



# WEBINT SERIES ON COST ACCOUNTING STANDARDS

**Presentation on**  
CAS 4 (Revised 2018)

**COST OF PRODUCTION/ACQUISITION/SUPPLY OF  
GOODS/PROVISION OF SERVICES**

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# CAS 4 (Revised 2018)

## Relevance and its Emergence

This Standard **replaces** CAS-4 on Cost of Production for Captive Consumption issued earlier.

With the introduction of Goods and Services Tax [GST] with effect from July 1, 2017, the concept of 'captive consumption' is no more relevant for computing the tax incidence.

However, **the concept of cost of production or manufacture is relevant under the GST laws** where the value of supply of goods or services or both are determined based on cost. [\*Click here for CGST Rules\*](#)

This Standard **deals** with the principles and methods **of classification, measurement and assignment** for the determination of cost of production or acquisition or supply of goods or provision of services as **required under the provisions of GST Acts/Rules.**

# CAS 4 (Revised 2018)

## Objective

*The objective of this standard is to bring uniformity and consistency in the principles and methods of determining the cost of production or acquisition or supply of goods or provision of services as required under the provisions of GST Acts/Rules.*

*The cost statements prepared based on this Standard will be used for determination of value of supply of goods or services or both. This Standard and its disclosure requirement will provide transparency in the valuation of goods and services.*

*This standard shall further ensure adequate accuracy in computing Transaction Value of supply for goods or services or both, where the open market value of supply of goods and services or value of supply of goods or services of like kind and quality are not available or same is not verifiable.*

# CAS 4 (Revised 2018)

## Scope

*This standard should be applied to cost statements which require classification, measurement, assignment, presentation, and disclosure of related costs for determination of:*

- ✓ **Cost of production of goods**
- ✓ **Cost of acquisition of goods**
- ✓ **Cost of supply of goods**
- ✓ **Cost of provision/supply of services and**
- ✓ **Value of supply of goods or services as per open market value or as per goods or services of like kind and quality under the relevant provisions of GST Acts/Rules.**

# CAS 4 (Revised 2018)

## Important Definitions

***Cost of Production of goods:*** *Cost of production of a product consists of materials consumed, Direct Wages and Salaries, direct expenses, works overheads, quality control costs, research and development costs, packing costs, administrative overheads relating to production.*

To arrive at cost of production of goods dispatched for captive consumption, adjustment for stock of Work-in-progress, finished goods, recoveries for sales of scrap, wastages etc. shall be made.

The terms Cost of Production or Cost of Manufacturing or Cost or Processing denote the same meaning and are used interchangeably.

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# CAS 4 (Revised 2018)

## Important Definitions

***Cost of Provision of Service:*** *Cost of provision of services consists of cost of materials consumed, direct employee costs, direct expenses, quality control costs, research and development costs, operation overheads and administrative overheads relating to provision of services.*

The terms Production Overheads, Operation Overheads, Factory Overheads, Works Overheads and Manufacturing Overheads denotes the same meaning and are used interchangeably.



## CAS 4 (Revised 2018)

### Principles of Measurement

- Cost of production or acquisition of goods or provision of services shall be measured for each type of goods or services **separately**.
- Cost of production or acquisition or supply of each type of goods shall be the **aggregate of direct and indirect costs** relating to the production or acquisition or supply activity of those goods.
- **Cost of provision** of each type of service shall be the **aggregate** of direct and indirect cost relating to that service activity.
- **Material cost** shall be **measured separately** for each type of material, that is, for indigenous material, imported material, bought out components, process materials, self-manufactured items, and accessories for each type of goods or services.

