



WEBINT Series on Cost Accounting Standards

Presentation on CAS 9: Packing Material Cost

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Packing Material - About

Packaging is enclosing or protecting products for distribution, storage, sale, and use. Material used for packaging is termed as **Packing Material**.

Classification

Packing Material is **classified under a common designation** on the basis of similarities of nature, attribute, source of supply and the like.

For example Wooden crates, Aluminium foil, paper bag, gunny bags, HDPE bags, Glass, plastic bottles, closures (metal / plastic rubber) and the like.

On the basis of source of supply, **packing materials are classified as indigenous materials/imported materials**. Indigenous packing materials are manufactured within the country and imported packing materials are purchased from other countries.

Packing Material - About

Classification contd....

For the purpose of this standard **Packing Materials are classified into primary and secondary packing materials.**

Primary Packing Material are for holding the product, keeping the contents clean, fresh, sterile and safe for the intended shelf life and sale. Primary packing material required for a product will depend upon the type of the product to be packed. For pharmaceutical industry primary packing material will be insertion related to product, Blister strips for tablets / capsules, bottle, tubes and the like. For confectionary / food products, it may be butter paper, wrappers, box, tray, can, jar and so on.

Secondary packing material is the term used to describe larger cases or boxes that are used to group quantities of primary packaged goods for distribution. Secondary Packing material include transit packaging such as wooden pallets, board and plastic wrapping and containers that are used to collate the groups into larger loads for transport, which facilitates loading and unloading of goods.

Packing Material - Purpose

Packing material is required for containment, protection, handling, presentation, delivery, transporting, warehousing, logistics, sale, and end use of the product as detailed below:

- **Physical protection** - The products enclosed in the package require protection from, among other things, shock, vibration, compression, temperature, and the like.
- **Barrier protection** - A barrier from oxygen, water vapour, dust, and the like, is often required to keep the contents clean, fresh, sterile and safe for the intended shelf life.
- **Containment or agglomeration** - Small objects are grouped together in one package for reasons of efficiency. Liquids, powders, and granular material need containment.
- **Information transmission** - Packages and labels communicate how to use, transport, recycle or dispose of the package or product, regulatory information.

Packing Material - Purpose

- **Marketing** - The packaging and labels are used by marketers to encourage potential buyers to purchase the product.
- **Security** - Packaging can play an important role in reducing the security risks of shipment. Packages can be made with improved tamper resistance to deter tampering.
- **Convenience** - Packages can have features that add convenience in distribution, handling, stacking, display, sale, opening, reclosing, use, dispensing and reuse.
- **Portion control** - Single serving or single dosage packaging has a precise amount of contents to control usage. Bulk commodities can be divided into packages that are more suitable for individual households. It also aids the control of inventory, selling sealed one-litre-bottles of milk, rather than people bringing their own bottles.

Examples: Industry-wise Packing Material

Food Packaging	foils, laminates, bread packaging material, chips packaging, toffee wrappers, chocolate wrappers etc.
Beverage Packaging	soft drinks bottles / can
Personal care cosmetics	polymer bottle / tubes / pouch etc.
Pharmaceutical	Blister, Aluminium / glassine paper foil or blister packing of tablets / capsules, bottle, closures, vials, jars, tubes, aerosol etc.
Heavy machinery packing	Wooden crates / boxes / pallets
Fertilizers, cement, sugar	HDPE Bags
Paper/stationery	Wrapper, liner, strings, gum tape, wooden , bottle, tubes, box for holding pens/pencils
Textiles	Yarn in hanks packed in burlap and bales; Yarn in cones packed in boxes/bags; Cloth packed in bales; fancy cloth in wooden/cardboard cases/ boxes; lining paper, iron/plastic hooks, nails, sewing thread etc.

