utilities
   f. repair equipment costs
   g. allocated costs from other service cost centres.
3. Repairs and Maintenance can be classified into
   a. Preventive maintenance
   b. Planned maintenance
   c. Breakdown maintenance
4. Preventive maintenance costs are generally booked through standing orders which are in essence continuing work orders, all issues of material time of maintenance crew and other resources used are booked against the standing orders.
5. Alternatively Preventive Maintenance schedules carry a standard bill of materials and standard usage of maintenance crew time and other resources and these are blown up based on no. of jobs completed. Actual usage of materials, time and other resources are recorded in detail and allocated to various preventive maintenance jobs based on standard usage.
6. Planned maintenance jobs are jobs like Annual shutdowns, periodic overhaul etc. These carry a standard bill of materials to be used for the maintenance jobs, parts to be replaced during the planned maintenance, no and skill category of maintenance crew required, heavy maintenance equipment like cranes to be used and other resources. Actual of these resources is booked against the planned maintenance jobs.
7. Break down maintenance jobs are triggered by a Fault Report which generates a work order with a number. All issues of materials, time of crew and other resources are booked against these work orders to provide cost of individual maintenance jobs.
8. In a computerized environment, robust systems are in place to open and close work orders for all types of maintenance jobs with authorizations and sign offs, standard bills of materials type and no of persons and other resources required with automatic generation

of issue requisitions and requests for personnel and equipment. Costs of closed work orders are transferred to relevant accounts in the books of accounts.

9. In a non-computerized environment, there is often a tendency to keep the paperwork to a minimum while ensuring accurate costing. In such an environment, work orders are opened only for large maintenance jobs. The threshold limit is fixed in terms of time taken for the maintenance job to be completed (or shut down time) the cost of materials requisitioned, the no of crew involved, special equipment required or a combination of these. Costs are booked by work orders for the major repairs and for others, costs are booked by cost centres or equipment no.
10. it is also usual to treat the maintenance crew as a fixed resources and not attempt to book their time against maintenance jobs. The allocations to cost centres are based on the principle of "readiness to serve" with the estimate of demand from various cost centres prepared at the time of manpower planning acting as the base for allocation of manpower costs.
11. Maintenance jobs often require the use of heavy equipment such as cranes; hoists etc. The costs of this maintenance equipment are accumulated by equipment no. these are charged to maintenance jobs based on recorded usage in hours or to cost centres based on estimated usage prepared at the time of planning the capital expenditure on these items of equipment.
12. Many large production facilities have a captive workshop where parts are turned, machined or otherwise repaired. These workshops also produce some spare parts. Often, the workshop is treated similar to production cost centres with job orders being opened for production jobs and work orders for repair jobs. The costs of the workshop which comprises costs of materials, labour, equipment and other resources are assigned to jobs and work orders based on some suitable basis such as labour hours.
13. It is true that maintenance jobs are increasingly being outsourced. Maintenance Labour is almost completely outsourced with only a small crew of specialized craftsman retained on the company's rolls.
14. The outsourcing may be of the entire job or may take the form of a contract for supply of labour. In the former case, bill for completed jobs are generally available and lead to accurate costing of labour for such jobs. When outsourcing takes the form of a contract for supply of labour, no time recording by jobs is generally available and only deployment by department or cost centre is available.
15. With increasing sophistication of technology, maintenance of specialized equipment is entrusted on a turnkey basis to the vendor of the equipment or other specialized maintenance outfits. This may involve costs of travel of technicians besides bill for services

from the agency rendering the services. It is usual to accumulate all costs of such maintenance jobs and treat them appropriately as outlined later.

16. It is usual to have Annual Maintenance Contracts for specialized equipment particularly electronic equipment subject to sudden failures. These take the form of only servicing or servicing with parts (comprehensive). The AMCs specify the number of routine servicing calls that will be made in a year. Where a single machine is covered by an AMC, costing becomes simple. But where a fleet of machines are covered by a single AMC, allocation of costs to cost centres can be made on the basis of number of machines in each cost centre. Where the machine in various cost centres require different levels of service or vary in cost, a suitable allocation base has to be evolved based on such differences.

17. It has been customary in the past to treat major repair jobs differently with their cost being spread over the periods benefiting from such expenditure. Increasingly in financial accounts, such expenditure is charged to the Profit and Loss Account of the period, driven largely by tax deductibility considerations. However in Cost Accounts, these major repair job costs were prorated over the years, with the difference appearing in Reconciliation statements of the respective years. This treatment was required in the past by the Cost Accounting Record Rules for most industries. With Accounting Standard 26 on Intangible Assets coming into force, creating referred Revenue Expenditure assets is not favoured. There is however a strong case for continuing the earlier treatment since cost accounting is governed by a different set of principles.

Production Overheads

1. The continued use of the term 'overheads' is unfortunate. It is more appropriate to refer to them as indirect costs.
2. Overheads comprise of indirect material, indirect labour and indirect expenses. They are termed indirect because they are not directly identifiable or allocable to the ultimate cost object, usually a product or service, in an economically feasible way.
3. Increasingly with the spread of information technology, more and more costs can be identified with the final cost object. Even small materials which would not be preciously identified with the products in an economically feasible way can now have the issues recorded by product.
4. On the contrary, the sophistication of manufacturing technology renders workman as observers of machines working or instrument watchers or console operators instead of tending to the machine or product directly. Thus a greater part of the labour cost is becoming indirect to the product.
5. Since overheads cannot be economically traced to products, they are traced to production centres through which the product passes to be absorbed by the product generally on the basis of time spent by the product at the production centre.
6. Also there are service cost centres through which the product does not pass through but which provide a support function to the production cost centres. The service department costs are assigned to production cost centres before being traced to products and services.
7. In traditional cost systems a cost distribution sheet is prepared to capture the expenses in the nature of overheads booked in the books of accounts and supporting records like stores records. These are then analysed by cost centres.
8. Some overheads are booked in the system by cost centres. For this purpose, many General Ledger systems have extensions to account codes to book transactions by cost centres.
9. In other cases, the overheads individually or after being grouped into homogenous groups are apportioned to cost centres on some suitable basis. The following table reproduced from Cost Accounting Standard 3 lists the commonly used bases.

Item of Cost	**Basis of Apportionment**
Power	-H.P Rating of Machines x hours x LF*
Fuel	-Consumption rate x hour
Jigs, Tools & Fixtures	-Machine hours or Man-hours
Crane Hire Charges	-Crane hours or weight of material handled
Supervisor's salary & fringe	-Number of employees

Benefits	
Labor Welfare cost	-Number of employees
Rent & Rates	-Floor or space area
Insurance	- Value of fixed Asset
Depreciation	-Value of fixed Asset

10. For a long time the method of apportionment used was based on "charging what the traffic will bear" i.e. the bigger the cost centre the greater the change to it. This is actively discouraged now.
11. Changing overheads on the basis of benefits received by the various cost centres is preferred. This requires some measure of benefit to be developed.
12. After the spread of modern cost accounting concepts, particularly activity-based costing (ABC), there is a distinct preference for apportioning overheads on the basis of cause and effect analysis. What or who causes the costs to be incurred is a more rational criterion to change costs rather than size or benefits received.
13. Thus the Purchase Department costs are best charged based on an analysis of what causes the Purchase Department to be manned and be operating at the present level. It could be the number of purchase requisitions, the no of items being ordered, the degree of inspection required by various items, the logistics requirements involved or a weighted combination of these.
14. After the overheads are allocated or apportioned to various cost centres, the costs apportioned to service cost centres are redistributed to production cost centres and other service cost centres, generally based on one of the bases described above.
15. Given the information processing capability, individual items of overheads or groups of them are taken up for redistribution.
16. Rendering of service by one ore more service cost centres to other service cost centres or even rendering of services interse by service cost centres are adequately handled in a spread sheet environment.
17. It is useful to remember that the use of sophistication in distribution methods does not improve the quality of the costing system. It is the direct recording of costs to cost centres, the appropriateness definition of cost centres and the use of proper measures of benefits received that will improve the costing. Ultimately it is the analysis of what triggers the cost that is relevant.
18. Ultimately all overheads must be charged to products of services. Hence the total production overheads of Production Cost Centres are applied to products passing through them using a suitable absorption base. The absorption basis commonly used are listed below (reproduced from Cost Accounting Standard 3 para 5.6).

Base of Denominator	Applicability
Unit of Production	When single product is produced or various products are similar in specification
Direct labor cost	When conversion process is labor intensive and wage rates are substantially uniform
Direct labor hour	When conversion process is labor intensive
Machine hour or Vessel Occupancy or Reaction hour or Crushing hour etc	When production mainly depends on performance of the base

19. Before the final step of absorption,, production overheads of production cost centres have to be segregated between fixed overheads and variable overheads. The fixed overheads are absorbed by products based on normal capacity or actual capacity utilization whichever is higher. Variable overheads are absorbed by products based on actual capacity utilization. This treatment is in line with Accounting Standard as well.
20. Under absorbed fixed overheads are carried to Costing Profit & Loss Account or Reconciliation with financial accounts.
21. Normal capacity is defined in Cost Accounting Standard.2 as the production achieved or achievable on an average over a period or season under normal circumstances taking into account the loss of capacity resulting from planned maintenance. it is practical capacity minus the loss of productive capacity due to external factors (CAS 2 para 4.4). In arriving at the practical capacity, the following are factored:
    - holidays
    - no of shifts
    - shift duration
    - annual maintenance
    - preventive maintenance if it involves overtime
    - batch change over time
    - lunch break, personnel changeover etc.,
    - production per hour which is in turn based technical specifications, loss in efficiency due to ageing, operational constraints etc.,
22. It is usual to employ a predetermined overheads rate throughout the year based on budgeted overheads and budgeted production base and to absorb overheads on the basis of actual production multiplied by the predetermined overhead rate.
23. The difference between the absorbed overheads and the actual overheads arises due to,

- variation between the budgeted level of capacity utilization and actual production and
- variation between budgeted level of overheads and actual overheads.

24. It is easy to lose perspective on the amount of overhead absorbed by different product in the web of calculations involved in allocation, apportionment and absorption. Operating managers have great difficulty in comprehending the result of a complex allocation, apportionment and absorption algorithm. A simple casual relationship is better understood. It may be preferable to limit complex distribution models if required to major items of overheads and to use simple adhoc methods for the balance overheads.

Administrative Overheads

1. Administrative overheads must be understood as costs of administrative functions in an entity and not as a collection of elements of costs such as travel, communication, printing and stationery etc.,
2. Administrative overheads are of two types:
   a) Costs of administrative support functions which support operations such as Purchase, Personnel, Accounts, Factory administration, Marketing support etc.,
   b) Costs of policy making and strategic management such as Finance, Human Resource Development etc.,
3. The functions covered in (a) above are generally attached to a unit like Factory Administration or Marketing administration and are readily identified with production or selling and distribution function.
4. Even when they are located in a Head Office or Corporate Office, it should make little difference, because they cater to the needs of specific functions in the entity. For example, purchase may be located in a central office but they cater to the requirements of specific factories or manufacturing and costs can be assigned to such units.
5. The assignment of such costs to functions and activities benefited by them is feasible subject to limits. The use of activity- based costing can lead to identification of activities within the administrate function and what causes them. Thus the Head office Purchase activity costs can be assigned to user functions based on some measure of activity like no of purchase requisitions.
6. The use of the terms “share of administrative overheads relating to production “and” share of administrative overheads relating to selling” in the erstwhile Cost Accounting Record Rules has led to arbitrary practices in some entities to assign all administrative overheads on an arbitrary ratio say 60:40 between production and selling. These terms can only refer to administrative costs of functions attached to production or selling. There will be a residuary head of “Administrative Overheads” which cannot be assigned to production or selling functions representing costs of policy making and strategic management. Also included in this category are expenses such as Directors sitting fees, audit fees, filing fees and other corporate expenses. Paragraph 6.3 in Cost Accounting Standard 3 on overheads should be interpreted in the light of the above discussions.
7. It is significant to note that the reporting format under the new Cost Audit Report Rules has a separate line item for Administrative overheads.
8. The assignment of as much of the administrative overheads as possible based on identified cost drivers is recommended. The balance of administrative overheads can only be

assigned to cost centres or objects based on capacity or sales value. It is usual in textile industry to charge corporate office cost to mills based on installed spindlage.

Selling and Distribution Overheads

1. The use of the term "Selling and Distribution Overheads" is unfortunate since some of these costs are not "overheads" but are direct to products such as commission on sales, freight etc., The use of the term "selling and Distribution Costs" is to be preferred.
2. It is necessary to distinguish "selling" costs from "distribution costs". The latter relate mainly to costs incurred before sales are generated and are therefore indirect to product while distribution costs are more direct to products.
3. It is also usual to speak of "order getting" costs and "order filling" costs to distinguish between the two sets of costs.
4. Selling costs are generally fixed in nature except for commission on sales and the like. Examples of selling costs are:
   a. Salaries of sales personnel
   b. Travelling expenses of sales personnel
   c. Commission to sales agents
   d. Advertisement costs
   e. Sales promotion expenses including cost of promotional material such as product brochures, catalogues etc.,
   f. Collection costs including legal expenses for recovery of dues
   g. After sales service costs
   h. Warranty costs etc.,
5. Selling overheads or selling costs are a combination of direct costs relating to selling of products or service and indirect costs of sales management.
6. Distribution overheads or distribution costs are the costs incurred in handling a product from the time it is ready for dispatch until it reaches the ultimate consumer.
7. Distribution costs include:
   1. Secondary packing cost
   2. Packing repacking / labeling at an intermediate storage location
   3. Transportation costs
   4. Cost of warehousing (cover depots, godowns, storage yards, stock yards etc.,)
8. Transportation costs comprises of the cost of freight, loading and unloading, transit insurance, costs of operating a fleet and other incidental charges whether incurred internally or paid to an outside agency for transportation of goods.
9. Broadly transportation costs are divided into two categories
   a. Cost of operating own fleet
   b. Cost of hired transport

10. Costs under either category may include costs
    a. Directly allocable to products or
    b. To be apportioned to products
11. A good costing system must be able to record separately transportation cost from factory to depots (primary freight) and from depot to customer place (Secondary freight)
12. Penalty, detention charges, demurrage charges and other abnormal costs are excluded from transportation cost.

