Module 4 · Cost Accounting Standards, GACAP P17 · topics 4.1–4.3

SM pp. 125–286. **119 marks in 7 papers — the biggest module of P17.** Every paper since Dec'23 has **two CAS sums in Q4** (7 + 7) plus 2–6 MCQ marks ("CAS-x deals with", one rule). The Dec'26 supplementary adds **CAS-25 Valuation of Inventory** (Part 4). This module is printed in four packs: **1** overview + CAS 1–6 · **2** CAS 7–12 · **3** CAS 13–24 · **4** CAS-25, guidance notes, GACAP, the SM exercise, revision.

Paper	What was asked from the CAS	Marks
Jun'23	Q3(b) **CAS-2 capacity** sum: installed, practical, normal, idle, abnormal (old layout)	10
Dec'23	MCQs: CAS-17 deals with · idle time · not employee cost (CAS-7) · Q4(a) **landed cost of material, CAS-6** · Q4(b) **employee cost, CAS-7**	6 + 7 + 7
Jun'24	MCQs: CAS-12 · installed − normal = normal idle (CAS-2) · self-generated utilities (CAS-8) · Q4(a) **closing stock with normal/abnormal loss, CAS-6** · Q4(b) **cost of production for captive consumption, CAS-4**	6 + 7 + 7
Dec'24	MCQs: forex rate (CAS-6) · PF penalty (CAS-7) · not transport cost (CAS-5) · capacity % (CAS-2) · Q4(b) **employee cost, CAS-7** (Dec'23 repeated)	8 + 7
Jun'25	MCQ: CAS-5 deals with · Q4(a) **direct expenses, CAS-10** · Q4(b) **unit cost of production, CAS-4**	2 + 7 + 7
Dec'25	MCQ: CAS-8 · Q4(a) **imported material, CAS-6** · Q4(b) **insurance spare, CAS-12**	2 + 7 + 7
Jun'26	MCQs: service cost centre (CAS-13) · CAS-8 · stripping activity (CAS-23) · Q4(a) **captive power, CAS-8** · Q4(b) **direct expenses, CAS-10** (MQP data)	6 + 7 + 7

HOW IT IS EXAMINED · DEC'26 PREDICTION

- **Q4(a) + Q4(b): two CAS sums, certain** (11 of 12 halves since Dec'23). The rotation: CAS-6 material ×3, CAS-7 employee ×2, CAS-4 ×2, CAS-10 ×2, CAS-8 and CAS-12 ×1, CAS-2 in Jun'23.
- Our picks: (1) **CAS-25 inventory valuation** (new, never asked); (2) **CAS-7** employee cost (PTP Q4(b)); (3) **CAS-6** material; (4) **CAS-4**; (5) CAS-8, CAS-12 or CAS-2.
- **MCQs (2–3):** "CAS-x deals with" (learn the list on this page), one rule each from CAS-2, 5, 6, 7, 8 and a CAS-25 fact.
- Method of every sum: list each item → **include / exclude** with the CAS paragraph → total → per unit. The reason column earns the marks.
- **The SM's GACAP chapter has 16 solved illustrations** (SM 271–286); Jun'23 Q3(b) is Illustration 1 word for word, and the Jun'24, Dec'23, Dec'24, Jun'25, Jun'26 and Dec'25 sums are Illustrations 6, 8, 10, 11, 12, 14 and 15 with new figures. Practise all 16.

MAP OF THIS PACK

1. What a CAS is; utilities; structure; the list of 24 ★★★
2. CAS-1 Classification of cost ★
3. CAS-2 Capacity determination + sum ★★
4. CAS-3 Production and operation overheads ★
5. CAS-4 Cost of production (GST) + 2 sums ★★★
6. CAS-5 Transportation cost ★
7. CAS-6 Material cost + 3 sums ★★★
8. Numbers to learn

4.1 What a Cost Accounting Standard is

MEANING AND THE BOARD

SM WORDS Cost Accounting Standards are **guidelines for the companies** [for the management] that specify the **cost accounting treatment** for various cost elements, **minimum disclosure requirements** and ensure the **comparability, consistency, and completeness** of cost records. ICMAI constituted the **Cost Accounting Standards Board (CASB)** to formulate them. [SM 125]