Examples: types of Packing Material

Wood Boxes/ crates	Cheapest and commonly available material.
Cardboard/ corrugated boxes	Made out of corrugated fibre board.
Plastic	Most frequently used type of packaging material
Plastic stretch film	Water proof, moisture proof, dust proof and transparent.
Wrapping shrink film	Used when tamper-protection is a high priority, such as CDs or DVDs.
Bubble Wrap	Effective at protecting fragile items without adding significant weight or cost.
Tissue Paper	Used inside container to fill empty space so that items do not shift in transit.
Other material used	Aerosols, Closures Packaging Bags, Packaging Boxes, Packing & Sealing Tapes, Tear Tapes, Tin Containers, Jumbo Bags, Gunny Bags, Bulk Bags & Sacks, Laminated Bags & Zip Bags, Corks & Packaging Seals, Crates, Pallets & Trays, Packaging Pouches, Sachets, Envelopes & Zip Pouches, Case, Linerboards, Bleached Boards etc.

CAS – 9 Packing Material Cost

Introduction

- This standard **deals with the principles and methods** of classification, measurement and assignment of **packing material cost**, for determination of the Cost of product or service, and the **presentation and disclosure** in cost statements.
- Packing Materials for the purpose of this standard are classified into primary and secondary packing materials.

Objective

The objective of this standard is to **bring uniformity and consistency in the principles and methods** of determining the packing material cost with reasonable accuracy.

Scope

This standard should be applied to cost statements, which require classification, measurement, assignment, presentation and disclosure of Packing Material Cost including those requiring attestation.

CAS – 9 Packing Material Cost

Important Definitions

Packing Materials: Materials used to hold, identify, describe, store, protect, display, transport, promote and make the product marketable.

Packing Material Cost: The cost of material of any nature used for the purpose of packing of a product.

Primary Packing Material: Packing material which is essential to hold and preserve the product for its use by the customer.

Example:

- **Pharmaceutical industry:** Insertions related to product, Foils for strips of tablets/capsules, vials.
- **Industrial gases:** Cylinders / bottles used for filling the gaseous products
- **Confectionary Industry:** Butter paper and wrappers.

Reusable Packing Material: Packing materials that are used more than once to pack the product.

CAS – 9 Packing Material Cost

Important Definitions

Secondary Packing Material: Packing material that enables to store, transport, inform the customer, promote and otherwise make the product marketable.

Example:

- **Pharmaceutical industry:** Cartons used for holding strips of tablets and card board boxes used for holding cartons.
- **Textile industry:** Card board boxes used for holding cones on which yarn is woven.
- **Confectionary Industry:** Jars for holding wrapped chocolates, Cartons containing packs of biscuits.

Packing Material Development Cost: Cost of evaluation of packing material such as pilot test, field test, consumer research, feed back, and final evaluation cost.

CAS – 9 Packing Material Cost

Principle of Valuation of Receipt of packing materials

*The packing material receipt should be **valued 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.*

Purchase of indigenous Packing material:

The purchase / supply order states Specification of Packing Material being purchased, Purchase price, Quantity of supply, Time of supply, Place of supply, Payment terms, commercial conditions regarding inspection, rejection, cash / trade discount and other expenditure directly attributable to procurement to be taken into account while valuing the receipt of packing material if these can be quantified with reasonable accuracy at the time of receipt.

CAS – 9 Packing Material Cost

Principle of Valuation of Receipt of packing materials

Purchase of Imported Packing Material: (important items)

- Import license.
- FOB, CIF port/airport. In case of CIF (Cost, Insurance & Freight) price, price includes besides basic price, transit insurance and freight.
- On receipt of packing material, bill of entry is prepared and custom formalities are complied with for clearance of the goods.
- Transit insurance and freight.

Handling costs:

- Handling cost is to be assigned to the packing material handled.
- Employees used for handling the packing material, is to be treated as **procurement overheads** and **not included in Packing Material Cost**. In other cases where handling charges are included in the carrier's responsibility, there will be no assignable cost due to handling.

CAS – 9 Packing Material Cost

Principle of Valuation of Receipt of packing materials

Incoming Inspection:

- If the packing material calls for inspection by a third party, specific cost will be assigned to the packing material inspected.
- If the inspection is carried out internally with own employees, it is to be treated as procurement overheads and not included in Packing Material Cost.
- If the inspection is part of the vendor's responsibility, no separate inspection cost will be assigned.

Insurance:

- If insurance premium is specific and insured singly, it is to be assigned to the specific packing material insured.
- In case it is part of a comprehensive policy then the assignment of the insurance premium will be on the basis of the proportionate value insured.
- If insurance becomes part of the carrier's responsibility no separate cost will be assigned in this regard.

