

**EXPOSURE DRAFT
OF
GUIDANCE NOTE
ON
COST ACCOUNTING STANDARD
ON PACKING MATERIAL COST (CAS-9)**



Issued by

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Guidance Note on Cost Accounting Standard on Packing Material Cost (CAS-9)

The Council of the Institute of Cost Accountants of India has issued the Cost Accounting Standard on Packing Material Cost (CAS - 9) which lays down a set of principles and methods of classification, measurement and assignment of packing material cost for determination of the cost of product and the presentation and disclosure in the cost statement.

The Guidance Note deals with principles and methods as provided in the CAS-9 and practical aspects in connection with the determination of packing material cost of a product.

In the preparation of cost statement and its attestation if any packing material cost is required, the same shall be determined with reference to CAS-9.

Further The Companies (Cost Accounting Records) Rules, 2011 provides that every company, including a foreign company defined under section 591 of the Companies Act, 1956 which is engaged in production, processing, manufacturing or mining activities have to maintain cost accounting records in accordance with the generally accepted cost accounting principles and cost accounting standards issued by the Institute, to the extent these are found to be relevant and applicable. The above Rules further provides that these will be applicable to companies wherein aggregate value of net worth as on the last date of the immediately preceding financial year exceeds five crores of rupees; or wherein the aggregate value of the turnover made by the company from sale or supply of all products or activities during the immediately preceding financial year exceeds twenty crores of rupees; or wherein the company's equity or debt securities are listed or are in the process of listing on any stock exchange whether in India or outside India.

The Companies (Cost Audit Report) Rules 2011 cast a duty on a Cost Auditor appointed under Section 233B of the Companies Act 1956 to certify inter alia that books and records maintained by the company are in conformity with the Cost Accounting Standards issued by the Institute to the extent these are found to be relevant and applicable.

The Cost Accounting Standards have been set in ***bold italic*** type. Numbering of standard has been retained as in CAS-9 for facility of reference.



Chapter 1

Introduction

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

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. Packing Keeps the contents clean, fresh, sterile and safe for the intended shelf life
- **Containment or agglomeration** - Small objects are typically grouped together in one package for reasons of efficiency. For example, a single box of 1000 pencils requires less physical handling than 1000 single pencils. Liquids, powders, and granular materials need containment.
- **Information transmission** - Packages and labels communicate how to use, transport, recycle or dispose of the package or product. With pharmaceuticals, food, medical and chemical products, some types of information are required by regulatory authorities. Some packages and labels are used for track and trace purposes.
- **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 (such as salt) 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.

Type of packing material required depends on the type of product to be packed. Packing materials are of various types. Type of packing material required for a product depend upon the nature of the product to be packed. Illustrative list of packing material used is at **Annexure I**. It



varies from industry to industry as items to be packed will be different as indicated in **Annexure II**.

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.

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 example 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.

Primary packing material may also be intended for shop display .But the function of primary packing material is essentially for holding a product. Depending upon use, the same material may be classified as secondary packing material. For example, a shrink wrap can be primary packaging when applied directly to the product, and secondary packaging when combining smaller packages.

Primary packing material cost is part of production cost of a cost object. In case two types of primary packing materials are used viz. plain and fancy, the difference in the plain and fancy packing material is to be treated as secondary packing. In such cases, differentiating between primary and secondary packaging will depend upon the specific facts and circumstances of a product to be packed and type of industry.

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 and display.



Secondary Packing material also 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.

Some products such as sugar, fertilizers, cements, and the like are sold in bags and do not need any further packing. Such packing is to be treated as secondary packing and will form part of cost of sales.

