Module 4 · Part 4 · CAS-25 Valuation of Inventory NEW for Dec'26

Dec'26 Supplementary, pp. 2–23: **the only item in the P17 supplementary**. In force from **1st April 2026**; inserted after CAS-24. Never examined, so expect an MCQ (ownership, cost formulae, NRV, non-moving periods) and possibly a Q4 valuation sum. Then: the guidance notes (4.2), GACAP (4.3: one MCQ in Jun'23, but its 16 solved illustrations are the source of most Q4 sums), the SM exercise, and a one-page include/exclude sheet for every CAS sum.

DEC'26 PREDICTION · CAS-25

- **MCQ, very likely**: which items are inventory (ownership test); FIFO / LIFO / weighted average allowed; non-moving = more than 12 / 24 months; cost or NRV whichever lower; change of policy restates two years.
- **Q4 sum, possible** (our prediction file names it first): pick the items that are inventory, build cost (purchase + conversion), compare with NRV, value per item.
- Theory, possible: what is excluded from the cost of inventory; NRV rules for materials and WIP.

MAP OF THIS PACK

1. CAS-25: scope, definitions, ownership test ★★★
2. CAS-25: cost, exclusions, formulae, NRV ★★★
3. CAS-25: presentation, disclosure + a practice sum ★★
4. 4.2 Guidance notes · 4.3 GACAP ★
5. SM illustrations: which exam sum copied which ★★★
6. Material variances (MQP Q4(a) = SM Illustration 16) ★
7. SM exercise with answers · include/exclude sheet

25.1 Scope, definitions, the ownership test

SCOPE AND DEFINITIONS

- Inventory = goods for **future production** (raw materials, parts, packing material, consumables, stores and spares), goods **in process** (WIP), goods **awaiting sale** (finished goods). Valued on **historical cost** basis, for cost and financial reporting. [Supp Dec'26 p.2]
- **Not applied to:** (a) WIP of **construction contracts**; (b) **real property**; (c) **intangible assets**; (d) **shares, debentures, financial instruments** held as stock-in-trade; (e) **live-stock, agricultural and forest products**. [Supp Dec'26 p.3]
- SUPP WORDS **Inventories** are assets (a) held for sale in the ordinary course of business; (b) in the process of production for such sale; (c) materials or supplies to be consumed in production or in rendering services. [Supp Dec'26 p.4]
- **Inventory in transit**: goods owned that have left the point of origin but not reached the destination; inward and outward. [Supp Dec'26 p.4]
- **NRV** = estimated selling price in the ordinary course **less** estimated costs of completion and costs to make the sale. [Supp Dec'26 p.4]
- **Non-moving**: not moved for **more than 12 months** (direct materials, WIP, finished goods, traded goods) or **more than 24 months** (indirect materials, process materials, additives, catalysts). [Supp Dec'26 p.4–5]
- **Slow-moving**: low turnover. **Turnover rate = outward quantity of the preceding 12 months ÷ closing quantity** on the reporting date. [Supp Dec'26 p.6]
- **Normal capacity**: average of **three to five normal years**, abnormal periods excluded (as CAS-2). [Supp Dec'26 p.5]

5.1 OWNERSHIP IS THE TEST

Item	Inventory?
Owned, lying **outside** the premises (e.g. with a job-worker, in transit)	**Yes**
Goods not for sale though in possession (donated items, non-marketable goods)	No
Goods being returned to suppliers; goods received from customers **for repair**	No
Items **on loan or borrowed**: borrowed tools, leased equipment	No
Consignment stock held for a wholesaler or manufacturer	No (for the holder)
Contract manufacturer / loan licensee: goods belonging to the customer	No

[Supp Dec'26 p.6–7]

Classes (5.2): (a) direct materials (raw materials, components, sub-assemblies, spare parts); (b) indirect materials (tools, stores and spares, jigs, dies, moulds); (c) process materials, additives, catalysts; (d) packing material; (e) WIP / semi-finished / intermediate; (f) finished goods incl. by-products and joint products; (g) traded goods; (h) **scrap**. [Supp Dec'26 p.7]

