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

Issued by
THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA
(Statutory body under an Act of Parliament)
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FOREWORD

Subsequent upon the issuance of Circular No. 692/08/2003-CX dated 13th February, 2003 by Department of Revenue (CBEC), the Cost of Production of Captively Consumed Goods has to be calculated in accordance with the Cost Accounting Standard – 4 (CAS – 4), issued by the Institute.

The manufacturing entities and the Excise Department have been referring to the CAS – 4 for arriving at the cost of production and members of the Institute are certifying the cost statements in accordance with the standard. In order to provide current updates in tune with the latest developments, the Revised Guidance Note on Cost Accounting Standard on Cost of Production for Captive Consumption (CAS – 4) has been approved by the Council on the recommendation of the Cost Accounting Standards Board. It provides detailed guidance and methodology for determination of assessable value of captively consumed goods, to all the assessees who prepare the cost statement and to professionals who certify them.

The efforts made by the Cost Accounting Standards Board (CASB) in development of this document are very commendable. I thank to Shri Rakesh Singh, Chairman, CASB for taking the task of developing this Guidance Note on priority basis and completing the same well in time.

I am sure that the manufacturing entities and the professionals involved in preparing and certifying the cost statements will be benefited by this Guidance Note.

(M GOPALAKRISHNAN)
President

Date: 24th January 2012
PREFACE

I am pleased to present Revised Guidance Note on Cost Accounting Standard on Cost of Production for Captive Consumption (CAS – 4). This Guidance Note deals with the principles and methods as provided in CAS-4 and practical aspects in connection with the determination of cost of production of excisable goods used for captive consumption.

This document fulfils the demand of the members for much awaited revision of the earlier Guidance Note, which was issued in January 2009. The Guidance Note is in the structure already decided by the CASB.

The Guidance Note also refers to relevant sections of Central Excise Act, 1944, Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000, other relevant rules thereto and provides methodology for determination of assessable value of captively consumed goods.

I would like to express my sincere thanks to Shri ML Mehta, former Additional Chief Advisor (Cost) and Practicing Cost Accountant, for the efforts put in by him in developing this document.

I am thankful to Shri M Gopalakrishnan, President, ICWAi, for his whole hearted support to the activities of the CASB and his able guidance, which played an important role in development of this Guidance Note.

I would also like to place on record the efforts put in by the CASB Secretariat, headed by Shri JP Singh, Director (Technical), for providing all necessary technical & secretarial support and coordination for the early development of this Guidance Note.

I hope that the Guidance Note would be of immense use by the members of the profession, industry and academic experts.

Date: 24th January 2012

(VRAKESH SINGH)
Vice President and Chairman, CASB
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**Guidance Note on Cost Accounting Standard on Cost of Production For Captive Consumption (CAS-4)**

The Council of the Institute of Cost and Works Accountants of India has issued the Cost Accounting Standard 4 (CAS-4) for Determination of Cost of Production for Captive Consumption. This standard lays down the principles and methods for determining the cost of production of excisable goods used for captive consumption, presentation and disclosure in the cost sheet.

This Guidance Note deals with the principles and methods as provided in CAS-4 and practical aspects in connection with the determination of cost of production of excisable goods used for captive consumption.

In the preparation of cost sheet including those requiring attestation, cost of production of excisable goods used for captive consumption shall be determined as per CAS-4. The Cost Accounting Standards have been set in **bold italic** type and reference number has been retained as in CAS-4 for ready reference.

CAS 4 refers to Central Excise Act and Rules framed there under for determination of assessable value of goods used for captive consumption. Therefore, this Guidance note refers to relevant sections of Central Excise Act,1944, Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000, other relevant rules thereto, case laws on the subject and provides methodology for determination of assessable value of captively consumed goods on cost construction method as a measure of simplification.

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

“**cost of production of captively consumed goods will henceforth be done strictly in accordance with CAS-4.....**”
The above circular is reproduced as Annexure I.

In view of above, CAS-4 is applicable from 13th February, 2003. The Department has, however, clarified that though CAS-4 was approved by the Government of India on 13.2.2003, cases pending finalization for the period earlier to this may be considered in line with costing principles laid down in CAS-4, issued by the Institute of Cost and Works Accountants of India. Assessments finalized prior to 13th February, 2003 not to be opened.

CAS-4 applies to following type of organizations registered with Excise Department if goods manufactured are for captive consumption:

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

SSI units registered with Excise Department are exempt from payment of excise duty as per registration conditions.
Chapter 1

Introduction

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

Section 4(1) (a) of Central Excise Act, 1944 deals with the Valuation of excisable goods when following requirements are satisfied:
1. Goods are sold at the time and place of removal from factory/warehouse;
2. The assessee and the buyer of the goods are not related; and
3. The price is the sole consideration of sale.

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

If any one of the above requirements is not satisfied, assessable value shall be determined under the Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000 notified on 30.6.2000, as provided under Section 4(1)(b) of the Act. For ready reference extract of Section 4 of the Central Excise Act, 1944 and the Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000 are annexed as Annexure II and III. Rules 8 and 9 deal with the valuation of goods captively consumed.

Meaning of Captive Consumption:
“Captive Consumption” means that the goods are not sold by the assessee but are used for consumption by him or on his behalf in the production or manufacture of other articles in the same premises or elsewhere.
When goods manufactured are supplied to a related party who does not sell the goods but consumes the same in manufacture of another product(s), such goods are also deemed to be “captively consumed” for the purpose of valuation under Excise Laws.

In some cases during the manufacture, certain intermediate goods emerge and are used in manufacture/production of other goods. The use of such intermediate product within the factory is also termed as “Captive Consumption”.

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

**Type of Goods:**
Following type of goods are covered under CAS-4:
1. Goods manufactured not sold but captively consumed
2. Goods manufactured partly sold and partly captively consumed
3. Goods manufactured sold to related party for captive consumption

**Goods manufactured, not sold but captively consumed:**
Rule 8 of the Central Excise Valuation Rules provides that where the excisable goods are not sold but are used for consumption by assessee or on his behalf in the production or manufacture of other articles, the value shall be 110% (as of now) of the cost of production or manufacture of such goods. (115% was substituted by 110% vide notification no. 60 / 2003 – CE (NT) dated 05-08-2003) In other words, when goods are captively consumed, the assessable value will be 110% of cost of production. The earlier concept of deemed profit / notional profit has been done away and margin of 10% by way of profit etc is prescribed in the rule itself for ease of assessment of goods used for captive consumption. The cost of
production is to be determined as per CAS-4 vide Government of India, Ministry of Finance & Company Affairs (Department of Revenue’s Circular dated 13th February, 2003 (refer Annexure I)).

Judgement of Supreme Court dated 1.8.2006:
In a landmark judgment dated 1.8.2006 in case No. Appeal (civil)2947-2948 of 2001 Commissioner of Central Excise, Pune vs M/s Cadbury India Ltd.(Refer Annexure IV), Hon’ble Supreme Court of India, observed:

“The Institute of Cost and Works Accountants of India (ICWAI) has laid down the principles of determining cost of production for captive consumption and formulated the standards for costing: CAS-4. According to CAS-4 the definition of “cost of production” is as under:

“4.1 Cost of Production : Cost of Production shall consist of Material consumed, Direct wages and salaries, Direct expenses, Works overheads, Quality Control cost, Research and Development cost, Packing cost, Administrative Overheads relating to production.”

“The cost accounting principles laid down by ICWAI have been recognized by the Central Board of Excise and Customs vide Circular No.692/8/2003 CX dated 13.2.2003. The circular requires the department to determine the cost of production of captively consumed goods strictly in accordance with CAS-4. “

The Tribunal in the case of BMF BELTINGS LTD. vs. CCE : 2005 (184) E.L.T. 158 (Tri. Bang.) for the period 1995 to 2000 has directed the department to apply CAS-4 for the determination of the cost of production of the captively consumed goods. In ITC vs. CCE (190) ELT 119 the Tribunal held that the department has to calculate the cost of production in terms of CAS-4. Other decisions of the Tribunal, wherein it has directed that CAS-4 be applied for determination of the cost of production, are Teja Engineering v/s CCE 2006 (193) ELT 100 (Tri-Chennai), Ashima Denims v/s CCE 2005 (191) ELT 318 (Tri-Mumbai), and Arti Industries vs. CCE 2005 (186) ELT 208 (Tri-Chennai). This is therefore a consistent view taken by the Tribunal. The department has not filed any appeal in these cases and accepted the legal position. Apart from this, in the light of several decisions of this Court, the Department is also bound by the said circular No.692/9/2003 CX dated 13th February, 2003 issued by the CBEC.”
In view of the above judgement also, the cost of production for captively consumed goods is to be determined as per CAS-4.

**Valuation of Goods Partly Captively Consumed And Partly Sold:**
Where the goods to be valued are captively consumed in one’s own factory, valuation will be done on the basis of 110% of the cost of production of goods. If the goods are partially sold by the assessee and partially captively consumed, the goods sold would be assessed on the basis of transaction value under section 4 and the goods captively consumed would be valued under rule 8 i.e. 110% of the cost production of goods, states the Board’s circular no.643/32/2002-CE dt. 1-7-2002.

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

**Valuation of Goods sold to related party:**
Rule 9 of the Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000 deals with sale to related person. Related person has been defined in Section 4(3)(b) of the Excise Act (Refer Annexure II). If a manufacturer sells goods to any of the related person, it will be treated as goods sold to related person. Rule 9 specifies that the goods can be sold to related persons for two purposes, one for onward sale when the related person is dealer/distributor of the assessee and secondly the related person buys goods from the assessee for consumption in the production or manufacture of articles. In case, the related person does not sell the goods but uses or consumes such goods in the production or manufacture of the articles, the value shall be determined in the manner specified in rule 8, i.e. assessable value to be 110% of cost of production as per proviso to Rule 9.

Rule 10(a) of Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000, also provides that where excisable goods are sold to the related party/interconnected undertaking who does not sell the goods but uses or consumes such goods in the production or manufacture of articles, the value of goods shall be determined in the manner specified in Rule 8. The details of persons who shall be deemed to be related are prescribed under Section 4(3) (Refer Annexure II).
Valuation of capital goods manufactured and captively consumed:
Capital goods manufactured in a factory and used within the factory of manufacturer for manufacture/production of excisable goods, are exempt from payment of excise duty as per Notification No.67/1995-CE dated 16th March,1995. This exemption is also available in case capital goods are manufactured by third party in the factory of manufacturer.

Free sample
CBEC vide its circular No.643/34/2002 CX dated 1.7.2002 had clarified that for excisable goods removed as free sample, provision of Rule 4 will not apply but excise duty will be paid on 110% of cost of production as per Rule 8. However on reconsideration, the CBEC has modified the above circular. As per revised circular No. 813/10/2005 CX dated 25.4.2005, value of free samples should be determined under Rule 4 of the Valuation Rules. The revised circular thus provides that valuation should be on the basis of value of identical goods cleared at or around the same time. However, in case of new or improved product, price of similar goods may not be available. Therefore for such goods, valuation should be on the basis of cost of production plus 10%, under Rule 11 read with Rule 8, in the absence of any other mode available for valuation.

Goods removed for test/trial outside the factory:
In above case Rule 4 is invoked as soon as assessee removes the manufactured goods for trial outside the factory. Since similar goods have been sold, the assessable value will be determined based on sale of such goods after making adjustment on account of difference in dates of delivery and the specification of goods.
Chapter 2

Definitions

The following terms are used in this guidance note with the meaning specified.

