Module 4 · Part 2 · CAS-7 to CAS-12 the cost elements

SM pp. 175–201. **Six Q4 sums in seven papers came from this part**: CAS-7 employee cost (Dec'23, Dec'24, ICMAI PTP), CAS-10 direct expenses (Jun'25, Jun'26 = ICMAI MQP), CAS-8 captive power (Jun'26), CAS-12 insurance spare (Dec'25). MCQs: idle time, items not in employee cost, PF penalty, self-generated utilities, "CAS-8 deals with" (twice), "CAS-12 deals with".

HOW IT IS EXAMINED · DEC'26

- **CAS-7 is the best bet for a Q4 half**: asked as a sum in Dec'23 and Dec'24 with the same list of items, and again in ICMAI's Jun'26 PTP. The marks are in the **"not included" list with reasons**.
- **CAS-10**: royalty, design, software, hire charges per product (ICMAI's own MQP answer is copied below).
- **CAS-8**: cost per unit of captive power: fuel, water, wages, depreciation, repairs; exclude admin share; credit ash; divide by units **net of auxiliary consumption**.
- MCQs: CAS-7 definitions (idle time, overtime premium), what is excluded, which CAS deals with utilities / repairs.

MAP OF THIS PACK

1. CAS-7 Employee cost + 2 sums ★★★
2. CAS-8 Cost of utilities + captive power sum ★★
3. CAS-9 Packing material cost ★
4. CAS-10 Direct expenses + 2 sums ★★★
5. CAS-11 Administrative overheads ★
6. CAS-12 Repairs and maintenance + insurance-spare sum ★★
7. The common "exclude" list · numbers

THE SAME SIX EXCLUSIONS IN EVERY ELEMENT CAS

A-I-F-P-S-C: Abnormal cost · **I**mputed cost · **F**inance cost · **P**enalties and damages · **S**ubsidy reduced · **C**redits / recoveries deducted. Then: normal variances in, abnormal out; disclose related-party and foreign-exchange items.

CAS-7 Employee Cost (Revised 2017) · Dec'23 + Dec'24 sums, 3 MCQs

DEFINITIONS

- SM WORDS **Employee cost**: employee benefits paid or payable in **all forms of consideration** given for the services rendered by employees (including **temporary, part time and contract employees**) of an entity. [SM 176]
- **Explanation:** (1) contract employees = engaged **directly by the employer** on contract; **not** employees of a contractor; (2) **past-period compensation** on disputes or court orders is **not** employee cost; (3) **prior-period short provisions** made up now are **not** employee cost of the current period. Cash or kind both count. [SM 176]
- Includes: salaries, wages, allowances, bonus, incentives; PF and other funds; welfare; **future benefits** (gratuity, leave encashment, VRS / deferred cost); benefits: paid holidays, **leave with pay**, insurance, workmen's compensation, **medical benefits to employees and dependents**, free or subsidised food, housing, education, canteen, crèches, conveyance, LTC, interest-free loans, **cost of employees' stock option**. [SM 176–177]
- SM WORDS **Idle time**: the difference between the time for which employees are paid / payable and the employees' time booked against cost objects (Dec'23 MCQ). **Abnormal idle time**: strikes, lockouts, accidents. **Overtime premium**: the extra paid beyond normal wages for hours beyond normal. [SM 175, SM 177]

MEASUREMENT (PARA 5)

1. **Gross pay** incl. all allowances + cost to the employer of all benefits.
2. **Bonus** (statutory minimum or sharing of surplus) and **ex gratia** → employee cost.
3. **Managerial personnel incl. executive directors** → employee cost, even if a % of profits. **Non-executive directors** → **administrative overheads**.
4. **Separation costs** (VRS, retrenchment, termination) → **amortised** over the period benefitting.
5. No **imputed** costs. Idle time cost = idle hours × hourly rate.
6. Standard cost: normal variances in, abnormal variances → abnormal cost.
7. **Subsidy** reduced · **abnormal cost** excluded · **penalties, damages** to authorities excluded (Dec'24 MCQ: PF penalty → **excluded**).
8. Free housing, conveyance: at total cost of resources; **recoveries** from employees reduced.

