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**.

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

Module 4 · Part 3 · CAS-13 to CAS-24 MCQ standards

SM pp. 202–253. **No Q4 sum has come from these twelve yet**; they give MCQs: CAS-17 "deals with" (Dec'23, ICMAI PTP, SM MCQ 1), CAS-13 service cost centre (Jun'26), CAS-23 stripping activity (Jun'26), CAS-14 fines (SM true/false). Learn one card per standard: its **definition in SM words**, the **special rule** that makes it different, and its **effective date**. CAS-19 joint costs and CAS-24 revenue also feed the CAS-4 and reconciliation sums.

WHAT EACH ONE IS REMEMBERED FOR

13 service cost centre	usage-based distribution; not utilities or repairs
14 pollution control	future remediation in; social costs out; fines out
15 selling and distribution	long-benefit costs amortised; installation = production
16 depreciation	idle asset = abnormal; revaluation out; intangibles ≤ 10 years
17 interest	separate line under cost of sales; never product cost
18 R&D	improvement of existing product → cost of production
19 joint costs	physical units, NRV at split-off, technical estimates
20 royalty	mining royalty = material cost; brand = cost of sales
21 quality control	prevention + appraisal; benefits received (no. of tests)
22 manufacturing cost	excisable goods; royalty on sales excluded
23 overburden	charged at the standard stripping ratio
24 revenue	other income kept out of cost profit

THE COMMON PATTERN (SAVES READING TIME)

Every CAS here repeats the CAS-3/CAS-7 pattern: aggregate of **direct and indirect** cost · procured items at invoice price net of discounts (other than **cash** discount) and refundable taxes · **no finance cost, no imputed cost** · subsidy reduced · **abnormal** and **penalties** out · credits deducted · normal variances in · assign by **traceability**, else **cause and effect** or **benefits received** · separate cost head if material · disclose basis, related parties, foreign exchange, subsidy, credits, abnormal, penalties, and any change in principles.

MEMORY HOOK

"**S**ervice **P**ollutes **S**ales; **D**epreciation **I**nterests **R**esearch; **J**oint **R**oyalty **Q**uality **M**anufactures **O**verburden **R**evenue" = 13 → 24 in order.

CAS-13 Cost of Service Cost Centre (Revised 2017) · Jun'26 MCQ

- Covers service cost centres; **not** utilities (**CAS-8**) or repairs and maintenance (**CAS-12**). [SM 202]
- SM WORDS **Support-service cost centre**: the cost centre which primarily provides **auxiliary services across the entity** — to production, operation or other service centres, not directly engaged in manufacturing; sometimes to outside parties. **Examples:** engineering, workshop, R&D, quality control, designing, laboratory, welfare, safety, transport, tool stores, pollution control, computer cell, dispensary, school, crèche, township, security. [SM 203]
- **Stand-by service**: backup against failure of the main source; its cost includes **committed costs**. [SM 203–204]
- Each identifiable service cost centre is a **distinct cost object**, subject to materiality. [SM 203–204]
- Cost to others: **inter-unit** + distribution cost; **inter-company** + distribution + administrative overheads; **outside parties** + distribution + admin + **marketing overheads**. [SM 204]
- On **normal capacity or actual utilization, whichever is higher**; unabsorbed = abnormal. Charges to outside parties are **credits** reducing the cost. [SM 204]
- **Distribution** to consuming centres on logical parameters related to **usage**: equitable, reasonable and consistent. Presented as a separate head **for each type of service**. [SM 205]

CAS-14 Pollution Control Cost (Revised 2017) · SM true/false 3

- SM WORDS **Pollution control** means the control of **emissions and effluents** into environment: materials, processes or practices to **reduce, minimize, or eliminate** pollutants or wastes, incl. reducing toxic materials, energy and water use. [SM 207]
- Definitions from the **Air Act 1981** (air pollutant incl. **noise**), the **Environment (Protection) Act 1986**
- Each type (water, air, soil) a distinct activity. [SM 208]
- SM WORDS **Fines, penalties, damages** to authorities or third parties are **not** pollution control cost (SM T/F 3: a fine to the State Pollution Control Board → **False**). [SM 209]
- **R&D** for new processes to avoid pollution → R&D cost; **commercial development** of them → pollution control