**Chapter 2****Definitions**

4.1 Abnormal cost: *An unusual or atypical cost whose occurrence is usually irregular and unexpected and / or due to some abnormal situation of the production or operation.*

4.2 Administrative Overheads: *Cost of all activities relating to general management and administration of an organisation.*

4.3 Cost Object: *This includes a product, service, cost centre, activity, sub-activity, project, contract, customer or distribution channel or any other unit in relation to which costs are ascertained.*

4.4 Direct Employee Cost: *The cost of employees which can be attributed to a Cost Object in an economically feasible way.*

4.5 Direct Expenses: *Expenses relating to manufacture of a product or rendering a service, which can be identified or linked with the cost object other than direct material or direct employee cost.*

4.6 Direct Materials: *Materials the costs of which can be attributed to a cost object.*

4.7 Distribution Overheads: *Distribution overheads, also known as Distribution Cost, are the costs incurred in handling a product from the time it is ready for despatch until it reaches the ultimate consumer.*

4.8 Finance Costs: *Costs incurred by an enterprise in connection with the borrowing of funds.*

4.9 Imputed Costs: *Hypothetical or notional costs, not involving cash outlay, computed for any purpose.*

4.10 Marketing overheads: *Marketing Overheads comprises selling overheads and distribution overheads.*

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



4.11.1 Defectives: *Packing materials that do not meet quality standards. This may include reworks or rejects.*

4.11.1.1 Reworks: *Defectives which can be brought up to the standards by putting in additional resources.*

4.11.1.2 Rejects: *Defectives which cannot meet the quality standards even after putting in additional resources.*

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

4.11.3 Primary Packing Material: *Packing material which is essential to hold the product and bring it to a condition in which it can be used by or sold to a customer.*

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

4.11.5 Scrap: *Discarded packing material having some value in a few cases and which is usually either disposed of without further treatment or reintroduced into the production of packing material.*

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

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

4.13 Production overheads: *Indirect costs involved in the production process or in rendering service.*

4.14 Selling Overheads: *Selling Overheads, also known as Selling Costs, are the expenses related to sale of products and include all Indirect Expenses in sales management for the organization.*

4.15 Standard Cost: *A predetermined cost of resource inputs for the cost object computed with reference to set of technical specifications and efficient operating conditions.*



Chapter 3

Principles of Measurement

5.1. Principle of valuation of receipt of packing material:

5.1.1 The packing material receipts 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) that can be quantified at the time of acquisition.

The valuation of receipt of packing materials is to be based on the terms and conditions stated in the purchase /supply order. It indicates the source of supply i.e. indigenous or imported and the like.

Purchase of indigenous Packing material:

The purchase / supply order inter alia states:

- (1) Specification of packing material being purchased
- (2) Purchase price
- (3) Quantity of supply
- (4) Time of supply
- (5) Place of supply
- (6) Payment terms
- (7) Other commercial conditions regarding inspection, rejection, cash / trade discount etc.

In addition to basic purchase price, duties and taxes, freight inwards, insurance and other expenditure directly attributable to procurement are 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. If any of these items of expenditure cannot be quantified with reasonable accuracy, these are treated as material handling cost, an item of overhead.

Trade / cash discount, rebates, taxes and duties refundable (or to be credited by the taxing authorities) are to be set off. Examples of taxes and duties to be deducted from cost are CENVAT credits, credit for countervailing customs duty, sales tax set off / vat credits and other similar items of credit recovered / recoverable.

Imported Packing Material:

Packing Materials are imported from other countries depending upon the availability in the country / economics of import. Import license may be required in certain cases. Terms of



Purchase inter alia may be FOB, CIF port/airport. FOB (Free on Board) means that goods are loaded on the ship and there is no additional charge relating to loading and the like. Purchaser has to pay transit insurance and freight from place of loading to its destination. 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 other custom formalities are complied with for clearance of the goods.

Following points are to be considered while valuing imported packing material:

- a. Actual customs duty paid on the basis of classification by the customs authorities will be assigned, net of any credits. Higher duty paid under protest will not be included in cost if there is reasonable expectation that the entity will satisfy the conditions for the excess duty to be refunded.
- b. Packing Material imported free of duty or at concessional rate of duty under export incentive scheme will be accounted for at the actual rate of duty applicable so long as there is reasonable expectation that the entity will satisfy the conditions for the duty exemption or concession. In case the packing material is used other than the intended purpose, provision for import duty / penalty leviable, if any, shall be provided. This entry may be offset when the material is available for export purposes at the imported parity rate of material.
- c. Harbour dues, stevedoring charges, congestion charges, and the like on the basis of actual, if imported singly. If the packing material is imported as part of a basket, then a suitable basis such as proportionate weight, volume or value will become the basis for assigning the above charges
- d. If Intermediate storage is called by the nature of transport, the actual charges by the storage provider will be included in the cost.
- e. Commission Agent's Charges will be added to cost of materials. Where other services are also provided by the commission agent besides procurement of orders, e.g. arranging for LC, the charges for such services will also be assigned to the materials covered on a suitable basis.
- f. Adjustment of CENVAT / VAT as per applicable regulation
- g. Duty drawback and other similar duties subsequently recoverable shall also be deducted from the cost of material
- h. Bank Charges are in the nature of borrowing cost or in the nature of administrative overheads will not form part of packing material cost.