[SM 177–178]

Assignment: by time or number of employees; else on time-study estimates. Amortised separation cost = **indirect**; the **unamortised amount of discontinued operations is not employee cost**. **Recruitment and training** = overheads. Overtime premium and idle time: direct or overheads, by economic feasibility and the cause. [SM 178–179]

Presentation: direct employee cost as a **separate head**; indirect within the overheads of each function; category-wise detail (permanent, temporary, part-time, contract, piece rate, overtime, benefits). **Disclose:** cost charged to **capital works**; **separation costs**; abnormal cost excluded; penalties excluded; subsidy reduced; **related-party** employee cost; cost in **foreign exchange**. [SM 179]

MODEL ANSWER 1 · EMPLOYEE COST UNDER CAS-7 (DEC'23 Q4(b) · DEC'24 Q4(b) REPEATED IT) · 7 MARKS

Item (₹ lakh)	Dec'23	Dec'24	Treatment and reason
Salary, wages and other allowances	1,700	825	included: gross pay (para 5.1)
Bonus	210	120	included (para 5.2)
Contribution to provident fund	190	100	included: employer's cost of benefits
Employees' welfare	140	45	included
Remuneration of full-time (executive) director	85	—	included (para 5.3)
Employee cost as per CAS-7	**2,325**	**1,090**	
Not included — wages to **contractor's employees** 350 / 110 (expl. 1 to para 4.7) · **abnormal cost due to strike** 128 / 85 (para 5.9) · **VRS for closure** of a section 112 / 67 (discontinued operation, para 6.4) · **compensation for past periods** under a court order 225 / 60 (expl. 2) · **arrear salary of the earlier year** 97 / 220 (expl. 3).			

This is SM GACAP Illustration 11 (₹980 lakh), which ICMAI reused as PTP Jun'26 Q4(b). GACAP adds: pay for the **lay-off period, strike period or suspension** is not cost (SM MCQ 7 and Dec'23 MCQ: "compensation for lay-off period" is not employee cost). [SM 262, SM 280–281]

ICMAI's PTP Jun'26 answer uses exactly this list ("will not be included: VRS paid for closure of an unit, abnormal cost, arrear salary not related to the current year, compensation paid against past periods, wages paid to contractor employees") and arrives at 750 + 90 + 40 + 100 = ₹980 lakh.

CAS-8 Cost of Utilities (Revised 2017) · Jun'26 sum; Jun'24, Dec'25, Jun'26 MCQs

- SM WORDS **Utilities**: significant inputs such as **power, steam, water, compressed air** and the like which are used for the manufacturing process but **do not form part of the final product**. [SM 181]
- **Not applicable** to entities whose main business is producing and selling utilities; does **not** cover **carbon credits**. Captive use for excise valuation → CAS-4. [SM 180]
- **Stand-by utilities**: backup against failure of the main source. **Committed cost**: cost of keeping stand-by utilities operational. Normal capacity of a **stand-by** utility = its **actual production**; of a captive utility = the normal capacity of the consuming plant. [SM 180–181]
- Each type of utility is a **distinct cost object**. Purchased: purchase cost incl. duties, transport, insurance, net of trade discounts and refundable taxes. [SM 181]

Self-generated for	Cost comprises
own consumption (Jun'24 MCQ)	DM + DE + direct expenses + **factory overheads** [SM 181]
inter-unit transfer	the above + **distribution cost** [SM 181]
inter-company transfer	+ distribution + **share of administrative overheads** [SM 182]
sale to outside parties	+ distribution + admin + **marketing overheads** (price adds the margin) [SM 182]