Change in policy (5.3) with material impact: opening and closing inventory **recalculated and restated for the current and previous periods**. Example: a change in 2025-26 → recompute closing inventory of 2024-25 and 2023-24; 2022-23 needs no change. [Supp Dec'26 p.7]

Cost to be adjusted (5.4): incomplete items not in the production line (abandoned production); **expired goods**; **prototypes** (not inventory); goods held for legal reasons (seized, under litigation). [Supp Dec'26 p.8]

25.2 What goes into cost · what stays out · cost formulae · NRV

INCLUSIONS (5.5–5.13)

EXCLUSIONS (5.15) · EXPENSED IN THE PERIOD

1. **Abnormal** wasted materials, labour or other costs;

- SUPP WORDS Cost of inventories shall comprise all **costs of purchase** of goods, cost of purchase of **services** and **conversion cost** incurred in bringing the inventories to their **present location and condition**. [Supp Dec'26 p.8]
- **Conversion cost** = direct employee cost, direct expenses, utilities, depreciation, production overheads, **primary packing**, other costs. **Production-based levies, duties, taxes** are included. [Supp Dec'26 p.8]
- Transfer of finished goods from factory to a **branch or godown** = cost of acquisition at the destination → **included** (transport per CAS-5). Internally developed intangibles used → via amortisation. [Supp Dec'26 p.9]
- **Fixed costs on normal capacity**: under-utilization → fixed cost of the idle part **not** in inventory (expensed); actual level used when it approximates normal; over-utilization → **total** fixed cost included. **Variable** costs on actual production. Semi-variable split. [Supp Dec'26 p.9–10]
- **Purchased items**: per CAS-6 — freight inward, loading and unloading, handling, containers, cartage, **customs clearing agent commission**, non-refundable taxes, **inward quality control**; less trade discounts, rebates, recoveries. [Supp Dec'26 p.10–11]
- **Self-manufactured**: direct material + bought-out services + conversion cost; production overheads include stores, repairs, QC, R&D, royalty, pollution control, production admin; **exclude** other admin, finance cost, selling and distribution. Contract-manufactured or subcontracted items count as self-manufactured. [Supp Dec'26 p.10–11]
- **WIP**: only costs **up to the stage of completion** on the valuation date. [Supp Dec'26 p.13]
- **Scrap:** sold as is → expected price − cost of sale; sold after processing → price − processing − cost of sale; **recycled** → **replacement cost** of the material it replaces − expenses − quality reduction. [Supp Dec'26 p.14]
- **In transit:** factory → branch: proportionate cost at destination included; to a **customer**: distribution cost **not** included; inward to own unit: included. [Supp Dec'26 p.14]

2. **storage** costs, unless needed before a further production stage;
3. **R&D** for new products, prototypes, technologies;
4. admin overheads not bringing inventory to its location and condition;
5. **selling / marketing** overheads;
6. **distribution** overheads;
7. **finance costs** of holding inventory;
8. **contingent liabilities** (e.g. pending law suits).

[Supp Dec'26 p.14–15]

COST FORMULAE (5.16)

SUPP WORDS **FIFO or LIFO or Weighted Average** (periodic or moving). LIFO "may be appropriate" for pricing and product profitability; follow the law for statutory valuation. Specific projects → **specific identification**; **standard cost** if it approximates actual; **retail method** (sales value less gross margin) for many fast-changing retail items. [Supp Dec'26 p.10, p.15–16]

NRV (5.17)

- SUPP WORDS Inventory shall be valued at **cost or net realisable value whichever is lower** ("conservatism"). [Supp Dec'26 p.16]
- Write down **item by item**; similar items of one product line may be grouped. Only for an actual or anticipated **loss**, not a smaller profit. [Supp Dec'26 p.16–17]
- **Materials** are not written down if the finished goods will sell at or above cost; otherwise NRV = **replacement cost**. **WIP** NRV = NRV of finished product − cost to complete. [Supp Dec'26 p.17]
- **Reassess** NRV at each later valuation; reverse the write-down up to cost. A **binding sale agreement** price is used for those items. [Supp Dec'26 p.17]
- Costs to sell: commission, trade discount, brokerage, special advertising, packing for sale, export documentation, outward freight (only when needed to sell). [Supp Dec'26 p.17–18]