Interest and Finance Charges

1. This cost head includes the following items of cost
    a. Interest on debentures and bonds
    b. Interest on long term loans
    c. Interest on working capital finance in the form of cash, credit or overdraft including short term loans
    d. Interest on overdue payments to suppliers and others
    e. Discounting charges on bills of exchange
    f. Bank charges on bills negotiated through Bank for sales or purchases
    g. Letter of credit charges
    h. Guarantee commission/ commitment charges
    i. Cash discount and many more

    Interest and Finance charges are accumulated under suitable heads as in (1) above in the financial books before they are taken to cost accounts.
2. For a long time, it was the practice in India to ignore interest as an element of cost following text book discussions on whether interest is a cost.
3. In the last few years, following the new set of Cost Accounting Record Rules and Cost Audit Report Rules, there is recognition for interest and finance charges as cost.
4. Similarly it is usual to develop an average rate of interest paid on various forms of finance for working capital and apply it to working capital investment in product lines or products.
5. Working capital investment by product line is arrived at directly in most cases or apportioned on the following
    - Raw material stocks – Direct or on the basis of raw materials consumed
    - Stores – generally on the basis of stores consumed excluding special high value items which can be identified directly.
    - work-in-process and finished goods - Direct
    - Book debts – Direct or on the basis of sales (gross)
    - other current assets – except high value items which can be directly identified with products, on the basis of sales or cost of sales.
6. It is a also not unusual to arrive at the working capital investment on the basis of length of the operating cycle in no of days for each product line multiplied by cost of sales or sales.

7. Other finance charges are identified by product lines or products for big items of expenditure or otherwise grouped and charged to product lines or products based on cost of materials consumed, cost of production, cost of sales or sales.
8. Where the assignment is done initially to product lines as for interest on long term loans, such charges are assigned to individual products on the basis of cost of sales or sales.

Chapter 10 Applicability of Cost Accounting Practices

1. The above discussions embody the cost accounting practices followed in various industries while applying the cost accounting principles.
2. However they may vary from practices adopted by specific regulated industries like banks, electricity, fertilisers. In many cases these practice are laid own by the regulator and are followed without fail in the industry. For example depreciation rates based on life of equipment are prescribed by the regulatory agency in the electricity generation industry and will prevail over the practices mentioned earlier regarding depreciation rates.

EXPOSURE DRAFT
GUIDANCE NOTE
ON
COST ACCOUNTING STANDARD
ON
COST OF PRODUCTION FOR
CAPTIVE CONSUMPTION (CAS-4)

Issued by

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

(A Statutory Body under an Act of Parliament)

12, Sudder Street, Kolkata - 700 016

Delhi Office

ICWAI Bhawan,

3, Institutional Area, Lodi Road, New Delhi-110003

List of Contents

Chapter 1 Introduction

The Council of the Institute of Cost and Works Accountants of India has issued the Cost Accounting Standard 4(CAS-4) for determination of cost of production for captive consumption.

This Guidance Note deals with the principles, methods and practical aspects in connection with the determination of cost of production for captive consumption. Para 1 “Introduction” of CAS 4 refers to Central Excise Act and Rules framed there under for determination of assessable value of goods used for captive consumption. CAS-4 has been issued to determine assessable value of captively consumed goods on cost construction method as a measure of simplification. Therefore, this Guidance note also refers to relevant sections of Central Excise Act,1944, Central Excise Valuation (Determination of Price of Excisable Goods) Rules 2000, other relevant rules thereto, and also case laws on the subject as well as Cost Accounting Standard-4. The Cost Accounting Standard-4 have been set in bold type. This guidance note is illustrative only and does not form part of the CAS-4.

BACKGROUND:

The scheme of valuation of excisable goods is contained in Sec. 3A, Sec. 4 and Sec. 4A of the Central Excise Act 1944. The goods manufactured have to be valued in a prescribed manner as per above provisions to determine the excise duty payable by the assessee. Section 3 provides that duties of excise shall be levied and collected on all excisable goods which are produced or manufactured in India at the rates set forth in Schedule to the Central Excise Tariff Act,1985. Section 4 provides the machinery to determine the value of goods subject to duty for purpose of assessment. Earlier Section 4 was replaced by new Section 4 w.e.f 1-07-2000 and concept of transaction value has been introduced under Section 4(3)(d). Section 4A provides for valuation of excisable goods with reference to retail sale price and applicable to commodities as notified by the Government from time to time and on which retail price is required to be indicated under the provision of the Standard of Weights & Measures Act 1976 and the rules made there under.

VALUATION OF CAPTIVELY CONSUMED GOODS:

Section 4(1) (a) of Central Excise Act,1944 deals with the Valuation of excisable goods when following requirements are satisfied:

1. Goods are sold at the time and place of removal from factory/warehouse;
2. The assessee and the buyer of the goods are not related; and

3. The price is the sole consideration of sale.

If any one of the above requirements is not satisfied, assessable value shall be determined under the Central Excise Valuation (Determination of Price of Excisable Goods) Rules 2000 notified on 30.6.2000, as provided under Section 4(1)(b) of the Act. For facility of ready reference extract of Section 4 and the Central Excise Valuation Rules,2000 are annexed as **Annexure 1 and 2.**

Each transaction is treated as a separated transaction for valuation purposes.

Rule 8 of the Central Excise Valuation Rules provides that where the excisable goods are not sold but are used for consumption by him or on his behalf in the production or manufacture of other articles, the value shall be one hundred and ten per cent of the cost of production or manufacture of such goods. (115% was substituted by 110% vide notification no. 60/2003 – CE (NT) dated 05-08-2003) In other words when goods are captively consumed, the assessable value will be 110% of cost of production. The earlier concept of deemed profit / notional profit has been done away and margin of 10% by way of profit is prescribed in the rule itself for ease of assessment of goods used for captive consumption.

As per proviso to Rule 9 and Rule 10 of Central Excise Valuation (Determination of Price of Excisable Goods) Rules 2000, where excisable goods are sold to the related party/ inter connected undertaking who does not sell the goods but uses or consumes such goods in the production or manufacture of articles, the value of goods shall be determined in the manner specified in rule 8 . The details of persons who shall be deemed to be related are prescribed under Section 4(3) (Refer **Annexure 1**). Under the new rules, the definition of related person has been widened.

Chapter 2 *Meaning of Captive Consumption*

"Captive Consumption" means that the goods are not sold by the assessee but are used for consumption by him or on his behalf in the production or manufacture of other articles in the same premises or elsewhere.

When goods manufactured are supplied to a related party who does not sell the goods but consumes the same in manufacture of another product(s), such goods are also treated to be "captively consumed" for the purpose of valuation under Excise Laws.

Excise duty is on manufacture of goods. Liability of excise duty arises as soon as goods liable to excise duty are manufactured/ produced. It is payable at the time of removal of the goods from the factory. It is collected at the time of removal for sale or clearance from the place of manufacture. Excise duty is also payable when goods are dispatched from one factory to another factory of the same manufacturer except provided otherwise.

In many cases during the manufacture, certain intermediate goods also emerge. These intermediate goods are further used in manufacture/production of other goods. The use of such intermediate product within the factory is termed as "Captive Consumption" Excise duty is payable once a new intermediate product is manufactured/produced within the factory, unless it is exempted.

Sometimes the goods are not removed from the factory but are used in the further manufacture/production of goods and in such cases also duty is payable as soon as the goods are manufactured/produced within the factory unless exempted. Goods captively consumed in the same factory of the manufacturer are exempted from duty as per Notification No. 67/95-CE dt.16.03.1995, if duty is payable on the final product.. For example, the manufacturer of Motor Vehicles also manufacture various parts of the Motor Vehicles like brakes, panels etc. These parts are also excisable goods and have separate entry in the schedule to Central Excise Tariff Act, 1985. If these parts are removed from the factory, duty is payable but if these parts are further used in the same factory of the manufacturer in the assembly / further manufacture of Motor Vehicles then the use of parts and components is called as captive consumption.

For purpose of valuation captively consumed goods under Excise Rules are categorized as

- Goods manufactured not sold but captively consumed
- Goods manufactured partly sold and partly captively consumed
- Goods manufactured sold to related party for captive consumption

Chapter 3 Application of Cost Accounting Standards

In terms of Rule 8 of Central Excise Valuation (Determination of Price of Excisable Goods) Rules 2000 captively consumed goods are to be valued with reference to cost of production or manufacture of such goods. The Central Board of Excise and Customs interacted with the Institute of Cost Works Accountants of India (ICWAI) for developing methodology for determining the cost of production for captively consumed goods. Since the ICWAI was already in the process of developing various Cost Accounting Standards, it was agreed to develop a Cost Accounting Standard on Cost of Production for Captive Consumption also. CAS-4 on Cost of Production for Captive Consumption was developed by ICWAI.

The following Cost Accounting Standards developed by the Institute were jointly released by CBEC and ICWAI on 13th January 2003:

CAS-1: Classification of Cost;

CAS-2: Capacity Determination;

CAS-3: Overheads; and

CAS-4: Cost of Production for Captive Consumption.

Department of Revenue (CBEC) issued Circular No. 692/08/2003-CX dated 13th February 2003 stating that for valuing goods which are captively consumed, the general principles of costing would be adopted for applying Rule 8. The Board has interacted with the Institute of Cost & Works Accountants of India (ICWAI) for developing costing standards for costing of captively consumed goods. Paragraph 3 of the above circular has clarified:

> ***"that cost of production of captively consumed goods will henceforth be done strictly in accordance with CAS-4. Copies of CAS-4 may be obtained from the local Chapter of ICWAI. "***

The above circular is reproduced as Annexure 3.

CAS- 4 specifies the method of calculation of cost of production for captive consumption. The objective of this standard is to bring uniformity in the principles and methods used for determining the cost of production of excisable goods used for captive consumption.

CAS-4 refers to Cost Accounting Standard 1, 2 and 3 also. Therefore, CAS-4 has to be read and used in conjunction with CAS 1, CAS 2 and CAS 3.

As per CAS-1 (Classification of cost) formula for cost of production will be:
Direct Material cost + Direct Labour Cost + Direct Expenses = Prime Cost
Prime Cost + Production Overheads + Administration Overheads + R&D (Apportioned) = Cost of production

ICWAI is in the process of covering various elements of cost under Cost Accounting Standards. In addition to above CAS-1 to CAS-4, following other Cost Accounting Standards (CASs) have been notified by the ICWAI:

CAS-5: Determination of Average (Equalized) Cost of Transportation
CAS-6: Material Cost
CAS-7: Employee Cost
CAS-8: Cost of Utilities
CAS-9: Packing Material Cost
CAS-10: Direct Expenses
CAS-11: Administrative Overheads
CAS-12: Repair and Maintenance Cost
CAS-13: Cost of Service Cost Centre

The Companies (Cost Accounting Records) Rules 2011 notified by the Government of India, Ministry of Corporate Affairs vide Notification No. 429 dated 3rd June 2011 provides vide Rule4 (3) that Cost Accounting records are to be maintained as per Cost Accounting Standards and Generally Accepted Cost Accounting Principles issued by the ICWAI, to the extent these are found to be relevant and applicable. The variation if any is to be recorded and explained. Thus compliance with the above provision is mandatory for the companies registered under the Companies Act, 1956 wherein, the aggregate value of net worth as on the last date of the immediately preceding financial year exceeds five crore of rupees; or wherein the aggregate value of the turnover made by the company from sale or supply of all products or activities during the immediately preceding financial year exceeds twenty crore of rupees; or wherein the company's equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India.

Chapter 4 *Application of CAS-4*

TYPE OF ORGANIZATIONS

CAS-4 is applicable from 13th February 2003 and applies to following type of organizations registered with Excise Department if goods manufactured are for captive consumption:

1. Proprietorship concern
2. Partnership Firms
3. Cooperative Societies
4. Private/Public Limited Companies.

SSI units registered with Excise Department are exempt from payment of excise duty as per registration conditions.

TYPE OF GOODS

Following goods are covered under CAS-4:

1. Goods manufactured not sold but captively consumed
2. Goods manufactured partly sold and partly captively consumed
3. Goods manufactured sold to related party for captive consumption

GOODS MANUFACTURED NOT SOLD BUT CAPITVELY CONSUMED

As per Rule 8 of the Central Excise Valuation Rules, in case of goods manufactured by the assess are used for consumption by him or on his behalf in the production or manufacture of other articles, the value shall be one hundred and ten per cent of the cost of production or manufacture of such goods. The cost of production is to be determined as per CAS-4 vide Circular dated 13th February,2003 (refer Annexure 3).

CAS-4 is also relevant in cases where a manufacturer is manufacturing a product which is otherwise exempt from duty but in process of manufacture an intermediate product mentioned in the tariff, comes into existence which is dutiable. In such cases the liability to pay duty becomes applicable. The liability of excise duty on such intermediate goods is to be discharged before it gets cleared from the factory / unit for use in the manufacture of the duty exempted final product. The value of duty in all such cases shall be on 'Cost +10%' w.e.f 5th August, 2003. However, in cases where final product is dutiable then exemption Notification No. 67/95, dt. 16.3.1995 issued under CENVAT Rules shall apply.

In a landmark judgment in case No. Appeal (civil)2947-2948 of 2001 Commissioner of Central Excise, Pune vs M/s Cadbury India Ltd.(Refer Annexure 4), Hon'ble Supreme Court of India, observed :

> **"the Institute of Cost and Works Accountants of India (ICWAI) has laid down the principles of determining cost of production for captive consumption and formulated the standards for costing:CAS-4. According to CAS-4 the definition of "cost of production" is as under:**
>
> **"4.1 Cost of Production : Cost of Production shall consist of Material consumed, Direct wages and salaries, Direct expenses, Works overheads, Quality Control cost, Research and Development cost, Packing cost, Administrative Overheads relating to production."**
> **"The cost accounting principles laid down by ICWAI have been recognized by the Central Board of Excise and Customs vide Circular No.692/8/2003 CX dated 13.2.2003. The circular requires the department to determine the cost of production of captively consumed goods strictly in accordance with CAS-4. "**
>
> **The Tribunal in the case of BMF BELTINGS LTD. vs. CCE : 2005 (184) E.L.T. 158 (Tri. Bang.) for the period 1995 to 2000 has directed the department to apply CAS-4 for the determination of the cost of production of the captively consumed goods. In ITC vs. CCE (190) ELT 119 the Tribunal held that the department has to calculate the cost of production in terms of CAS-4. Other decisions of the Tribunal, wherein it has directed that CAS-4 be applied for determination of the cost of production, are Teja Engineering v/s CCE 2006 (193) ELT 100 (Tri-Chennai), Ashima Denims v/s CCE 2005 (191) ELT 318 (Tri-Mumbai), and Arti Industries vs. CCE 2005 (186) ELT 208 (Tri-Chennai). This is therefore a consistent view taken by the Tribunal. The department has not filed any appeal in these cases and accepted the legal position. Apart from this, in the light of several decision of this Court, the Department is also bound by the said circular No.692/9/2003 CX dated 13th February,2003 issued by the CBEC."**

CASES PENDING PRIOR TO ISSUE OF CIRCULAR NO.692/08/2003-CX DATED 13TH February,2003

The Chief Commissioner, Chennai Zone has clarified that though CAS-4 was issued on 13.2.2003, cases pending finalization for the period earlier to this, may be considered in line with costing principles laid down in CAS-4, issued by the Institute of Cost and Works Accountants of India. Assessments finalized prior to 13th February, 2003 not to be opened. The extracts of the letter is being reproduced below:

> **Copy of letter no. IV/16/92/2003-Cx.Pol dated 05.09.2003 of this office.**
> **"Please refer to the Board's circular No. 692/8/2003-CX-I (F.No. 6/29/ 2002- CX-I) dated 13.02.2003 communicating acceptance of cost Accounting Standard-4 (CAS-4) for the purpose of valuation of the excisable goods which are captively consumed under Rule 8 of Central Excise Valuation (Determination of price of Excisable goods) Rules, 2000.**
>
> **The field formations have raised certain doubts as to whether the above said CAS-4 could be applied to all pending assessments. It is observed from the above cited circular of the Board that the principles of CAS costing are to be adopted w.e.f, 13.2.2003 and therefore the assessments pending finalization on 13.02.2003 will also be covered under CAS 4. Assessments already finalized prior to 13.02.2003 on the basis of Board's Circular 258/92/96 CX dated 30.10.96 are not required to be reopened. The field officers in this Commissionerate have been advised accordingly. Kindly confirm."**

In view of above circular and decision of the Hon'ble Supreme Court of India, Cost Accounting Standard-4 (CAS-4), is also applicable for cases of captively consumed goods pending before 13th February,2003 except where cases have been finalized prior to issue of above referred circular dated 13th February,2003. Some important case laws are:

In National Aluminium Co.Vs CCE 2005(184)ELT 183 (CESAT) it was held that cost of production is to be determined as per CAS-4 in respect of all cases pending on date of CBE&C circular dated 13.2.2003 even in respect of period prior to 13.2.2003.