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## CAS 4 (Revised 2018)

### Principles of Measurement

- The **material cost** of normal scrap/defectives which are rejects shall **be included** in the material cost of goods produced or services provided. The material cost of actual scrap/ defectives, not exceeding the normal quantity shall be adjusted in the material cost of good production. Realized or realizable value of scrap or waste shall be deducted for determination of cost of production or acquisition of goods or provision of services. Material Cost of **abnormal scrap /defectives should not be included** in material cost but treated as loss after deducting the realizable value of such scrap / defectives.
- **Employee Cost** for each type of goods or services **shall be measured separately.**

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# CAS 4 (Revised 2018)

## Principles of Measurement

- The **cost of utilities consumed** for the production or acquisition or supply of each type of goods or provision of services shall be measured for each type of utility separately i.e. power, electricity, water, steam & gas.
- **Cost of packing material** used for the production or acquisition or supply of goods or provision of services shall be measured for each type of goods or services separately. (If goods are transferred / dispatched or supplied duly packed, the cost of such packing shall be included in the cost of goods transferred/dispatched or supplied).
- **Direct Expenses** for the production or acquisition or supply of goods or provision of services shall be measured for each type of goods or services separately.

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# CAS 4 (Revised 2018)

## Principles of Measurement

- High value spare shall be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and depreciated accordingly. Otherwise, such items are classified as **inventory and recognised in cost as and when they are consumed.**
- **Repairs and maintenance** cost for the production or acquisition or supply of goods or provision of **services shall be measured for each type of goods or services separately.**
- **Depreciation and Amortization cost** for the production or acquisition or supply of goods or provision of services **shall be measured for each type of goods or services separately.** Depreciation of an asset begins when it is available for use.

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# CAS 4 (Revised 2018)

## Principles of Measurement

- **Research & Development cost** for the production or acquisition or supply of goods or provision of services shall be measured for each type of goods or services **separately**.
- Cost incurred for the production or acquisition or supply of goods or provision of services **after split-off point** shall be measured for **each type of Joint/By-Product or service** for the resources consumed.
- Royalty and Technical Know-how Fee for production or acquisition or supply of goods or provision of services paid or incurred in lump-sum or which are in the nature of **'one-time' payment**, shall be amortised on the basis of the estimated output or benefit to be derived from the related Technical Know-how.

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# CAS 4 (Revised 2018)

## Principles of Measurement

- **Royalty paid** as a consideration for use of asset or on technology transfer, in any form, **will form part of cost**, however royalty paid on brand **usage shall not form part** of cost of production.
- Quality Control **cost incurred in-house** for the production or acquisition or supply of goods or provision of services shall be the aggregate of the cost of resources used in the Quality Control activities in relation to each type of goods or service.
- **The cost of resources procured from outside** shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts, taxes and duties refundable or to be credited as input tax credit.

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# CAS 4 (Revised 2018)

## Principles of Measurement

- Production or Operation Overheads representing procurement of resources shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts; taxes and duties refundable or to be credited as input tax credit. Production or Operation Overheads other than those referred to above shall be determined on the basis of cost incurred in connection therewith.
- **Industry Specific Operating Expenses:** In case of process peculiarity of a particular industry, it may not be easily practicable to determine element-wise conversion cost of a product. In such situation, the company may calculate cost center/cost object wise conversion cost. It may be summarized under 'industry specific operating expenses', instead of element-wise conversion cost e.g. **Textile industry-spinning, weaving, processing.**

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# CAS 4 (Revised 2018)

## Principles of Measurement

- Any **abnormal cost**, where it is material and quantifiable, shall **not form** part of the cost of production or acquisition or supply of goods or provision of service.
- **Interest and other Finance costs** shall **not** form part of cost of production or acquisition of goods or provision of services.
- **Impairment loss on assets** shall **not** form part of cost of production or acquisition or supply of goods or provision of services.
- **Imputed costs** shall **not** form part of cost of production or acquisition or supply of goods or provision of services.
- Cost of production or acquisition or supply of goods or provision of services shall include cost of inputs received free of cost or at concessional value, net of input tax credit, from the recipient of goods

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# CAS 4 (Revised 2018)

## Principles of Measurement

or services and amortisation cost of free tools, pattern, dies, drawings, blue prints, technical maps, charts, engineering, development, art work, design work, plans, sketches, and the like necessary for the production or acquisition or supply of goods or provision of services.