- No **finance costs**; **includes distribution cost** up to the point of consumption; no imputed costs. [SM 182]
- Standard cost: **price variances** and normal usage variances form part of cost; abnormal usage variances → abnormal cost. [SM 182]
- SM WORDS Cost of production and distribution of utilities on the **normal capacity or actual capacity utilization whichever is higher**; unabsorbed cost = abnormal cost. A stand-by utility includes its **committed costs**. [SM 182]
- Subsidy reduced; abnormal cost, penalties excluded; **credits / recoveries** (incl. utilities supplied outside) deducted. [SM 182]
- **Assignment:** trace directly; else the most appropriate basis, derived from **usage parameters**. [SM 182–183]
- **Presentation:** a separate head **for each type of utility**; separate utility statements classify **purchased / generated** with quantities by consuming unit, inter-unit, inter-company and outside sales. [SM 183]
- **Disclose (10):** basis of distribution; cost of purchase, production, distribution, marketing and price for outside sales; price and usage variances; related-party; inter-unit and inter-company transfers; foreign exchange; subsidy; credits; abnormal; penalties. [SM 183]

MODEL ANSWER 2 · COST PER UNIT OF CAPTIVE POWER (JUN'26 Q4(a), ONE MONTH) · 7 MARKS

Item	Working	₹
Coal	450 MT × 26,000	1,17,00,000
Furnace oil	10 MT × 1,35,000	13,50,000
Water	9 lakh litres × 2.75	24,75,000
Wages, generating plant	120 × 34,000 + 180 × 24,000	84,00,000
Wages, boiler plant	90 × 29,000 + 140 × 22,000	56,90,000
Depreciation, boiler	(80 − 8) lakh ÷ 12 years ÷ 12 months	50,000
Depreciation, generating plant	1.5 crore × 10% ÷ 12 months	1,25,000
Repairs and maintenance	factory overhead	8,00,000
Administrative overhead (share) 25 lakh	excluded: own-consumption utility = DM + DE + direct exp. + factory OH only (para 5.2.1)	—
Less: sale of ash	credit / recovery (para 5.11)	(3,00,000)
Net cost of power for the month		**3,02,90,000**
Units available for use	160 lakh − 5% auxiliary consumption (8 lakh)	152 lakh units
Cost per unit of power	**3,02,90,000 ÷ 1,52,00,000**	**₹1.99**

⚠ THE SM'S OWN ILLUSTRATION 12 DOES IT DIFFERENTLY

Jun'26 Q4(a) is SM Illustration 12 with new figures. The SM solution **includes the share of administrative charges** and charges a **full year's depreciation** against one month's units. Done that way, Jun'26 gives ₹3,47,15,000 ÷ 152 lakh = **₹2.28** per unit. The answer above follows the CAS: own-use utility = DM + DE + direct expenses + factory overheads (para 5.2.1; the Jun'24 MCQ answer) and one month's depreciation. In the exam write the CAS answer and add one line naming both treatments. [SM 181, SM 281–282]

CAS-9 Packing Material Cost (Revised 2017) · SM short essay: secondary packing

- **Packing materials**: used to hold, identify, describe, store, protect, display, transport, promote and make the product marketable. Classified as **primary** and **secondary**. [SM 184, SM 186]
- SM WORDS **Primary**: essential to **hold and preserve the product for its use by the customer** — foils and vials (pharma), gas cylinders, butter paper and wrappers. **Secondary**: enables to **store, transport, inform the customer, promote** — cartons and boxes for strips, boxes for yarn cones, jars of wrapped chocolates. [SM 186]
- **Reusable packing**: used more than once; cost assigned over the number of uses or period. **Packing material development cost**: pilot and field tests, consumer research, final evaluation. [SM 186–187, SM 188]
- Imputed cost example: packing material **supplied by the customer**. Abnormal cost example: packing rejected after issue for **misprinting** or wrong specification. [SM 184–185]
- Receipts: as CAS-6 (purchase price + duties, freight, insurance, net of trade discounts and refundable taxes); no finance costs; forex at the transaction date; demurrage excluded; subsidy reduced. [SM 187–188]
- **Self-manufactured**: DM, DE, direct expenses, **job charges**, factory overheads incl. factory admin, and the share of **R&D for improving** the existing process or product. [SM 187]
- Issues on FIFO, LIFO, weighted average, consistently. **Normal loss** on issue is part of packing cost; abnormal cost excluded; normal scrap credits deducted. [SM 188]
- SM WORDS **Cost of primary packing materials shall form part of the cost of production. Cost of secondary packing materials shall form part of distribution overheads.** [SM 188]
- **Presentation:** primary / secondary; then purchased indigenous, imported, self-manufactured; by type of pack (bale, bag, carton, pallet). [SM 189]