Cost of Production: Cost of production shall consist of Material Consumed, Direct Wages and Salaries, Direct Expenses, Works Overheads, Quality Control cost, Research and Development Cost, Packing cost, Administrative Overheads relating to production. To arrive at cost of production of goods dispatched for captive consumption, adjustment for Stock of work-in-Process, finished goods, recoveries for sales of scrap, wastage etc shall be made.

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

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

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

(a) indigenous materials
(b) imported materials
(c) bought out items
(d) self manufactured items
(e) process materials and other items

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

Various types of materials used for production of goods have been indicated. It depends on the type of product and process of manufacture involved. For example for production of engineering product both indigenous and imported raw materials may be used besides bought out items. In process industry, it may be indigenous/imported raw materials and other item of materials.

Materials are also classified as direct material and indirect material. Direct materials identified to finished product is a part of material cost while indirect material is part of overheads.

The cost elements to be considered for determining the cost of material consumed have been indicated above. The cost of material should be measured at purchase price including duties and taxes, freight inwards, insurance, and other expenditure directly attributable to procurement. (net of trade discounts, rebates, taxes and duties refundable or to be credited by the taxing authorities) that can be quantified with reasonable accuracy at the time of
acquisition. The method of valuation of material consumed shall be as per financial accounts, i.e., First in First out (FIFO) or weighted Average Rate.

LC charges/ Bank charges will not form part of material cost.

Normal loss or spoilage of material prior to reaching the factory will be absorbed in the cost of materials, after reducing the amounts chargeable to suppliers and recovery as scrap. Losses due to shrinkage or evaporation and gain due to elongation or absorption of moisture before the material is received will be absorbed in material cost to the extent they are normal.

Records relating to of material cost such as purchase, receipt, storage, issued for manufacture, sales or delivery of goods, including inputs and capital goods as the case may be, are required to be maintained under the Central Excise Law besides excise records for daily production report, daily stock account, CENVAT credit account for inputs, and the like. In brief it is to be ensured that there is effective material management system, properly documented, correctly accounted for to arrive at quantity and cost of material consumed for different types of products produced/manufactured. The item-wise material consumption for major item is reconciled with financial account.

The cost of material consumed is determined with respect to (i) the source / type of material consumed, and (ii) the method of valuation followed for issue of goods to production.

Any subsidy/grant/incentive and any such payment received /receivable with respect to any material shall be reduced from the cost of material consumed.

In case raw material is imported through advance license/DEPB or under any other scheme and used for manufacture of goods for captive consumption, adjustment for import duty shall be made to bring the raw material cost to the level of duty paid import. However, Duty Drawback refund benefit shall not be reduced from the input cost. Other export benefits like DEPB and DFRC will not be adjusted for calculation of cost of production.

Any demurrage or detention charges or penalty levied by transport or other authorities shall not form part of the cost of materials.
Bought out components:
Landed cost of indigenous / imported / bought out items shall be calculated on the above basis.
Illustrations of calculation of landed cost of indigenous and imported material are at Annexure VA and VB.

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

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

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

Quantity of Material consumed:
The quantity of material consumed is to be worked out from material issue records from stores for each product. Such consumption in quantity may be derived by two methods.

Method (i): Based on actual issues for batch, unit or job - This method is preferred as it establishes direct relationship of actual material usage for the product.

Method (ii): Based on any method other than actual e.g. Standard
Under this method material is issued at Standard Bill of material. The standard cost for each direct material is defined at the beginning of the year. The variances from standard on account of price/usage and the like are adjusted to consumption at the end of the period. Some organizations follow “Back flush Costing “system for issue of material. As soon as a finished good is ready for stock, material is back flushed (issued) as per the bill of material for that product. Any variation between the actual issues (both quantity and value) and the standard as accumulated over the period is charged off to consumption at the end of the period. Abnormal consumption, if any, shall not form part of material consumption on products.

This method is to be used in case of goods, where the direct link of actual consumption for product is not available. The manufacturer using this method should certify the quantitative requirement considered for calculation of material consumption as per Bill of Material. It may be ensured that usage variance is within reasonable limit and it should be adjusted in calculation of cost of production.

Reconciliation of cost of material consumed - It is advisable that cost of the material consumed for working out cost of production is reconciled with financial books. For major direct materials, reconciliation is to be ensured both in quantity and value.

5.2 Direct Wages and Salaries:

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

Direct wages and salaries include fringe benefits such as:

I. Contribution to provident fund and ESIS
II. Bonus/ ex-gratia payment to employees
III. Provision for retirement benefits such as gratuity and superannuation
IV. Medical benefits
V. Subsidised food
VI. Leave with pay and holiday payment
VII. Leave encashment
VIII. Other allowances such as children’s education allowance, conveyance allowance which are payable to employees in the normal course of business etc.
Direct wages and salaries are also termed as Employee cost. Employee cost are classified as direct employees cost and indirect employees cost. Direct employee cost is assigned to or linked with a cost centre or cost object. Indirect Employee Cost is treated as Overhead as dealt later.

Employee cost shall include the employee benefits as detailed above. If fringe benefits have not be identified with relevant cost centre, these should be allocated in the ratio of direct salaries and wages of the cost centres. Where an employee has worked in more than one departments/cost centres, it may be assigned on the basis of time spent.

The manufacturer shall prepare a detailed statement indicating Direct Employee Cost to different products and basis of allocation. Total Employee Cost shall be reconciled with financial accounts.

VRS payment, if any, shall not form part of cost of production.

5.3 Direct Expenses

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

Direct Expenses Include:

I. Cost of utilities such as fuel, power, water, steam, etc
II. Royalty based on production
III. Technical Assistance/ know –how fees
IV. Amortized cost of moulds, patterns, patents etc
V. Job charges
VI. Hire charges for tools and equipment
VII. Charges for a particular product designing etc.

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

If a utility is partly produced and partly purchased, it shall be charged on weighted average rate.

A separate cost sheet for each of the utilities is to be prepared by the manufacturer. Illustrations of power and steam utility cost sheet are given at Annexure VI and VII.

Royalty:
Royalty is payable either in relation to production or sales. If royalty payment is in respect of production of the goods captively consumed, then the same should be added as the cost element. Royalty for Marketing and Distribution, if paid, will be excluded from cost of production. Sometimes, royalty payments are one time payment at the time factory is established and are identified with the plant cost. It is capitalized and depreciated/amortized with the plant cost.

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

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

Based on the representation received from foundry manufacturer, the department has clarified treatment of pattern cost vide MF (DR) Circular No. 170/4/96-CX 1(F.No.6/14/94-CX 1) dated 23.1.1996 (Annexure VIII) as under:

“the proportionate cost of pattern has to be included in the assessable value of the castings even in cases where such patterns are being supplied by the buyers of the castings or are prepared/manufactured by the job worker at the cost of the buyer. In cases where there is a difficulty in apportioning the cost of pattern, apportionment can be made depending on the expected life and capability of the pattern and the quantity of castings
that can be manufactured from it and thus working the cost to be apportioned per unit. For this purpose a certificate from a Cost Accountant may be accepted.”

**Job / Processing charges:**
Job Work Charges / Processing Charges which are directly identified or linked with the products will form part of direct expenses.

**Hire charges for tools and equipment:**
Hire charges in respect of tools and equipments which can be directly identified with a particular product will form part of direct expenses. Hire charges for tools and equipment for general use is in the nature of indirect expenses and is to be included in works overheads.

**Charges for a particular product designing etc:**
Product design charges to the extent charged or amortized in the books of account in respect of tools and equipments which can be directly identified with a particular product will form part of direct expenses.

**5.4 Works Overheads:**
Works overheads are the indirect costs incurred in the production process.

The term Works Overhead, Factory Overheads, Production Overheads and Manufacturing overheads denote the same meaning and are used interchangeably. Works overheads shall include administration cost relating to production, factory, works or manufacturing.

Works overheads include the following expenses:

I. Consumable stores and spares.
II. Depreciation of plant and machinery, factory building etc.
III. Lease rent of production assets
IV. Repair and maintenance of plant and machinery, factory building etc
V. Indirect employees cost connected with production activities
VI. Drawing and Designing department cost.
VII. Insurance of plant and machinery, factory building, stock of raw material & WIP etc
VIII. Amortized cost of jigs, fixtures, tooling etc
IX. Service department cost such as Tool Room, Engineering & Maintenance, and Pollution Control etc.

These expenses are incurred in the production process or in rendering service. These are used for a type of cost that cannot be directly assigned to a cost centre or product, but can only be apportioned to cost units/cost object. Cost Accounting Standard 3, which deals with the methods of accumulation, allocation, apportionment of overheads to different cost centres and absorption thereof to products or services, should be followed.

A reconciliation statement showing the amount incurred under different heads of overheads and amount absorbed by different products used for captive consumption and for sale should be prepared by the assessee. The reconciliation will help in ensuring accuracy of cost statements.

List of items of expenses for works overheads, as indicated above, are illustrative and their treatment is indicated below. Other expenses such as Security, dispensary, canteen, staff welfare and the like will also form part of works overhead.

Consumable stores are items used in the maintenance of plant for example lubricant, cotton waste, paint and the like. Spares are purchased items used for replacement of worn out part of machinery and the like. Other indirect materials are items of small value such as bolt, nut nails, and the like which cannot be directly identified economically with a product and are treated as indirect material. These form part of the works overhead.

The depreciation on the fixed assets shall be as per the method of depreciation followed for the purpose of financial accounts as per rates specified under Companies Act, 1956. Depreciation on idle fixed assets shall be excluded from cost of production. Further, depreciation should not be calculated based on the replacement value or notional value on revaluation of the assets. As per CAS-4 Depreciation of plant and machinery, factory building and the like is part of works overhead.

Insurance premium for various assets and risk connected with production activity should be included in works overheads. However, insurance on loss of profit policy and finished goods in transit policy should not be part of works overhead. Lease rental on fixed asset shall be also considered under this head.
5.5 **Quality Control Cost:**

The quality control cost is the expenses incurred relating to quality control activities for adhering to quality standard. These expenses shall include salaries & wages relating to employees engaged in quality control activity and other related expenses.

Quality control cost shall include various costs related to Quality Control, Quality Assurance Department functions and activities such as inspection of incoming material, inspection during progressive stages of manufacture of product on completion of finished product, Testing, Analysis Charges, Fees / Charges paid to IS / QS/Quality certification expenses etc. Expenses shall be identified under major heads such as salaries and wages, ISO certification etc.

CAS-4 provides that the quality control cost is to be shown separately in the cost sheet.

5.6 **Research and Development Cost:**

The research and development cost incurred for development and improvement of the process or the existing product shall be included in the cost of production.

Research and Development costs are the cost of undertaking research to improve quality of the present product or improve process of manufacture, develop a new product, etc.

The R & D cost for the existing product/ process shall be included in the cost of production. In case the company has followed a policy to treat a part of the R & D cost of existing product/process as deferred cost, share applicable for the year/period will be included in cost of production.

R & D cost incurred for developing a new product should be excluded from calculation of cost of production.

R&D cost is to be shown separately in the cost sheet as per Appendix I to CAS-4.

5.7 **Administrative Overheads:**

Administrative overheads need to be analyzed in relation to production activities and other activities. Administrative overheads in relation to production activities shall be included in
the cost of production. Administrative overheads in relation to activities other than manufacturing activities e.g. marketing, projects management, corporate office expenses etc. shall be excluded from the cost of production.