Cost incurred for acquisition, inspection, storage, movement of materials and insurance is also to be assigned to packing material cost on rational basis.



Handling costs upto works / factory gate

If handling cost is specific and handled singly, it is to be assigned to the packing material handled. If employees are used for handling the packing material, it 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.

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.

Other cost incurred for packing material acquisition is insuring of packing material. 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.

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

Finance costs are interest and the like on borrowed funds. 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. This may happen due to any financial stringency delaying the payment to the bank. Such payments of storage are to be excluded from packing material cost and are dealt with in the financial accounts.

5.1.3 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.



The packing material may be manufactured by an entity. It is to be valued taking into account all the relevant cost incurred in manufacturing the packing material. For example it shall take into account the direct material cost, direct employee cost, direct expenses, share of factory overhead and share of administrative overheads relating to production.

Direct Material is the cost of material which can be attributed to a cost object. It is consumed for production of a product or service which is identifiable in the product and forms direct material cost.

Direct material consumed in the manufacture of packing material is to be valued at purchase price including duties and taxes, freight inwards, insurance and other expenditure (net of trade discounts, rebate, taxes and duties refundable or to be credited) as detailed under paragraph 5.1.1.

Direct employee cost is that portion of wages and salaries which can be identified with and charged to a cost object. Direct Employees engaged in the manufacturing of packing material are to be identified. Remuneration paid to them and share of other employee related cost are to be determined as per Standard CAS-7 on Employee cost.

Direct Expenses specifically identifiable with the production of packing material (for example job charges, hire charges for use of specific equipment, cost of special designing of packing material or drawings etc.) shall form part of the cost of self manufactured packing material.

Factory overheads comprise of indirect materials, indirect employee costs and indirect expenses which are not directly identifiable or allocable to a cost object in an economically feasible way. these are the indirect costs incurred in the production process or in rendering service.

The Factory overheads includes administration cost relating to production, factory or manufacturing.

5.1.4 The valuation of captive consumption of packing materials shall be in accordance with paragraph 5 of Cost Accounting Standard 4.

Para 5 of the Cost Accounting Standard on Cost of Production for Captive Consumption (CAS-4) deals with the determination of cost production for captive consumption. While valuing the cost for captive consumption of packing material, the following elements of costs are to be considered:



- I. Material consumed (indigenous, imported, bought out items, self manufactured items, process material etc.)
- II. Direct employee cost (as per CAS-7)
- III. Direct expenses (for example cost of utilities, royalty, technical know-how charges for design)
- IV. Quality control Cost
- V. Research and Development
- VI. Share of factory overhead (including factory administration and management expenses)
- VII. Inputs received free
- VIII. Adjustment for misc income, if any.

5.1.5 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.

Sometimes 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.

5.1.6 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.

Forex conversion has to be on the date of transaction. The cost and financial accounts will have the same basis for alignment. The date on which the transaction first qualifies for recognition in accounts is adopted as the date of transaction. The difference between the actual payment and the amount taken as packing material cost is taken to a separate financial account as exchange rate variations not being part of the packing material cost.

5.1.7 Any demurrage, detention charges or penalty levied by the transport agency or any authority shall not form part of the cost of packing materials.



Demurrage and penalties are levied by the transport agency or any other authority such as custom authorities for delay in clearance of wagon/vessel and the like.

Illustrations are:

- Demurrages levied by transporter for not removing goods,
- Penalties 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.

5.1.8 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.

Subsidy and grant received should be recognized on a systematic basis. These should be matched with the related cost for which these are intended to compensate. Subsidy received for any packing material is to be reduced from the packing material cost.

Subsidy receivable for using specific packing materials produced on account of environmental reasons shall be adjusted against the packing material cost.