Structure of every CAS: Introduction · Objective · Scope · Definitions · Principles of Measurement · Assignment of Cost · Presentation · Disclosure (+ effective date). The Institute has released **24** CASs. [SM 125]

UTILITIES OF CAS (SIX)

i. a **structured approach** to measurement of costs in manufacturing or service;
ii. **integrate, harmonize and standardize** cost accounting principles and practices;
iii. guidance for **uniformity and consistency** in classification, measurement, assignment and allocation;
iv. a basis for the cost of a product or service **where legal or regulatory bodies require it**;
v. let practising members use CAS in **attesting General Purpose Cost Statements**;
vi. a **clear and uniform understanding** for users, Government bodies, regulators, researchers and

Measurement = how an element is valued (commonly: no abnormal or imputed cost). **Assignment** = "cause and effect" or "benefits received"; trace directly where economically feasible. **Presentation** = separate head or part of a group. [SM 127]

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[SM 125]

CAS	Title	Effective from	CAS	Title	Effective from
1	**Classification of Cost** (Rev. 2015)	1 April 2015	13	**Cost of Service Cost Centre**	1 April 2011
2	**Capacity Determination** (Rev. 2024)	1 April 2024	14	**Pollution Control Cost**	1 April 2012
3	**Production and Operation Overheads** (Rev. 2015)	1 April 2016	15	**Selling and Distribution Overheads**	1 April 2013
4	**Cost of Production / Acquisition / Supply of Goods / Provision of Service** (Rev. 2018)	1 March 2019	16	**Depreciation and Amortisation**	1 April 2014
5	**Average (Equalized) Cost of Transportation**	1 April 2010	17	**Interest and Financing Charges**	1 April 2014
6	**Material Cost**	1 April 2010	18	**Research and Development Costs**	1 April 2014
7	**Employee Cost**	1 April 2010	19	**Joint Costs**	1 April 2014
8	**Cost of Utilities**	1 April 2010	20	**Royalty and Technical Know-How Fee**	1 April 2014
9	**Packing Material Cost**	1 April 2010	21	**Quality Control**	1 April 2014
10	**Direct Expenses**	1 April 2010	22	**Manufacturing Cost**	1 April 2015
11	**Administrative Overheads**	1 April 2010	23	**Overburden Removal Cost**	1 April 2017
12	**Repairs and Maintenance Cost**	1 April 2010	24	**Treatment of Revenue in Cost Statements**	1 April 2017

SM 126–127. Guidance notes are listed only for CAS 6 to CAS 13; the CAS-2 (Revised 2024) note is "in process". New: **CAS-25 Valuation of Inventory** from 1 April 2026 (Dec'26 supplementary, Part 4). MCQs asked: CAS-17 (Dec'23, PTP), CAS-12 (Jun'24), CAS-5 (Jun'25), CAS-8 (Dec'25, Jun'26), CAS-13 (Jun'26).

MEMORY HOOK · THE 24 IN FOUR ROWS

1–6 the frame: Classify, Capacity, Overheads, Production (GST), Transport, Material · **7–12 the elements:** Employee, Utilities, Packing, Direct exp., Admin, Repairs · **13–18 the centres and charges:** Service centre, Pollution, Selling, Depreciation, Interest, R&D · **19–24 the specials:** Joint, Royalty, Quality, Manufacturing, Overburden, Revenue (+ 25 Inventory).