Similar view was held in Arti Industries Ltd. Vs CCE 2005(186)(CESTAT) and Nirma Ltd vs CCE2006)(200)ELT(CESTAT) and in CCE v Cadbury India Ltd., 2006(200) ELT 353 (SC).

Chapter 5 *Valuation of Goods Partly Captively Consumed And Partly Sold*

Where the goods to be valued are captively consumed in one's own factory, valuation will be done on the basis of 110% of the cost of production of goods. If the goods are partially sold by the assessee and partially captively consumed, the goods sold would be assessed on the basis of transaction value under section 4 and the goods captively consumed would be valued under rule 8 i.e.110% of the cost production of goods, states the Board's circular no.643/32/2002-CE dt. 1-7-2002. The percentage mentioned can be changed by notification by the authorities.

There can be situations where an assessee may manufacture an intermediate product (which is excisable) which requires to be processed or used for further production in another unit of the same manufacturer located at a different place. In such a situation also, the principle of rule 8 is applicable. The cost of production good manufactured plus 10% thereof is to be adopted for determining the assessable value.

APPLICABILITY OF RULE 8

Applicability of Rule 8 was examined in case of Ispat Industries Limited vs CCE(2007-207-ELT-185-TRI-LB). It was held provision of Rule 8 will apply only when the entire quantity is consumed captively. Rule 8 will not be applicable when the goods are sold and also consumed captively within the factory. In such cases Rule 4 will apply i.e. the price at which similar goods are sold. In other words, Rule 8 will apply only when the entire quantity is consumed captively and not when part quantity is sold to other buyer.

EXAMPLE:

KKM manufactures 100 Nos of Product Q. He clears 60 Nos. of Product Q for sale to LMN @ Rs 140/- per piece and balance 40 Nos. are issued for manufacture of another product Z which is exempt. The cost of production of Q is Rs. 100/- per piece.

KKM is required to pay duty at applicable rate on Rs 140/- per piece for the quantity sold to LMN and also excise duty for balance 40 Nos on Rs 100/- Cost of Production +10% per piece.

Chapter 6 Valuation of Goods Sold To Related Person

RELATED PERSON

Rule 9 of the Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000 deals with sale to related person. Related person has been defined in Section 4(3)(b) of the Excise Act (Refer **Annexure 1**). As per above section persons shall be deemed to be "related " if:

1) they are interconnected undertakings;
2) they are relatives;
3) amongst them the buyer is a relative and a distributor of the assessee or a sub-distributor of such distributor; or
4) they are so associated that they have interest, directly or indirectly in the business of each other;

Interconnection undertaking shall have the same meaning as defined in Monopolies & Restrictive Trade Practice Act, 1969 The expression interconnected undertaking signifies corporate relationship. It covers large categories of legal entities/undertaking such as holding company, subsidiary company, a relative and a distributor of the assessee and any sub-distributor. If they were buyer, they will be held to be related to the selling assessee only if they were so associated, they have interest directly or indirectly in the business of each other.

Relatives have the same meaning as assigned to under Section 2(41) and Section 6 of the Companies Act, 1956. Details of the relative are given in Schedule 1A of Section of the Companies Act, 1956.

VALUATION OF GOODS SOLD TO RELATED PERSON

If a manufacturer sells goods to any of the above related person, it will be treated as goods sold to related person. Rule 9 specifies that the goods can be sold to related persons for two purposes, one for onward sale when the related person is dealer/ distributor of the assessee and secondly the related person buys goods from the assessee for consumption in the production or manufacture of articles. In case, the related person does not sell the goods but uses or consumes such goods in the production or manufacture of the articles, the value shall be determined in the manner specified in rule 8, i.e. assessable value to be 110% of cost of production.

Chapter 7 Valuation of Goods Manufactured on Job Work Basis

VALUATION OF CAPITAL GOODS MANUFACTURED AND CAPTIVELY CONSUMED:

Capital goods manufactured in a factory and used within the factory of manufacturer for manufacture/production of excisable goods, are exempt from payment of excise duty as per Notification No.67/1995-CE dated 16th March,1995. This exemption is also available in case capital goods are manufactured by third party in the factory of manufacturer.

VALUATION OF GOODS MANUFACTURED ON JOB WORK (UNDER RULE 10A)

There could be situations where a manufacturer may clear an intermediate product which is an excisable good to a job worker who is an independent contractor for further processing and return. In such cases, if manufacturer follows the job work procedure as prescribed in the Cenvat Credit Rules, 2004 he may not be called upon to pay any duty at the time of clearing the intermediate product to the job worker provided the job worked items are returned to the factory of the manufacturer within 180 days and that the job worked item is either further used in manufacture by the manufacturer or cleared on payment of duty by the manufacturer.

By Circular No.619/10-CX(F.No.6/47/2001-CX1) dated 13.2.2002, CBEC had clarified that as per decision of Apex Court in case of Ujaggar Prints Ltd [1989 (039) ELT 0493 (SC)] and the case of Pawan Biscuits Co.Pvt Ltd [2000 (120) ELT 0024(SC)] assessable value would be job charges (including the profit of the job worker if not already included in the job charges) plus the cost of materials used in the manufacture of the item (including the cost of materials supplied free of cost to the job worker).Now, this decision is not relevant after insertion of Rule 10A.

The assessable value in such cases would not include the profit or the expenses (like advertisement and publicity, overheads etc) incurred by buyer (or the supplier of the raw materials where the deal between the two are on principal to principal basis. In other words, after introduction of Valuation rules w.e.f. 1.7.2000 , in respect of goods manufactured on job work basis, valuation will be governed by Rule 11 of the Valuation Rule 2000 read with Rule 6 (which deals with inclusion of value of material supplied free of cost by the buyer to the manufacturer and amortization of cost of tool, die, pattern, jig and fixtures, machinery, drawings etc. supplied by the buyer to the manufacturer for manufacture of parts) and read with the above decisions of the Apex Court. The above position has now been modified with insertion of Rule 10A w.e.f. 1.4.2007 in Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000.

Rules 10A deals specifically with assessable value in respect of goods manufactured on job work basis. As per the above provision, the value of excisable goods manufactured on job work basis and removed from the premises of the job worker on behalf of the principal manufacturer, the excise duty is payable on the sale price of the principal manufacturer and not as per the formula of landed cost of raw materials plus job work charges. This rule also envisages removal of goods for sale as well as removal to other places from where the actual sale will take place.

FREE SAMPLE

CBEC vide its circular No.643/34/2000 CX dated 1.7.2002 had clarified that for excisable goods removed as free sample, provision of Rule 4 will not apply but excise duty will be paid on 110% of cost of production as per Rule 8. However on reconsideration, the CBEC has modified the above circular. As per revised circular No. 813/10/2005 CX dated 25.4.2005, value of free samples should be determined under Rule 4 of the Valuation Rules. The revised circular thus provides that valuation should be on basis of value of identical goods cleared at or around the same time. However, in case of new or improved product, price of similar goods may not be available. Therefore for such goods, valuation should be on the basis of cost of production plus 10%, under Rule 11 read with Rule 8, in the absence of any other mode available for valuation.

GOODS REMOVED FOR TEST/TRIAL OUTSIDE THE FACTORY:

In above case Rule 4 is invoked as soon as assessee removes the manufactured goods for trial outside the factory. Since similar goods have been sold, the assessable value will be determined based on sale of such goods after making adjustment on account of difference in dates of delivery and the specification of goods. This rule will also come into play when goods are removed for exhibition.

VALUATION OF GOODS IN CASE OF LOSS MAKING UNIT:

It may be noted that in case of loss making unit, for valuation of product consumed in captively, is to be made under Rule 8. The Rule 9 provides that where the goods are sold to related person and related person does not sell the goods but uses or consumes the goods in production of other articles, the value shall be determined as per the provision of Rule 8. In terms of Rule 8, the assessable value shall be 110% of the cost of production.

Chapter 8 General Guidelines

Following factors need consideration to determine the cost of production for captive consumption under Rule 8 of the Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000:

In case where the product is covered under the Cost Accounting Records Rules issued in pursuant to Sec 209(1)(d) of the Companies Act, 1956, the system for cost calculation would be in place and the relevant information will be readily available for such calculations. If the product is not covered under above provision, maintenance of cost accounting records as per the generally accepted costing principles read with Cost Accounting Standards shall be useful for the purpose.

The principles stated in Cost Accounting Standards are applicable for all Industries and the level of its compliance determines the adequacy of the cost accounting system in the organization and accuracy of calculation of product cost.

The method of valuation of issues materials normally followed by the manufacturer shall be adopted consistently.

PERIODICITY OF CERTIFICATES AND BASIS FOR CALCULATION OF COST OF PRODUCTION UNDER CAS-4:

The basic purpose of CAS-4 is to calculate deemed transaction value of the goods captively consumed in the same unit or transferred to the other unit of the same manufacturer. The valuation (assessable value) is required at the time of removal of the goods.

Normally the costing will be for the future dispatches/period. It could be either for the existing product or in respect of a new product yet to be manufactured. In case of costing for the existing product, it will be worked out based on the cost for the previous quarter taking into account likely changes in cost due to various factors like input price fluctuations, changes in the taxation structures, pattern of employee cost, general inflation, projected capacity utilisation, etc.

In case of costing for a new product, it will be calculated at projected cost, projected production, projected normal capacity utilisation and other relevant factors..

The frequency of revising the certificate of cost of production will depend upon the significance in the changes in the cost due to various factors like input cost fluctuations, changes in the employee cost and other expenses. Where the prices of major materials are changing frequently and very widely, it is advisable to workout cost of production on monthly basis. In other cases cost of production may be worked out on quarterly basis.

The estimated cost of production, linked with the normal capacity only, is required to be certified, there is no need to provide revised certificate after the completion of the year particularly where such materials are used as input for manufacturing of excisable goods as it will be revenue neutral.

However, when the normal capacity utilization is not quantifiable and /or actual capacity utilization is likely to be low, as compared to previous period; It is advisable that the manufacturer shall go for Provisional Assessment under rule 7 of Central Excise Rules 2004. After the end of the year annual certification should be done based on the finalized books of account and if the cost of production is found significantly higher than the provisional costs, differential duty shall be paid by the manufacturer. It may be noted that in case of goods which are further used in production / manufacture of excisable goods, additional duty payment will remain revenue neutral.

Valuation of opening stock and closing stock of WIP and Finished goods: If the cost of product is to be worked out for a past period, valuation of opening stock and closing stock of WIP and Finished goods is to be considered. In case of a new product or for future cost, valuation of opening and closing stock of WIP and Finished goods need not be considered.

In case of multi-location units, the cost of production should be worked out separately for each unit as per CAS-4 taking into consideration the overheads of the respective units.

In case the assessee is manufacturing different sizes / varieties of goods, then cost of production for each of the variety / size should be worked out separately.

If the assessee is engaged in manufacture of goods of same variety, same type or same family of products where the manufacturing process is same, the cost of production may be worked out for the various unit of measurement viz per kg, per unit, etc. and the cost of individual product may be worked out by applying such rate per kg, per unit etc and addition /deletion of items required for a particular product. Separate cost statement is to be prepared for each size and variety of goods on the above basis

Where production process itself is prolonged, the cost of production can be worked out at the time of removal of the goods.

Inventory Valuation: - The valuation of inventory, which includes Raw Material, WIP and Finished Goods shall be based on as followed by the manufacturer consistently.

It is advisable for the assessee to obtain certificate from cost accountant before the removal of the goods.

Manufacturers following standard costing system should adjust the variances to the various products as per normally accepted cost accounting principles for calculation of product wise cost.

Chapter 9 Notes on Various Paragraphs of CAS-4

2. Objective

2.1 The purpose of this standard is to bring uniformity in the principles and methods used in determining the cost of production of excisable goods used for captive consumption.

2.2 The Cost Statement prepared based on standard will be used for determination of assessable value of excisable goods used for captive consumption.

2.3 The standard and its disclosure requirement will provide better transparency in the valuation of excisable goods used for captive consumption.

3. Scope

3.1 The standard is to be followed for determining the cost of production to arrive at an assessable value of excisable goods used for captive consumption.

Notes: The situations in which CAS-4 can be used:

- Cost of production for captive consumption.
- Goods manufactured and transferred to project/sites for further work, e.g.. Erection, construction, etc. (Valuation for excise in case of works contracts)
- Free samples for distribution as sales promotion, if sale price is not available.
- Transfer/sale to related party/undertaking for captive consumption.
- Valuation where no specific rule is applicable.

3.2 Cost of production will include various cost components. They are already defined in Cost Accounting Standard-1 (CAS-1). Thus, this standard has to be read in conjunction with CAS-1.

4. Definitions

4.1. Cost of Production: Cost of production shall consist of Material Consumed, Direct Wages and Salaries, Direct Expenses, Works Overheads, Quality Control cost, Research and Development Cost, Packing cost, Administrative Overheads relating to production.

To arrive at cost of production of goods dispatched for captive consumption, adjustment for Stock of work-in-Process, finished goods, recoveries for sales of scrap, wastage etc shall be made.

Note:

This definition deals with the elements of cost of *production ,adjustment for of work-in-process, finished goods and recoveries* from sale of scrap etc to be considered while calculating the cost of production for captivity consumed goods. *Details are indicated in the illustrated cost statement .*

4.2. Captive consumption:

Captive Consumption means the consumption of goods manufactured by one division or unit and consumed by another division or unit of the same organization or related undertaking for manufacturing another product(s).

Note:

This definition specifies the scope for application of CAS-4 which has also been explained in para 3.1 above.