EXPENSES AND GAINS (5.18)

- Write-downs for **slow / non-moving**, NRV, damage or obsolescence → **expense** of the period. [Supp Dec'26 p.18]
- Physical **shortage** → valued at the valuation-date rate, expense; **excess** → same rate, gain. Theft, spoilage → not inventory value. All these go to the **profit reconciliation** between cost and financial records. [Supp Dec'26 p.18]
- **Deferred settlement** purchase: the hidden financing element is **interest**, not inventory cost. [Supp Dec'26 p.18–19]
- **Assignment:** trace directly; else cause and effect or benefits received. [Supp Dec'26 p.19]

PRESENTATION AND DISCLOSURE (7–8)

- Total value by class; **Statement showing Valuation of Inventory** (Appendix 1: material cost, bought-out services, conversion cost, total cost, NRV, inventory value, difference and %) with a **Cost Accountant's certificate** (UDIN). [Supp Dec'26 p.19–23]
- **Disclose:** quantity and rates of **major items (5% or more of the class)**; basis of valuation; cost and NRV where NRV used; **physical verification** method and periodicity; shortages and excesses; difference from the valuation given to **banks** for cash credit; production levies included; abnormal cost, demurrage, subsidy, related-party purchases; changes; cost formulae; standard costing confirmation; if **going concern, consistency, accrual** not followed. [Supp Dec'26 p.20–21]

PRACTICE SUM (OUR OWN FIGURES, NOT ICMAI'S) · VALUE THE CLOSING INVENTORY UNDER CAS-25

Item at the year end	Decision and reason	Cost ₹	NRV ₹	Value ₹
Raw material in own store (FIFO cost)	owned → inventory; FG sells above cost, so no write-down of material	4,00,000	3,80,000	4,00,000
Raw material with a job-worker	owned, outside premises → inventory	60,000	—	60,000
Goods held on consignment for X Ltd	not owned → excluded	1,50,000	—	—
Customer's machine received for repair	not owned → excluded	80,000	—	—
Finished goods A (cost incl. ₹10,000 selling overhead)	selling overhead removed; lower of cost and NRV	2,90,000	3,20,000	2,90,000
Finished goods B, slow-moving	NRV below cost → write down; loss to the reconciliation	1,20,000	90,000	90,000
Prototype built for testing	not inventory (5.4)	40,000	—	—
Closing inventory under CAS-25				**8,40,000**

4.2 Guidance notes · 4.3 GACAP · Jun'23 MCQ

GUIDANCE NOTES (4.2)

Explain the CAS more fully for record keeping and audit; sections: introduction, definitions, measurement, assignment, presentation, disclosures, annexures. **So far 13** (SM MCQ 9): on CAS-2 (Revised 2015), CAS-4 (captive consumption, revised), CAS-6, 7, 8, 9, 10, 11, 12, 13; **construction industry incl. real estate**; **treatment of CSR costs**; **compilation engagements** by a Cost Accountant. None on CAS-17 (SM MCQ 11). [SM 254–255]

GACAP (4.3) · WHY AND WHAT

- The MCA's **Expert Group** saw an uncodified set of principles in use and asked for codification; the CRA Rules notified on **30th June, 2014** require cost records per **GACAP and CAS**, variations to be explained. [SM 256]
- **Objectives:** (1) codify GACAP as applied in India; (2) narrow diversities and help develop CAS; (3) a reference where no CAS exists; (4) help stakeholders read cost statements; (5) monitor new concepts. [SM 256–257]
- **Conceptual framework:** (a) focus on drivers of value; (b) cost for a purpose; (c) reality driven; (d) materiality and cost effectiveness; (e) comparability and consistency; (f) transparency and auditability. [SM 258–259]
- **Ancillary product or activity**: incidental, turnover not over **2%** of total turnover or **₹20 crores, whichever is lower**. [SM 259]