5.2. Principle of valuation of issue of packing material: Issues shall be valued using appropriate assumptions on cost flow.

The CAS-9 provides for adopting any one of the following three methods for valuation of issues of material:

- a) FIFO (First in First out)
- b) LIFO (Last in First out)
- c) Weighted Average Rate

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.

The FIFO formula assumes a cost flow that the items of packing materials that were purchased or produced first are issued first while LIFO assumes the exactly opposite cost flow charging the



current price to cost. Under the weighted average cost formula, the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period and the cost of similar items purchased or produced during the period. The average may be calculated on a periodic basis, or as each fresh shipment is received, depending upon the circumstances of the entity.

Accounting Standard AS-2 provides for cost formulae, viz. Specific identification, FIFO (First in First out) and Weighted Average cost method. Any of the above assumptions on cost flow can be used under CAS 6. In addition, LIFO assumption can also be used. CAS 6 does not preclude the use of specific identification of cost.

LIFO method can be gainfully applied while estimating or projection of cost as it reflects current price cost.

Any accepted method of pricing of issue may be used. However, whatever method of pricing is adopted under CAS 6, the same should be specified and followed consistently.

5.3 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.

Inward freight shall form the part of the packing materials cost. In case inward freight charges are indicated in the invoice which is for more than one material, inward freight shall be allocated to different materials indicated in the invoice on appropriate basis such as weight, volume, nos. and the like.

If the packing material is carried by special carrier, it will be assigned to the specific packing material transported.

5.4 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.

Imputed cost does not involve any cash outlay and is relevant for decision making purpose viz whether to use reusable packing material or not. This will not form part of the packing material cost. But if any excisable goods produced is used for captive consumption, its cost is to be determined as per CAS-4. Under CAS-4 in case 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.

5.5 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 standard cost serves as a basis of cost control and as a measure of productive efficiency when ultimately posed with an actual cost. It provides management with a medium by which the effectiveness of current results is measured and responsibility for variance is placed. Standard costs are used to compare the actual costs with the standard cost with a view to determine the variances, if any, analyse the causes of variances and take proper measure to control them.

Standard Cost method can also be applied for valuation of receipt and issue of packing material. In this method price of issues is predetermined for a stated period taking into account all the factors affecting price such as anticipated market trends, transportation charges and normal quantity of purchase. Standard price is determined for each packing material and material requisitions are valued at standard price irrespective of the actual purchase price. Any difference between the standard and actual prices of purchase results in packing material price variance. The packing material price variance is to be treated as part of packing material cost.

When standard costing system is in vogue, there can be other variances relating to usage during the course of packing the cost object which may be due to normal or abnormal reasons. Variances due to normal reasons shall be treated as cost while the variances due to abnormal reasons are treated outside the cost of production.

5.6 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. For example losses occur in cutting wood, cardboard to make box and crate. These losses occur even under efficient operating condition and are referred to as normal loss.

Normal loss arising from issue or consumption of packing materials shall be treated as a part of packing material cost.



5.7 Any abnormal cost where it is material and quantifiable shall be excluded from the packing material cost.

Abnormal cost arises due to some abnormal causes viz. heavy break-down in plant, theft, fire, material not according to required specification and the like. They are not considered in the cost of production and charged to profit & loss account. In case of packing material which is rejected after issue due to abnormal causes such as misprinting, material of wrong specification, size and the like is to be treated as abnormal cost. It is to be excluded from cost of packing material cost of the product. Any realization from disposal of such rejected packing material is to be credited to the abnormal cost.

The rationale of exclusion abnormal cost is that inclusion of such items in the cost will make the cost not comparable with a normal situation. Such an aberration is avoided to understand the cost in a better perspective for any purpose. For instance, loss of packing material due to major fire accident is to be treated as Abnormal Cost. It shall not form part of cost of the packing material consumed as not to distort the cost due to abnormal reasons. It is dealt with in the reconciliation with financial accounts.

5.8 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.

Normal Loss occurs in use of different packing material such as in cutting wood and cardboard to make box and crate. Adjustment shall be made to the cost of packing material for credits / recoveries from sale of such scrap.