- Cost of production or acquisition or supply of goods or provision of services **shall also include** cost of rework, reconditioning, retro-fitment, production or operation overheads and other costs allocable to such activity, adjustment for stock of work-in-process and recoveries from sales of scrap and wastages and the like necessary for the production or acquisition or supply of goods or provision of services.

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# CAS 4 (Revised 2018)

## Principles of Measurement

- Subsidy or Grant or Incentive or any such **payment received or receivable**, from any entity other than the recipient of goods or service, with respect to any element of cost shall be **deducted for ascertainment** of the cost of production or acquisition or supply of goods or provision of services to which such amounts are related.
- Any Grants **recognized as deferred income** in the financial statements shall also **be reduced** from the relevant element of cost of production or acquisition or supply of goods or provision of services.
- The cost of production or acquisition or supply of goods or provision of services shall be determined based on the normal capacity or actual capacity utilization **whichever is higher and unabsorbed cost**, if any, shall be treated as abnormal cost.

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# CAS 4 (Revised 2018)

## Principles of Measurement

- Fines, penalties, damages, demurrage and similar levies **paid to statutory authorities** or other third parties shall **not form** part of the cost of production or acquisition or supply of goods or provision of services.
- The forex component of imported material or other element of cost shall be converted at the rate on the date of the transaction. Any subsequent **change in the exchange rate** till payment or otherwise **shall not form part** of the cost of production or acquisition or supply of goods or provision of services.
- **Credits or recoveries** relating to any element of cost including the facilities provided to outside parties, which are material and quantifiable, **shall be deducted** from the total cost of production or acquisition or supply of goods or provision of services.

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# CAS 4 (Revised 2018)

## Principles of Measurement

- Work in process/progress stock shall be measured at cost computed for different stages of completion.
- **Stock of work-in-process/progress** shall be **valued at cost** on the basis of stages of completion as per cost accounting principles.
- Opening and closing stock of work-in process/progress shall be adjusted for computation of cost of production or acquisition of goods or provision of services.



# CAS 4 (Revised 2018)

## Assignment of Cost

- Cost of production or acquisition or supply of goods or provision of services shall be **determined on 'normal cost' basis**. For this purpose, any **abnormal and non-recurring costs**, abnormally low plant utilization, abnormal rejections, accidents, strikes, fires, unexpected Court orders etc. **shall be ignored**.
- While **assigning various elements of cost, traceability** to goods or services in an **economically feasible** manner shall be the **guiding principle**. The cost which can be traced directly to each type of goods or services shall be directly assigned.
- Assignment of cost of producing or acquisition or supply of goods or providing services, which are **not directly traceable** to the goods or services shall be based on either of the following **two principles**;

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# CAS 4 (Revised 2018)

## Assignment of Cost

1. **Cause and Effect** – Cause is the process or operation or activity and effect is the incurrence of cost.
  2. **Benefits received** – to be apportioned to various cost objects in proportion to the benefits received by them.
- The **variable production or operation** overheads shall be **absorbed** based on actual production.
  - The fixed production or operation overheads and other similar item of fixed costs such as quality control cost, research and development costs and administrative overheads relating to manufacturing shall be absorbed in the cost of production or acquisition or supply of goods or provision of services on the basis of the normal capacity or actual capacity utilization of the plant or service centre, whichever is higher.

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# CAS 4 (Revised 2018)

## Assignment of Cost

- In case a production process results in more than one product being produced simultaneously, treatment of joint products and by-products shall be as under:
- In case **joint products are produced**, joint costs incurred upto the split off point are allocated between the products on a rational, equitable, and consistent basis.
- Joint cost incurred shall be assigned to the joint products based on benefits received measured by using the **physical unit method or equivalent cost or net realisable value at split off point**. Net realisable value for this purpose means the net selling price per unit multiplied by quantity sold, adjusted for the post-split off costs.