CAS-1 Classification of Cost (Revised 2015) · MCQ facts

KEY DEFINITIONS (PARA 4)

- **Classification of cost**: arrangement of items of costs in logical groups by their **nature (subjective classification)** and **purpose (objective classification)**. [SM 128]
- **Conversion cost** = production cost **excluding direct materials**. **Cost** = a measurement, in monetary terms, of resources used for production of goods or rendering services. [SM 128]
- **Cost centre**: any unit selected to accumulate cost (division, department, section, group of machines or of employees). Types: **personal / impersonal**; **operating / support-service**. [SM 129]
- **Cost of production** = materials consumed + direct employee costs + direct expenses + production overheads

MORE DEFINITIONS

- **Employee cost**: benefits paid or payable for services of employees, incl. temporary, part-time and contract employees (not a contractor's employees on a contract job). Past-period compensation by court order and prior-period short provisions = employee cost of the year but **not production cost**. [SM 130]
- **Marketing overheads** = selling + distribution overheads. **Overheads** = indirect materials + indirect employees + indirect expenses. [SM 131]
- **Normal capacity**: production achieved on an average over a number of periods under normal circumstances, allowing for planned maintenance. [SM 131]

+ **quality control** + **packing** + **R&D** + **administrative overheads relating to production**; adjust WIP, finished goods, scrap recoveries. [SM 129]
- **Cost of transportation**: freight, cartage, transit insurance, own fleet, incidentals — **not detention and demurrage**. [SM 129]
- **Cost unit**: Power MW · Cement MT · Automobile number · Transport tonne-km. [SM 129]
- **Direct expenses** (other than direct material and employee cost): royalties on production, job charges, hire of equipment for a job, job-specific software. [SM 129–130]
- **Distribution overheads**: from "ready for despatch" until it reaches the consumer: secondary packing, outward transport, warehousing, C&F charges. [SM 130]
- **Packing**: **primary** holds and preserves the product for use; **secondary** lets it be stored, transported, promoted. **Prime cost** = direct material + direct employee + direct expenses. [SM 131]
- **Production overheads** = factory = works = manufacturing overheads; include administration of the factory. [SM 131]
- **Support-service cost centre**: engineering, workshop, quality control, designing, laboratory, help desk. **Standard cost**: predetermined on technical specifications and efficient conditions. [SM 131–132]

Basis of classification (para 6)	Classes
1. by **nature** of expense	**Material · Employee · Expenses** (expenses e.g. utilities, bought-out services, job processing) [SM 133]
2. by **traceability**	**direct** (assignable in an economically feasible way) / **indirect**; e.g. indirect material = consumable spares, lubricants; indirect employee = security staff [SM 133–134]
3. by **function**	production/project · administration · selling · distribution · research · development [SM 134–135]
4. by **behaviour**	fixed · variable · semi-variable [SM 135]
5. by **production process**	batch · process · operation · contract · joint cost [SM 135]

Principles: group by similarity of nature, attributes or relations; the scheme must classify **every item**. **Presentation:** on the basis of relevant classification, **consistently** from period to period. **Change** only if required by law, a CAS, or for a more appropriate presentation; a material change is disclosed. [SM 132, SM 135]

CAS-2 Capacity Determination (Revised 2024) · Jun'23 sum, Jun'24 + Dec'24 MCQs

DEFINITIONS (REVISED 2024)

- SM WORDS **Installed capacity**: the **maximum capacity** of producing goods or providing services, according to the **manufacturer's specifications** or determined through an **expert study**. [SM 137]
- **Practical (achievable) capacity**: the maximum productive capacity reduced by the **predictable and unavoidable** interruptions from **internal causes** (maintenance, set-ups, weekly offs, holidays). External causes such as lack of orders are **not** deducted. [SM 136]
- **Normal capacity**: achieved or achievable on an **average over a number of periods** under normal circumstances. [SM 137]
- **Actual capacity utilization**: production achieved in a period, **expressed as a percentage of installed capacity** (Dec'24 MCQ). [SM 136]
- **Idle capacity** = installed − actual utilization (when actual is less). **Excess capacity utilization** = the same difference when actual is more. [SM 137]
- **Licenced capacity** = allowed or allotted by an authority. **Bottleneck** = the stage that restricts the flow (narrow neck of a bottle). [SM 136–137]

⚠ OLD vs NEW TERMS

CAS-4 (still in the SM) keeps the older pair: **normal idle capacity** = installed − normal; **abnormal idle capacity** = normal − actual, where actual is lower than normal. Jun'24 MCQ: installed − normal = **normal idle capacity**. [SM 147]