The role of administration is to facilitate the manufacturing, general policy making and marketing activities. The administrative overheads shall be included in the cost of production only to the extent they are attributable to the factory. Administrative overheads in relation to activities other than manufacturing activities e.g. marketing, selling, depot/branches etc. shall be excluded from the cost of production.

Administrative Overheads for production may include share from:

- Salaries of staff for administrative and other departments relating to production such as Accounts, Purchase, HRD, Production Planning, Security etc.
- General office expenses - like rent, lighting, rates & taxes, telephone, stationery, postage etc.
- Depreciation of office building, office equipment, furniture, vehicles, etc
- Repairs & Maintenance of office building, office equipment, furniture, vehicles, etc.
- Legal expenses in relation to factory.

Treatment of Head Office/Corporate Office Expenses:
A company may have a number of factories with a head office. In a multi-locational/ multi-product company, there are common activities carried out at Head Office like purchase, inventory management, finance, personnel, R & D, Quality Assurance, security etc. These activities sometimes, are centralized at one place i.e. Head Office for business convenience and scale of economy and booked as head office expenses along with other activities like secretarial, project, treasury, investment, trading, etc. They do not form part of the Administration overheads. For example: Industrial relation Department; Material management; Operation/production planning Department; Human Resources, System Design & Development Set Up and the like are production related activities. Nomenclature or place where the activity takes place is not relevant. In such a situation, activities at Head Office/Corporate level are to be clearly demarcated and segregated so as to distinguish activities that contribute clearly and directly to production activities from general management and administration activities. It is necessary to properly analyze the expenses of such activities of head office and allocate these to plants/products on rational basis.

Freight and forwarding charges on dispatch of goods for captive consumption:
In case goods for captive consumption are dispatched from one factory premises to another factory premises, the cost of transportation incurred by sender of the goods is to be treated as cost of transportation under Rule 5 of the Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000, hence excluded from calculation of cost of production for CAS.

5.8 Packing Cost:

If product is transferred/dispatched duly packed for captive consumption, cost of such packing shall be included.

Packing cost includes both cost of primary and secondary packing required for transfer/dispatch of the goods used for captive consumption.

Packing Cost includes:

I. Cost of Packing Material used
II. Job charges paid for manufacture of packing material, if any.
III. Packing charges including salaries & wages of the persons involved in packing activity.
IV. Other expenses relating to packing activity.

Landed cost of the packing material should be calculated as per the guidelines given in para related to material cost. If product for captive consumption is transferred without packing (unpacked), packing cost need not be included in the cost of production. In case, captive product is transferred on returnable/durable packing container, pro-rata cost shall be estimated and charged based on the life of the container. In case packed goods are sent to job worker, the cost of packing will form part of cost of production, unless these are returned to buyer for re-use.

Packing cost includes both cost of primary and secondary packing required for transfer/dispatch of the goods used for captive consumption.

5.9 Absorption of overheads:

Overheads shall be analyzed into variable overheads and fixed overheads.

Variable Overheads are the items which change with the change in volume of production, such as cost of utilities etc.
**Fixed overheads are the items whose value do not change with the change in volume of production such as staff salaries, rent etc.**

**The variable production overheads shall be absorbed in production cost based on actual capacity utilization.**

**The fixed production overheads and other similar items of fixed costs such as quality control cost, research and development costs, administrative overheads relating to manufacturing shall be absorbed in the production cost on the basis of the normal capacity or actual capacity utilization of the plant, whichever is higher.**

**Absorption of overheads:**

Based on behaviour, overheads are classified as variable overhead and fixed overhead. Variable Overheads comprise of expenses which vary in proportion to the change in the volume of production e.g. cost of utilities, royalty, job charges, etc.

Fixed overheads comprise of expenses which do not vary with the change in volume of production such as of rent, insurance, technical assistance/know-how fees, amortized cost of moulds, patterns, patents, hire charges for tools and equipments, charges for a particular design, and the like.

The principles laid down in CAS-3, relating to the methods of accumulation, allocation, apportionment of overheads to different cost centers and absorption thereof to products or services on a consistent and uniform basis in the preparation of cost sheet should be followed for the purpose of allocation and absorption of overheads.

The variable production overheads shall be absorbed in cost of product, based on actual capacity utilization. The fixed production overheads shall be absorbed on normal capacity basis or actual capacity utilization whichever is higher. Normal Capacity is the production achieved or achievable on an average over a period or season under normal circumstances taking into account the loss of capacity resulting from planned maintenance. Normal capacity for a defined period is the practical capacity minus the loss of productive capacity due to external factors. Whereas Practical or Achievable capacity as “the maximum productive capacity of a plant reduced by the predictable and unavoidable factors of interruption pertaining to internal causes such as inevitable interruptions due to time lost
for preventive maintenance, repairs, set ups, normal delays, weekly off days and holidays etc.

An illustration on absorption of overheads based on normal capacity utilisation is at Annexure IX.

A reconciliation statement showing the amount incurred under different heads of overheads and amount absorbed by different products should be prepared for this purpose. The reconciliation will help in ensuring accuracy of cost of production in cost statements.

5.10 Valuation of Stock of work-in-progress and finished goods

Stock of work-in-progress shall be valued at cost on the basis of stages of completion as per the cost accounting principles. Similarly, stock of finished goods shall be valued at cost. Opening and closing stock of work-in-progress shall be adjusted for calculation of cost of goods produced and similarly opening and closing stock of finished goods shall be adjusted for calculation of goods dispatched.

For determining the cost of production for captive consumption, adjustment for opening and closing stock of work-in-progress shall be made. The valuation of opening stock and closing stock of WIP is valued at cost on the basis of stages of completion. Similarly for calculation of cost of finished goods dispatched, adjustment for opening and closing stock of finished goods, if any, is to be made. In case the cost of a shorter period is to be determined, where the figures of opening and closing stock are not readily available, the adjustment of figures of opening and closing stock may be ignored.

Adjustment of opening and closing stock of WIP/finished goods will arise only when the cost of production is to be determined for historical cost and due consideration shall be given for above adjustment in determining the cost of production. However, if cost of production is to be determined for a future period, it will be based on projected cost and projected capacity utilisation. In such cases, adjustment of opening and closing WIP/finished goods and valuation thereof does not arise.

5.11 Treatment of Joint Products and By-Products

A production process may result in more than one product being produced simultaneously. In case joint products are produced, joint costs are allocated between the products on a
rational and consistent basis. In case by-products are produced, the net realisable value of by-products is credited to the cost of production of the main product.

For allocation of joint cost to joint products, the sales values of products at the split off point i.e. when the products become separately identifiable may be the basis. It may be allocated based on a measure of the number of units, weight or volume. Some other basis may be adopted. For example, in case of petroleum products, each product is assigned certain value based on its certain properties, may be calorific value and these values become the basis of apportionment of joint cost among petroleum products.

The joint cost shall be allocated to the cost of production of Joint Products as per the generally accepted cost accounting principles.

**By-product:**

By product is a product recovered incidentally from the material used in the manufacture of main products. It has lower importance compared to the main product(s). It is difficult to determine the cost of by-product. By products are sold:

(1) Either in original form without further processing; or
(2) or processed in order to be saleable. In such case, the main product is credited with the sale realization (gross/net) as the case may be. In other words expenses incurred to bring by-product to marketable conditions shall be adjusted from the sale of by product and net realizable value of by-product shall be credited to cost of production of main product.

In case sale realization is not available, credit to main product at substitute value of by product may be given.

**5.12 Treatment of Scrap and Waste:**

*The production process may generate scrap or waste. Realized or realizable value of scrap or waste shall be credited to the cost of production.*

In case, scrap or waste does not have ready market and it is used for reprocessing, the scrap or waste value shall be taken at a rate of input cost depending upon the stage at which such scrap or waste is recycled. The expenses incurred for making the scrap suitable for reprocessing shall be deducted from value of scrap or waste.
### Illustration

<table>
<thead>
<tr>
<th>Stage</th>
<th>Input material cost</th>
<th>Processing cost</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>( Rs/MT)</td>
<td>( Rs/MT)</td>
<td>( Rs/MT)</td>
</tr>
<tr>
<td>1</td>
<td>2000</td>
<td>500</td>
<td>2500</td>
</tr>
<tr>
<td>2</td>
<td>2500</td>
<td>1000</td>
<td>3500</td>
</tr>
<tr>
<td>3</td>
<td>3500</td>
<td>1000</td>
<td>4500</td>
</tr>
</tbody>
</table>

If during the production process at stage 3, the scrap is produced and the same is recycled at stage 2 after making an expenditure of Rs 200 per MT to make it suitable for re-processing at stage 2, then scrap will be valued @ Rs (2500 - 200) i.e. Rs 2300. If no expenditure is involved to make scrap re-usable, the scrap value will be @ Rs 2500. The scrap value for the scrap produced during a period calculated at the rate as explained above may be deducted to find out the cost of production for the period.

The above illustration refers to recycled waste or inferior/sub-standard production. Normal process loss is ignored for the sake of simplicity. If the cost calculation is done for the past period and the actual sales realization of scrap is available, the same shall be deducted after adjustment for opening and closing stock of scrap (to arrive at the realizable value of scrap generated) from the cost of production for the relevant period. In case the scrap is not disposed off/sold during the period and lying in the stock, the realizable value of scrap can be calculated from the quotations/market rate.

### 5.13 Miscellaneous Income:

Miscellaneous income relating to production shall be adjusted in the calculation of cost of production, for example income from sale of empty containers used for dispatch of the captively consumed goods produced under reference.

The miscellaneous income needs to be analyzed in detail for its nature (capital/revenue) and if not related to production activities, the same may be ignored. The income arising out of sale of used empty containers of the input materials shall be adjusted in the cost of production.

### 5.14 Inputs received free of cost:
In case any input material, whether of direct or indirect nature, including packing material is supplied free of cost by the user of the captive product, the landed cost of such material shall be included in the cost of production.

Landed cost of inputs received free of cost should be calculated as per the guidelines given in para related to material cost. The cost of inputs received free of cost shall be included in the cost of production for captive consumption.

5.15 Moulds, Tools, Dies & Patterns etc received free of cost:
The amortization cost of such items shall be included in the cost of production.

Amortization should be done on the basis of estimated production that can be achieved during the life of the Mould, Tool, Die or Pattern. After the estimated life, if the moulds, dies are still in use and if the full cost has already been amortized, then amortization cost need not be considered for the purpose of cost of production. However, for this purpose, proper record needs to be maintained. The estimated life / estimated production may be certified by technical person. Where the dies, moulds etc are supplied by the customer, the necessary details may be obtained from the customer.

In case of dies, moulds etc purchased / manufactured in-house, its cost should be ascertained and amortised over its useful life.

5.16 Interest and Financial Charges:
Interest and financial charges being a financial charge shall not be considered to be a part of cost of production.

Interest and financial charges can be on bank borrowings, amortization of discounts or premium related to borrowings, amortization of ancillary cost incurred in connection with the arrangements of borrowings, finance charges in respect of finance leases and exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest costs.

Interest and financial charges are finance cost and do not form part of cost of production for captive consumption. Logic for excluding interest from captive consumption is that for
purpose of assessable value a margin of 10% of cost of production is added to take care of return on capital employed. (Normally return on capital employed takes care of return on owners’ equity and interest on borrowed fund). To make the calculation simple above approach of 110% of cost of production of captively consumed good is taken as assessable value.