(environment = water, air, land and their inter-relationship) and the **Water Act 1974**; soil pollution = a pollutant above its threshold. [SM 206–207]
- Internal costs at **historical cost** when incurred. **Future remediation or disposal** costs reasonably certain (onerous contract, constructive obligation) are **estimated per period**, e.g. per tonne of solid waste. **Contingent** costs from future legislation are **not** cost until reasonably certain. [SM 208]
- **External / social costs** are excluded from general-purpose cost statements. [SM 208]

cost. [SM 209]
- Trace to products by the **quantity of pollutant** each generates; ISO 14000 certification and registration fees → overheads. [SM 209]
- **Presentation:** classified as (a) direct / indirect, (b) **internal / external**, (c) **current / future**, (d) **domain**: water, air, soil. Disclose prior-period costs, basis of future estimates, and a reference to any social-cost note. [SM 210]

CAS-15 Selling and Distribution Overheads · effective 1 April 2013

- **Distribution overheads**: from **ready for despatch** until it reaches the **ultimate consumer** (incl. inter-unit transfers): packing or labelling at an intermediate storage location, transportation, warehousing (depots, godowns, yards). [SM 211–212]
- **Installation** needing technical help is part of **cost of production**, not S&D. [SM 212]
- **Selling overheads**: salaries and travel of sales staff, **commission**, sales and **brand promotion** (advertisement, publicity, sponsorship, endorsements), **receivable collection**, **after-sales service**, **warranty**. [SM 212]

- Aggregate of resources consumed; **post-sales costs** (warranty, product liability, after-sales) estimated on a reasonable basis; long-benefit costs **amortised**. [SM 212]
- No imputed cost; **penalties, demurrage, detention** excluded; subsidy reduced; recoveries deducted. [SM 212–213]
- Transport in distribution assigned per **CAS-5**. Presented as a separate head; may be called **marketing overheads**. [SM 213]

CAS-16 Depreciation and Amortisation (Revised 2017)

- **Depreciation**: systematic allocation of the depreciable amount of an asset over its useful life. **Amortisation**: the same for an **intangible** asset (franchise, patent, trademark, copyright). **Land** is not depreciable. [SM 215–216]
- Measured on **depreciable amount and useful life**. Intangibles: residual value zero unless a third-party commitment or an active market; PPE residual value zero if not estimable. Not less than the amount required by law; **regulated industry** → the regulator's figure. [SM 216–217]
- Useful life factors: (a) **wear and tear**, (b) **obsolescence**, (c) **legal or other limits**. An intangible: not beyond its legal rights, and **never more than 10 years** from available for use. [SM 217]
- Starts when **available for use** (fire extinguisher, stand-by generator count as available); stops at held for sale or derecognition. [SM 217]

- Addition integral to an asset → over its **remaining** life; with separate identity → over its own life. [SM 217–218]
- SM WORDS Higher depreciation due to **revaluation** is **not assigned** to the cost object; **impairment loss** is excluded from cost of production. [SM 218]
- Methods: **straight-line, diminishing balance, units of production**; reviewed **at least annually**. Small assets written off in the year of purchase. [SM 218]
- Depreciation of an asset **idle or temporarily retired** = **abnormal cost** for that period. Assets used to build another asset → part of that asset's cost. [SM 219]
- **Disclose:** basis of distribution; credits; revaluation depreciation excluded; depreciation excluded for temporary retirement. [SM 219]

CAS-17 Interest and Financing Charges (Revised 2017) · Dec'23 MCQ, SM MCQ 1

- SM WORDS **Interest and Financing Charges** are interest and other costs incurred by an entity in connection with the **financing arrangements**: interest and commitment charges on borrowings; finance-lease charges; exchange differences on foreign-currency borrowings treated as interest. [SM 181, SM 221]
- Derivative risk-management costs are **outside** its scope. [SM 220]
- **Short-term** borrowing: repayable within **one year** of disbursal; long-term: after one year. **Net current asset** = current assets − current liabilities. [SM 221]

- No imputed cost; subsidy reduced; **penal interest**, fines and penalties excluded (interest for late statutory payments is not penal interest); finance costs of **investments** excluded. [SM 221–222]
- SM WORDS **Presentation:** shown as a **separate line item under the cost of sales**. Prior-period charges taken to reconciliation are shown separately. [SM 222]
- In product costing it is **excluded** from material, utilities, direct expenses, cost of production (CAS-4 para 5.20). SM fill-in 5: interest on working capital is part of **finance** cost. [SM 151, SM 290–292]