Chapter 4

Assignment of Cost

6.1 Assignment of packing material costs to cost objects: *Packing material costs shall be directly traced to a cost object to the extent it is economically feasible.*

Assignment of packing material cost involves establishing a suitable procedure to identify and record the packing material consumed by the cost object. Cost object includes a product, service, cost centre, activity, sub-activity, project, contract, customer or distribution channel or any other unit in relation to which costs are ascertained. It is the logical sub-unit for collection of cost.

Material requisition is the source document indicating details of packing material issued for a product. It records the job number, type of packing material, and items listed are priced at their acquisition cost. Thus material requisition represents the source of information for assigning the cost of packing material to cost object. Based on actual issues, the cost of packing material is traced to cost object to the extent economically feasible.

Packing material cost may also be assigned on the basis of standard bill of packing material in place of actual issues. Under this method packing material is issued as Standard Bill of material. The standard cost for each item of packing material is defined at the beginning of the year. The variances from standard on account of price and consumption are adjusted to consumption at suitable interval. Any variation between the actual issues (both quantity and value) and the standard as accumulated over the period is charged off to consumption.

In many situations packing materials cannot be issued for the exact quantity required for packing the products produced. This may happen because the material is bulky e.g. wood used for making crates and they cannot be cut to the exact size in the stores. It may also happen that packing materials of small value like nails, glue etc. are issued in bulk as it is cumbersome to issue them for the exact quantity. In such cases, the quantity of packing materials issued cannot be taken as consumption.

In such cases, the material issued to the packing department is treated as departmental stock and the quantity of packing material required to pack the quantity of the product produced as per norms is relieved from the stock, on production being reported. The normative consumption so arrived at will be adjusted for excess or short consumption based on physical stock taking of packing materials in stock in the packing department at periodic intervals. Quantity of packing material consumed so arrived at can be valued either at standard rate or actual rate depending on the cost system in vogue in the Company.



The norms regarding the quantity of packing materials required for each product is stored either as part of the standard bill of materials relating to the product or in a separate bill of packing materials.

Packing material cost may also be assigned on the basis of standard bill of packing material in place of actual issues. Under this method packing material is issued as Standard Bill of material. The standard cost for each item of packing material is defined at the beginning of the year. The variances from standard on account of price and consumption are adjusted to consumption at suitable interval. Any variation between the actual issues (both quantity and value) and the standard as accumulated over the period is charged off to consumption.

For tracing of packing material cost direct to a cost object, concept of “to the extent economic feasible” is also to be taken into account. This requires an exercise to analyse the cost involved, benefit to accrue and over-riding requirement to identify packing material with the object.

6.2 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.

Packing Material Costs which are not directly traceable to cost object, are to be assigned on some rational basis consistently. The basis could be on some factor linking to the utilization. Technical estimates help in arriving at such rational basis.

Illustration: 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.

6.3 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.

Certain packing materials are reusable. Assigning the cost of reusable packing material will depend on the number of times or period over which it is expected to be reused.



For example if the packing material costs ₹ 120 and it is expected to be reissued six times, the cost of reusable packing material to be assigned to the product will be taken to be ₹ 20.

Assuming further that, the returnable packing material (say container) is charged in the invoice and refunded for a part value of charged amount, when returned. If charged value for container is ₹ 75 and return credit is ₹ 40, ₹ 35 will be treated as recovery towards packing material cost. The Charge of ₹ 35 per returnable container is to be determined considering the number of times / period over which it is expected to be reused and the total recovery targeted over the entire period.

Another example is gas cylinder. These 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 .

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

Primary packing material has been defined under paragraph 4.11 of the CAS-9. These materials are essential to hold the product and bring it to a condition in which it can be used by or sold to a customer. Primary packing materials are of various types and their use varies with industry to industry.

For example:

- Pharmaceutical industry: Insertions related to product, Foils for strips of tablets / capsules, vials.
- Industrial gases: Cylinders / bottles used for filling the gaseous products.

The cost of primary packing material used for a product shall form part of the cost of production.

6.5 Cost of secondary packing materials shall form part of distribution overheads.

Secondary Packing material has been defined under paragraph 4.11.6. These are:



- a)** The packing material used for storing and transport from factory to customer / warehouse for further distribution to marketing agents.