5.17 Abnormal and Non-recurring Cost

Abnormal and non-recurring cost arises due to unusual or unexpected occurrence of events, such as heavy break down of plants, accident, market condition restricting sales below normal level, abnormal idle capacity, abnormal process loss, abnormal scrap and wastage, payments like VRS, retrenchment compensation, lay-off wages etc. The abnormal cost shall not form the part of cost of production.

Loss due to fire, natural calamities and the like (as indicated above) are treated as abnormal and non-recurring cost, and excluded from cost of production. Further, expenses which are not related to manufacturing activity and which do not form part of the cost as per the generally accepted cost accounting principles may be excluded for this purpose e.g. donations, loss on sale of fixed assets, etc.
Chapter 4

Cost Sheet

The cost sheet should be prepared in the format as per Appendix-1 to the Standard or as near thereto as possible. The manufacturer will be required to maintain cost records and other books of account in a manner, which would facilitate preparation and verification of the cost of production. For manufacturers covered under the ambit of Section 209(1) (d) of the Companies Act, 1956, i.e., where Cost Accounting Records are statutorily required to be maintained, the Cost Accountant certifying the cost of production for captive consumption shall verify the correctness of the cost from these records. However, for manufacturers not covered under Section 209(1) (d) of the Companies Act, 1956, it is desirable that they also maintain cost accounting records in line with the records so prescribed as to facilitate determination and certification of cost of production.

Separate cost sheet shall be prepared for each type / variety / description of product used for captive consumption. The cost sheet may be suitably modified to cover the special features, if any, of the industry. Where goods of different variety / type / size of a group of products are manufactured and the manufacturing process is the same, the cost of production may be worked out for main product / variety and the cost of other type / variety of the product may be worked out by applying above cost per unit and adjustment made for addition / deletion of items required for a particular product. Separate cost statement is to be prepared for each size and variety of goods on the above basis.

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

The Cost Accountant certifying the cost sheet of cost of production for captive consumption shall verify and reconcile the product cost arrived at for the certification with that worked out to comply with provisions of Section 209(1)(d) of the Companies Act, 1956.

In case where the product is covered under The Companies (Cost Accounting Records) Rules 2011 issued in pursuant to Section 209(1)(d) of the Companies Act, 1956, the system for cost calculation would be in place and the relevant information will be readily available for such calculations. If the product is not covered under above provision, maintenance of cost accounting records as per the generally accepted costing principles read with Cost Accounting Standards shall be useful for the purpose.
Manufacturers following standard costing system should adjust the variances to the various products as per generally accepted cost accounting principles for calculation of product wise cost of production.

Two illustrations of Cost Sheet are annexed as Annexure X (a) and X (b).

**Attestation/Certification:**
The responsibility of preparation of cost sheet is that of the management. After cost sheet has been authenticated by company’s authorized representative, cost accountant in practice has to certify the same as per certificate appended below the cost sheet. Cost accountant shall carry out test checks with reference to books of account, cost records and other records required for the purpose. Records required under Excise relating to receipt, purchases, manufacture storage, sales or delivery of goods inputs, etc may be scrutinized. He should ensure that cost data reflect true and fair view of the cost of production. Suggested list of test check to be carried out are given below.

Test checks will depend upon the type of organization i.e. covered under maintenance of cost accounts records as required under Section 209(1) (d) and cost audit thereof under section 233B of the Companies Act 1956. Cost accounting records and cost report may be examined and other organisations. In case of organisations covered under above provisions, the Cost Accountant certifying the cost sheet of cost of production for captive consumption shall verify and reconcile the product cost arrived at for certification with that worked out to comply with provisions of Section 209(1)(d) of the Companies Act, 1956 and cost audit report thereof.

Other organizations are:

1. Not covered under statutory maintenance of cost accounting records but have goods cost accounting system and proper records are maintained. In such cases cost records should be reviewed and information shall be called for the purpose.

2. Organisation do not maintain cost records at all: Organization shall submit the relevant records and data on the basis of which cost sheet has been prepared with reference to financial and excise records relating to production. With computerized
accounting system, organization can supply the necessary data required for the purpose.

**Test Checks:**
Test checks required may be decided keeping in view the type of organisations detailed above. Examine the material accounting systems from purchase to issue of material. Compare the norms of consumption of input of materials as mentioned in ER 4, 5 and ER 6. If the product is already being produced, consumption shall be compared with previous period. Test check some issue vouchers relating to raw material and process material. If breakup of material cost is not indicated in the cost statement, ask for separate details item-wise. The basis of valuation shall be as per financial accounts. If the method of valuation is changed, it should be ensured that it does not result in undervaluation of cost of material.

Compare consumption of major raw material as shown in annual accounts. Check whether by product waste is being properly accounted for and credit is given to the main raw material.

Review procedure of employee cost booking, direct expenses and other overheads relating to classification and allocation and absorption. (Breakup of Overhead into fixed and variable overheads).

Check that the expenses as exhibited in the cost sheet have been properly worked out as provided under CAS-4.

Authentication on cost sheet, workings and/or declaration shall, preferably obtained from the professional accountant of the company.

However, when the normal capacity utilization is not quantifiable and/or actual capacity utilization is likely to be low, as compared to previous period; It is advisable that the manufacturer shall go for Provisional Assessment under rule 7 of Central Excise Rules, 2002. After the end of the year annual certification should be done based on the finalized books of account and if the cost of production is found different than the provisional costs, differential duty shall be paid by the manufacturer.
In case of multi-location units, the cost of production should be worked out separately for each unit as per CAS-4.

**Periodicity of cost sheet/certification:**
The basic purpose of CAS-4 is to determine the cost of production for goods capitably consumed and calculate deemed transaction value thereof. Therefore, valuation is required at the time of removal of the goods. If costing is for the future period, it will be done at projected costs, projected capacity utilisation. In such cases, valuation of opening and closing stock of WIP and finished stock is to be ignored. In case, when the normal capacity utilization is not quantifiable and/or actual capacity utilization is likely to be low, as compared to previous period; it is advisable that the manufacturer shall go for Provisional Assessment under rule 7 of Central Excise Rules, 2002. After the end of the year annual certification should be done based on the finalized books of account and if the cost of production is found different than the provisional costs, differential duty shall be paid by the manufacturer.
Chapter 5     Disclosure

(i) If there is any change in cost accounting principles and practices during the concerned period which may materially affect the cost of production in terms of comparability with previous periods, the same should be disclosed.

(ii) If opening stock and closing stock of work-in-progress and finished goods are not readily available for certification purpose, the same should be disclosed.

The cost accounting principles and methods adopted for determining the cost of production to be followed consistently from one period to subsequent period. If there is any change in the cost accounting principles and methods during the period resulting in material effect on the cost of production, the same shall be disclosed indicating its impact in the cost statement.

Disclosures shall be made in the body of the Cost Statement or as a foot note or as a separate schedule or below the certificate relating to above items or any other matter.
I am directed to say that on introduction of Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000, w.e.f. 1.7.2000, it was clarified by the Board vide Circular No.354/81/2000TRU dated 30.6.2000 (para 21) that for valuing goods which are captively consumed, the general principles of costing would be adopted for applying Rule 8. The Board has interacted with the Institute of Cost & Works Accountants of India (ICWAI) for developing costing standards for costing of captively consumed goods.

The Institute of Cost & Works Accountants of India [ICWAI] has since developed the Cost Accounting Standards, CAS 2, 3 and 4, on capacity determination, overheads & cost of production for captive consumption, respectively, which were released by the Chairman, CBEC on 23.1.2003.

It is, therefore, clarified that cost of production of captively consumed goods will henceforth be done strictly in accordance with CAS-4. Copies of CAS-4 may be obtained from the local Chapter of ICWAI.

Board’s Circular No.258/92/96-CX dated 30.10.96, may be deemed to be modified accordingly so far as it relates to determination of cost of production for captively consumed goods.

This Circular may be brought to the notice of the field formations.

Suitable Trade Notices may be issued for the benefit of the Trade.

Hindi version will follow.

Receipt of these instructions may be acknowledged.
EXTRACT OF SECTION 4 OF CENTRAL EXCISE ACT, 1944

4. Valuation of excisable goods for purposes of charging of duty of excise.

1) Where under this Act, the duty of excise is chargeable on any excisable goods with reference to their value then, on each removal of the goods, such value shall -
   a. In a case where the goods are sold by the assessee, for delivery at the time and place of the removal, the assessee and the buyer of the goods are not related and the price is the sole consideration for the sale, be the transaction value;
   b. In any other case, including the case where the goods are not sold be the value determined in such manner as may be prescribed.

2) The provisions of this section shall not apply in respect of any excisable goods for which a tariff value has been fixed under sub-section (2) of section 3.

3) For the purposes of this section, -
   a. “assessee” means the person who is liable to pay the duty of excise under this Act and includes his agent;
   b. Persons shall be deemed to be “related” if –
      i. they are inter-connected undertakings;
      ii. they are relatives;
      iii. amongst them the buyer is a relative and a distributor of the assessee, or a sub-distributor of such distributor; or
      iv. they are so associated that they have interest, directly or indirectly, in the business of each other.

   Explanation: In this clause-
      i. “inter-connected undertakings” shall have the meaning assigned to it in clause (g) of section 2 of the Monopolies and Restrictive Trade Practices Act, 1969; and
      ii. “relative” shall have the meaning assigned to it in clause (41) of section 2 of the Companies act, 1956;

   a) “Place of removal” means-
      i. a factory or any other place or premises of production or manufacture of the excisable goods;
      ii. A warehouse or any other place or premises wherein the excisable goods have been permitted to be deposited without payment of duty; from where such goods are removed;

   b) “transaction value” means the price actually paid or payable for the goods, when sold, and includes in addition to the amount charged as price, any amount that the buyer is liable to pay to, or on behalf of, the assessee, by reason of, or in connection with the sale, whether payable at the time of the sale or at any other time, including, but not limited to, any amount charged for, or to make provision for, advertising or publicity, marketing and selling organization expenses, storage, outward handling, servicing, warranty, commission or any other matter; but does not include the amount of duty of excise, sales tax and other taxes, if any, actually paid or actually payable on such goods.
CENTRAL EXCISE VALUATION (DETERMINATION OF PRICE OF EXCISABLE GOODS) RULES,
2000

Notification No. 45/2000-C.E. (N.T.) dated 30-6-2000 [Effective from 1-7-2000].
Amended by
Notification No. 11/2003-C.E. (N. T.), dated 1-3-2003
Notification No. 60/2003-C.E. (N.T.), dated 05-08-2003
Notification No. 09/2007-C.E. (N. T.), dated 1-3-2007

[Issue by the Ministry of Finance (Department of revenue) vide F. No. 354/81/2000-TRU; Published in the Gazette of India Extraordinary Part II, Section 3, sub-section (i) dated 30.6.2000]. NOTIFICATION [NO. 45/2000- Central Excise (N.T.)]

G.S.R.575 (E):- In exercise of the powers conferred by section 37 of the Central Excise Act, 1944 (1of 1944), and in supersession of the Central Excise (Valuation ) Rules, 1975 except as respect things done or omitted to be done before such supersession, the Central Government hereby makes the following rules, namely:-
1. (1) These rules may be called the Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000.
   (2) They shall come into force on and from the 1st day of July, 2000.

   CHAPTER I
   PRELIMINARY
   2. In these rules, unless the context otherwise requires:-
   a) “Act” means the Central Excise Act, 1944 (1of 1944)
   b) “normal transaction value” means the transaction value at which the greatest aggregate quantity of goods are sold ;
   c) “value” means the value referred to in section 4 of the Act;
   d) words and expressions used in these rules and not defined but defined in the Act shall have the meanings respectively assigned to them in the Act.