CAS-10 Direct Expenses (Revised 2017) · Jun'25 + Jun'26 sums (Jun'26 = ICMAI MQP data)

- SM WORDS **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**. [SM 190]
- An item that fails **materiality** may be treated as **overheads**. [SM 192]
- No finance costs; no imputed costs (captive consumption → CAS-4); normal variances in; subsidy reduced; abnormal portion, penalties excluded; credits deducted. [SM 192]

- **Examples: royalties** linked to production; **job charges**; **hire charges** of equipment for a job; **design or drawing** for a job; **software** for a job; **travel** for a designated job. [SM 190]
- Identified on **traceability**. Bought-out resources at invoice price incl. duties, net of trade discounts and refundable taxes; others at the amount incurred (e.g. in-house dies and tools: DM, DE, direct expenses, factory overheads). R&D traceable to improving an existing product = direct expense. [SM 191]
- SM WORDS **Lump-sum or 'one-time' payments** (royalty, know-how, design fees) are **amortised on the estimated output or benefit**. [SM 191–192]
- **Assignment:** directly to the cost object. **Presentation:** a separate head if material, e.g. **subcontract charges**, **royalty on production**. [SM 192]
- **Disclose (10):** basis of distribution; quantity and rates; variances; procured vs generated; related-party; foreign exchange; subsidy; credits; abnormal portion; penalties. [SM 192–193]

SM exercise MCQ 16: design 20 + software 15 + travel 7 = 42 lacs; finance charges on a design lease are excluded. [SM 290–291]

MODEL ANSWER 3 · DIRECT EXPENSES PER PRODUCT (JUN'26 Q4(b) · SAME METHOD AS ICMAI'S MQP ANSWER) · 7 MARKS

Item (₹)	Basis	Product X	Product Y
Royalty paid on sales	units sold × ₹3: 1,75,000 / 1,50,000	5,25,000	4,50,000
Royalty paid on production	units produced × ₹1: 2,50,000 / 1,75,000	2,50,000	1,75,000
Hire charges of special equipment	used for Y only	—	75,000
Design charges	traced to each product	1,60,000	1,90,000
Software development charges	traced to each product	2,00,000	2,50,000
Direct expenses (CAS-10)	**total ₹22,75,000**	**11,35,000**	**11,40,000**

Jun'25 Q4(a), same method (royalty ₹2.50 per unit sold and ₹1.25 per unit produced; hire ₹60,000 for AB only): AB = 4,45,000 + 2,75,000 + 60,000 + 1,68,000 + 2,82,000 = **₹12,30,000**; AC = 3,65,000 + 2,22,500 + 1,90,000 + 3,87,000 = **₹11,64,500**. Machine hours are not needed (no common item to apportion).

⚠ ICMAI's own MQP answer and SM Illustration 14 (Troma Ltd = Jun'25 Q4(a) with new figures) both include royalty on sales in direct expenses, so follow them. [SM 283–284] But CAS-22 says "royalty paid on sales shall not form part of manufacturing cost" and CAS-20 sends brand royalty to cost of sales; if the question asks for cost of production, leave sales royalty out and say why. [SM 232, SM 240]

CAS-11 Administrative Overheads (Revised 2017)