4.3. Normal Capacity is the production achieved or achievable on an average over a period or season under normal circumstances taking into account the loss of capacity resulting from planned maintenance. (CAS-2)

Note:

CAS-2 defines Practical or Achievable capacity as “the maximum productive capacity of a plant reduced by the predictable and unavoidable factors of interruption pertaining to internal causes”. Thus, practical capacity is installed capacity minus the inevitable interruptions due to time lost for preventive maintenance, repairs, set ups, normal delays, weekly off days and holidays etc. Practical capacity does not consider external factors causing reduction in production e.g. lack of order.

Normal capacity for a defined period is the practical capacity minus the loss of productive capacity due to external factors. In other words Practical/Achievable capacity is after adjustment for internal causes from installed capacity and Normal Capacity is after adjustment for external causes. Method of determining the normal capacity is for absorption of fixed production overheads.

Illustration: 1 (Engineering industry)		
A	Installed capacity 500 Units per hour on 3 shifts basis	365x (8-1)x3x 500= 38.33 Lakhs units per annum
B1 B2	Practical/Achievable capacity after adjustment for internal causes: No. of working days 365 days minus weekly off 52 days minus 13 holidays minus 20 days annual maintenance (Preventive maintenance on weekly off) = 280 days Adjustment for Normal idle capacity for batch change over, lunch, personal needs etc = 1 hr per shift Practical capacity 280 days x(8 hrs minus 1 hr) x 3 shifts x 500=	29.40 Lakhs units per annum
C	Expected Capacity (adjustment for ***external factors**** such as lack of order due to prolonged recession ,etc (Based on past 3 years average (28.5 +25.5 + 26.5 lakhs units)/3 =	26.83 lakhs units per annum
D	Actual utilization during the year In terms of installed capacity = 28.0/38.33 x100 = 73.05%	28.0 units per annum
Illustration 2 (Process Industry- continuous operation)		
A	Installed capacity 4000 Tonnes per shift (on 3 shifts basis)	365x 3x 4000= 43.8Lakhs Tonnes per annum
B	Practical/Achievable capacity after adjustment for internal causes: No. of working days 365 days minus 35 days for annual maintenance /shut down 330 working days	330 days x 3 shifts x 4000 tonnes = 39.60 lakhs per annum
C	Normal Capacity (adjustment for external factors such as lack or order etc (Based on past 3 years average (38.5 +35.5 + 36.0 lakhs tonnes)/3 =36.67 Tonnes	36.67 tonnes per annum
D	Actual Utilization during the year In terms of installed capacity = 37.0/43.8X100 =84.47%	37.0 tonnes per annum

****external factors*** which are temporary in nature should not be considered for adjustment to normal capacity.

5. Determination of cost of production for captive consumption:

To determine the cost of production for captive consumption, calculation of different cost components and adjustments are explained below:

Note:

This part of the guidance notes deals with the method of calculation of cost of production for captive consumption. Each element of Cost of production is discussed in detail.

5.1 Material Consumed

Material Consumed shall include materials directly identified for production of goods such as:

(a) indigenous materials

(b) imported materials

(c) bought out items

(d) self manufactured items

(e) process materials and other items

Cost of material consumed shall consist of cost of material, duties and taxes, freight inwards, insurance, and other expenditure directly attributable to procurement. Trade discount, rebates and other similar items will be deducted for determining the cost of materials. Cenvat credit, credit for countervailing customs duty, Sales Tax set off, VAT, duty draw back and other similar duties subsequently recovered/ recoverable by the enterprise shall also be deducted.

Note:

Various types of materials used for production of goods have been indicated. Materials are also classified as direct material and indirect material. Direct materials identified for production is a part of material cost while indirect material is allocated to the cost centre or to the product. Direct material includes raw materials also. Before material enters the production process, it is called raw material.

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)
Dyes / Bulk Drugs (Active Pharmaceutical Ingredient- API)	Intermediates
Engineering Items	Components

Types of materials used:

It will depend on the type of product and process of manufacture involved. For example for production of engineering product both indigenous and imported materials may be used besides bought out items. In fact for such product, bought out material's cost are of significant. In process industry, it may be indigenous/imported raw materials and process materials.

The cost elements to be considered for determining the cost of material consumed have been indicated above. The Central Excise Law also provide for maintenance of records for accounting transaction in regard to receipt, purchase, manufacture, storage, sales or delivery of goods, including inputs and capital goods as the case may be, besides excise records for daily production report, daily stock account , Cenvat credit account for inputs, etc. In brief there has to be effective material management system, properly documented, correctly accounted for to arrive at quantity and cost of material consumed for different types of products produced/manufactured. The consumption is also reconciled with Profit and loss account.

Para 5.1.1 of CAS 6, Cost Accounting Standard on Material Cost, notified subsequently, deals with principles of valuation of receipt of material and these are broadly the same as provided under para 5.1 of CAS-4. CAS- 6 also provides that finance costs incurred in connection with the acquisition of materials (e.g. LC charges / Bank charges on purchases, cash discount on purchases) will not form part of material cost. Normal loss or spoilage of material prior to reaching the factory will be absorbed in the cost of materials net of amounts chargeable to suppliers for recovery as scrap. Losses due to shrinkage or evaporation and gain due to elongation or absorption of moisture before the material is received will be absorbed in material cost to the extent they are normal.

Unit Rate of Material Consumed:

The unit rate of material consumed is determined with respect to (i) the source / type of material consumed, and (ii) the method of valuation followed for issue of goods to production. Weighted average rate for issues for a period takes into account the value of material received at different rates from different sources for an item of material consumed.

Illustrations of working out landed cost of indigenous material and imported material are given below:

Indigenous Material:

The Landed Cost of indigenous material shall be calculated in the following manner.

Sl.	Particular of goods	Qty	Rate	Amount
1	ABC goods	11700	11.00	1,28,700
2	Basic Excise duty @ 16%			20,592
3	Cess on BED @ 2%			412
4	SHE Cess @ 1%			206
5	Total (1+2+3+4)			1,49,910
6	VAT 4%			5,996
7	Freight			15,600
8	Total (5+6+7)			1,71,506
9	Less : Cenvat (2+3+4)			21,210
10	Less : VAT (6)			5,996
11	Net Cost (8-9-10)			1,44,300

In the above case material cost is excluding Excise Duty, Cess on BED and VAT as these are adjustable against payment of Excise duty on finished goods and VAT against sales.

Imported Material:

The landed cost of imported material shall be calculated in the following manner.

Sl.	Particulars	Rate	Amount Rs.
1	Basic Value		100.00
2	Basic Custom Duty	5%	5.00
3	Sub Total (1 + 2)		105.00
4	CVD	8%	8.40
5	ED Cess on CVD	2%	0.17
6	SHE Cess on CVD	1%	0.08
7	Sub Total (3 to 6)		113.65
8	Custom Edu Cess	2%	2.27
9	Custom SHE Cess	1%	1.14
10	SAD	4%	4.68
11	Total Landed Cost		121.74
12	Cenvat Available (4+5+6+10)		13.33

Details of imported material are available in Bill of Lading/Entry. Benefit for export such as DEPB, Advance Authorization, Duty Free Import Authorization-DFIA and other export benefits shall not be reduced from the raw material cost as well as from cost of production., since the cost of production is being calculated for captive consumption meant for domestic production. Similarly, in case of consumption of duty free material imported under any export benefit scheme for domestic sales, differential duty payable not using such goods for intended purpose is to be taken into account.

Para 5.1.9 of CAS- 6 (Material cost) further provides that any subsidy/grant/incentive and any such payment received /receivable with respect to any material shall be reduced from cost of ascertainment of the cost of the cost object to which such amounts are related. If any subsidy / grant/ incentive is received that has to be adjusted from the cost of material.

Similarly any demurrage or detention charges or penalty levied by transport or other authorities shall not form part of the cost of materials.

Bought out components: Landed cost of indigenous / imported / bought out items shall be calculated on the above basis.

Self manufactured components: These will include any goods manufactured with raw material, indigenous or imported bought out material etc. by the manufacturer in the same factory for further use in manufacture of final product. For this purpose the cost of production of such self manufactured items shall be considered as material cost for the subsequent product, after considering inward freight, octroi, etc., as applicable. Intermediate products, goods transferred by another unit of the same manufacturer etc. shall be based on cost of production as per CAS-4.

Process material, colour and chemicals, packing materials: The cost of these shall be calculated on the same lines as above. In some cases, these items may get manufactured on job work basis from outside parties. In such cases, cost should consist of the cost of material supplied plus job work charges/processing charges paid to the job worker/processor. The incidental charges like freight, insurance, handling charges etc, if any shall also form cost of material.

In case of certain process materials like catalysts having longer process useful life, the cost of catalyst should be spread over its useful life.

Quantity of Material consumed:

The quantity of material consumed is to be worked out from material issue records from stores for such product. 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 end of the period. Some organizations follow "Back flush Costing "system for issue of material. As soon as a finished good is ready for stock, material is back flushed (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 at the end of the period. Abnormal consumption, if any, shall not from part of material consumption on products.

This 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.

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.

5.2 Direct Wages and Salaries:

Direct wages and salaries shall include house rent allowance, overtime and incentive payments made to employees directly engaged in the manufacturing activities.

Direct wages and salaries include fringe benefits such as:

(i) Contribution to provident fund and ESIS

(ii) Bonus/ ex-gratia payment to employees

(iii) Provision for retirement benefits such as gratuity and superannuation

(iv) Medical benefits

(v) Subsidised food

(vi) Leave with pay and holiday payment

(vii) Leave encashment

(viii) Other allowances such as children's education allowance, conveyance allowance which are payable to employees in the normal course of business etc.

Note:

Direct wages and salaries are termed as Employee cost. Employees cost are classified as direct employees cost and indirect employees cost. Direct employee cost is assigned to or linked with a cost centre or cost object. Indirect Employee Cost is the employee cost which cannot be assigned to a production / service cost centre/cost object, and is treated as Overhead as dealt later.

As per CAS 1 direct employee cost shall include the employee benefits like provident fund contribution, gratuity, ESI, overtime, incentives, bonus, ex-gratia, leave encashment, wages for holidays and idle time, Incentive payments, Provision for retirement benefits such as gratuity and superannuation, Subsidized food etc. If fringe benefits have not be identified with relevant cost centre, these should be allocated in the ratio of employee cost of the cost centres.

Illustration: Employee	**Amount paid**	**Basis of Allocation**	**Production**		**Service**		**Prod OH**
			A	**B**	**Power**	**Steam**	
Mr John	25000	Direct	25000				
Mr Smith	20000	Time (25:75)	5000	15000			
Mr KM	20000	Direct			20000		
Mr Anup	18000	Direct				18000	
Mr Ram	20000	Direct					20000
Mr Rohit	25000	Direct		25000			
Total	**128000**		**30000**	**40000**	**20000**	**18000**	**20000**
Fringe benefit	25600		6000	8000	4000	3600	4000
Fringe benefit allocated in the ratio direct employee cost							

The above table indicates employee cost has been assigned to respective Cost Centres /Service Centres. Where an employee has worked in different department/cost centres, it has been assigned on the basis of time spent.

The manufacturer prepares a detailed statement indicating allocation of Direct Employee Cost to different products and basis of allocation. Total Employee Cost shall be reconciled with financial accounts. VRS payment, if any, shall not form part of cost of production.

5.3 Direct Expenses

Direct expenses are the expenses other than direct material cost and direct employee's costs which can be identified with the product.

Direct Expenses Include:

(i) Cost of utilities such as fuel, power, water, steam, etc

(ii) Royalty based on production

(iii) Technical Assistance/ know –how fees

(iv) Amortized cost of moulds, patterns, patents etc

(v) Job charges

(vi) Hire charges for tools and equipment

(vii) Charges for a particular product designing etc.

Note:

Utilities include Power, water, steam, compressed air, Effluent Treatment etc. Some of the utilities are generated within the plant and others are purchased from outside source. Actual cost of utilities should be collected through utility cost centres and charged to user cost centres/departments on actual or technical estimates. In case meters have been installed, allocation of power/steam shall be as per actual reading. If any utility is supplied by a sister concern, the same shall be at landed cost. In case a utility cannot be identified with a product or service cost centre, the same may be treated as part of works overhead.

A separate cost statement for each of the utilities is to be prepared by the manufacturer. An illustration of steam and power utilities is given in the attached **Annexure 5 and 6.**

Royalty:

Royalty is payable either in relation to production or sales. If royalty payment is in respect of production of the goods captively consumed, then the same should be added as the cost element. If royalty is linked with sales volume or sales price, then royalty shall form part of selling overheads and therefore shall be out of the purview of cost of production. Royalty for Marketing and Distribution, if paid, will be excluded from cost of production. Sometimes, royalty payments are one time payment at the time of unit installation and are identified with the plant cost. It is capitalized and depreciated/ amortized.

Technical Assistance/Know-how fees:

Technical Assistance/know-how fees should be apportioned to products for which it is payable based on the payment/ provision for the relevant period as per agreement with the supplier and its impact shall be determined with reference to planned production.

Amortized cost of moulds, dies, patterns, designs, drawings etc.:

The cost of moulds, dies, patterns, patents etc should be apportioned to products for which such moulds, patterns, patents are used which are directly identifiable with the products, based on the useful life of the item.

Based on the representation received from foundry manufacturer, the department has clarified treatment of pattern cost vide MF (DR) Circular No. 170/4/96-CX 1(F.No.6/14/94-CX 1) dated 23.1.1996 as under:

> **"the proportionate cost of pattern has to be included in the assessable value of the castings even in cases where such patterns are being supplied by the buyers of the castings or are prepared / manufactured by the job worker at the cost of the buyer. In cases where there is a difficulty in apportioning the cost of pattern, apportionment can be made depending on the expected life and capability of the pattern and the quantity of castings that can be manufactured from it and thus working the cost to be apportioned per unit. For this purpose a certificate from a Cost Accountant may be accepted."**

Job / Processing charges:

Job Work Charges / Processing Charges which are directly identified or linked with the products will form part of direct expenses.

Hire charges for tools and equipment:

Hire charges in respect of tools and equipments which can be directly identified with a particular product will form part of direct expenses. Hire charges for tools and equipment for general use is in the nature of indirect expenses and is to be included in works overheads.

Charges for a particular product designing etc.:

Product design charges to the extent charged or amortized in the books of account in respect of tools and equipments which can be directly identified with a particular product will form part of direct expenses.

5.4 Works Overheads:

Works overheads are the indirect costs incurred in the production process.

Works 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 etc (v) Indirect employees cost connected with production activities (vi) Drawing and Designing department cost. (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 etc.

Note:

The word overhead is used for a type of cost that cannot be directly allocated to a cost centre or product, but can only be apportioned to cost units. Overheads comprise indirect materials, indirect employee costs and indirect expenses which are not directly identifiable or allocable to a cost object in an economically feasible manner. As per CAS-1, materials which are of small value and cannot be identified or allocated to a product/service are classified as indirect material e.g., consumables, spare parts, lubricants etc.