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# CAS 4 (Revised 2018)

## Assignment of Cost

- In case **by-products are produced**, the net realisable value of by-products is credited to the manufacturing cost of the main product.
- In case a process results in more than one service being produced simultaneously, joint costs incurred upto the split off point are allocated between the services on a rational, equitable, and consistent basis.
- **Miscellaneous Income** relating to production or operations shall be adjusted in the determination of cost of production or acquisition or supply of goods or of cost of providing a service. (For example, income from sale of empty containers used for procurement of raw material shall be deducted in determination of manufacturing cost).

# CAS 4 (Revised 2018)

## Presentation

- Cost Statements should be prepared as per the applicable format given in the Appendix to this Standard or as near thereto as possible, as listed below:
- **Appendix-1:** Statement of Cost of Production of the taxable goods
- **Appendix-2:** Statement of Cost of Provision/Supply of the taxable Services
- **Appendix-3:** Statement of Cost of Acquisition of taxable goods
- **Appendix-4:** Statement of Open Market Value / Value as per Goods or Services of like kind and quality

[\(Click here for Appendices\)](#)

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# CAS 4 (Revised 2018)

## Presentation

- Companies covered under the Companies (Cost Records and Audit) Rules, 2014 issued under section 148 of the Companies Act 2013 shall prepare and present the cost records and cost statements in compliance with the said Rules, applicable Cost Accounting Standards, and Generally Accepted Cost Accounting Principles issued by the Institute.
- Companies not covered under these Rules and all other entities shall prepare and present the cost records and cost statements in compliance with the applicable Cost Accounting Standards and Generally Accepted Cost Accounting Principles issued by the Institute.

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# CAS 4 (Revised 2018)

## Presentation

- Cost Statements as certified by the Cost Accountant in practice should enable the business entity to determine value of taxable goods or services at the time of supply and issue of tax invoice as required under section 31 of the CGST Act.
- In cases where it may not be possible to determine true and fair cost of goods or services at the time of supply of such goods or services or both, the company should compute the cost on budgeted/estimated/standard cost basis and the Cost Accountant may issue provisional Cost certificate on such basis. In such cases, final certificate shall be issued after costs are finalized. In case of any variations in the costs and hence the value of goods or services, the supplier shall issue a Debit or Credit Note as per provisions of section 34 of the CGST Act.

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# CAS 4 (Revised 2018)

## Presentation

Examples of such cases are – Input costs or prices based on the LME prices; existence of cost escalation clauses in the supply contract; or where future costs of inputs and input services are unpredictable, uncertain and volatile, etc.

### **Certified Cost Statements shall be presented with the following periodicity:**

- ✓ In case of registered person, whose aggregate turnover in the preceding financial year did not exceed the limits prescribed in Section 10 (1) of the CGST Act 2017, the Certified Cost Statement shall be issued for a six month period. For example costs for April to September shall be certified in March of the same year.
- ✓ In case of registered person, whose aggregate turnover in the preceding financial year exceeds the limits prescribed in Section 10 (1) of the CGST Act 2017, Certified Cost Statement shall be issued on quarterly basis e.g. costs for July to September shall be certified in June of the same year.

# CAS 4 (Revised 2018)

## Presentation

- ✓ Certified Cost Statement shall also be issued for the completed financial year, annually based on audited accounts on or before 31st December of the next financial year.
- The cost statements shall be prepared by the Management and authenticated & signed by any Key Management Personnel in case of company, partner in case of partnership firm and proprietor in case of proprietary firm.
- The statement shall be certified by a Cost Accountant in practice after the same is duly authenticated as above. The certificate may contain any qualification or disclosures as required.

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## Disclosures

- Disclosure shall be made only where **material, significant, and quantifiable**.
- If there is any change in cost accounting principles and practices during the period under review which may materially affect the cost of production or acquisition of goods or provision services in terms of comparability with previous period(s), the same shall be disclosed.
- If opening stock and closing stock of work-in-progress are not readily available for certification purpose, the same should be disclosed.
- Any fact which may have **material impact on the costs** as certified should be disclosed.



**THANK YOU !!**