- **Administrative overheads**: cost of all activities relating to **general administration and management**; they **exclude** production overheads (incl. factory administration), marketing overheads and finance costs. [SM 194]
- Measured as the aggregate of resources consumed in general management: **shared services, infrastructure, general management** — employee costs, utilities, office supplies, legal expenses, outside services, each measured by its own CAS. [SM 195]
- **Leases**: operating lease → entire rentals in admin overheads; **finance lease** → the finance portion goes to finance costs. [SM 195]
- **Software** (in-house, purchased, licensed, customised) incl. upgrades → **amortised over its estimated useful life**; use compatible lives for hardware upgraded with it. [SM 195]
- Outside services at invoice price net of discounts (other than **cash discount**); subsidy reduced; **abnormal** admin cost excluded (e.g. a **natural calamity**); fines and penalties excluded; credits deducted. [SM 195]
- **Assignment:** cause and effect or benefits received; shared services by **actual usage**; shared infrastructure by **readiness to serve**; general management on a logical basis such as **number of employees, turnover, investment**. [SM 196]
- **Presentation:** a separate cost head; component-wise if material. **Disclose:** basis of assignment; **imputed cost included**; foreign exchange; related parties; subsidy; credits; abnormal; penalties. [SM 196]

CAS-12 Repairs and Maintenance Cost (Revised 2017) · Dec'25 sum, Jun'24 MCQ

- SM WORDS **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**. Covers **routine or preventive**, **planned** (predictive or corrective) and **breakdown** maintenance. [SM 198]
- **Major overhaul**: periodic (generally **more than one year**) repair to substantially restore the asset; its cost is **amortized on a rational basis**. [SM 198, SM 200]
- No finance costs, no imputed costs; price variances and normal usage variances in; subsidy reduced. [SM 200]
- **Abnormal** R&M (major **fire, explosion, flood**) excluded; **fines and damages** (e.g. penalty for wrongful construction) excluded; credits deducted. [SM 200]
- **Assignment:** trace directly; else cause and effect or benefits received; shared costs (incl. reciprocal services) distributed as per **CAS-3**. [SM 200]

- Cost = direct (materials, stores, spares, manpower, equipment usage, utilities) + indirect (common resources). In-house, contractor inside the entity, or at the contractor's premises: the contractor's charges plus own resources supplied. [SM 198–199]
- Each type of maintenance and each **major asset category** measured separately. [SM 199]
- **Spares replaced** that do not enhance future benefits beyond the earlier standard → R&M cost. **High-value spare** replaced and **reconditioned** → PPE if it meets the definition (depreciated); otherwise inventory. [SM 199]

- **Disclose:** basis of assignment; variances; **in-house vs contracted**; **major overhauls by asset type with the amortization method**; related-party; foreign exchange; subsidy; credits; abnormal; penalties. [SM 201]

MODEL ANSWER 4 · INSURANCE SPARE (DEC'25 Q4(b) = THE SM EXAMPLE AND ILLUSTRATION 15 WITH EVERY FIGURE DOUBLED) · 7 MARKS

Treatment: the insurance spare meets the PPE definition, so it is capitalised and depreciated from when it is available for use; the **reconditioned old spare** is restated at its current market value, and the **rest of its book value is charged to repairs and maintenance** (para 5.8). [SM 199]

₹ crore	SM example	Dec'25
A. Equipment cost + B. cost of new (insurance) spare	10.00 + 1.00 = 11.00	20.00 + 2.00 = 22.00
Depreciation for 5 years → depreciated value of equipment and spare	5.50	11.00
Reconditioning cost of old spare	0.10	0.20
Depreciated value of old spare	0.50	1.00
Book value of reconditioned spare	0.60	1.20
Less: current market value to be restated in the books	0.25	0.50
Amount treated as repairs and maintenance	**0.35 (₹35 lakh)**	**0.70 (₹70 lakh)**

R Numbers and traps · Part 2

Item	Answer	Item	Answer
contractor's employees' wages	**not** employee cost	executive / non-executive directors	employee cost / admin overheads
past-period court compensation, arrears	**not** current employee cost	VRS (continuing / closure)	amortised / excluded
ESOP cost, leave with pay, medical	employee cost	recruitment, training	overheads
PF penalty	excluded	gross pay vs TDS	gross (SM MCQ 13)
self-generated utility (own use)	DM + DE + DExp + factory OH	utility cost basis	normal or actual, higher
primary / secondary packing	production cost / distribution OH	major overhaul	more than one year; amortized
one-time royalty, know-how, design	amortised on output	operating / finance lease rentals	admin OH / finance part out