HOW EACH IS DETERMINED (PARA 5)

- In **units** of production or services, or **equivalent machine or man hours**. [SM 137]
- **Installed**, based on: (i) technical specifications; (ii) technical evaluation; (iii) capacities of individual or interrelated centres; (iv) critical machines; (v) shifts, machine or man hours. No specifications → **technical experts' estimate**; Government direction prevails; **bottlenecks** considered. [SM 137]
- **Practical** = installed adjusted for: (i) planned maintenance; (ii) shifts or hours; (iii) **holidays, weekly offs, normal shut-down, normal idle time**; (iv) batch change-over, set-up; (v) **ageing** of machines; (vi) other normal internal factors. [SM 137]
- **Reassess** installed capacity on any addition, deletion or modification, from the date of change. [SM 138]
- **Normal** = actual achieved or expected over a period, or average achievable; **average of three to five normal years**, excluding periods hit by abnormalities. Use **equivalence** for products of different sizes and intermediates; adjust for machines leased in or out. [SM 138]

Presentation: installed, normal and actual production **in absolute terms**; utilization **as a % of installed**. **Disclose:** (a) basis of each capacity; (b) changes with reasons; (c) capacity enhanced by outsourcing; (d) capacity outsourced to others; (e) actual production, in-house and outsourced; (f) **reasons for low utilization**; (g) **abnormal cost of under-utilization**. [SM 138]

MODEL ANSWER · CAPACITY UNDER CAS-2 (JUN'23 Q3(b), 10 MARKS = SM GACAP ILLUSTRATION 1 WORD FOR WORD; ICMAI POSTAL Q3(a) THE SAME)

Data: 1,500 units per machine hour; 3 shifts of 8 hours; 365 days; Sundays 52 and other holidays 12 (maintenance done in them); normal idle time 1 hour per shift; production of the last 5 years 75.70, 87.42, 65.38, 77.97, 76.08 lakh units; actual 81.50 lakh units.

Measure	Working	Lakh units
(i) Installed capacity	1,500 × 24 hours × 365 days (maximum, as per specification)	131.40
(ii) Practical capacity	working days 365 − 52 − 12 = 301; hours 3 × (8 − 1) = 21; 1,500 × 21 × 301	94.815
(iv) Normal capacity	average of 5 normal years: 382.55 ÷ 5	76.51
(iii) Actual capacity utilization	81.50 ÷ 131.40 (as a % of installed)	62.02%
(v) Idle capacity	131.40 − 81.50 = 49.90 lakh; ÷ 131.40	37.98%
(vi) Abnormal idle capacity	the SM solution: practical − actual = 94.815 − 81.50	13.315

Advice: the 13.315 lakh units lost below practical capacity are the capacity to recover (orders, maintenance); fixed overheads are absorbed on **actual** production, being higher than normal (CAS-4 para 5.27). Disclose the basis of each capacity and the reasons for low utilization. [SM 138, SM 151, SM 271–272]

⚠ Write (vi) as the SM solution does (practical − actual). By the CAS-4 definition (normal − actual) it would be nil here, because actual production is above normal; if you use it, say so. SM Illustration 4 (Glory Ltd) and 5 use the same method. [SM 147, SM 275–276]

CAS-3 Production and Operation Overheads (Revised 2015) · rules used in every sum

MEASUREMENT (PARA 5)

1. Procured resources: at **invoice or agreed price** incl. duties and taxes and directly attributable expenditure, **net of discounts (other than cash discounts)**, taxes and duties refundable or to be credited. [SM 140]
2. Others (e.g. a spare made in-house, an internal repair): at cost incurred — material, employees, expenses. [SM 141]
3. **Abnormal cost**, material and quantifiable → excluded. **Imputed cost** → excluded. [SM 141]
4. Variances: **normal** → part of overheads; **abnormal** → excluded. [SM 141]
5. **Subsidy, grant, incentive** → reduced from the cost it relates to. [SM 141]
6. **Fines, penalties, damages** to authorities or third parties → excluded. [SM 141]
7. **Credits or recoveries** → deducted; any excess over the overheads = **other income**. [SM 141]