   CHAPTER II
   DETERMINATION OF VALUE
   3. The value of any excisable goods shall, for the purposes of clause (b) of sub-section (1) of section 4 of the Act, be determined in accordance with these rules.

   4. The value of the excisable goods shall be based on the value of such goods sold by the assessee for delivery at any other time nearest to the time of the time of the removal of goods under assessment, subject, if necessary, to such adjustment on account of the difference in the dates of delivery of such goods and of the excisable goods under assessment, as may appear reasonable.

   5. Where any excisable goods are sold in the circumstances specified in clause (a) of sub-section (1) of section 4 of the Act except the circumstance in which the excisable goods are sold for delivery at a place other
than the place of removal, then the value of such excisable goods shall be deemed to be the transaction value, excluding the actual cost of transportation from the place of removal upto the place of delivery of such excisable goods.

Explanation 1: “Cost of transportation includes”
   I. the actual cost of transportation, and
   II. In case where freight is averaged, the cost of transportation calculated in accordance with generally accepted principles of costing.

Explanation 2: For removal of doubts, it is clarified that the cost of transportation from the factory to the place of removal, where the factory is not the place of removal, shall not be excluded for the purposes of determining the value of excisable goods.

6. Where the excisable goods are sold in the circumstances specified in clause (a) of sub section (1) of section 4 of the Act except the circumstance in where the price is not the sole consideration for sale, the value of such goods shall be deemed to be the aggregate of such transaction value and the amount of money value of any additional consideration flowing directly or indirectly from the buyer to the assessee.

Explanation 1: For removal of doubts, it is hereby clarified that the value, apportioned as appropriate, of the following goods and services, whether supplied directly or indirectly by the buyer free of charge or at reduced cost for use in connection with the production and sale of such goods, to the extent that such value has not been included in the price actually paid or payable, shall be treated to be the amount of money value of additional consideration flowing directly or indirectly from the buyer to the assessee in relation to sale of the goods being valued and aggregated accordingly, namely:-
   I. Value of materials, components, parts and similar items relatable to such goods;
   II. Value of tools, dies, moulds, drawings, blue prints, technical maps and charts and similar items used in the production of such goods;
   III. Value of materials consumed, including packaging materials, in the production of such goods;
   IV. Value of engineering, development, art work, design work and plans and sketches undertaken elsewhere than in the factory of production and necessary for the production of such goods.

Explanation 2 – Where an assessee receives any advance payment from the buyer against delivery of any excisable goods, no notional interest on such advance shall be added to the value unless the Central Excise Officer have evidenced to the effect that the advance received has influenced the fixation of price of the goods by way of charging a lesser price from or by offering a special discount to the buyer who has made the advance deposit.

Illustration 1: X an assessee, sells his goods to Y against full advance payment at Rs 100 per piece. However, X also sells such goods to Z without any advance payment at the same price of Rs 100 per piece. No notional interest on the advance received by X is includible in the transaction value.
Illustration 2: An assessee manufactures and supplies certain goods as per design and specification furnished by B at a price of Rs 10 lakhs. A takes 50% of the price as advance against these goods and there is no sale of such goods to any other buyer. There is no evidence available with the Central Excise Officer that the notional interest on such advance has resulted in lowering of the prices. Thus, no notional interest on the advance received shall be added to the transaction value.

7. Where the excisable goods are not sold by the assessee at the time and place of removal but are transferred to a depot, premises of a consignment agent or any other place or premises (hereinafter referred to as “such other place”) from where the excisable goods are to be sold after their clearance from the place of removal and where the assessee and the buyer of the said goods are not related and the price is the sole consideration for the sale, the value shall be the normal transaction value of such goods sold from such other place at or about the same time and, where such goods are not sold at or about the same time, at the time nearest to the time of removal of goods under assessment.

8. Where the excisable goods are not sold by the assessee but are used for consumption by him or on his behalf in the production or manufacture of other articles. The value shall be one hundred and ten per cent of the cost of production or manufacture of such goods.

9. When the assessee so arranges that the excisable goods are not sold by an assessee except to or through a person who is related in the manner specified in either of sub clauses (ii) or (iii) or (iv) of clause (b) of sub-section (3) of section 4 of the Act, the value of the goods shall be the normal transaction value at which these are sold by the related person at the time of removal, to buyer (not being related person); or where such goods are not sold to such buyers, to buyers (being related person), who sells such goods in retail:

Provided that in a case where the related person does not sell the goods but uses or consumes such goods in the production or manufacture of articles, the value of goods shall be determined in the manner specified in rule 8.

10. When the assessee so arranges that the excisable goods are not sold by him except to or through an inter-connected undertaking, the value of goods shall be determined in the following manner, namely:-

a) If the undertakings are so connected that they are also related in terms of sub-clause (ii) or (iii) or (iv) of clause (b) of sub-section (3) of Section 4 of the Act or the buyer is a holding company or subsidiary company of the assessee, then the value shall be determined in the manner prescribed in rule 9.

Explanation:- In this clause “holding company” and “subsidiary company” shall have the same meanings as in the Companies Act, 1956 (1 of 1956).

b) In any other case, the value shall be determined as if they are not related persons for the purpose of sub-section (1) of section 4.

10A. Where the excisable goods are produced or manufactured by a job-worker, on behalf of a person (hereinafter referred to as principal manufacturer), then,
(i) in a case where the goods are sold by the principal manufacturer for delivery at the time of removal of goods from the factory of job-worker, where the principal manufacturer and the buyer of the goods are not related and the price is the sole consideration for the sale, the value of the excisable goods shall be the transaction value of the said goods sold by the principal manufacturer;

(ii) In a case where the goods are not sold by the principal manufacturer at the time of removal of goods from the factory of job-worker, but are transferred to some other place from where the said goods are to be sold after their clearance from the factory of job-worker and where the principal manufacturer and buyer of the goods are not related and the price is the sole consideration for the sale, the value of the excisable goods shall be the normal transaction value of such goods sold from such other place at or about the same time and, where such goods are not sold at or about the same time, at the time nearest to the time of removal of said goods from the factory of job-worker;

(iii) in a case not covered under clause (i) or (ii), the provisions of foregoing rules, wherever applicable, shall mutatis mutandis apply for determination of the value of the excisable goods:

Provided that the cost of transportation, if any, from the premises, wherefrom the goods are sold, to the place of delivery shall not be included in the value of excisable goods.

Explanation – For the purposes of this rule, job-worker means a person engaged in the manufacture or production of goods on behalf of a principal manufacturer, from any inputs or goods supplied by the said principal manufacturer or by any other person authorized by him.

11. If the value of any excisable goods cannot be determined under the foregoing rules, the value shall be determined using reasonable means consistent with the principles and general provisions of these rules and sub-section (1) of section 4 of the Act.
MARKANDEY KATJU, J. Civil Appeals Nos. 2947-2948/2001 have been filed against the impugned final order dated 28.9.2000 passed by the Customs Excise and Gold (Control) Appellate Tribunal, West Regional Bench at Mumbai in Appeal No. E/1021, 1022/2000-MUN.

Heard learned counsel for the parties.

The question involved in these appeals is about the valuation of milk crumbs, refined milk chocolate and four other products manufactured by the respondent - M/s. Cadbury India Limited, in its factory at Induri, Pune and captively consumed in that factory and other factories of the respondent in the manufacture of chocolate. No part of these products are sold by the respondent.

The respondent had sought valuation of these goods under Rule 6(b)(ii) of the Central Excise (Valuation) Rules, which provides for basing the valuation on such goods on the “cost of production on manufacture including profits, if any, the assessee would have earned in the sale of such goods.”

The assessee had showed the price of these goods supported by a statement verified by a chartered accountant. The statement indicated the cost of edible and packing material used in the manufacture including its overheads. A separate statement in support of the profit added was formulated and these assessments were provisionally approved.

At the time of the finalization of the assessment, the department took the view that the value of the goods should include the labour cost, direct expenses, total factory expense, administration expenses, travelling expense, insurance premium, advertising expense and interest. The Assistant Commissioner added these elements to the declared value. He added the total expenses of the company as shown in the balance sheet and deducted the cost material. A percentage of this cost of the remaining figure was treated as the factor by which the assessable value should be increased.

In appeal the Commissioner (Appeals) upheld the order of the Assistant Commissioner. He held that since Rule 6(b)(ii) itself specified including the profit on the goods captively consumed hence this indicated the intention in the rule that the valuation should be brought to the level of the sale value of the goods and hence this includes all expenses referred to above. The Commissioner (Appeals) also relied on the circular dated 30.10.1996 issued by the Board relating to captively consumed goods. He has also relied upon paragraph 49 of the Supreme Court’s judgment in Union of India vs. Bombay Tyres International AIR 1984 SC 420. In further
appeal the Tribunal set aside the orders of the Commissioner and the Assistant Commissioner. The Tribunal held that sub-rule (ii) of Rule 6(b) can be invoked only in a situation where the goods are not sold and there are no comparable goods. The Tribunal held that the expenses other than the cost of manufacture, cost of raw materials and the profit would not be includible in the assessable value.

The issue in the present case is about the value of the goods captively consumed by the respondent. The assessee has contended that there is no dispute that these intermediate goods are not marketable and are not bought and sold in the market. Hence the valuation of these intermediate goods has to be done according to Rule 6(b)(ii) of the Central Excise (Valuation) Rules, 1975.

Rule 6(b)(ii) reads as follows: “Rule 6 If the value of the excisable goods under assessment cannot be determined under Rule 4 or Rule 5, and a) (b) (i) (ii) if the value cannot be determined under sub-clause (i), on the cost of production or manufacture including profits, if any, which the assessee would have normally earned on the sale of such goods; “

According to settled principles of accountancy only the elements that have actually gone into the manufacture/production of these intermediates i.e. sum total of the direct labor cost, direct material cost, direct cost of manufacture and the factory overheads of the factory producing such intermediate products are included in the cost of production. The Appellant produced alongwith the reply to the Show Cause Notice the following authoritative texts: Wheldon’s Cost Accounting and Costing Methods, Cost Accounting methods by B K Bhar, Principles of Cost Accounting by N.K. Prasad, Glossary of Management Accounting Terms by ICWAI.

In CCE v. Dai Ichi Karkaria Ltd., (1999) 7 SCC 448, at page 459 it has been held that the normal principles of accountancy shall be applied to determine the cost. In this decision this Court observed:

“Learned Counsel for the respondents drew our attention to the judgment of this Court in Challapalli Sugar Ltd. v. CIT. The Court was concerned with “written-down value”. The “written-down value” had to be taken into consideration while considering the question of deduction on account of depreciation and development rebate under the Income Tax Act.

“Written-down value” depended upon the “actual cost” of the assets to the assessee.

The expression “actual cost” had not been defined in the Income Tax Act, 1922 and the question was whether the interest paid before the commencement of production on the amount borrowed for the acquisition and installation of the plant and machinery could be considered to be a part of the “actual cost” of the assets to the assessee. As the expression “actual cost” had not been defined, this Court was of the view that it should be construed “in the sense which no commercial man would misunderstand. For this purpose, it could be necessary to ascertain the connotation of the above expression in accordance with the normal rules of accountancy prevailing in commerce and industry”. Having considered authoritative books in this regard, this Court said that the accepted accountancy rule for determining the cost of fixed assets was to include all expenditure necessary to bring such assets into existence and to put them in a working condition. That rule of
accountancy had to be adopted for determining the “actual cost” of the assets in the absence of any statutory definition or other indication to the contrary.”