For the purpose of working out cost of production, classification of overheads according to function is necessary in order to ascertain the cost of each function.

The overheads are classified as:

I. Works overheads (also known as production overheads, factory overheads or manufacturing overheads)
II. Administration Overheads relating to manufacturing/ production activity
III. Administration Overheads relating to post production activity
IV. Selling overheads
V. Distribution overheads.

All the above items of overheads except (iii), (iv) and (v) will be part of cost of production. Further, it may be noted that as per the current practice, many organizations are clubbing administration expenses being incurred at Factory as a part of Production overheads. In such cases, there is no need to add any further share of administration expenses, Cost Accounting Standard 3, which deals with the methods of collection, allocation, apportionment of overheads to different cost centers and absorption thereof to products or services, should be followed to maintain uniformity in respect of classification and allocation of overheads.

A reconciliation statement showing the amount incurred under different heads of overheads and amount absorbed by different products used for captive consumption and for sale should be prepared by the assessee. The reconciliation will help in ensuring accuracy of cost statements.

Depreciation:

The depreciation on the fixed assets shall be as per the method of depreciation followed for the purpose of financial accounts as per rates specified under Companies Act, 1956. Depreciation on idle fixed assets shall be excluded from cost of production. Further, depreciation should not be calculated based on the replacement value or notional value on revaluation of the assets. As per CAS-4 Depreciation is part of works overhead..

Insurance premium for various assets and risk connected with production activity should be included in works overheads. However, insurance on loss of profit policy and finished goods in transit policy should not be part of works overhead. Lease rental on fixed asset shall be also considered under this head.

5.5 Quality Control Cost:

The quality control cost is the expenses incurred relating to quality control activities for adhering to quality standard. These expenses shall include salaries & wages relating to employees engaged in quality control activity and other related expenses.

Note:

Quality control cost shall include various costs related to Quality Control, Quality Assurance Department functions and activities such as inspection of incoming material, inspection during progressive stages of manufacture of product on completion of finished product, Testing, Analysis Charges, Fees / Charges paid to IS / QS/Quality certification expenses etc. Expenses shall be identified under major heads such as salaries and wages, ISO certification etc.

Though quality cost is a part of works overheads, CAS 4 specifies that it should be shown separately in the cost sheet. In case the cost of quality control cannot be separated from the works overheads, then it can be taken as a part of works overheads.

5.6 Research and Development Cost:
The research and development cost incurred for development and improvement of the process or the existing product shall be included in the cost of production.

Note:
Research and Development costs are the cost of undertaking research to improve quality of the present product or improve process of manufacture, develop a new product, market research etc.

Research and Development activities can be defined as any systematic and creative work undertaken in order to increase the stock of knowledge and use of this knowledge to devise new applications.

R & D activities include any one or more of the categories of research such as basic research, applied research and experimental research.

Basic research may be defined as any experimental or theoretical work undertaken primarily to acquire new knowledge of the underlying foundations of phenomena and observable facts, without any particular or specific application or use in view. The R & D cost for the existing product/ process shall be included in the cost of production. In case the company has followed a policy to treat a part of the R & D cost of existing product/process as deferred cost, such share applicable for the year/period will be included in cost of production.

Research Development Cost also forms a part of Works Overheads. However, CAS 4 states that the same is to be shown separately in the cost sheet. In case the expenses related to research and development activities cannot be separated from the works overheads, same can be taken as a part of works overheads.

R & D cost incurred for developing a new product should be excluded from calculation of cost of production.

5.7 Administrative Overheads:

Administrative overheads need to be analyzed in relation to production activities and other activities. Administrative overheads in relation to production activities shall be included in the cost of production. Administrative overheads in relation to activities other than manufacturing activities e.g. marketing, projects management, corporate office expenses etc. shall be excluded from the cost of production.

Note:

Administrative Overheads for production may include share from:

- Salaries of staff for administrative and other departments relating to production such as Accounts, Purchase, HRD, Production Planning, Security etc.
- General office expenses - like rent, lighting, rates & taxes, telephone, stationery, postage etc.
- Depreciation of office building, office equipment, furniture, vehicles, etc
- Repairs & Maintenance of office building, office equipment, furniture, vehicles, etc.
- Legal expenses in relation to factory.

The role of administration is to facilitate the manufacturing, general policy making and marketing activities. The administrative overheads shall be included in the cost of production only to the extent they are attributable to the factory. Administrative overheads in relation to activities other than manufacturing activities e.g. marketing, selling, depot/branches etc. shall be excluded from the cost of production.

Treatment of Head Office/Corporate Office Expenses:

Expenses of Head Office are booked separately. In a multi-location multi-product company, there are common activities like purchase, inventory management, finance, personnel, R & D, Quality Assurance, security, etc. Sometimes, these are centralized at one place i.e. Head Office and booked as head office expenses along with other activities like secretarial, project, treasury, investment, trading, etc. It is necessary to properly analyze the expenses of such activities of head office and allocate these to plants/products on fair and equitable basis. For example;

(i) HRD - on the basis of manpower in different plants,

(ii) Purchase Department expenses - on the basis of purchases,

(iii) Selling expenses - on the basis of turnover basis

Interest is also allocated to different plants on the basis of funds utilized. For captively consumed goods, since interest does not form part of cost of production, the same may be excluded from Corporate Overhead.

Freight and forwarding charges on dispatch of goods for captive consumption:

In case goods for captive consumption are dispatched from one factory premises to another factory premises, the cost of transportation incurred by sender of the goods is to be treated as cost of transportation under Rule 5 of the Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000, hence excluded from calculation of cost of production for CAS.

5.8 Packing Cost:

If product is transferred/dispatched duly packed for captive consumption, cost of such packing shall be included.

Packing cost includes both cost of primary and secondary packing required for transfer/dispatch of the goods used for captive consumption.

Note:

Packing cost includes both cost of primary and secondary packing required for transfer/ dispatch of the goods used for captive consumption.

Packing Cost includes:

I. Cost of Packing Material
II. Job charges paid for manufacture of packing material, if any.
III. Packing charges including salaries & wages of the persons involved in packing activity.
IV. Other expenses relating to packing activity.

Landed cost of the packing material should be calculated as per the guidelines given in para related to material cost. If product for captive consumption is transferred without packing (unpacked), packing cost need not be included in the cost of production. In case captive product is transferred on returnable/ durable packing container, pro-rata cost shall be estimated and charged based on the life of the container. In case packed goods are sent to job worker, the cost of packing will form part of cost of production, unless these are returned to buyer for re-use.

5.9 Absorption of overheads:

Overheads shall be analyzed into variable overheads and fixed overheads.

Variable Overheads are the items which change with the change in volume of production, such as cost of utilities etc.

Fixed overheads are the items whose value do not change with the change in volume of production such as staff salaries, rent etc.

The variable production overheads shall be absorbed in production cost based on actual capacity utilization.

The fixed production overheads and other similar items of fixed costs such as quality control cost, research and development costs, administrative overheads relating to manufacturing shall be absorbed in the production cost on the basis of the normal capacity or actual capacity utilization of the plant, whichever is higher.

Note:

Absorption of overheads and calculation of cost of production: Variable Overheads comprise of expenses which vary in proportion to the change in the volume of production e.g. variable portion of salaries and wages, cost of utilities, royalty, job charges, etc.

Fixed overheads comprise of expenses which do not vary with the change in volume of production such as fixed portion of salaries and wages, rent, insurance, technical assistance/know-how fees, amortized cost of moulds, patterns, patents, hire charges for tools and equipments, charges for a particular design, various items of works overheads listed in para 5.4, quality control and R & D, etc.

The principles laid down in CAS-3, which deals with the methods of collection, allocation, apportionment of overheads to different cost centers and absorption thereof to products or services on a consistent and uniform basis in the preparation of cost statements should be followed for the purpose of allocation and absorption of overheads.

The variable production overheads shall be absorbed in cost of product, based on actual capacity utilization.

When the plant is producing or utilizing capacity below normal capacity, the absorption of fixed production overheads should be done on normal capacity irrespective of actual capacity utilized.

Illustration : Determination of Abnormal Overhead Cost due to low capacity Utilization due to strike (Product Bulk Carrier)	
Installed capacity	150 Nos. Bulk Carrier
Normal Capacity fixed after accounting for normal unavoidable interruptions	130 Nos. Bulk Carrier
Production during : 2005-06 2006-07 2007-08	 110 Nos. Bulk Carrier 125 Nos. Bulk Carrier 53 Nos. Bulk Carrier
Production during 2007-08 was lower due to strike by contract labour for 5 months which resulted in loss of production. Therefore it was decided by the management to remove cost portion of fixed overheads incurred during the strike period and the same was shown as a reconciliation item (Abnormal Overhead) in the Profit Reconciliation Statement for Profit as per Cost Accounts and Profit as per financial Account. Detailed working is as under:	
Variable Overheads for 53 Bulk carriers Variable Overhead per Bulk Carrier	Rs 5,30,000 Rs 10,000
(A) Fixed Overheads for the year based on Normal Capacity of 130 Bulk Carriers (B) Abnormal Fixed Overhead due to unutilized capacity (C) Share of Fixed Overhead for Actual Production (D) Fixed Overhead per Bulk Carrier	Rs 13,26,000 Rs 7,85,400 Rs 5,40,600 Rs 10,200
Overheads Absorbed (a) Variable Overhead (b) Fixed Overhead (c) Total	 Rs 5,30,000 Rs 5,40,600 Rs 10,70,600
Fixed Overhead unabsorbed (treated as an item of reconciliation between Costing P&L A/c & Financial A/c	Rs 7,85,400

It is advisable that a reconciliation statement showing the amount incurred under different heads of overheads and amount absorbed by different products should be prepared for this purpose. The reconciliation will help in ensuring accuracy of cost of production in cost statements.

5.10 Valuation of Stock of work-in-progress and finished goods

Stock of work-in-progress shall be valued at cost on the basis of stages of completion as per the cost accounting principles. Similarly, stock of finished goods shall be valued at cost. Opening and closing stock of work-in-progress shall be adjusted for

calculation of cost of goods produced and similarly opening and closing stock of finished goods shall be adjusted for calculation of goods dispatched.

In case the cost of a shorter period is to be determined, where the figures of opening and closing stock are not readily available, the adjustment of figures of opening and closing stock may be ignored.

Note:

The valuation is required at the time of removal of the goods. Therefore, the costing will be for the future period and will be done at projected costs, projected production, projected capacity utilisation. In such cases valuation of opening stock and closing stock of WIP and Finished goods need not be considered. Sub para of Para 5.10 of the standard itself provides that for shorter period the adjustment of figures of opening and closing stock may be ignored.

However, if the cost of production is to be worked out for the past period then due consideration should be given to opening and closing stock of WIP and Finished goods.

5.11 Treatment of Joint Products and By-Products

A production process may result in more than one product being produced simultaneously. In case joint products are produced, joint costs are allocated between the products on a rational and consistent basis. In case by-products are produced, the net realisable value of by-products is credited to the cost of production of the main product.

For allocation of joint cost to joint products, the sales values of products at the split off point i.e. when the products become separately identifiable may become the basis. Some other basis may be adopted. For example, in case of petroleum products, each product is assigned certain value based on its certain properties, may be calorific value and these values become the basis of apportionment of joint cost among petroleum products.

Note:

The cost of production of Joint Products can be worked out at split off point as per the generally accepted cost accounting principles.

By-products are sold:

(1) In original form without further processing and (2) those require further processing in order to be saleable. In such case, the main product is credited with the sale realization (gross/net) as the case may be. In other words expenses incurred to bring by-product to marketable conditions shall be adjusted from the sale of by product and net realizable value of by-product shall be credited to cost of production of main product.

In case sale realization is not available, credit to main product at substitute value of by product may be given.

5.12 Treatment of Scrap and Waste:

The production process may generate scrap or waste. Realized or realizable value of scrap or waste shall be credited to the cost of production.

In case, scrap or waste does not have ready market and it is used for reprocessing, the scrap or waste value shall be taken at a rate of input cost depending upon the stage at which such scrap or waste is recycled. The expenses incurred for making the scrap suitable for reprocessing shall be deducted from value of scrap or waste.

Illustration

Stage	Input material cost	Processing cost	Total
	(Rs/MT)	(Rs/MT)	(Rs/MT)
1	2000	500	2500
2	2500	1000	3500
3	3500	1000	4500

If during the production process at stage 3, the scrap is produced and the same is recycled at stage 2 after making an expenditure of Rs 200 per MT to make it suitable for re-processing at stage 2, then scrap will be valued @ Rs (2500 - 200) i.e. Rs 2300. If no expenditure is involved to make scrap re-usable, the scrap value will be @ Rs 2500. The scrap value for the scrap produced during a period calculated at the rate as explained above may be deducted to find out the cost of production for the period.

Note:

The above illustration refers to recycled waste or inferior/ sub-standard production. Normal process loss is ignored for the sake of simplicity. If the cost calculation is done for the past period and if the actual sales realization of scrap is available, then the same shall be deducted after adjustment for opening and closing stock of scrap (to arrive at the realizable value of scrap generated) from the cost of production for the relevant period. In case the scrap is not disposed off/sold during the period and lying in the stock, the realizable value of scrap can be calculated from the quotations/market rate.

5.13 Miscellaneous Income:

Miscellaneous income relating to production shall be adjusted in the calculation of cost of production, for example income from sale of empty containers used for dispatch of the captively consumed goods produced under reference.

Note:

The miscellaneous income needs to be analyzed in detail for its nature (capital / revenue) and if not related to production activities, the same may be ignored. The income arising out of sale of used empty containers of the input materials shall be adjusted in the cost of production.

5.14 Inputs received free of cost:

In case any input material, whether of direct or indirect nature, including packing material is supplied free of cost by the user of the captive product, the landed cost of such material shall be included in the cost of production.

Note:

Landed cost of inputs received free of cost should be calculated as per the guidelines given in para related to material cost.

5.15 Moulds, Tools, Dies & Patterns etc received free of cost:

The amortization cost of such items shall be included in the cost of production.

Note:

Amortization should be done on the basis of estimated production that can be achieved during the life of the Mould, Tool, Die or Pattern. After the estimated life, if the moulds, dies are still in use and if the full cost has already been amortized, then amortization cost need not be considered for the purpose of cost of production. However, for this purpose, proper record needs to be maintained. The estimated life / estimated production may be certified by technical person. Where the dies, moulds etc are supplied by the customer, the necessary details may be obtained from the customer.

In case of dies, moulds etc purchased / manufactured in-house, its cost should be ascertained and above principles shall be adopted for amortization. Proportionate cost of tools, dies, moulds etc cannot be charged on the basis of depreciation because depreciation is a period cost and amortisation is linked with the utilisation of tools, dies etc.

5.16 Interest and Financial Charges:

Interest and financial charges being a financial charge shall not be considered to be a part of cost of production.