Imputed cost = notional cost, not involving cash outlay. **Absorption rate** = overheads of the activity ÷ volume of activity (e.g. machine-shop overheads ÷ machine hours). [SM 139–140]

ASSIGNMENT, ABSORPTION, PRESENTATION

- Trace directly where economically feasible; otherwise **cause and effect** or **benefits received**. Stand-by facilities: on **expected** benefits. [SM 141]
- SM WORDS **Variable** overheads are absorbed on **actual production**; **fixed** overheads on **normal capacity**. [SM 141–142]
- Presented as a **separate cost head**, element-wise and behaviour-wise if material; **under- or over-absorption** goes to the **reconciliation statement**. [SM 142]
- **Disclose:** basis of assignment; overheads in **foreign exchange**; **related-party** resources; subsidies reduced; credits or recoveries; abnormal cost excluded; **unabsorbed** overheads. Only where material, significant and quantifiable; in the body, a foot note or a schedule. [SM 142]

CAS-4 Cost of Production / Acquisition / Supply of Goods / Provision of Services (Revised 2018) · Jun'24 + Jun'25 sums

WHY IT EXISTS · GST VALUATION

- Originally for **captive consumption** under the Central Excise Valuation Rules 2000 (CBEC circular of 13-2-2003). After **GST from 1 July 2017** it values supplies where the value is cost-based. [SM 143]
- s.15(1) CGST: transaction value between independent parties; s.15(4): otherwise Chapter IV of the CGST Rules.

THE TWO RULES THAT DECIDE THE SUMS

- **Cost of production** = materials consumed + direct wages and salaries + direct expenses + works overheads + **quality control** + **R&D** + **packing** + **administrative overheads relating to production**; adjust WIP and FG, recoveries for scrap. [SM 145]

Rule 27 non-monetary consideration; **Rule 28** distinct or related persons (proviso: **90%** of the recipient's resale price); **Rule 29** through an agent. [SM 143–144]

- SM WORDS **Rule 30**: value = **one hundred and ten percent of the cost of production** or acquisition of goods or of provision of services. **Rule 31**: residual method; for services the supplier may go straight to Rule 31. [SM 144]
- **Scope:** cost of (i) production, (ii) acquisition, (iii) supply of goods; (iv) provision of services; (v) value by open market value or like kind and quality. [SM 144]

WHAT IS EXCLUDED OR DEDUCTED (PARA 5)

- **Abnormal cost** (material, quantifiable) · **interest and finance costs** · **impairment loss** · **imputed costs** · **fines, penalties, damages, demurrage** → excluded. [SM 151]
- **Subsidy / grant / incentive** (from anyone other than the recipient) and grants shown as deferred income → deducted. **Credits or recoveries** → deducted. [SM 151]
- **Scrap**: realised or realisable value deducted; abnormal scrap = loss. Brand royalty is **not** cost; royalty for use of an asset or technology **is**. [SM 149–150]
- Free inputs from the recipient (net of ITC) and amortised free tools, dies, drawings → **included**. [SM 151]
- Forex: rate on the **date of the transaction**; later changes excluded. [SM 151]

- SM WORDS Cost shall be determined based on the **normal capacity or actual capacity utilization whichever is higher**; unabsorbed cost is **abnormal cost**. [SM 151]
- On a **normal cost** basis: ignore abnormal and non-recurring costs, abnormally low utilization, abnormal rejections, accidents, strikes, fires, unexpected court orders. [SM 152]
- Variable overheads on actual production; fixed overheads, QC, R&D and production admin on normal or actual, **whichever is higher**. [SM 152]
- **Joint products**: joint cost to split-off on physical units, equivalent cost or NRV at split-off. **By-products**: NRV credited to the main product. [SM 152]
- Miscellaneous income from production (e.g. sale of empty containers of raw material) is deducted. WIP valued at cost by stage of completion. [SM 152–153]