Subsequent to the filing of these appeals, the Institute of Cost and Works Accountants of India (ICWAI) has laid down the principles of determining cost of production for captive consumption and formulated the standards for costing: CAS-4. According to CAS-4 the definition of “cost of production” is as under:

“4.1. Cost of Production: Cost of Production shall consist of Material consumed, Direct wages and salaries, Direct expenses, Works overheads, Quality Control cost, Research and Development cost, Packing cost, Administrative Overheads relating to production.” The cost accounting principles laid down by ICWAI have been recognized by the Central Board of Excise and Customs vide Circular No.692/8/2003 CX dated 13.2.2003. The circular requires the department to determine the cost of production of captively consumed goods strictly in accordance with CAS-4.

The Tribunal in the case of BMF BELTINGS LTD. vs. CCE : 2005 (184) E.L.T. 158 (Tri. Bang.) for the period 1995 to 2000 has directed the department to apply CAS-4 for the determination of the cost of production of the captively consumed goods. In ITC vs. CCE (190) ELT 119 the Tribunal held that the department has to calculate the cost of production in terms of CAS-4. Other decisions of the Tribunal, wherein it has directed that CAS-4 be applied for determination of the cost of production, are Teja Engineering v/s CCE 2006 (193) ELT 100 (Tri-Chennai), Ashima Denims v/s CCE 2005 (191) ELT 318 (Tri-Mumbai), and Arti Industries vs. CCE 2005 (186) ELT 208 (Tri-Chennai). This is therefore a consistent view taken by the Tribunal.

The department has not filed any appeal in these cases and accepted the legal position. Apart from this, in the light of several decisions of this Court, the Department is also bound by the said circular No.692/8/2003 CX dated 13.2.2003 issued by the CBEC. As such it cannot now take a contrary stand. It may be noted that in the present case the intermediate products (milk crumbs, refined milk chocolate and four other intermediate products) are captively consumed in the Respondent’s own factory. These Intermediate products are not sold nor are marketable.

Hence there can be no question of including the expenses of the factory which produces the final product namely the chocolate e.g. advertising, insurance and another expenses in their valuation as was sought to be added by the Commissioner (Appeals) and the Assistant Commissioner. For the reasons given above, we find no merit in these appeals and they are dismissed. No costs. Civil Appeal Nos. 1856-1957/2002, 5232-5233/2003, 1425/2005 & 2878-2879/2005) In view of the decision in Civil Appeal Nos. 2947-2948/2001, these appeals are accordingly dismissed. No costs.
Annexure- VA & VB

Illustration of Landed cost of Indigenous/Imported Material

Annexure VA

Indigenous Material:

The landed cost of indigenous material shall be calculated in the following manner:

1. Basic Material cost (after deducting discounts, if any)
2. Add: Excise Duty
   - VAT/Sales Tax
   - Turnover tax
   - Surcharge such Education cess and the like
   - Octroi/Entry Tax
   - Other levies, if any
   - Total
3. Less: Cenvat credit
   - Sales Tax/VAT set off
   - Other set offs attributable to the material
4. Total (1+2-3)

Above Duties/levies are indicative and actual may vary with reference to type of material.

Illustration of the Landed Cost of indigenous material:

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

Landed cost of Imported Material

Imported Material
The landed cost of imported material shall be calculated in the following manner:

<table>
<thead>
<tr>
<th></th>
<th>CIF Value of material</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Add Custom Duty</td>
</tr>
<tr>
<td></td>
<td>Surcharge</td>
</tr>
<tr>
<td></td>
<td>Additional Duty/Countervailing Duty</td>
</tr>
<tr>
<td></td>
<td>Special Additional Duty</td>
</tr>
<tr>
<td></td>
<td>Protective Duty</td>
</tr>
<tr>
<td></td>
<td>Anti Dumping Duty</td>
</tr>
<tr>
<td></td>
<td>Octroi/Entry Tax</td>
</tr>
<tr>
<td></td>
<td>Other levies</td>
</tr>
<tr>
<td></td>
<td>Other Expenses directly attributable to procurement(freight inwards, Local freight, transit insurance, local insurance)</td>
</tr>
<tr>
<td></td>
<td>Other charges such as Customs clearance etc</td>
</tr>
<tr>
<td>3</td>
<td>Less: Cenvat Credit (including CVD)</td>
</tr>
<tr>
<td></td>
<td>Other rebates, benefits recovered/recoverable</td>
</tr>
<tr>
<td>4</td>
<td>Total (1+2-3)</td>
</tr>
</tbody>
</table>

Above Duties/levies are indicative and actual may vary with reference to type of material imported.

Illustration of landed cost of imported material:

<table>
<thead>
<tr>
<th>Sl.</th>
<th>Particulars</th>
<th>Rate</th>
<th>Amount Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Basic Value</td>
<td></td>
<td>100.00</td>
</tr>
<tr>
<td>2</td>
<td>Basic Custom Duty</td>
<td>5%</td>
<td>5.00</td>
</tr>
<tr>
<td>3</td>
<td>Sub Total (1 + 2)</td>
<td></td>
<td>105.00</td>
</tr>
<tr>
<td>4</td>
<td>CVD</td>
<td>8%</td>
<td>8.40</td>
</tr>
<tr>
<td>5</td>
<td>ED Cess on CVD</td>
<td>2%</td>
<td>0.17</td>
</tr>
<tr>
<td>6</td>
<td>SHE Cess on CVD</td>
<td>1%</td>
<td>0.08</td>
</tr>
<tr>
<td>7</td>
<td>Sub Total (3 to 6)</td>
<td></td>
<td>113.65</td>
</tr>
<tr>
<td>8</td>
<td>Custom Edu Cess</td>
<td>2%</td>
<td>2.27</td>
</tr>
<tr>
<td>9</td>
<td>Custom SHE Cess</td>
<td>1%</td>
<td>1.14</td>
</tr>
<tr>
<td>10</td>
<td>SAD(on7+8+9)</td>
<td>4%</td>
<td>4.68</td>
</tr>
<tr>
<td>11</td>
<td>Total Landed Cost</td>
<td></td>
<td>121.74</td>
</tr>
<tr>
<td>12</td>
<td>Cenvat Available (4+5+6+10)</td>
<td></td>
<td>13.33</td>
</tr>
</tbody>
</table>
Annexure VI

Name of the unit: XYZ
Name and address of the factory: ABC, New Delhi

STATEMENT SHOWING THE COST OF Power produced and Consumed during the year

<table>
<thead>
<tr>
<th>S.No</th>
<th>PARTICULARS</th>
<th>QTY (Kwh)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Installed Capacity</td>
<td>215136000</td>
</tr>
<tr>
<td>2</td>
<td>Quantity Produced</td>
<td>13,60,73,501</td>
</tr>
<tr>
<td>3</td>
<td>Capacity Utilisation</td>
<td>63</td>
</tr>
<tr>
<td>4</td>
<td>Quantity Re-circulated</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Quantity purchased, if any</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Internal consumption in power plant</td>
<td>1,21,46,703</td>
</tr>
<tr>
<td>7</td>
<td>Net unit available</td>
<td>12,39,26,798</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SR.</th>
<th>PARTICULARS</th>
<th>UNIT</th>
<th>QUANTITY</th>
<th>RATE</th>
<th>AMOUNT</th>
<th>RATE/KwH</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2008-09</td>
</tr>
<tr>
<td>A.</td>
<td>Material cost</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>a. Furnace Oil</td>
<td>MT</td>
<td>66064</td>
<td>4878.03</td>
<td>32,22,62,370</td>
<td>2.60</td>
</tr>
<tr>
<td></td>
<td>b. High Speed Diesel</td>
<td>KL</td>
<td>76</td>
<td>37,393</td>
<td>28,41,893</td>
<td>0.02</td>
</tr>
<tr>
<td></td>
<td>c. Natural Gas</td>
<td>SCM</td>
<td>7,26,460</td>
<td>12</td>
<td>87,95,457</td>
<td>0.07</td>
</tr>
<tr>
<td></td>
<td>d. Coal</td>
<td>MT</td>
<td>66,064</td>
<td>3,596.58</td>
<td>23,76,04,281</td>
<td>1.92</td>
</tr>
<tr>
<td></td>
<td>e. Lube Oil</td>
<td></td>
<td></td>
<td></td>
<td>39,94,651</td>
<td>0.03</td>
</tr>
<tr>
<td>2</td>
<td>Process Material /</td>
<td></td>
<td></td>
<td></td>
<td>-</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Chemicals</td>
<td></td>
<td></td>
<td></td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Direct Wages &amp; Salaries</td>
<td></td>
<td></td>
<td>1,55,56,852</td>
<td>0.13</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Utilities</td>
<td></td>
<td></td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Other direct expenses</td>
<td></td>
<td></td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Consumable Stores &amp; Spares</td>
<td></td>
<td></td>
<td>38,41,898</td>
<td>0.03</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Repairs and Maintenance</td>
<td></td>
<td></td>
<td>82,74,080</td>
<td>0.07</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Depreciation</td>
<td></td>
<td></td>
<td>4,27,45,759</td>
<td>0.34</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Insurance</td>
<td></td>
<td></td>
<td>61,99,660</td>
<td>0.05</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Fly Ash Disposal Cost</td>
<td></td>
<td></td>
<td>11,28,241</td>
<td>0.01</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Other Works Overhead</td>
<td></td>
<td></td>
<td>28,75,377</td>
<td>0.02</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Sub-total (1 to 10)</td>
<td></td>
<td></td>
<td>65,61,20,519</td>
<td>5.29</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Less : Credit, if any</td>
<td></td>
<td></td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Total Cost</td>
<td></td>
<td></td>
<td>65,61,20,519</td>
<td>5.29</td>
<td></td>
</tr>
</tbody>
</table>
### B. Apportioned to product

<table>
<thead>
<tr>
<th></th>
<th>Units</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product A</td>
<td>12,15,22,526</td>
<td>64,33,01,484</td>
</tr>
<tr>
<td>Product B</td>
<td>4,35,029</td>
<td>23,02,905</td>
</tr>
<tr>
<td>Product C</td>
<td>19,34,644</td>
<td>1,02,41,388</td>
</tr>
<tr>
<td>Product D</td>
<td>34,600</td>
<td>1,83,161</td>
</tr>
<tr>
<td>Service Dept</td>
<td>17,300</td>
<td>91,581</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>12,39,44,099</strong></td>
<td><strong>65,61,20,519</strong></td>
</tr>
</tbody>
</table>
### Annexure VII

<table>
<thead>
<tr>
<th>Name of the unit</th>
<th>ABC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Address</td>
<td>P Road,</td>
</tr>
</tbody>
</table>