- Measured per **AS (2006 Rules) or Ind AS (2015 Rules)**. Identified for (a) **qualifying assets** → included in the asset's cost; (b) other operations. [SM 221]

CAS-18 Research and Development Costs · effective 1 April 2014

- **Research**: original and planned investigation for new scientific or technical knowledge (adapted AS 26). **Development**: applying research to a plan or design for new or substantially improved materials, products, processes **before commercial production**. [SM 224]
- Includes: materials and services consumed; bought-out items; personnel; depreciation of facilities used; overheads **other than general administration**; work done by others; **copyrights or licences**; **computer software**; design of **tools, jigs, moulds, dies**. [SM 224]
- Credits incl. **sale of output** of R&D are deducted. [SM 225]
- R&D not attributable to a product or process is **not product cost**. Development creating an intangible → **amortised** over its useful life; assigned on **benefits received**. [SM 225]
- SM WORDS R&D for the **development and improvement of an existing process or product shall be included in the cost of production**; if it spans periods and yields a distinctly new product, it is accumulated and amortised. [SM 225]
- **Presentation:** improvement R&D under cost of production; other R&D in the **reconciliation statement**. Disclose abnormal costs incl. **abandoned projects**. [SM 225–226]

CAS-19 Joint Costs · effective 1 April 2014

- **Joint costs**: cost of common resources used to produce two or more products or services **simultaneously**. **Joint product**: produced simultaneously by the same process, identifiable at the end, with **sufficient value**. **By-product**: **relatively low value**, produced incidentally. [SM 227]
- **Split-off point** (= separation point): where joint products become separately identifiable. [SM 227–228]
- Costs after split-off measured per product; scrap and waste (net of disposal cost) deducted from the joint product. [SM 228]
- SM WORDS Joint cost assigned on **benefits received** by: (a) **physical units**; (b) **net realisable value at split-off** (net selling price × quantity sold, less post-split-off costs); (c) **technical estimates**. [SM 228]
- **By-product** value: (a) **NRV** or (b) **technical estimates** (when not saleable as it emerges). [SM 228–229]
- Present element-wise cost of each joint product and the value given to by-products; disclose the basis of allocation. [SM 229]

CAS-20 Royalty and Technical Know-how Fee (Revised 2017)

- SM WORDS **Royalty** is any consideration for the use of asset (tangible and/or intangible) to the owner — a % of revenue, per unit produced or of sales value; for mineral resources, patents, trade marks, franchises, copyrights, software. **Technical service fee**: for technical or managerial services. [SM 231]
- Lump-sum / one-time fees **amortised** on estimated output or benefit; no finance or imputed costs. [SM 231]
- Not traceable → assigned on (a) **units produced**, (b) **units sold**, (c) **sales value**. [SM 231–232]
- SM WORDS Royalty for **mining rights** forms part of the **cost of material**. Product or process know-how → **cost of production**; **trademarks or brands** → **cost of sales**. [SM 232]

CAS-21 Quality Control (Revised 2017)

- **Quality**: conformance to requirements or specifications; fitness for the customer's intended use. **Quality control**: procedures designed to ensure products or services meet a defined quality criterion or the client's requirement. **QC cost**: resources consumed in QC procedures. [SM 234]
- Includes the **cost of conformance**: (a) **prevention cost**, (b) **appraisal cost**. [SM 234]
- Traceable QC → the cost object; otherwise on **benefits received**, e.g. the **number of tests** performed for a product. [SM 235]
- Usual exclusions (finance, imputed, abnormal portion, penalties); separate cost head if material. [SM 234–235]

CAS-22 Manufacturing Cost (Revised 2017) · effective 1 April 2015

- For **excisable goods**. **Captive consumption**: goods made by one unit and consumed by another unit of the same
- SM WORDS **Royalty paid on sales shall not form part of manufacturing cost**; lump-sum royalty and know-how amortised on output. [SM 240]

organisation for making other products (s.4(3) Central Excise Act). [SM 236]