PRESENTATION AND CERTIFICATION

- Appendix-1 goods produced · 2 services · 3 goods acquired · 4 open market value / like kind and quality. [SM 153]
- Provisional certificate on budgeted or standard cost when true cost is not known at supply; final later, with a debit or credit note (s.34). [SM 153]
- **Periodicity:** turnover within the s.10(1) limit → **six month** statement; above it → **quarterly**; plus an **annual** one on audited accounts by **31st December** of the next year. [SM 153–154]
- Prepared by management, signed by a **KMP** (partner, proprietor); certified by a **Cost Accountant in practice**. Effective **1st March 2019**. [SM 154]

Line	Appendix-1: Statement of Cost of Production of taxable goods (the answer format)
1–14	Material (specify) · process materials · utilities · direct employee · direct expenses · consumable stores and spares · repairs and maintenance · quality control · R&D · technical know-how fee / royalty · depreciation / amortization · other production overheads · admin overheads relating to production · industry-specific operating expenses [SM 155–156]
15–18	Total (1 to 14) **±** WIP adjustment **−** credit for recoveries = **net amount** [SM 156]
19–22	**+** packing cost **+** free or concessional inputs from the recipient (net of ITC) **+** amortised free moulds, tools, dies = **Cost of Production** [SM 156]

MODEL ANSWER 1 · COST OF PRODUCTION FOR CAPTIVE CONSUMPTION AND GST VALUE (JUN'24 Q4(b) = SM ILLUSTRATION 6 WITH NEW FIGURES, ₹ '000) · 7 MARKS

Item	₹ '000	Treatment
Direct material 3,650 · direct wages and salaries 1,740 · direct expenses 550	5,940	prime cost, included
Indirect materials 730 · factory overheads 970	1,700	works overheads, included
Administrative overheads: 40% of 1,400 relating to production	560	only the production part; the other 840 excluded
Quality control 675 · R&D 700	1,375	part of cost of production
Interest on working capital 450	—	excluded (para 5.20)
Less: sale of scrap realised	(570)	recovery deducted (para 5.5)
Cost of production (CAS-4)	**9,005**	
Value for GST: Rule 30 = 110% of cost of production	**9,905.5**	**i.e. ₹99,05,500**

MODEL ANSWER 2 · UNIT COST OF PRODUCTION (JUN'25 Q4(b), ₹ LAKH, OUTPUT 1,430 MT) · 7 MARKS

Item (Appendix-1 order)	₹ lakh	Treatment
Material purchased 5,622 less railway demurrage 320	5,302	demurrage excluded (para 5.28)
Material from sister concern at cost	1,460	included; disclose as related party
Utilities 3,628 · direct employee 1,450 · direct expenses 860 · consumable stores and spares 1,425	7,363	included
Repairs and maintenance 550 less abnormal breakdown 140	410	abnormal cost excluded (para 5.19)
Depreciation 1,280 · other overheads 1,420 · admin overheads relating to production 660	3,360	included
Working capital interest 225	—	excluded (para 5.20)
Total (1 to 14)	**17,895**	
WIP adjustment	(360)	as given
Less: subsidy received for operations	(325)	deducted (para 5.25)
Add: packing cost	540	line 19
Cost of production · per MT (17,750 ÷ 1,430)	**17,750 · 12.41**	**≈ ₹12.41 lakh per MT**