Note**:**

Interest and financial charges are finance cost, and do not form part of cost of production for captive consumption. Interest and financial charges can be on bank borrowings, amortization of discounts or premium related to borrowings, amortization of ancillary cost incurred in connection with the arrangements of borrowings, finance charges in respect of finance leases and exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest costs.

If interest is an item shown under corporate overhead, the same shall be excluded.

Logic for excluding interest from captive consumption is that for purpose of assessable value a margin of 10% of cost of production is added to take care of return on capital employed. (Normally return on capital employed takes care of return on owners' equity and interest on borrowed fund). To make the calculation simple above approach of 110% of cost of production of captively consumed good is taken as assessable value.

5.17 Abnormal and Non-recurring Cost

Abnormal and non-recurring cost arises due to unusual or unexpected occurrence of events, such as heavy break down of plants, accident, market condition restricting sales below normal level, abnormal idle capacity, abnormal process loss, abnormal scrap and wastage, payments like VRS, retrenchment compensation, lay-off wages etc. The abnormal cost shall not form the part of cost of production.

Note:

In addition to the above events, cost of trial run for production and loss due to fire and natural calamities are treated as abnormal and non-recurring cost, and excluded from cost of production. Further, expenses which are not related to manufacturing activity and which do not form part of the cost as per the generally accepted cost accounting principles may be excluded for this purpose e.g. - donations, loss on sale of fixed assets, etc.

6. Cost Sheet:

The cost sheet should be prepared in the format as per Appendix-1 or as near thereto as possible. The manufacturer will be required to maintain cost records and other books of account in a manner, which would facilitate preparation and verification of the cost of production. For manufacturers covered under the ambit of Section 209(1)(d) of the Companies Act, 1956, i.e., where Cost Accounting Records are statutorily required to be maintained, the Cost Accountant certifying the cost of production for captive consumption shall verify the correctness of the cost from these records. However, for manufacturers not covered under Section 209(1)(d) of the Companies Act, 1956, it is desirable that they also maintain cost accounting records in line with the records so prescribed so as to facilitate determination and certification of cost of production.

Note:

Separate cost sheet shall be prepared for each type/variety/ description of product used for captive consumption. The cost sheet may be suitably modified to cover the special features, if any, of the industry.

Two illustrations of Cost Sheet are appended to this Chapter. Appendix 1 is for component costing for future projection. Adjustment for opening /closing WIP and finished goods is not applicable in this case. Appendix 2 is for past cost and adjustment for opening / closing WIP and finished goods is taken into account for determining the cost of production.

APPENDIX 1			
Name of the Manufacturer **Address of the Manufacturer**		**ABC Ltd** **GT Road,Ghaziabad**	
Registration No of Manufacture		**ABB75**	
Description of product captive **Excise Tariff Heading:**		**Component** **XK7**	
Statement of Cost of production of Component A manufactured of during the period of 1st April …..			
		QTY	
Q1	**Quantity Produced (Unit of Measure)**	**250**	
Q2	**Quantity Despatched (Unit of Measure)**		
	Particulars	**Total cost (Rs)**	**Cost /unit (Rs)**
1	Material consumed	35,000	140.00
2	Direct Wages and Salaries	9,500	38.00
3	Direct Expenses	350	1.40
4	Works Overheads	1,500	6.00
5	Quality Control Cost	750	3.00
6	Research & Development Cost	90	0.36
7	Administrative Overheads (relating to production activity	35	0.14
8	Total (1 to 7)	47,225	188.90
9	Add : Opening stock of Work – in – progress	-	0.00
10	Less : Closing stock of work –in –progress	-	0.00
11	Total (8+9+10)	**47,225**	188.90
12	Less : Credit for Recoveries /Scrap/By-products/misc income	-	0.00
13	Packing cost	-	0.00
14	Cost of production	**47,225**	188.90
15	Add :Inputs received free of cost	-	0.00
16	Add : Amortised cost of Moulds, Tools, Dies & Patterns etc received free of cost	-	0.00
17	Cost of Production for goods produced for captive consumption (14+15+16)	**47,225**	188.90
18	Add : Opening stock of finished goods	-	0.00
19	Less : Closing stock of finished goods	-	0.00
20	Cost of production for goods dispatched (17+18-19)	**47,225**	188.90

Note: Breakup of material cost is to be verified in terms of quantity and type of material used in the component. Above cost sheet is for future projections, it is to be checked that estimates are based on realistic data such as project report or any previous period data available. Other expenses related to the product are to be considered after proper scrutiny of the relevant records .

APPENDIX -2			
Name of the manufacturer **Address of the Manufacturer**		**XYZ** **ABC Nagar Kanpur**	
Description of product captively consumed **Excise Tariff Heading**		**Processed cloth**	
Statement of Cost of production of xyz manufactured of during the period of 1Apt -31March 2008			
		Qty	
Q1	**Quantity Produced (Unit of Measure)**	**34000**	
Q2	**Quantity Despatched (Unit of Measure)**	**34150**	
	Particulars **Cost details**	**Total cost (Rs)**	**Cost /unit (Rs)**
1	**Material consumed :** **Grey cloth** **Colours & Chemicals**	 827560 100182	 24.34 2.95
2	Direct Wages and Salaries :	6460	0.19
3	Utility : Power Steam Cost Heat Cost	 27200 44604 14620	 0.80 1.31 0.43
4	Works Overheads	60825	1.79
	Depreciation	19040	0.56
5	Quality Control Cost	-	-
6	Research & Development Cost	-	-
7	Administrative Overheads	5780	0.17
8	Total (1 to 7)	1106271	32.54
9	Add : Opening stock of Work – in – progress	22703	
10	Less : Closing stock of work –in –progress	33711	
11	Total (8+9+10)	**1095263**	32.07
12	Less : Credit for Recoveries /Scrap/By-products/misc income	37719	1.10
13	Packing cost	-	-
14	Cost of production	1057544	30.97
15	Add :Inputs received free of cost	-	-
16	Add : Amortised cost of Moulds, Tools, Dies & Patterns etc received free of cost	-	-
17	Cost of Production for goods produced for captive consumption (14+15+16)		
18	Add : Opening stock of finished goods	6558	0.19
19	Less : Closing stock of finished goods	6176	0.18
20	Cost of production for goods dispatched (17+18-19)	1057926	30.98

Certification:

The responsibility of preparation of cost sheet is that of the management. After cost sheet has been authenticated by company's authorized representative, cost accountant in practice has to certify the same as per certificate appended below the cost sheet. Cost accountant shall carry out test checks with reference to books of account, cost records and other records required for the purpose. Records required under Rule 22 relating to receipt, purchases, manufacture storage, sales or delivery of goods inputs, etc may be scrutinized. He should ensure that cost data reflect true and fair view of the cost of production. Suggested list of test check to be carried out are given below.

Test checks will depend upon the type of organization i.e. covered under maintenance of cost accounts records as required under Section 209(1) (d) and cost audit thereof under section 233B of the Companies Act 1956. Cost accounting records and cost report may be examined. Based on such study; test checks required may be decided.

Other organizations are:

1. Not covered under statutory maintenance of cost accounting records but have goods cost accounting system and proper records are maintained. In such cases cost records should be reviewed and information shall be called for the purpose
2. Do not maintain cost records at all. Organization shall submit the relevant records and data on the basis of which cost sheet has been prepared with reference to financial and excise records relating to raw material, production etc. With computerized accounting system, organization can supply the necessary data required for the purpose.

Details of product and its manufacturing process:

Examine the material accounting systems from purchase to issue of material. Compare the norms of consumption of input of materials as mentioned in ER,4 5 and ER 6 for financial information. If the product is already being produced, consumption shall be compared with previous period. Test check some issue vouchers relating to raw material and process material. If breakup of material cost is not indicated in the cost statement, ask for separate details item-wise. The basis of valuation shall be as per financial accounts. If the method of valuation is changed, it should be ensured that it does not result in undervaluation of cost of material.

Compare consumption of major raw material as shown in annual accounts.
Check by product / waste is being properly accounted for and credit is given to the main raw material.

Review procedure of employee cost booking, direct expenses and other overheads relating to classification and allocation and absorption. (Breakup of Overhead into fixed and variable overhead).

Check that the expenses as exhibited in the cost sheet have been properly worked out as provided under CAS-4.

Obtain a certification from the management that cost of design, mould, pattern etc used in manufacture of the product under certification is included in the cost of certificate. Often, such activities are being taken up at a place other than the factory. In such case, chances of exclusion of such costs are high and found difficult to link on the basis of the records made available.

Authentication on cost sheet, workings and/or declaration shall, preferably, obtained from the professional accountant of the company.

7. Disclosure:

(i) If there is any change in cost accounting principles and practices during the concerned period which may materially affect the cost of production in terms of comparability with previous periods, the same should be disclosed.

(i) If opening stock and closing stock of work -in-progress and finished goods are not readily available for certification purpose, the same should be disclosed.

Note:
Disclosures shall be made in the body of the Cost Statement or as a foot note or as a separate schedule or below the certificate.

Annexure I

EXTRACT OF SECTION 4 OF CENTRAL EXCISE ACT, 1944

4. Valuation of excisable goods for purposes of charging of duty of excise.

1) Where under this Act, the duty of excise is chargeable on any excisable goods with reference to their value then, on each removal of the goods, such value shall -
    a. In a case where the goods are sold by the assessee, for delivery at the time and place of the removal, the assessee and the buyer of the goods are not related and the price is the sole consideration for the sale, be the transaction value;
    b. In any other case, including the case where the goods are not sold be the value determined in such manner as may be prescribed.
2) The provisions of this section shall not apply in respect of any excisable goods for which a tariff value has been fixed under sub-section (2) of section 3.
3) For the purposes of this section, -
    a) "assessee' means the person who is liable to pay the duty of excise under this Act and includes his agent:
    b) persons shall be deemed to be "related" if –
        I. they are inter-connected undertakings;
        II. they are relatives;
        III. amongst them the buyer is a relative and a distributor of the assessee, or a sub-distributor of such distributor; or
        IV. they are so associated that they have interest, directly or indirectly, in the business of each other.

    Explanation: In this clause-

    (i) "inter-connected undertakings" shall have the meaning assigned to it in clause (g) of section 2 of the Monopolies and Restrictive Trade Practices Act, 1969; and

    (ii) "relative" shall have the meaning assigned to it in clause (41) of section 2 of the Companies act, 1956;

c) "Place of removal" means-

I. a factory or any other place or premises of production or manufacture of the excisable goods;

II. A warehouse or any other pace or premises wherein the excisable goods have been permitted to be deposited without payment of duty; from where such goods are removed;

d) "transaction value" means the price actually paid or payable for the goods, when sold, and includes in addition to the amount charged as price, any amount that the buyer is liable to pay to, Or on behalf of, the assessee, by reason of , or in connection with the sale, whether payable at the time of the sale or at any other time, including, but not limited to, any amount charged for, or to make provision for, advertising or publicity, marketing and selling organization expenses, storage, outward handling, servicing, warranty, commission or any other matter; but does not include the amount of duty of excise, sales tax and other taxes, if any, actually paid or actually payable on such goods.

ANNEXURE II

CENTRAL EXCISE VALUAION (DETERMINATION OF PRICE OF EXCISABLE GOODS) RULES, 2000

Notification No. 45/2000-C.E. (N.T.) dated 30-6-2000 [Effective from 1-7-2000].

Amended by

Notification No. 11/2003-C.E. (N. T.), dated 1-3-2003

Notification No. 60/2003-C.E. (N.T.), dated 05-08-2003

Notification No. 09/2007-C.E. (N. T.), dated 1-3-2007

[Issue by the Ministry of Finance (Department of revenue) vide F. No. 354/81/2000-TRU; Published in the Gazette of India Extraordinary Part II, Section 3, sub-section (i) dated 30.6.2000]. NOTIFICATION [NO. 45/2000- Central Excise (N.T.)]

G.S.R.575 (E):- In exercise of the powers conferred by section 37 of the Central Excise Act, 1944 (1of 1944), and in supersession of the Central Excise (Valuation) Rules, 1975 except as respect things done or omitted to be done before such supersession, the Central Government hereby makes the following rules, namely:-

1. (1) These rules may be called the Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000.

   (2) They shall come into force on and from the 1st day of July, 2000.

CHAPTER I

PRELIMINARY

2. In these rules, unless the context otherwise requires:-

a) "Act" means the Central Excise Act, 1944 (1of 1944)
b) "normal transaction value" means the transaction value at which the greatest aggregate quantity of goods are sold ;
c) "value" means the value referred to in section 4 of the Act;
d) words and expressions used in these rules and not defined but defined in the Act shall have the meanings respectively assigned to them in the Act.

CHAPTER II

DETERMINATION OF VALUE

3. The value of any excisable goods shall, for the purposes of clause (b) of sub-section (1) of section 4 of the Act, be determined in accordance with these rules.

4. The value of the excisable goods shall be based on the value of such goods sold by the assessee for delivery at any other time nearest to the time of the time of the removal of goods under assessment, subject, if necessary, to such adjustment on account of the difference in the dates of delivery of such goods and of the excisable goods under assessment, as may appear reasonable.

5. Where any excisable goods are sold in the circumstances specified in clause (a) of sub-section (1) of section 4 of the Act except the circumstance in which the excisable goods are sold for delivery at a place other than the place of removal, then the value of such excisable goods shall be deemed to be the transaction value , excluding the actual cost of transportation from the place of removal upto the place of delivery of such excisable goods.

Explanation 1: "Cost of transportation includes"

I. the actual cost of transportation, and
II. In case where freight is averaged, the cost of transportation calculated in accordance with generally accepted principles of costing.

Explanation 2: For removal of doubts, it is clarified that the cost of transportation from the factory to the place of removal, where the factory is not the place of removal, shall not be excluded for the purposes of determining the value of excisable goods.

6. Where the excisable goods are sold in the circumstances specified in clause (a) of sub section (1) of section 4 of the Act except the circumstance in where the price is not the sole consideration for sale, the value of such goods shall be deemed to be the aggregate of such transaction value and the amount of money value of any additional consideration flowing directly or indirectly from the buyer to the assessee.

Explanation 1: For removal of doubts, it is hereby clarified that the value, apportioned as appropriate, of the following goods and services, whether supplied directly or indirectly by the buyer free of charge or at reduced cost for use in connection with the production and sale of such goods, to the extent that such value has not been included in the price actually paid or payable, shall be treated to be the amount of money value of additional consideration flowing directly or indirectly from the buyer to the assessee in relation to sale of the goods being valued and aggregated accordingly, namely:-

I. Value of materials, components, parts and similar items relatable to such goods;
II. Value of tools, dies, moulds, drawings, blue prints, technical maps and charts and similar items used in the production of such goods;
III. Value of materials consumed, including packaging materials, in the production of such goods;
IV. Value of engineering, development, art work, design work and plans and sketches undertaken elsewhere than in the factory of production and necessary for the production of such goods.