Steam Cost Sheet for the year ending 31.3.2008

#### Quantitative Information

- **Steam Generated**: 135000 MT

#### Cost

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Unit</th>
<th>Quantity</th>
<th>Rate</th>
<th>Amount</th>
<th>Rs/M.T.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. Variable Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Furnace oil</td>
<td>KL</td>
<td>4500</td>
<td>2250</td>
<td>101250000</td>
<td>750.00</td>
</tr>
<tr>
<td>2 Power</td>
<td>KWH</td>
<td>1636500</td>
<td>5.2</td>
<td>8509800</td>
<td>63.04</td>
</tr>
<tr>
<td>3 Treated Water</td>
<td>KL</td>
<td>4350</td>
<td>36</td>
<td>156600</td>
<td>1.16</td>
</tr>
<tr>
<td>4 Other fuel</td>
<td>Ncum</td>
<td>16552500</td>
<td>7.4</td>
<td>122488500</td>
<td>907.32</td>
</tr>
<tr>
<td><strong>Total –A</strong></td>
<td></td>
<td></td>
<td></td>
<td>232404900</td>
<td>1721.52</td>
</tr>
<tr>
<td><strong>B. Fixed Cost</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Personnel</td>
<td>Rs</td>
<td>1202500</td>
<td></td>
<td>1202500</td>
<td>8.91</td>
</tr>
<tr>
<td>2 Stores</td>
<td>Rs</td>
<td>2564500</td>
<td></td>
<td>2564500</td>
<td>19.00</td>
</tr>
<tr>
<td>3 Repairs &amp;</td>
<td>Rs</td>
<td>454650</td>
<td></td>
<td>3.37</td>
<td></td>
</tr>
<tr>
<td>Maintenance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Others</td>
<td>Rs</td>
<td>39000</td>
<td></td>
<td>0.29</td>
<td></td>
</tr>
<tr>
<td>5 Depreciation</td>
<td>Rs</td>
<td>226050</td>
<td></td>
<td>1.67</td>
<td></td>
</tr>
<tr>
<td><strong>Total - B</strong></td>
<td></td>
<td></td>
<td></td>
<td>4486700</td>
<td>33.23</td>
</tr>
<tr>
<td>**Total cost (A+B)</td>
<td></td>
<td></td>
<td></td>
<td>236891600</td>
<td>1754.75</td>
</tr>
</tbody>
</table>

#### Steam utilized

<table>
<thead>
<tr>
<th>Department</th>
<th>QTY MT</th>
<th>Amount Rs</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>35000</td>
<td>61416341</td>
</tr>
<tr>
<td>B</td>
<td>87000</td>
<td>152663476</td>
</tr>
<tr>
<td>C</td>
<td>13000</td>
<td>22811784</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>135000</td>
<td>236891600</td>
</tr>
</tbody>
</table>
Valuation of castings — Patterns supplied by the buyers required to be included
Circular No. 170/4/96-CX, dated 23-1-1996
[From F.No. 6/14/94-CX.1]
Government of India
Ministry of Finance (Department of Revenue)
New Delhi
Subject: Foundry Industries - Calculation of assessable value of castings - Addition of value of patterns supplied by the buyers in the assessable value.

It has been brought to the notice of the Board by Maharashtra Chambers of Commerce & Industry that there is difficulty in determination of value of patterns used in foundry industry to be added in the cost of castings for arriving at the assessable value of the castings as the quantity of casting to be made out of a pattern cannot be anticipated and sometimes some modifications or repairs are also made in the pattern after some period of use.

A survey was floated to ascertain the actual position in the field formations. From the reports received, it is observed that generally Commissioners are of the view that cost of the pattern should be added in the assessable value of the castings. However, in some Commissionerates, the proportionate value of the pattern is not being added in the assessable value of the casting if such patterns are supplied by the buyers of the castings. Generally Commissionerates find that there is no difficulty in apportioning the cost of pattern in the assessable value of the casting. However, a few Commissioners have expressed difficulty in apportionment of the cost in cases where old patterns are supplied by the buyers of the castings to the job worker and when patterns are returned back to the buyers.

The matters has been examined and it is hereby clarified that the proportionate cost of pattern has to be included in the assessable value of the casting even in cases, where such patterns are being supplied by the buyers of the casting or are got prepared / manufactured by the job worker at the cost of the buyer. In cases where there is difficulty in apportioning the cost of pattern, apportionment can be made depending on the expected life and capability of the pattern and the quantity of castings that can be manufactured from it and thus working the cost to be apportioned per unit. For this purpose, a certificate from a Cost Accountant may be accepted.
### Illustration of overhead absorption

<table>
<thead>
<tr>
<th>Installed capacity</th>
<th>150 Nos. Bulk Carrier</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normal Capacity fixed after accounting for normal unavoidable interruptions</td>
<td>130 Nos. Bulk Carrier</td>
</tr>
<tr>
<td>Production during:</td>
<td></td>
</tr>
<tr>
<td>2005-06</td>
<td>110 Nos. Bulk Carrier</td>
</tr>
<tr>
<td>2006-07</td>
<td>125 Nos. Bulk Carrier</td>
</tr>
<tr>
<td>2007-08</td>
<td>53 Nos. Bulk Carrier</td>
</tr>
</tbody>
</table>

Production during 2007-08 was lower due to strike by contract labour for 5 months which resulted in loss of production. Therefore it was decided by the management to remove portion of fixed overheads incurred during the strike period and the same was shown as a reconciliation item (Abnormal Overhead) in the Profit Reconciliation Statement for Profit as per Cost Accounts and Profit as per financial Account. Detailed working is as under:

| Variable Overheads for 53 Bulk carriers | Rs 5,30,000 |
| Variable Overhead per Bulk Carrier     | Rs 10,000 |
| (A) Fixed Overheads for the year based on Normal Capacity of 130 Bulk Carriers | Rs 13,26,000 |
| (B) Abnormal Fixed Overhead due to unutilized capacity | Rs 7,85,400 |
| (C) Share of Fixed Overhead for Actual Production | Rs 5,40,600 |
| (D) Fixed Overhead per Bulk Carrier | Rs 10,200 |

| Overheads Absorbed | |
| (a) Variable Overhead | Rs 5,30,000 |
| (b) Fixed Overhead | Rs 5,40,600 |
| (c) Total | Rs 10,70,600 |

| Fixed Overhead unabsorbed (treated as an item of reconciliation between Costing P&L A/c & Financial A/c) | Rs 7,85,400 |
### ANNEXURE X A

<table>
<thead>
<tr>
<th>Name of the Manufacturer</th>
<th>ABC Ltd</th>
</tr>
</thead>
<tbody>
<tr>
<td>Address of the Manufacturer</td>
<td>GT Road, Ghaziabad</td>
</tr>
<tr>
<td>Registration No of Manufacture</td>
<td>ABB75</td>
</tr>
<tr>
<td>Description of product captive</td>
<td>Component</td>
</tr>
<tr>
<td>Excise Tariff Heading:</td>
<td>XK7</td>
</tr>
</tbody>
</table>

#### Statement of Cost of production of Component A manufactured of during the period of 1st April ....

<table>
<thead>
<tr>
<th>QTY</th>
<th>Q1 Quantity Produced (Unit of Measure)</th>
<th>250</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q2 Quantity Despatched (Unit of Measure)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Particulars</th>
<th>Total cost (Rs)</th>
<th>Cost /unit (Rs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Material consumed</td>
<td>35,000</td>
<td>140.00</td>
</tr>
<tr>
<td>2</td>
<td>Direct Wages and Salaries</td>
<td>9,500</td>
<td>38.00</td>
</tr>
<tr>
<td>3</td>
<td>Direct Expenses</td>
<td>350</td>
<td>1.40</td>
</tr>
<tr>
<td>4</td>
<td>Works Overheads</td>
<td>1,500</td>
<td>6.00</td>
</tr>
<tr>
<td>5</td>
<td>Quality Control Cost</td>
<td>750</td>
<td>3.00</td>
</tr>
<tr>
<td>6</td>
<td>Research &amp; Development Cost</td>
<td>90</td>
<td>0.36</td>
</tr>
<tr>
<td>7</td>
<td>Administrative Overheads (relating to production activity)</td>
<td>35</td>
<td>0.14</td>
</tr>
<tr>
<td>8</td>
<td>Total (1 to 7)</td>
<td>47,225</td>
<td>188.90</td>
</tr>
<tr>
<td>9</td>
<td>Add : Opening stock of Work – in – progress</td>
<td>-</td>
<td>0.00</td>
</tr>
<tr>
<td>10</td>
<td>Less : Closing stock of work –in –progress</td>
<td>-</td>
<td>0.00</td>
</tr>
<tr>
<td>11</td>
<td>Total (8+9+10)</td>
<td>47,225</td>
<td>188.90</td>
</tr>
<tr>
<td>12</td>
<td>Less : Credit for Recoveries /Scrap/By-products/misc income</td>
<td>-</td>
<td>0.00</td>
</tr>
<tr>
<td>13</td>
<td>Packing cost</td>
<td>-</td>
<td>0.00</td>
</tr>
<tr>
<td>14</td>
<td>Cost of production</td>
<td>47,225</td>
<td>188.90</td>
</tr>
<tr>
<td>15</td>
<td>Add :Inputs received free of cost</td>
<td>-</td>
<td>0.00</td>
</tr>
<tr>
<td>16</td>
<td>Add : Amortised cost of Moulds, Tools, Dies &amp; Patterns etc received free of cost</td>
<td>-</td>
<td>0.00</td>
</tr>
<tr>
<td>17</td>
<td>Cost of Production for goods produced for captive consumption (14+15+16)</td>
<td>47,225</td>
<td>188.90</td>
</tr>
<tr>
<td>18</td>
<td>Add : Opening stock of finished goods</td>
<td>-</td>
<td>0.00</td>
</tr>
<tr>
<td>19</td>
<td>Less : Closing stock of finished goods</td>
<td>-</td>
<td>0.00</td>
</tr>
<tr>
<td>20</td>
<td>Cost of production for goods dispatched (17+18-19)</td>
<td>47,225</td>
<td>188.90</td>
</tr>
</tbody>
</table>

Note: Breakup of material cost is to be verified in terms of quantity and type of material used in the component. Above cost sheet is for future projections, it is to be checked that estimates are based on realistic data such as project report or any previous period data available. Other expenses related to the product are to be considered after proper scrutiny of the relevant records.
### ANNEXURE X B

**Name of the manufacturer**  
XYZ  
ABC Nagar Kanpur  

**Description of product captively consumed**  
Processed cloth  

**Excise Tariff Heading**  
Processed cloth  

---

**Statement of Cost of production of XYZ manufactured of during the period of 1April -31March 2008**

<table>
<thead>
<tr>
<th>Q</th>
<th>Quantity Produced (Unit of Measure)</th>
<th>34000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q2</td>
<td>Quantity Despatched (Unit of Measure)</td>
<td>34150</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Total cost (Rs)</th>
<th>Cost/unit (Rs)</th>
</tr>
</thead>
</table>
| 1 Material consumed:  
  Grey cloth  
  Colours & Chemicals | 827560 | 24.34 |
| 2 Direct Wages and Salaries | 6460 | 0.19 |
| 3 Utility:  
  Power | 27200 | 0.80 |
| 4 Works Overheads | 60825 | 1.79 |
| 5 Depreciation | 19040 | 0.56 |
| 6 Research & Development Cost | - | - |
| 7 Administrative Overheads | 5780 | 0.17 |
| 8 Total (1 to 7) | 1106271 | 32.54 |
| 9 Add : Opening stock of Work – in – progress | 22703 |
| 10 Less : Closing stock of work –in –progress | 33711 |
| 11 Total (8+9+10) | **1095263** | 32.07 |
| 12 Less : Credit for Recoveries /Scrap/By-products/misc income | 37719 | 1.10 |
| 13 Packing cost | - | - |
| 14 Cost of production | 1057544 | 30.97 |
| 15 Add :Inputs received free of cost | - | - |
| 16 Add : Amortised cost of Moulds, Tools, Dies & Patterns etc received free of cost | - | - |
| 17 Cost of Production for goods produced for captive consumption (14+15+16) | - |
| 18 Add : Opening stock of finished goods | 6558 | 0.19 |
| 19 Less : Closing stock of finished goods | 6176 | 0.18 |
| 20 Cost of production for goods dispatched (17+18-19) | **1057926** | 30.98 |
1. Introduction
The Cost Accounting principle for determination of cost of production is well established. Similarly, rules for levy of excise duty on goods used for captive consumption are also well defined. Captive Consumption means the consumption of goods manufactured by one division and consumed by another division(s) of the same organization or related undertaking for manufacturing another product(s). Liability of excise duty arises as soon as the goods covered under excise duty are manufactured but excise duty is collected at the time of removal or clearance from the place of manufacture even if such removal does not amount to sale. Assessable value of goods used for captive consumption is based on cost of production. According to the Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000, the assessable value of goods used for captive consumption is 115% (now revised to 110%) of cost of production of such goods, and as may be prescribed by the Government from time to time.