CAS – 9 Packing Material Cost

Principle of Valuation of Receipt of packing materials

Finance costs directly incurred in connection with the acquisition of Packing Material shall not form part of Packing Material Cost.

- Finance costs are excluded from packing material cost.
- The letters of credit charges are for credit risk or a transaction risk (demand bill) and / or part of bank charges, which form part of administrative overheads. Such charges are not finance charges except where they are in the nature of borrowing costs.
- Sometimes goods are kept in bonded warehouse and clearance of goods is delayed. Such payments of storage are to be excluded from packing material cost and are dealt with in the financial accounts.

CAS – 9 Packing Material Cost

Principle of Valuation of Receipt of packing materials

Self manufactured packing materials shall be valued including direct material cost, direct employee cost, direct expenses, job charges, factory overheads including share of administrative overheads comprising factory management and administration and share of research and development cost incurred for development and improvement of existing process or product.

Packing material if manufactured by an entity, is to be valued taking into account all the relevant cost such as direct material cost, direct employee cost, direct expenses, share of factory overhead and share of administrative overheads relating to production.

If any packing material development cost such as pilot test, field test consumer research, feedback and final evaluation cost is incurred, it will form part of the cost of self manufactured packing material.

CAS – 9 Packing Material Cost

Principle of Valuation of Receipt of packing materials

- *The valuation of captive consumption of packing materials shall be in accordance with Cost Accounting Standard 4.*
- *Normal loss or spoilage of packing material prior to receipt in the factory shall be absorbed in the cost of balance materials net of amounts recoverable from suppliers, insurers, carriers or recoveries from disposal.*

If packing materials are lost in transit or spoiled, treatment of loss will depend upon the terms and conditions of purchase order. If the purchase order does not specify any level of loss, and supplier is responsible to supply good quantity, the loss is to be recovered from suppliers or insurers as the case may be.

The normal loss is to be absorbed by the good units. **Abnormal loss of packing material is taken to reconciliation and does not form part of the packing material cost.**

CAS – 9 Packing Material Cost

Principle of Valuation of Receipt of packing materials

- *The forex component of imported packing material 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 packing material cost.*
- *Any demurrage, detention charges or penalty levied by the transport agency or any authority **shall not form part** of the cost of packing materials.*

Demurrages levied by transporter for not removing goods, penalty for keeping hazardous goods in unauthorized places in transit without proper safeguards, penalties or interest levied by custom authorities for delayed clearance.

Demurrage and penalties are abnormal cost and are not part of the packing material cost. It is taken to reconciliation.

CAS – 9 Packing Material Cost

Principle of Valuation of Receipt of packing materials

- *Any Subsidy / Grant / Incentive or any such payment received / receivable with respect to packing material shall be reduced for ascertainment of the cost to which such amounts are related.*

CAS – 9 Packing Material Cost

Principle of Valuation of Issue of packing materials

- *Issues shall be valued using appropriate assumptions on cost flow.*

The CAS-9 provides for adopting any one of FIFO, LIFO or Weighted Average Rate methods for valuation of issues of material. Method of valuation of issue of packing material once adopted shall be followed consistently. **If method of valuation is changed, its impact on costs of packing material shall be disclosed.**

- *Wherever, packing material costs include transportation costs, determination of costs of transportation shall be governed by **CAS – 5** Cost Accounting Standard on determination of average (equalized) cost of transportation.*
- *Packing Material Costs shall not include imputed costs. However in case of Cost of Production of Excisable Goods for Captive Consumption the computation of cost shall be as per **CAS 4**.*

CAS – 9 Packing Material Cost

Principle of Valuation of Issue of packing materials

- *Where packing materials are accounted at standard cost, the price variances related to such materials shall be treated as **part of packing material cost** and the portion of usage variances due to normal reasons shall be treated as part of packing material cost. **Usage variances due to abnormal reasons shall be treated as part of abnormal cost.***
- *The normal loss arising from the issue or consumption of packing materials **shall be included** in the packing materials cost.*

Certain losses are inherent in the use of packing material and cannot be eliminated. Losses occur in cutting wood, cardboard to make box and crate occur even under efficient operating condition and are referred to as normal loss.