Explanation 2 – Where an assessee receives any advance payment from the buyer against delivery of any excisable goods , no notional interest on such advance shall be added to the value unless the Central Excise Officer have evidenced to the effect that the advance received has influenced the fixation of price of the goods by way of charging a lesser price from or by offering a special discount to the buyer who has made the advance deposit.

Illustration 1: X an assessee, sells his goods to Y against full advance payment at Rs 100 per piece. However, X also sells such goods to Z without any advance payment at the same price of Rs 100 per piece. No notional interest on the advance received by X is includible in the transaction value.

Illustration 2: A an assessee manufactures and supplies certain goods as per design and specification furnished by B at a price of Rs 10 lakhs. A takes 50% of the price as advance against these goods and there is no sale of such goods to any other buyer. There is no evidence available with the Central Excise Officer that the notional interest on such advance has resulted in lowering of the prices. Thus , no notional interest on the advance received shall be added to the transaction value.

7. Where the excisable goods are not sold by the assessee at the time and place of removal but are transferred to a depot, premises of a consignment agent or any other place or premises (hereinafter referred to as "such other place") from where the excisable goods are to be sold after their clearance from the place of removal and where the assessee and the buyer of the said goods are not related and the price is the sole consideration for the sale, the value shall

be the normal transaction value of such goods sold from such other place at or about the same time and, where such goods are not sold at or about the same time, at the time nearest to the time of removal of goods under assessment.

8. Where the excisable goods are not sold by the assessee but are used for consumption by him or on his behalf in the production or manufacture of other articles. The value shall be one hundred and ten per cent of the cost of production or manufacture of such goods.

9. When the assessee so arranges that the excisable goods are not sold by an assessee except to or through a person who is related in the manner specified in either of sub clauses (ii) or (iii) or (iv) of clause (b) of sub-section (3) of section 4 of the Act, the value of the goods shall be the normal transaction value at which these are sold by the related person at the time of removal, to buyer (not being related person); or where such goods are not sold to such buyers, to buyers (being related person), who sells such goods in retail:

   Provided that in a case where the related person does not sell the goods but uses or consumes such goods in the production or manufacture of articles, the value of goods shall be determined in the manner specified in rule 8.

10. When the assessee so arranges that the excisable goods are not sold by him except to or through an inter-connected undertaking, the value of goods shall be determined in the following manner, namely:-

    a) If the undertakings are so connected that they are also related in terms of sub-clause (ii) or (iii) or (iv) of clause (b) of sub-section (3) of Section 4 of the Act or the buyer is a holding company or subsidiary company of the assessee, then the value shall be determined in the manner prescribed in rule 9.

       Explanation:- In this clause "holding company" and "subsidiary company" shall have the same meanings as in the Companies Act, 1956 (1 of 1956).

    b) In any other case, the value shall be determined as if they are not related persons for the purpose of sub-section (1) of section 4.

10A. Where the excisable goods are produced or manufactured by a job-worker, on behalf of a person (hereinafter referred to as principal manufacturer), then, -

(i) in a case where the goods are sold by the principal manufacturer for delivery at the time of removal of goods from the factory of job-worker, where the principal manufacturer and the buyer of the goods are not related and the price is the sole consideration for the sale, the value of the excisable goods shall be the transaction value of the said goods sold by the principal manufacturer;

(ii) In a case where the goods are not sold by the principal manufacturer at the time of removal of goods from the factory of job-worker, but are transferred to some other place from where the said goods are to be sold after their clearance from the factory of job-worker and where the principal manufacturer and buyer of the goods are not related and the price is the sole consideration for the sale, the value of the excisable goods shall be the normal transaction value of such goods sold from such other place at or about the same time and, where such goods are not sold at or about the same time, at the time nearest to the time of removal of said goods from the factory of job-worker;

(iii) in a case not covered under clause (i) or (ii), the provisions of foregoing rules, wherever applicable, shall mutatis mutandis apply for determination of the value of the excisable goods:

Provided that the cost of transportation, if any, from the premises, wherefrom the goods are sold, to the place of delivery shall not be included in the value of excisable goods.

Explanation – For the purposes of this rule, job-worker means a person engaged in the manufacture or production of goods on behalf of a principal manufacturer, from any inputs or goods supplied by the said principal manufacturer or by any other person authorized by him.

11. If the value of any excisable goods cannot be determined under the foregoing rules, the value shall be determined using reasonable means consistent with the principles and general provisions of these rules and sub-section (1) of section 4 of the Act.

ANNEXURE-III

Circular No. 692/08/2003-CX 13th February, 2003 F.No.6/29/2002-CX.I

Government of India

Ministry of Finance and Company Affairs

Department of Revenue

Subject:- Valuation of goods captively consumed.

I am directed to say that on introduction of Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000, w.e.f. 1.7.2000, it was clarified by the Board vide Circular No.354/81/2000TRU dated 30.6.2000 (para 21) that for valuing goods which are captively consumed, the general principles of costing would be adopted for applying Rule 8. The Board has interacted with the Institute of Cost & Works Accountants of India (ICWAI) for developing costing standards for costing of captively consumed goods.

The Institute of Cost & Works Accountants of India [ICWAI] has since developed the Cost Accounting Standards, CAS 2, 3 and 4, on capacity determination, overheads & cost of production for captive consumption, respectively, which were released by the Chairman , CBEC on 23.1.2003.

It is, therefore, clarified that cost of production of captively consumed goods will henceforth be done strictly in accordance with CAS-4. Copies of CAS-4 may be obtained from the local Chapter of ICWAI.

Board’s Circular No.258/92/96-CX dated 30.10.96, may be deemed to be modified accordingly so far as it relates to determination of cost of production for captively consumed goods.

This Circular may be brought to the notice of the field formations.

Suitable Trade Notices may be issued for the benefit of the Trade.

Hindi version will follow.

Receipt of these instructions may be acknowledged

ANNEXURE-IV

CASE NO.: Appeal (civil) 2947-2948 of 2001

PETITIONER: Commissioner of Central Excise, Pune

RESPONDENT: M/s. Cadbury India Ltd.

DATE OF JUDGEMENT: 01/08/2006

BENCH: Ashok Bhan & Markandey Katju

JUDGEMENT : (with Civil Appeal Nos.1856-1857/2002, 5232-5233/2003,1425/2005 and 2878-2879/2005) MARKANDEY KATJU, J. Civil Appeals Nos. 2947-2948/2001 have been filed against the impugned final order dated 28.9.2000 passed by the Customs Excise and Gold (Control) Appellate Tribunal, West Regional Bench at Mumbai in Appeal No.E/1021, 1022/2000-MUN.

Heard learned counsel for the parties.

The question involved in these appeals is about the valuation of milk crumbs, refined milk chocolate and four other products manufactured by the respondent - M/s. Cadbury India Limited, in its factory at Induri, Pune and captively consumed in that factory and other factories of the respondent in the manufacture of chocolate. No part of these products are sold by the respondent.

The respondent had sought valuation of these goods under Rule 6(b)(ii) of the Central Excise (Valuation) Rules, which provides for basing the valuation on such goods on the "cost of production on manufacture including profits, if any, the assessee would have earned in the sale of such goods."
The assessee had showed the price of these goods supported by a statement verified by a chartered accountant. The statement indicated the cost of edible and packing material used in the manufacture including its overheads. A separate statement in support of the profit added was formulated and these assessments were provisionally approved.

At the time of the finalization of the assessment, the department took the view that the value of the goods should include the labour cost, direct expenses, total factory expense, administration expenses, travelling expense, insurance premium, advertising expense and interest. The Assistant Commissioner added these elements to the declared value. He added the total expenses of the company as shown in the balance sheet and deducted the cost material. A percentage of this cost of the remaining figure was treated as the factor by which the assessable value should be increased.

In appeal the Commissioner (Appeals) upheld the order of the Assistant Commissioner. He held that since Rule 6(b)(ii) itself specified including the profit on the goods captively consumed hence this indicated the intention in the rule that the valuation should be brought to the level of the sale value of the goods and hence this includes all expenses referred to above. The Commissioner (Appeals) also relied on the circular dated 30.10.1996 issued by the Board relating to captively consumed goods. He has also relied upon paragraph 49 of the Supreme Court's judgment in Union of India vs. Bombay Tyres International AIR 1984 SC 420. In further appeal the Tribunal set aside the orders of the Commissioner and the

Assistant Commissioner. The Tribunal held that sub-rule (ii) of Rule 6(b) can be invoked only in a situation where the goods are not sold and there are no comparable goods. The Tribunal held that the expenses other than the cost of manufacture, cost of raw materials and the profit would not be includible in the assessable value.

The issue in the present case is about the value of the goods captively consumed by the respondent. The assessee has contended that there is no dispute that these intermediate goods are not marketable and are not bought and sold in the market. Hence the valuation of these intermediate goods has to be done according to Rule 6(b)(ii) of the Central Excise (Valuation) Rules, 1975.

Rule 6(b)(ii) reads as follows : "Rule 6 If the value of the excisable goods under assessment cannot be determined under Rule 4 or Rule 5, and a) (b) (i) (ii) if the value cannot be determined under sub-clause (i), on the cost of production or manufacture including profits, if any, which the assessee would have normally earned on the sale of such goods; "

According to settled principles of accountancy only the elements that have actually gone into the manufacture/production of these intermediates i.e. sum total of the direct labor cost, direct material cost, direct cost of manufacture and the factory overheads of the factory producing such intermediate products are included in the cost of production. The Appellant produced alongwith the reply to the Show Cause Notice the following authoritative texts: Wheldon's Cost Accounting and Costing Methods, Cost Accounting methods by B K Bhar, Principles of Cost Accounting by N.K. Prasad, Glossary of Management Accounting Terms by ICWAI.

In CCE v. Dai Ichi Karkaria Ltd., (1999) 7 SCC 448, at page 459 it has been held that the normal principles of accountancy shall be applied to determine the cost. In this decision this Court observed:
"Learned Counsel for the respondents drew our attention to the judgment of this Court in Challapalli Sugar Ltd. v. CIT. The Court was concerned with "written-down value". The "written-down value" had to be taken into consideration while considering the question of deduction on account of depreciation and development rebate under the Income Tax Act.

"Written-down value" depended upon the "actual cost" of the assets to the assessee.

The expression "actual cost" had not been defined in the Income Tax Act, 1922 and the question was whether the interest paid before the commencement of production on the amount borrowed for the acquisition and installation of the plant and machinery could be considered to be a part of the "actual cost" of the assets to the assessee. As the expression "actual cost" had not been defined, this Court was of the view that it should be construed "in the sense which no commercial man would misunderstand. For this purpose, it could be necessary to ascertain the connotation of the above expression in accordance with the normal rules of accountancy prevailing in commerce and industry". Having considered authoritative books in this regard, this Court said that the accepted accountancy rule for determining the cost of fixed assets was to include all expenditure necessary to bring such assets into existence and to put them in a working condition. That rule of accountancy had to be adopted for determining the "actual cost" of the assets in the absence of any statutory definition or other indication to the contrary."

Subsequent to the filing of these appeals, the Institute of Cost and Works Accountants of India (ICWAI) has laid down the principles of determining cost of production for captive consumption and formulated the standards for costing : CAS-4. According to CAS-4 the definition of “cost of production” is as under :
“4.1. Cost of Production: Cost of Production shall consist of Material consumed, Direct wages and salaries, Direct expenses, Works overheads, Quality Control cost, Research and Development cost, Packing cost, Administrative Overheads relating to production.” The cost accounting principles laid down by ICWAI have been recognized by the Central Board of Excise and Customs vide Circular No.692/8/2003 CX dated 13.2.2003. The circular requires the department to determine the cost of production of captively consumed goods strictly in accordance with CAS-4.

The Tribunal in the case of BMF BELTINGS LTD. vs. CCE : 2005 (184) E.L.T. 158 (Tri. Bang.) for the period 1995 to 2000 has directed the department to apply CAS-4 for the determination of the cost of production of the captively consumed goods. In ITC vs. CCE (190) ELT 119 the Tribunal held that the department has to calculate the cost of production in terms of CAS-4. Other decisions of the Tribunal, wherein it has directed that CAS-4 be applied for determination of the cost of production, are Teja Engineering v/s CCE 2006 (193) ELT 100 (Tri-Chennai), Ashima Denims v/s CCE 2005 (191) ELT 318 (Tri-Mumbai), and Arti Industries vs. CCE 2005 (186) ELT 208 (Tri-Chennai). This is therefore a consistent view taken by the Tribunal.

The department has not filed any appeal in these cases and accepted the legal position. Apart from this, in the light of several decisions of this Court, the Department is also bound by the said circular No.692/8/2003 CX dated 13.2.2003 issued by the CBEC. As such it cannot now take a contrary stand. It may be noted that in the present case the intermediate products (milk crumbs, refined milk chocolate and four other intermediate products) are captively consumed in the Respondent’s own factory. These Intermediate products are not sold nor are marketable.

Hence there can be no question of including the expenses of the factory which produces the final product namely the chocolate e.g. advertising, insurance and another expenses in their valuation as was sought to be added by the Commissioner (Appeals) and the Assistant Commissioner. For the reasons given above, we find no merit in these appeals and they are dismissed. No costs. Civil Appeal Nos. 1856-1957/2002, 5232-5233/2003, 1425/2005 & 2878-2879/2005) In view of the decision in Civil Appeal Nos. 2947-2948/2001, these appeals are accordingly dismissed. No costs.