For example

- I. Cartons holding strips of tablets and card board boxes used for holding cartons;
 - II. cartons containing packs of biscuits
 - III. card board boxes for holding packed cloth
 - IV. Strips are primary packing material and will form cost of production and whereas carton and card board boxes used for strips of tablets shall form part of the distribution overheads as these are used for storing transporting. Similarly cartons for pack of biscuits, card boxes for packed cloth will form part of secondary packing material.
- b)** fancy packing material to attract customers;
- c)** 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. Certain products such as sugar, fertilizers, cement etc can be stored in bulk form (e.g.in silos) but are packed in HDPE / gunny bags and are sold without any further packing. For such products even though there is only one type of packing material cost, it is treated as secondary packing and is taken as part of cost of sales.

**Chapter 5****Presentation**

7.1 Packing Materials shall be classified as primary and secondary and within this classification as purchased – indigenous, imported and self manufactured.

This paragraph specifies categories under which Packing Material Cost is to be exhibited in the Cost statement viz. by type of packing material – Primary packing material and Secondary packing material. It further specifies classification of packing material cost on the basis of source of supply viz. indigenous, imported and self manufactured. These items are to be exhibited separately as illustrated in **Annexure III**.

7.2 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.

Note on paragraph 7.2

Separate cost statement for packing cost, if prepared, shall indicate the following details in regard to packing material:

S.No.	Item	Quantity (Nos.)	Rate	Amount	Cost Per unit
1	Packing material Cost				
1.A	Primary Packing Cost				
(i)	Primary packing material Wrapper				
	Boxes				
(ii)	Other expenses	500	1.00	500	
	50	5.00	250	
				
1.B	Secondary Packing cost				
	Secondary Packing Material				
	Card Box	5	20	100	
	Other expenses				

It is advisable to provide previous year's figures against cost per unit. Type of packing used, i.e. strips, bottle, container, Bags, bale, Box, carton and the like is to be indicated.

**Chapter 6****Disclosures****8.1 The cost statements shall disclose the following:****8.1.1 The basis of valuation of Packing Materials.**

The standard provides various methods of valuation of issues of Packing material such as FIFO, LIFO and weighted average. Method adopted for valuation of packing material cost shall be disclosed in the cost statement.

For example:

Basis of valuation of packing material cost:

Periodic quarterly weighted average is used for pricing the issues of packing material.

8.1.2 Where Packing Materials Cost is disclosed at standard cost, the price and usage variances.

In case issue of packing material is valued at standard cost, the cost statement shall disclose the standard cost and variance thereof.

8.1.3 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, (as defined under the Companies Act 1956) 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.

For example:

<u>Name and address of Related Party</u>	XYZ Ltd (address)
<u>Nature of transactions:</u>	XYZ Ltd supplies packing bags
<u>Volume of transaction:</u>	During the year 500 HDPE bags were supplied @ ` 5 per bag for ` 2500
<u>Normal Price:</u>	` 5 per bag

Basis adopted for determining normal price: The above price is based on competitive quotes.

8.1.4 Packing Materials cost incurred in foreign exchange.



Payment made in foreign exchange for importing packing material shall be indicated in the cost statement.

8.1.5 Any Subsidy / Grant / Incentive and any such payment reduced from Packing Materials Costs.

Any subsidy / grant / incentive received relating to packing material is to be reduced from the cost of packing material and disclosure made accordingly by way of a foot note.

The State Government has been subsidizing using of jute / paper bags in place of pvc bags for environmental reasons. Subsidy received and receivable are reduced from the cost of packing material.

8.1.6 Credits/recoveries relating to the Packing Materials Costs.

If any credit or recovery is considered while determining the cost of packing material, the same shall be disclosed in the cost statement e.g. sale of empties returned by customers.

8.1.7 Any abnormal cost excluded from Packing Materials Costs.

Abnormal cost is to be excluded from the cost of packing material as the same has not contributed to the packing cost of the cost object. Disclosure is to be made.

For example: During the year there was fire resulting in loss of packing material valued at ` 2.5 lakhs. The same has been excluded from the cost of packing material.

8.1.8 Penalties and damages paid etc. excluded from Packing Materials Costs.

Penalties and damages paid are not an item of cost as these are levied for non compliance with regulatory /contractual requirements. These are to be excluded from cost and disclosure made.