- **Manufacturing cost** = materials (incl. process materials), employee cost, utilities, packing, direct expenses, R&M, **pollution control**, QC, R&D, free inputs from the buyer, depreciation and amortisation (incl. free tools, dies, drawings), rework, manufacturing overheads, WIP adjustment, scrap recoveries; **not post-manufacturing** expenses. Same as **cost of production**. [SM 238]
- Admin overheads relating to manufacturing **in**; those of marketing, projects, **corporate office out**. Manufacturing overheads include administration of the factory and **depot**. [SM 236, SM 238]
- Exclusions: abnormal cost, **interest and finance**, fines, demurrage; forex at the transaction date; subsidy from anyone other than the buyer deducted; normal or actual capacity, **whichever is higher**. [SM 240–241]
- **Presentation:** Appendix-1, with actual capacity utilization in absolute terms and **as a % of normal capacity**; elements shown separately. [SM 242]

CAS-23 Overburden Removal Cost (Revised 2023) · Jun'26 MCQ

- **Overburden**: overlying materials generally having **no commercial value**. **Overburden removal cost**: cost to remove the overlying material from the mine site (SM fill-in 2 → **CAS-23**). [SM 246, SM 290–292]
- SM WORDS **Stripping activity**: the activity of overburden removal that **benefits the identified component of an ore** to be mined by the entity (Jun'26 MCQ answer). [SM 246]
- **Stripping ratio** = volume of overburden (m3) ÷ weight of ore (tonnes); "3:1" means three cubic metres of waste per ton of ore. **Standard (average) stripping ratio**: over the project life; reviewed **at least every five years**, at once after radical geological change (e.g. an earthquake). **Current ratio**: overburden removed ÷ mineral produced in the year. [SM 245–246]
- **Advance stripping**: excess overburden removed beyond what is needed for extraction. [SM 247]
- Direct cost: stores, machinery spares, **explosives and detonators**, manpower, equipment, utilities, contractors. [SM 247]
- **Development phase** cost → **capitalised** as a non-current asset when future benefits are probable. **Developed area → charged to ore production at the standard stripping ratio**, whatever the actual ratio; the difference goes to the reconciliation statement (explanation revised by the Council on 5 September 2024). [SM 247]
- Measured by trips of equipment or electronically; computed **mine by mine**. Abnormal: fire, cave-in, flooding. Equipment cost split by **machine hours** between mineral and overburden. [SM 247–248]
- Effective **1st April 2023**. Disclose any variation between the standard and the current ratio. [SM 248]

⚠ The SM's list of standards still shows CAS-23 from 1 April 2017 (the old version); the revised text in the SM is effective 1 April 2023. [SM 127, SM 248]

CAS-24 Treatment of Revenue in Cost Statements (Revised 2017) · effective 1 April 2017

- **Net sales realization**: revenue from operations **net of discounts and indirect taxes**. **Revenue from operations** includes other operating revenue: sale of **by-products**, **manufacturing scrap**, **export incentives**, product-related **subsidies**. [SM 249–251]
- **Other income** (not revenue from operations): profit on sale of PPE and investments; interest on outside investments; insurance claims, penalties or fees received not set against a cost; rent; grants; royalties received; prior-year credits; dividends; forex gains; provisions written back; revaluation credits; recoveries of bad debts written off; prior-period income. [SM 249–250]
- Measured at net sales realization; separately for each unit, each product, **exports / domestic**, manufactured / trading; by-products, rejects, scrap separately. [SM 251]
- By-product NSR (net of further processing) is set against the **joint cost**; scrap, rejects, spoilage against the cost of the related goods; sale of inputs or utilities against their cost. [SM 251]
- SM WORDS **Other income shall not be considered in determining profit or loss as per cost accounts.** Revenue from assets created under **CSR** is also excluded. [SM 251]
- Product-related subsidies → revenue; other operating subsidies → **reduction of the related cost**. [SM 252]
- Present NSR per product split into exports, domestic, manufactured, trading, matched with cost of sales and margin; quantity and price per unit. [SM 253]

R Numbers to learn · Part 3

Rule	Number	Rule	Number
CAS-13 / 14 effective (SM list)	1 Apr 2011 / 1 Apr 2012	intangible useful life, maximum	10 years
CAS-15 effective	1 Apr 2013	short-term borrowing (CAS-17)	within 1 year
CAS-16 to 21 effective (SM list)	1 Apr 2014	current asset / liability test	12 months
CAS-22 effective	1 Apr 2015	standard stripping ratio review	at least every 5 years
CAS-23 (Revised 2023) effective	1 Apr 2023	stripping ratio example	3:1 = 3 m3 per ton
CAS-24 effective	1 Apr 2017	pollution Acts: Water / Air / Environment	1974 / 1981 / 1986

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