Annexure V

Cost Sheet of Power

Name of the unit		XYZ
Name and address of the factory		ABC, New Delhi
STATEMENT SHOWING THE COST OF Power produced and Consumed during the year ….		
S.No	**PARTICULARS**	**QTY (Kwh)**
1	Installed Capacity	215136000
2	Quantity Produced	136073501
3	Capacity Utilisation	63
4	Quantiy Re-circulated	
5	Quantity purchased, if any	
6	Internal consumption in power plant	12146703
7	Net unit available	123926798

SR.	PARTICULARS	UNIT	QUANTITY	RATE	AMOUNT	RATE/KwH
A.				**RS/UNIT**	**RS**	**2008-09**
1	Material cost					
	a. Furnace Oil	MT	66064	4878.03	32,22,62,370	2.60
	b. High Speed Diesel	KL	76	37,393	28,41,893	0.02
	c. Natural Gas	SCM	7,26,460	12	87,95,457	0.07
	d. Coal	MT	66,064	3,596.58	23,76,04,281	1.92
	e. Lube Oil				39,94,651	0.03
2	Process Material / Chemicals				-	-
3	Direct Wages & Salaries				1,55,56,852	0.13
4	Utilities				-	-
5	Other direct expenses				-	-
6	Consumable Stores & Spares				38,41,898	0.03
7	Repairs and Maintenance				82,74,080	0.07
8	Depreciation				4,27,45,759	0.34
9	Insurance				61,99,660	0.05
10	Fly Ash Disposal Cost				11,28,241	0.01
11	Other Works Overhead				28,75,377	0.02
12	Sub-total (1 to 10)				65,61,20,519	5.29
13	Less : Credit , if any				-	-
14	Total Cost				65,61,20,519	5.29
B.	**Apportioned to product**		**Units**		**Amount**	
	Product A		12,15,22,526		64,33,01,484	
	Product B		4,35,029		23,02,905	
	Product c		19,34,644		1,02,41,388	
	Product D		34,600		1,83,161	
	Service Dept		17,300		91,581	
	Total		12,39,44,099		65,61,20,519	

Annexure VI

Name of the unit	ABC					
Address	P Road,					
Steam Cost Sheet for the year ending 31.3.2008						
Quantitative Information						
Steam Generated	135000					
Cost						
Particulars		**Unit**	**Quantity**	**Rate**	**Amount**	**Rs/M.T.**
A.	**Variable Expenses**					
1	Furnance oil	KL	4500	22500	101250000	750.00
2	Power	KWH	1636500	5.2	8509800	63.04
3	Treated Water	KL	4350	36	156600	1.16
4	Other fuel	Ncum	16552500	7.4	122488500	907.32
	Total -A				232404900	1721.52
B.	**Fixed Cost**					
1	Personnel	Rs			1202500	8.91
2	Stores	Rs			2564500	19.00
3	Repairs & Maintenance	Rs			454650	3.37
4	Others	Rs			39000	0.29
5	Depreciation	Rs			226050	1.67
	Total - B				4486700	33.23
	Total cost (A+B)				236891600	1754.75
	Steam utilized		**QTY MT**		**Amount Rs**	
	Department a		35000		61416341	
	Department B		87000		152663476	
	Department C		13000		22811784	
	Total		**135000**		**236891600**	

ANNEXURE VII

COST ACCOUNTING STANDARD
ON
COST OF PRODUCTION FOR CAPTIVE CONSUMPTION (CAS-4)

The following is the text of the COST ACCOUNTING STANDARD 4 (CAS-4) issued by the Council of the Institute of Cost and Works Accountants of India on "Cost of Production for Captive Consumption". The standard deals with determination of cost of production for captive consumption. In this Standard, the standard portions have been set in bold italic type. These should be read in the context of the background material which has been set in normal type.

1. Introduction

The Cost Accounting principle for determination of cost of production is well established. Similarly, rules for levy of excise duty on goods used for captive consumption are also well defined. Captive Consumption means the consumption of goods manufactured by one division and consumed by another division(s) of the same organization or related undertaking for manufacturing another product(s). Liability of excise duty arises as soon as the goods covered under excise duty are manufactured but excise duty is collected at the time of removal or clearance from the place of manufacture even if such removal does not amount to sale. Assessable value of goods used for captive consumption is based on cost of production. According to the Central Excise Valuation (Determination of Price of Excisable Goods) Rules 2000, the assessable value of goods used for captive consumption is 115% of cost of production of such goods, and as may be prescribed by the Government from time to time.

2. Objective

2.1 The purpose of this standard is to bring uniformity in the principles and methods used for determining the cost of production of excisable goods used for captive consumption.

2.2 The cost statement prepared based on standard will be used for determination of assessable value of excisable goods used for captive consumption.

2.3 The standard and its disclosure requirement will provide better transparency in the valuation of excisable goods used for captive consumption.

3. Scope

3.1 The standard is to be followed for determining the cost of production to arrive at an assessable value of excisable goods used for captive consumption.

3.2 Cost of production will include various cost components. They are already defined in Cost Accounting Standard-1 (Classification of Cost – CAS-1). Thus, this standard has to be read in conjunction with CAS-1.

4. Definitions

4.1 **Cost of Production:** ***Cost of production shall consist of Material Consumed, Direct Wages and Salaries, Direct Expenses, Works Overheads, Quality Control cost, Research and Development Cost, Packing cost, Administrative Overheads relating to production. To arrive at cost of production of goods dispatched for captive consumption, adjustment for Stock of work-in-Process, finished goods, recoveries for sales of scrap, wastage etc shall be made.***

4.2 Captive Consumption: Captive Consumption means the consumption of goods manufactured by one division or unit and consumed by another division or unit of the same organization or related undertaking for manufacturing another product(s).

4.3 Normal Capacity is the production achieved or achievable on an average over a period or season under normal circumstances taking into account the loss of capacity resulting from planned maintenance. (CAS-2)

5. Determination of Cost of Production for Captive Consumption

To determine the cost of production for captive consumption, calculations of different cost components and adjustments are explained below:

5.1 Material Consumed

Material Consumed shall include materials directly identified for production of goods such as:

(a) indigenous materials
(b) imported materials
(c) bought out items
(d) self manufactured items
(e) process materials and other items

Cost of material consumed shall consist of cost of material, duties and taxes, freight inwards, insurance and other expenditure directly attributable to procurement. Trade discount, rebates and other similar items will be deducted for determining the cost of materials. Cenvat credit, credit for countervailing customs duty, Sales Tax set off, VAT, duty draw back and other similar duties subsequently recovered/ recoverable by the enterprise shall also be deducted.

5.2 Direct wages and salaries

Direct wages and salaries shall include house rent allowance, overtime and incentive payments made to employees directly engaged in the manufacturing activities.

Direct wages and salaries include fringe benefits such as:

(i) Contribution to provident fund and ESIS
(ii) Bonus/ ex-gratia payment to employees
(iii) Provision for retirement benefits such as gratuity and superannuation
(iv) Medical benefits
(v) Subsidised food

(vi) Leave with pay and holiday payment
(vii) Leave encashment
(viii) Other allowances such as children's education allowance, conveyance allowance which are payable to employees in the normal course of business etc.

5.3 Direct Expenses

Direct expenses are the expenses other than direct material cost and direct employees costs which can be identified with the product.

Direct expenses include:

(i) Cost of utilities such as fuel, power, water, steam etc
(i) Royalty based on production
(ii) Technical Assistance / know –how fees
(iii) Amortized cost of moulds, patterns, patents etc
(iv) Job charges
(v) Hire charges for tools and equipment
(vi) Charges for a particular product designing etc

5.4 Works Overheads

Works overheads are the indirect costs incurred in the production process.

Works 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 etc
(v) Indirect employees cost connected with production activities
(vi) Drawing and Designing department cost.
(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 etc

5.5 Quality Control Cost

The quality control cost is the expenses incurred relating to quality control activities for adhering to quality standard. These expenses shall include salaries & wages relating to employees engaged in quality control activity and other related expenses.

5.6 Research and Development Cost

The research and development cost incurred for development and improvement of the process or the existing product shall be included in the cost of production.

5.7 **Administrative Overheads**

Administrative overheads need to be analysed in relation to production activities and other activities. Administrative overheads in relation to production activities shall be included in the cost of production. Administrative overheads in relation to activities other than manufacturing activities e.g. marketing, projects management, corporate office expenses etc. shall be excluded from the cost of production.

5.8 Packing Cost

If product is transferred/dispatched duly packed for captive consumption, cost of such packing shall be included.

Packing cost includes both cost of primary and secondary packing required for transfer/ dispatch of the goods used for captive consumption.

5.9 Absorption of overheads

Overheads shall be analysed into variable overheads and fixed overheads.

Variable Overheads are the items which change with the change in volume of production, such as cost of utilities etc.

Fixed overheads are the items whose value does not change with the change in volume of production such as salaries, rent etc.

The variable production overheads shall be absorbed in production cost based on actual capacity utilisation.

The fixed production overheads and other similar item of fixed costs such as quality control cost, research and development costs, administrative overheads relating to manufacturing shall be absorbed in the production cost on the basis of the normal capacity or actual capacity utilization of the plant, whichever is higher.

5.10 ***Valuation of Stock of work-in-progress and finished goods***

Stock of work-in-progress shall be valued at cost on the basis of stages of completion as per the cost accounting principles. Similarly, stock of finished goods shall be valued at cost. Opening and closing stock of work-in-progress shall be adjusted for calculation of cost of goods produced and similarly opening and closing stock of finished goods shall be adjusted for calculation of goods despatched.

In case the cost of a shorter period is to be determined, where the figures of opening and closing stock are not readily available, the adjustment of figures of opening and closing stock may be ignored.

5.11 Treatment of Joint Products and By-Products

A production process may result in more than one product being produced simultaneously. In case joint products are produced, joint costs are allocated between the products on a rational and consistent basis. In case by-products are produced, the net realisable value of by-products is credited to the cost of production of the main product.

For allocation of joint cost to joint products, the sales values of products at the split off point i.e. when the products become separately identifiable may become the basis. Some other basis may be adopted. For example, in case of petroleum products, each product is assigned certain value based on its certain properties, may be calorific value and these values become the basis of apportionment of joint cost among petroleum products.

5.12 Treatment of Scrap and Waste

The production process may generate scrap or waste. Realized or realizable value of scrap or waste shall be credited to the cost of production.

In case, scrap or waste does not have ready market and it is used for reprocessing, the scrap or waste value is taken at a rate of input cost depending upon the stage at which such scrap or waste is recycled. The expenses incurred for making the scrap suitable for reprocessing shall be deducted from value of scrap or waste.

Illustration

A production process has three stages.

Stage	Input material cost (Rs/ MT)	Processing cost (Rs/MT)	Total (Rs/MT)
1	2000	500	2500
2	2500	1000	3500
3	3500	1000	4500

If during the production process at stage3, the scrap is produced and the same is recycled at stage2 after making an expenditure of Rs 200 per MT to make it suitable for re-processing at stage2, then scrap will be valued @ Rs (2500 – 200) i.e Rs 2300. If no expenditure is involved to make scrap re-usable, the scrap value will be @ Rs 2500. The scrap value for the scrap produced during a period calculated at the rate as explained above may be deducted to find out the cost of production for the period.

5.13 Miscellaneous Income

Miscellaneous income relating to production shall be adjusted in the calculation of cost of production, for example, income from sale of empty containers used for despatch of the captively consumed goods produced under reference.

5.14 Inputs received free of cost

In case any input material, whether of direct or indirect nature, including packing material is supplied free of cost by the user of the captive product, the landed cost of such material shall be included in the cost of production.

5.15 Moulds, Tools, Dies & Patterns etc received free of cost

The amortization cost of such items shall be included in the cost of production.

5.16 Interest and financial charges

Interest and financial charges being a financial charge shall not be considered to be a part of cost of production.

5.17 Abnormal and non-recurring cost

Abnormal and non-recurring cost arising due to unusual or unexpected occurrence of events, such as heavy break down of plants, accident, market condition restricting sales below normal level, abnormal idle capacity, abnormal process loss, abnormal scrap and wastage, payments like VRS, retrenchment compensation, lay-off wages etc. The abnormal cost shall not form the part of cost of production.

6. Cost Sheet

The cost sheet should be prepared in the format as par Appendix – 1 or as near thereto as possible. The manufacturer will be required to maintain cost records and other books of account in a manner, which would facilitate preparation and verification of the cost of production. For manufacturers covered under the ambit of Section 209(1)(d) of the Companies Act, 1956, i.e., where Cost Accounting Records are statutorily required to be maintained, the Cost Accountant certifying the cost of production for captive consumption shall verify the correctness of the cost from these records. However, for manufacturers not covered under Section 209(1)(d) of the Companies Act, 1956, it is desirable that they also maintain cost accounting records in line with the records so prescribed as to facilitate determination and certification of cost of production.

7. Disclosure

(i) ***If there is any change in cost accounting principles and practices during the concerned period which may materially affect the cost of production in terms of comparability with previous periods, the same should be disclosed.***

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

Appendix – 1

Name of the Manufacturer :
Address of the Manufacturer :
Registration No of Manufacturer :
Description of product captively consumed:
Excise Tariff Heading :

Statement of Cost of Production of _____________ manufactured / to be manufactured during the period _____________

		Qty	
Q1	Quantity Produced (Unit of Measure)		
Q2	Quantity Despatched (Unit of Measure)		
	Particulars	Total Cost (Rs)	Cost/unit (Rs)
1.	Material Consumed		
2.	Direct Wages and Salaries		
3.	Direct Expenses		
4.	Works Overheads		
5.	Quality Control Cost		
6.	Research & Development Cost		
7.	Administrative Overheads (relating to production activity)		
8.	Total (1 to 7)		
9.	Add : Opening stock of Work - in –Progress		
10.	Less : Closing stock of Work -in- Progress		
11.	Total (8+9-10)		
12.	Less : Credit for Recoveries/Scrap/By-Products / misc income		
13.	Packing cost		
14.	Cost of production (11 - 12 + 13)		
15.	Add: Inputs received free of cost		
16.	Add: Amortised cost of Moulds, Tools, Dies & Patterns etc received free of cost		
17.	Cost of Production for goods produced for captive consumption (14 + 15 + 16)		
18.	Add : Opening stock of finished goods		
19.	Less : Closing stock of finished goods		
20.	Cost of production for goods despatched (17 + 18 - 19)		

Seal & Signature of Company's Authorised Representative

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

Date : Seal & Signature of Cost Accountant
Place : Membership No.

ANNEXURE VIII

Circular dated 23-Jan-1996 on Foundry Industries

Circular: 170/4/96-CX dated 23-Jan-1996

Valuation of castings — Patterns supplied by the buyers required to be included

Circular No. 170/4/96-CX, dated 23-1-1996

[From F.No. 6/14/94-CX.1]

Government of India

Ministry of Finance (Department of Revenue)

New Delhi

Subject: Foundry Industries - Calculation of assessable value of castings - Addition of value of patterns supplied by the buyers in the assessable value.

It has been brought to the notice of the Board by Maharashtra Chambers of Commerce & Industry that there is difficulty in determination of value of patterns used in foundry industry to be added in the cost of castings for arriving at the assessable value of the castings as the quantity of casting to be made out of a pattern cannot be anticipated and sometimes some modifications or repairs are also made in the pattern after some period of use.

2. A survey was floated to ascertain the actual position in the field formations. From the reports received, it is observed that generally Commissioners are of the view that cost of the pattern should be added in the assessable value of the castings. However, in some Commissionerates, the proportionate value of the pattern is not being added in the assessable value of the casting if such patterns are supplied by the buyers of the castings. Generally Commissionerates find that there is no difficulty in apportioning the cost of pattern in the assessable value of the casting. However, a few Commissioners have expressed difficulty in apportionment of the cost in cases where old patterns are supplied by the buyers of the castings to the job worker and when patterns are returned back to the buyers.

3. The matters has been examined and it is hereby clarified that the proportionate cost of pattern has to be included in the assessable value of the casting even in cases, where such patterns are being supplied by the buyers of the casting or are got prepared / manufactured by the job worker at the cost of the buyer. In cases where there is difficulty in apportioning the cost of pattern, apportionment can be made depending on the expected life and capability of the pattern and the quantity of castings that can be manufactured from it and thus working the cost to be apportioned per unit. For this purpose, a certificate from a Cost Accountant may be accepted.