8.2 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.

Cost Accounting principles, and methods applied for the measurement and assignment of cost of packing material are to be applied consistently between one period to subsequent period and uniformly applied for different packing material. If any change is made in these principles and methods which results in material effect on the cost of packing material, the same shall be disclosed in the cost statement or by a foot note. In case the impact of change in principles and



methods of cost accounting is not ascertainable, the fact is to be disclosed by a foot note to the cost statements.

8.3 Disclosures shall be made only where material, significant and quantifiable.

Level of materiality and significance has not been stated in the standard. Material and significance of any information will be different from situation to situation. If material, the same is to be disclosed. The following criteria can be applied for determining the materiality. No one criterion is determinative in and of itself.

- The absolute amount – the larger the amount , the more likely that it is material
- The amount of cost of a cost object compared to the amount of packing material cost under consideration – the greater the proportion of the considered amount of packing material cost versus the cost of object, the more likely it is material.
- The relationship of repairs and maintenance cost with cost object.
- The cumulative impact of individually immaterial items - do they offset one another or do they accumulate in one direction (increase or decrease)
- The cost of determining the repairs and maintenance cost

8.4 Disclosures shall be made in the body of the Cost Statement or as a foot note or as a separate schedule.

Disclosure may be made in the body of cost statement or as a footnote. If there are many items of disclosure, the same may be included in schedule of notes to the cost statement.



ANNEXURE I

TYPE OF PACKING MATERIALS USED

Wood Boxes/crates	Cheapest and commonly available material. Exports are generally preferred in white or silver coloured wood. softwood can be used instead of hardwood, which is heavier,
Cardboard/corrugated boxes	These are usually made out of corrugated fiberboard. If more protection is needed, double-walled boxes can be used. Cardboard / corrugated boxes are cheaper to manufacture and easier to handle than the traditional wooden crates.
Different types of material used for packaging:	<p>Aerosols, Bottles, Cans, Foils, Lids, Bottle Caps, Closures Packaging Bags, Packaging Boxes, Packing & Sealing Tapes , Plastic Packaging Materials, Tear Tapes Thermocol, Tin can, tin Containers, Jumbo Bags, Gunny Bags, polythene bags.</p> <p>Bulk Bags and Sacks, Packaging Bags, Laminated Bags and Zip Bags</p> <p>Lids, Bottle Caps, Closures, Corks & Packaging Seals Other Miscellaneous Packaging and Lamination Material</p> <p>Packaging & Lamination Films, Foils, Sheets, Rolls & Wrappers, Packaging Boxes, Crates, Cartons, Pallets & Trays, Packaging Pouches, Sachets, Envelopes and Zipper Pouches, Packaging Tubes, Cans, Bottles, Jars & Containers, Box, Case, Tray and Carton, Box boards, Linerboards, Corrugated & Bleached Boards.</p>
Plastic	Plastic is the most frequently used type of packaging material because of its low cost and light weight. It can be manufactured in a variety of sizes and shapes, allowing users to make convenient packages for the user of a particular item.
Plastic films- Wrapping with stretch film.	These wraps are water proof, moisture proof, dust proof and transparent.
Wrapping with shrink film	Shrink wrap is commonly used on commercial products where tamper-protection is a high priority, such as CDs or DVDs. After the item is wrapped, heat is applied to make the wrap shrink to fit. Because it creates such a tight seal and keeps moisture out, shrink wrap can also be used to package perishable food items.
Bubble Wrap	Bubble wrap is common due to its effectiveness at protecting fragile items without adding significant weight or cost. For small items or those that require additional protection, the bubble wrap can simply be overlapped to provide several layers of cushioning.
Tissue Paper	Tissue paper is used inside a container to fill empty space so that the packed items do not shift in transit. Fragile contents like glass or porcelain are often wrapped in tissue paper before being placed inside another type of protective container for shipping.
Poly Bags, Tubes & Sheets	Poly Wrappers in custom Sizes & Thickness plastic wrappers, films and sheet
PVC- Polyvinyl chloride	Food trays, cling film, bottles for squash, mineral water and shampoo.