2. Objective
2.1 The purpose of this standard is to bring uniformity in the principles and methods used for determining the cost of production of excisable goods used for captive consumption.
2.2 The cost statement prepared based on standard will be used for determination of assessable value of excisable goods used for captive consumption.
2.3 The standard and its disclosure requirement will provide better transparency in the valuation of excisable goods used for captive consumption.

3. Scope
3.1 The standard is to be followed for determining the cost of production to arrive at an assessable value of excisable goods used for captive consumption.
3.2 Cost of production will include various cost components. They are already defined in Cost Accounting Standard-1 (Classification of Cost – CAS-1). Thus, this standard has to be read in conjunction with CAS-1.

4. Definitions
4.1 Cost of Production: Cost of production shall consist of Material Consumed, Direct Wages and Salaries, Direct Expenses, Works Overheads, Quality Control cost, Research and Development Cost, Packing cost, Administrative Overheads relating to production. To arrive at cost of production of goods dispatched for
captive consumption, adjustment for Stock of work-in-Process, finished goods, recoveries for sales of scrap, wastage etc shall be made.

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

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

5. Determination of Cost of Production for Captive Consumption
To determine the cost of production for captive consumption, calculations of different cost components and adjustments are explained below:

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

(a) indigenous materials
(b) imported materials
(c) bought out items
(d) self manufactured items
(e) process materials and other items

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

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

Direct wages and salaries include fringe benefits such as:

(i) Contribution to provident fund and ESIS
(ii) Bonus/ex-gratia payment to employees
(iii) Provision for retirement benefits such as gratuity and superannuation
(iv) Medical benefits
(v) Subsidised food
(vi) Leave with pay and holiday payment
(vii) Leave encashment
(viii) Other allowances such as children’s education allowance, conveyance allowance which are payable to employees in the normal course of business etc.
5.3 Direct Expenses

*Direct expenses are the expenses other than direct material cost and direct employees costs which can be identified with the product.*

Direct expenses include:

(i) Cost of utilities such as fuel, power, water, steam etc
(ii) Royalty based on production
(iii) Technical Assistance / know-how fees
(iv) Amortized cost of moulds, patterns, patents etc
(v) Job charges
(vi) Hire charges for tools and equipment
(vii) Charges for a particular product designing etc

5.4 Works Overheads

*Works overheads are the indirect costs incurred in the production process.*

Works overheads include the following expenses:

(i) Consumable stores and spares
(ii) Depreciation of plant and machinery, factory building etc
(iii) Lease rent of production assets
(iv) Repair and maintenance of plant and machinery, factory building etc
(v) Indirect employees cost connected with production activities
(vi) Drawing and Designing department cost.
(vii) Insurance of plant and machinery, factory building, stock of raw material & WIP etc
(viii) Amortized cost of jigs, fixtures, tooling etc
(ix) Service department cost such as Tool Room, Engineering & Maintenance, Pollution Control etc

5.5 Quality Control Cost

*The quality control cost is the expenses incurred relating to quality control activities for adhering to quality standard. These expenses shall include salaries & wages relating to employees engaged in quality control activity and other related expenses.*

5.6 Research and Development Cost

*The research and development cost incurred for development and improvement of the process or the existing product shall be included in the cost of production.*

5.7 Administrative Overheads

Administrative overheads need to be analysed in relation to production activities and other activities. Administrative overheads in relation to production activities shall be included in the cost of production. Administrative overheads in relation to activities other than manufacturing activities e.g. marketing, projects management, corporate office expenses etc. shall be excluded from the cost of production.

5.8 Packing Cost

*If product is transferred/dispatched duly packed for captive consumption, cost of such packing shall be included.*
Packing cost includes both cost of primary and secondary packing required for transfer/dispacht of the goods used for captive consumption.

5.9 Absorption of overheads
Overheads shall be analysed into variable overheads and fixed overheads.
Variable Overheads are the items which change with the change in volume of production, such as cost of utilities etc.

Fixed overheads are the items whose value does not change with the change in volume of production such as salaries, rent etc.

The variable production overheads shall be absorbed in production cost based on actual capacity utilisation.

The fixed production overheads and other similar item of fixed costs such as quality control cost, research and development costs, administrative overheads relating to manufacturing shall be absorbed in the production cost on the basis of the normal capacity or actual capacity utilization of the plant, whichever is higher.

5.10 Valuation of Stock of work-in-progress and finished goods
Stock of work-in-progress shall be valued at cost on the basis of stages of completion as per the cost accounting principles. Similarly, stock of finished goods shall be valued at cost. Opening and closing stock of work-in-progress shall be adjusted for calculation of cost of goods produced and similarly opening and closing stock of finished goods shall be adjusted for calculation of goods despatched.

In case the cost of a shorter period is to be determined, where the figures of opening and closing stock are not readily available, the adjustment of figures of opening and closing stock may be ignored.

5.11 Treatment of Joint Products and By-Products
A production process may result in more than one product being produced simultaneously. In case joint products are produced, joint costs are allocated between the products on a rational and consistent basis. In case by-products are produced, the net realisable value of by-products is credited to the cost of production of the main product.

For allocation of joint cost to joint products, the sales values of products at the split off point i.e. when the products become separately identifiable may become the basis. Some other basis may be adopted. For example, in case of petroleum products, each product is assigned certain value based on its certain properties, may be calorific value and these values become the basis of apportionment of joint cost among petroleum products.

5.12 Treatment of Scrap and Waste
The production process may generate scrap or waste. Realized or realizable value of scrap or waste shall be credited to the cost of production.
In case, scrap or waste does not have ready market and it is used for reprocessing, the scrap or waste value is

taken at a rate of input cost depending upon the stage at which such scrap or waste is recycled. The expenses

incurred for making the scrap suitable for reprocessing shall be deducted from value of scrap or waste.

Illustration

A production process has three stages.

<table>
<thead>
<tr>
<th>Stage</th>
<th>Input material cost</th>
<th>Processing cost</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Rs/MT)</td>
<td>(Rs/MT)</td>
<td>(Rs/MT)</td>
</tr>
<tr>
<td>1</td>
<td>2000</td>
<td>500</td>
<td>2500</td>
</tr>
<tr>
<td>2</td>
<td>2500</td>
<td>1000</td>
<td>3500</td>
</tr>
<tr>
<td>3</td>
<td>3500</td>
<td>1000</td>
<td>4500</td>
</tr>
</tbody>
</table>

If during the production process at stage3, the scrap is produced and the same is recycled at stage2 after

making an expenditure of Rs 200 per MT to make it suitable for re-processing at stage2, then scrap will be valued @ Rs (2500 – 200) i.e Rs 2300. If no expenditure is involved to make scrap re-usable, the scrap value will be @ Rs 2500. The scrap value for the scrap produced during a period calculated at the rate as explained above may be deducted to find out the cost of production for the period.

5.13 Miscellaneous Income

Miscellaneous income relating to production shall be adjusted in the calculation of cost of production, for example, income from sale of empty containers used for despatch of the captively consumed goods produced under reference.

5.14 Inputs received free of cost

In case any input material, whether of direct or indirect nature, including packing material is supplied free of cost by the user of the captive product, the landed cost of such material shall be included in the cost of production.

5.15 Moulds, Tools, Dies & Patterns etc received free of cost

The amortization cost of such items shall be included in the cost of production.

5.16 Interest and financial charges

Interest and financial charges being a financial charge shall not be considered to be a part of cost of production.

5.17 Abnormal and non-recurring cost

Abnormal and non-recurring cost arising due to unusual or unexpected occurrence of events, such as heavy break down of plants, accident, market condition restricting sales below normal level, abnormal idle capacity, abnormal process loss, abnormal scrap and wastage, payments like VRS, retrenchment compensation, lay-off wages etc. The abnormal cost shall not form the part of cost of production.

6. Cost Sheet

The cost sheet should be prepared in the format as per Appendix – 1 or as near thereto as possible. The manufacturer will be required to maintain cost records and other books of account in a manner, which would facilitate preparation and verification of the cost of production. For manufacturers covered under the ambit of
Section 209(1)(d) of the Companies Act, 1956, i.e., where Cost Accounting Records are statutorily required to be maintained, the Cost Accountant certifying the cost of production for captive consumption shall verify the correctness of the cost from these records. However, for manufacturers not covered under Section 209(1)(d) of the Companies Act, 1956, it is desirable that they also maintain cost accounting records in line with the records so prescribed as to facilitate determination and certification of cost of production.

7. Disclosure

   (i) If there is any change in cost accounting principles and practices during the concerned period which may materially affect the cost of production in terms of comparability with previous periods, the same should be disclosed.

   (ii) If opening stock and closing stock of work-in-progress and finished goods are not readily available for certification purpose, the same should be disclosed.
Name of the Manufacturer: 
Address of the Manufacturer: 
Registration No of Manufacturer: 
Description of product captively consumed: 
Excise Tariff Heading: 

Statement of Cost of Production of _______________ manufactured / to be manufactured during the period ____________

<table>
<thead>
<tr>
<th>Q1</th>
<th>Quantity Produced (Unit of Measure)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q2</td>
<td>Quantity Dispatched (Unit of Measure)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Total Cost (Rs)</th>
<th>Cost/ unit (Rs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Material Consumed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Direct Wages and Salaries</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Direct Expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Works Overheads</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Quality Control Cost</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Research &amp; Development Cost</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Administrative Overheads (relating to production activity)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Total (1 to 7)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Add : Opening stock of Work-in-Progress</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Less : Closing stock of Work-in-Progress</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. Total (8+9-10)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12. Less : Credit for Recoveries/Scrap/By-Products / misc income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>13. Packing cost</td>
<td></td>
<td></td>
</tr>
<tr>
<td>14. Cost of production (11 - 12 + 13)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>15. Add: Inputs received free of cost</td>
<td></td>
<td></td>
</tr>
<tr>
<td>16. Add: Amortised cost of Moulds, Tools, Dies &amp; Patterns etc received free of cost</td>
<td></td>
<td></td>
</tr>
<tr>
<td>17. Cost of Production for goods produced for captive consumption (14 + 15 + 16)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>18. Add : Opening stock of finished goods</td>
<td></td>
<td></td>
</tr>
<tr>
<td>19. Less : Closing stock of finished goods</td>
<td></td>
<td></td>
</tr>
<tr>
<td>20. Cost of production for goods despatched (17 + 18 - 19)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Seal & Signature of Company's Authorised Representative

I/We, have verified above data on test check basis with reference to the books of account, cost accounting records and other records. Based on the information and explanations given to me/us, and on the basis of generally accepted cost accounting principles and practices followed by the industry, I/We certify that the above cost data reflect true and fair view of the cost of production.