CAS-5 Average (Equalized) Cost of Transportation · Dec'24 + Jun'25 MCQs

- **Objective:** uniformity in determining averaged / equalized transportation cost; prescribe the **records**; **transparency**. The Finance Act 2003 required certification of transport cost for the excise assessable value. [SM 163]
- **Scope:** any statute or purpose, e.g. excise deduction, **insurance claims**, **freight subsidy** (Fertilizer Industry Coordination Committee), administered prices, inward freight in purchases, freight in inventory hypothecated to banks. [SM 163]
- SM WORDS **Cost of Transportation** comprises the cost of **freight, cartage, transit insurance** and cost of **operating fleet** and other incidental charges, incurred internally or paid to an outside agency, but does **not include detention and demurrage charges**. [SM 164]
- **Inward** (materials received) vs **outward** (sale or delivery). **Cartage** = short-distance movement. **Depot** includes warehouses, godowns, yards, C&F agents. **Equalized cost** = average cost over a period. [SM 164]
- Own fleet records: drivers' wages, fuel, lubricants, amortised **tyres and battery**, repairs, depreciation, distance and trips. [SM 164]
- **Separate records:** inward and outward; factory to depot and beyond; to and from **job-workers**; **trading goods**; exempted and export goods; other modes (ship, air). [SM 165]
- **Treatment: inward** → cost of procurement of materials; **outward** → **cost of sale**. [SM 165]
- **Apportionment of outward cost, in order of priority:** (i) **weight**; (ii) **volume**; (iii) **tonne-km**; (iv) unit / equivalent unit; (v) value of goods; (vi) % of space used. Follow the basis **consistently**; factor in **distance** for the weighted average. [SM 165]
- **Abnormal and non-recurring cost** is not transportation cost: **penalty, detention, demurrage, abnormal breakdown**. [SM 166]
- **Cost sheets:** Appendix 1 own fleet (variable: drivers, fuel, consumables, tyres, spares, repairs; fixed: insurance, licence and permit fees, depreciation); Appendix 2 hired transport; Appendix 3 apportionment and average outward cost per unit. [SM 166–169]

*Dec'24 MCQ: "not part of the cost of transportation" → **demurrage charge** (= SM MCQ 4). Jun'25 MCQ: CAS-5 deals with **equalized cost of transportation**.*

CAS-6 Material Cost (Revised 2017) · 3 sums (Dec'23, Jun'24, Dec'25) + Dec'24 MCQ

VALUATION OF RECEIPTS (PARA 5.1)

1. SM WORDS Receipt at **purchase price including duties and taxes, freight inwards, insurance**, and other expenditure directly attributable to procurement (**net of trade discounts, rebates, taxes and duties refundable** or to be credited) that can be quantified with reasonable accuracy at the time of acquisition. [SM 172]
2. **Finance costs** of acquiring materials → **not** material cost. [SM 172]

ISSUES, SCRAP, ASSIGNMENT, DISCLOSURE

- Issues: on cost-flow assumptions — **FIFO, LIFO, weighted average** — consistently. At standard cost, **price variances** are part of material cost. Abnormal cost excluded. Transport inside material cost follows **CAS-5**. [SM 172–173]
- **Scrap / defectives:** normal rejects are included in material cost of goods made; **abnormal** scrap is treated as a **loss** after crediting its realisable value. [SM 173]

3. **Self-manufactured** materials: DM + DE + direct expenses + factory overheads + **production admin**; **exclude** other admin, finance cost and **marketing overheads**. Captive consumption → CAS-4. [SM 172]
4. Spares, stand-by and servicing equipment meeting the PPE definition → **depreciated**; otherwise inventory, costed when consumed. [SM 172]
5. **Normal loss** before the factory is **absorbed in the cost of the balance** materials (net of recoveries from suppliers, insurers, carriers). Normal shrinkage, evaporation, moisture before receipt → absorbed, with the quantity adjusted. [SM 172]
6. **Forex** at the rate on the **date of the transaction**; later changes up to payment are not material cost (Dec'24 MCQ). [SM 172]
7. **Demurrage, detention, penalty** → excluded. **Subsidy / grant / incentive** → reduced. [SM 172]

- Third-party processing to the buyer's specification → **material cost**; subcontracted operations → **direct expenses**. Catalysts, dies, tools, moulds → **amortised** over production benefited; indirect material with life over one year → over its useful life. [SM 173]
- **Presentation:** direct materials as raw materials, components, semi-finished goods, sub-assemblies; purchased **indigenous, imported, self-manufactured**. [SM 174]
- **Disclose:** quantity and rates of **major items** (= those forming **5%** of material cost); basis of valuation; changes; abnormal cost excluded; demurrage excluded; subsidy reduced; **related-party** purchases. [SM 174]