GACAP RULES THAT GET ASKED

- SM WORDS Cost of production and distribution of **utilities** is determined on the **normal or actual capacity whichever is higher** (Jun'23 MCQ: answer **higher**). [SM 263]
- Employee: pay for the **lay-off or strike period or suspension** is not cost; ESOP cost is employee cost if it involves cash outlay; incentives accrue over the whole production. [SM 262]
- Overheads: reciprocal or non-reciprocal secondary distribution; **not "what the traffic will bear"**; preference for **cause and effect**; stand-by facilities on expected benefits; fixed overheads on normal or actual, whichever higher; under-absorbed → costing P&L and reconciliation. [SM 265–266]
- Depreciation in cost accounts on a **period of use** basis; cumulative depreciation never over original cost. Interest: in **cost of sales**, not cost of production; no imputed interest on owners' funds. [SM 267–269]
- Disclosure: unit cost; quantities; quantity × rate; basis of valuation; foreign currency; costs excluded; credits; related parties; changes. [SM 270]

⚠ Our analysis file's topic guide for 4.3 says "whichever is lower"; the SM says higher.

SM Illus.	What it is (SM 271–286)	Used in
1	Burnet Ltd: installed, practical, normal, idle, abnormal capacity (CAS-2) [SM 271–272]	**Jun'23 Q3(b) word for word**; postal Q3(a)
2	Reacon Cement: performance analysis from stoppage hours [SM 272–273]	PTP Jun'26 (Module 10)
3	Abnormal cost due to power cut, at base-year prices [SM 273–274]	—
4, 5	Glory Ltd and a 3-shift plant: capacities (CAS-2) [SM 274–276]	practice
6, 7	Cost of production for captive consumption, Rule 30 value (CAS-4) [SM 276–278]	**Jun'24 Q4(b)** (new figures)
8, 9	Landed cost of material; imported material at the importation-date rate (CAS-6) [SM 278–279]	**Dec'23 Q4(a)**, **Dec'25 Q4(a)**
10	Closing stock, average cost, normal and abnormal loss (CAS-6) [SM 279–280]	**Jun'24 Q4(a)**
11	Employee cost (CAS-7) [SM 280–281]	**Dec'23, Dec'24 Q4(b)**; PTP Q4(b)
12	Captive power cost per unit (CAS-8) [SM 281–282]	**Jun'26 Q4(a)**
13	Energy audit: power price and volume variance [SM 282–283]	Modules 10–11
14	Troma Ltd: direct expenses per product (CAS-10) [SM 283–284]	**Jun'25 Q4(a)**, **Jun'26 Q4(b)**, MQP
15	Insurance spare reconditioned (CAS-12) [SM 284–285]	**Dec'25 Q4(b)**
16	Material quality, usage and scrap variance [SM 285–286]	MQP Q4(a)

MODEL ANSWER · MATERIAL QUALITY, USAGE AND SCRAP VARIANCE (SM ILLUSTRATION 16; ICMAI MQP Q4(a) USES THE SAME LAYOUT)

Standard: 1,200 units of material at ₹60 per 1,000 units of output; rejects 25% of input (300); one third reworked at ₹20 (100); the rest scrap at ₹5 (200). Actual: 24,000 units of material at ₹60; output 19,500; 7,000 rejected, 2,500 reworked for ₹51,000, 4,500 scrapped at ₹5. [SM 285]

	Standard (1,000 units)	Actual (19,500 units)
Material	72,000	14,40,000
Rework cost	2,000	51,000
Less: scrap sale	(1,000)	(22,500)
Total · per unit of output	**73,000 · ₹73.00**	**14,68,500 · ₹75.31**

[SM 285–286]

Quality variance = actual cost − actual output × standard cost per unit = 14,68,500 − 19,500 × 73 = 14,68,500 − 14,23,500 = **₹45,000 (A)**. **Usage variance** = standard rate × (actual qty − standard qty) = 60 × (24,000 − 23,400) = **₹36,000 (A)**. **Scrap variance** = actual scrap 22,500 − standard 19,500 = **₹3,000 (F)**. [SM 286]