CAS – 9 Packing Material Cost

Principle of Valuation of Issue of packing materials

- *Any abnormal cost where it is material and quantifiable shall be excluded from the packing material cost.*
- *The credits / recoveries in the nature of normal scrap arising from packing materials if any, should be deducted from the total cost of packing materials to arrive at the net cost of packing materials.*

CAS – 9 Packing Material Cost

Assignment of Cost

- *Packing material costs shall be **directly traced** to a cost object to **the extent it is economically feasible**.*
- *Where the packing material costs are not directly traceable to the cost object, these **may be assigned on the basis of quantity consumed or similar measures like technical estimates**.*

Example:

Nails, adhesive, tapes, gums etc are consumed while packing the cost object. Such packing materials are used in small quantities and are not significant in value. In such cases it may not be economical to issue individual requisition to charge to cost object each time. It is desirable to take the total consumption of such packing material per month and divide the cost between costs objects packed based on a technical estimate or on a sample survey of usage during a selected period. Such studies may be reviewed periodically to correct for changes taking place affecting the consumption.

CAS – 9 Packing Material Cost

Assignment of Cost

- *The packing material cost of **reusable packing** shall be assigned to the cost object taking into account the **number of times or the period** over which it is expected to be reused.*

Example:

Gas cylinder are returnable. Filled cylinders are supplied against a security deposit and user is charged rent. Cylinders are depreciated over its useful life and any repair and depreciation will form packing material cost. While arriving at the cost of reusable packing material, the cost of freight and other costs attributable to activities associated to make the packing material reusable like minor repair cost, storage cost of these material, manpower dedicated for this activity shall identified and forms part of the packing material cost.

CAS – 9 Packing Material Cost

Assignment of Cost

- ***Cost of primary packing materials shall form part of the cost of production.***

Example:

Insertions related to product, Foils for strips of tablets / capsules, vials. Cylinders / bottles used for filling the gaseous products.

- ***Cost of secondary packing materials shall form part of distribution overheads.***

Example:

Cartons holding strips of tablets and card board boxes used for holding cartons, Fancy packing material to attract customers, Product literature to inform the customers etc.

The cost of secondary packing materials is generally to be treated as distribution overhead as these are used to make the product marketable.

CAS – 9 Packing Material Cost

Presentation

- *Packing Materials shall be classified as **primary and secondary** and within this classification as **purchased – indigenous, imported and self manufactured**.*
- *Where separate cost statements are prepared for packing costs, the cost of packing materials consumed shall be presented in terms of type of packing in which the materials are used (For example; Bale, Bag, Carton, Pallet). Such statements shall also include cost and quantitative information, wherever it is found material and quantifiable.*

CAS – 9 Packing Material Cost

Disclosure

- *The basis of valuation of Packing Materials.*
- *Where Packing Materials Cost is disclosed at standard cost, the price and usage variances.*
- *The cost and price of Packing Materials received from / supplied to related parties.*

If any packing material is procured from or supplied to related parties, name & address of the party, name of the packing material, nature of transaction, quantity, transfer price, amount, normal price and basis adopted for determining normal price are to be disclosed. The objective of disclosure is to ascertain that the transaction is at arm's length and on purely commercial terms.

- *Packing Materials cost incurred in foreign exchange.*
- *Any Subsidy / Grant / Incentive and any such payment reduced from Packing Materials Costs.*

CAS – 9 Packing Material Cost

Disclosure

- *Credits/recoveries relating to the Packing Materials Costs.*
- *Any abnormal cost excluded from Packing Materials Costs.*
- *Penalties and damages paid etc. excluded from Packing Materials Costs.*
- *Any change in the cost accounting principles and methods applied for the measurement and assignment of the Packing Materials Costs during the period covered by the cost statement which has a material effect on the Packing Materials Cost shall be disclosed. Where the effect of such change is not ascertainable wholly or partly the fact shall be indicated.*
- *Disclosures shall be made only where material, significant and quantifiable.*
- *Disclosures shall be made in the body of the Cost Statement or as a foot note or as a separate schedule.*

Thank You !!