MODEL ANSWER 3 · COST OF IMPORTED MATERIAL (DEC'25 Q4(a)) · 7 MARKS

Item	₹	Treatment under CAS-6
Purchase $1,80,000 × ₹86.45 (rate on the date of import = date of the transaction)	1,55,61,000	para 5.1.7; the contract-date and payment-date rates are ignored
Import duty 5% of material cost	7,78,050	duty not refundable → included
Freight (inclusive)	1,50,600	freight inwards included
Demurrage for delayed clearance 75,000	—	excluded (para 5.1.8); disclose
Bank charges for letter of credit 30,000	—	finance cost, excluded (para 5.1.2)
Less: import subsidy	(3,00,000)	reduced (para 5.1.9)
Cost of imported material	**1,61,89,650**	

⚠ No ICMAI suggested answer seen yet. If the examiner treats LC charges as directly attributable procurement cost, the total becomes ₹1,62,19,650; state the assumption in the answer.

MODEL ANSWER 4 · VALUE OF CLOSING STOCK, AVERAGE COST (JUN'24 Q4(a) = SM ILLUSTRATION 10 WITH NEW FIGURES) · 7 MARKS

Item (SM layout)	Units	₹	Treatment
Opening stock of raw materials	5,000	3,60,000	
Add: purchases	17,500	14,00,000	
Add: freight inwards		1,05,000	included (para 5.1.1)
Less: abnormal loss (moisture before receipt) = (14,00,000 + 1,05,000) × 100 ÷ 17,500	(100)	(8,600)	excluded; valued on purchase cost only
Less: normal loss in transit, 1% of 17,500	(175)	—	quantity only; cost absorbed (para 5.1.5)
Add: self-made packing for purchased materials (1,00,000 − 12,000)		88,000	marketing admin share excluded (para 5.1.3)
Demurrage 14,000		—	excluded (para 5.1.8)
Cost of raw materials available	**22,225**	**19,44,400**	**average ₹87.49 per unit**
Closing stock = 19,44,400 ÷ 22,225 × 3,500	**3,500**	**3,06,205**	

⚠ The SM's Illustration 10 divides by 22,325 (it forgets to take out the 100 abnormal units, though its own table shows 22,225); with that slip this answer would be ₹3,04,833. Divide by the units actually available. [SM 279–280]

MODEL ANSWER 5 · LANDED COST OF MATERIAL (DEC'23 Q4(a)) · 7 MARKS

Item	₹	Treatment
Purchase of materials (inclusive of GST)	4,00,000	
Less: GST 20,800	(20,800)	input tax credit available → deducted
Add: fee on board 18,000 · import duty 12,000 · freight inward 22,000 · insurance 12,000	64,000	directly attributable → included
Less: rebates	(6,000)	trade rebate deducted
Cash discount 4,000	—	a finance item, not deducted
Less: Government subsidy for the import	(22,000)	reduced (para 5.1.9)
Landed cost (value of receipt)	**4,15,200**	

This is the method of SM Illustration 8 ("Free on Board" is added; cash discount not deducted, being a financial item; GST input tax credit, rebates and subsidy deducted). [SM 278–279]

R Numbers to learn · Part 1

Rule	Number	Rule	Number
CAS issued (SM) · CAS-25 new	24 · 25	Rule 30 GST value	110% of cost
CAS-1 effective	1 Apr 2015	Rule 28 proviso (resale)	90% of price
CAS-2 (Revised 2024) effective	1 Apr 2024	CAS-4 effective	1 Mar 2019
CAS-3 (Revised 2015) effective	1 Apr 2016	CAS-4 statements: small / large / annual	6-monthly / quarterly / by 31 Dec
CAS-5, 6 effective	1 Apr 2010	CAS-6 major item	5% of material cost
normal capacity: average of	3 to 5 normal years	GST in force	1 Jul 2017

Ranking of outward-freight bases: weight → volume → tonne-km → unit → value → space. Fixed overheads: CAS-3 on **normal** capacity; CAS-4 on normal or actual, **whichever is higher**.