EX The SM's own exercise for Module 4 (SM 287–292)

1 CAS-17 deals with ★	**Interest & financing charges** (= Dec'23 MCQ)	9 guidance notes issued	**13**
2 CAS-21 deals with	**Quality control**	10 CAS on material cost	**CAS 6**
3 forex of imported material ★	**date of transaction** (= Dec'24 MCQ)	11 no guidance note for	**CAS 17**
4 not cost of transportation ★	**demurrage charge** (≈ Dec'24 MCQ)	12 price 100 + transport 10 + demurrage 10	**110**
5 idle capacity = ★	**installed − actual utilisation**	13 gross 100, TDS 30	**100** (gross)
6 non-executive directors' pay	**administrative overheads**	14 CAS on utilities ★	**8**
7 not employee cost (CAS-7) ★	**compensation for lay-off period** (= Dec'23 MCQ)	15 CAS-10 deals with	**direct expenses**
8 CAS issued so far	**24**	16 direct expenses (CAS-10)	**42 lacs** ⚠

⚠ MCQ 16: 20 (design) + 15 (software) + 7 (travel abroad for training) = 42; finance charges on a design lease are out. Training is an overhead under CAS-7 para 6.5, so 35 is arguable, but the SM key is 42. [SM 178, SM 290–291]

True/False (all False): (1) ESOP cost is **part** of employee cost; (2) executive directors = employee cost, non-executive = **admin overheads**; (3) fines to the Pollution Control Board are **not** pollution control cost; (4) the CRA Amendment Rules 2019 (GSR 752E, 15.10.2019) are effective from **01.04.2018** per the SM key; (5) CAS are issued by **ICMAI** with the MCA's prior approval, not by the MCA. **Fill-ins:** repairs → **CAS-12** · overburden → **CAS-23** · CAS-1 effective **01.04.2015** · **indirect employee cost** · interest on working capital = **finance** cost. **Short essays:** cost centre and its types (Part 1, CAS-1); secondary packing and its treatment (Part 2, CAS-9). [SM 290–292]

R One-page sheet for every CAS sum: include or exclude?

Item in the question	Treatment (standard, para)	Item in the question	Treatment (standard, para)
freight inward, insurance, FOB, import duty	include (CAS-6 5.1.1)	demurrage, detention, penalty	exclude (CAS-6 5.1.8; CAS-4 5.28)
GST / refundable duty (ITC)	deduct (CAS-6 5.1.1)	interest, LC and finance charges	exclude (CAS-6 5.1.2; CAS-4 5.20)
trade discount, rebate	deduct	cash discount	not deducted (financial item)
subsidy, grant, incentive	deduct (CAS-6 5.1.9; CAS-4 5.25)	forex difference after the transaction date	exclude (CAS-6 5.1.7)
normal loss before receipt	absorbed; quantity reduced	abnormal loss / abnormal cost	exclude; value at cost; loss
scrap sale realised	deduct (CAS-4 5.5)	admin OH relating to production	include; other admin out
quality control, R&D on existing product	include in cost of production	selling and distribution overheads	exclude from cost of production
primary packing	cost of production (CAS-9 6.4)	secondary packing	distribution overheads (CAS-9 6.5)
salary, bonus, PF, welfare, exec. director	employee cost (CAS-7)	contractor's employees, strike, VRS closure, arrears, court compensation	not employee cost (CAS-7)
royalty on production, design, software, hire	direct expenses (CAS-10)	royalty on sales	direct expenses in ICMAI's answers; not manufacturing cost (CAS-22)
auxiliary power consumption	deduct from units (CAS-8)	admin share in own-use utility	exclude by CAS-8 5.2.1 (SM Illus. 12 includes it ⚠)
fixed overheads	normal or actual, whichever higher (CAS-4)	GST value of captive supply	110% of cost (Rule 30)
reconditioned insurance spare	book value − market value → R&M (CAS-12)	inventory (CAS-25)	owned only; lower of cost and NRV