HDPE - High-density polyethylene	Bottles for milk and washing-up liquids.
Polyethylene terephthalate	Fizzy drink bottles and oven-ready meal trays.
LDPE - Low density polyethylene	Carrier bags and bin liners, plastic goods and toys.
PP - Polypropylene	Margarine tubs, microwaveable meal trays.
PS – Polystyrene	pots, trays, food boxes and egg cartons, vending cups, plastic cutlery, protective packaging
Adhesives, Glue, Barcodes, Stickers & Label Sealants	Adhesive, Non-Adhesive & Pressure Sensitive Vacuum, Skin, Blister & Thermoform Packaging Banding & Bundling Material
Sticker	Labelling, Marking
Insertions	

**ANNEXURE II****Details of packing materials used in different industries**

Food Packaging	Bakery items, dairy products, confectionary, snacks, frozen items, ice creams- food packaging foils, food packaging laminates, flexible packaging foils, cookies packaging, cracker packaging, bread packaging material, chips packaging, chocolate packaging, wafer packaging, namkeen packaging, pastry packaging, toffee wrappers, lollipop wrappers, chewing gum wrappers, chocolate wrappers and many more.
Beverage Packaging	Beer, drinks, water bottle, juice, soft drinks bottles / can
Personal care cosmetic Packaging	Cosmetic, oral care, Toiletries, soap, shampoo, glass like clear polymer bottle / tubes / pouch etc
Pharmaceutical	Blister, Aluminium / cellophane / glassine paper foil for strip or blister packing of tablets / capsules, bottle (glass / plastic), closures, (metal / plastic / Rubber closures for 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 (for ink / gum), 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; Other packing material used are hessian ,cloth, paper board, polythene paper, lining paper, iron/plastic hooks, nails, sewing thread etc.



Annexure III

Illustration of Presentation of Packing Material

Item	Quantity (Unit)	Rate/Unit	Amount	Cost Per unit
Material Cost Employee cost Primary packing Cost a) Primary packing material <ul style="list-style-type: none">• imported• indigenous b) Other expenses <ul style="list-style-type: none">• Production Overhead				
Production cost (after adjustment of WIP)				
Secondary Packing Cost: Cartoons (indigenous) Card Boxes (imported)				
Selling Expenses				

**ANNEXURE IV****(CAS 9)
COST ACCOUNTING STANDARD ON PACKING MATERIAL COST**

The following is the COST ACCOUNTING STANDARD - (CAS - 9) issued by the Council of The Institute of Cost and Works Accountants of India on "PACKING MATERIAL COST", for comments. In this Standard, the standard portions have been set in **bold italic** type. This standard should be read in the context of the background material which has been set in normal type.

1. Introduction

1.1 This standard deals with the principles and methods of determining the Packing Material Cost.

1.2 This standard deals with the principles and methods of classification, measurement and assignment of Packing Material Cost, for determination of the cost of product, and the presentation and disclosure in cost statements.

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

2. 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.

3. 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.

4. Definitions

The following terms are being used in this standard with the meaning specified.

4.1 Abnormal cost: An unusual or atypical cost whose occurrence is usually irregular and unexpected and/ or due to some abnormal situation of the production or operation.¹

For example: the cost of packing material which is rejected after issue due to abnormal causes such as misprinting, use of material of wrong specification etc. (net of realisable value) may be treated as abnormal cost.

4.2 Administrative Overheads: Cost of all activities relating to general management and administration of an organisation. Administrative overheads shall exclude any overhead relating to production, operations and marketing.

4.3 Cost Object: This includes a product, service, cost centre, activity, sub-activity, project, contract, customer or distribution channel or any other unit in relation to which costs are ascertained.²

4.4 Direct Employee Cost: The cost of employees which can be attributed to a Cost Object in an economically feasible way.³

4.5 Direct Expenses: Expenses relating to manufacture of a product or rendering a service, which can be identified or linked with the cost object other than direct material or direct employee cost⁴. Examples of Direct Expenses are royalties charged on production, job charges, hire charges for use of specific equipment for a specific job, cost of

¹ Adapted from CAS 1 paragraph 6.5.19

² Adapted from CIMA Terminology

³ Adapted from CAS 7 paragraph 4.6

⁴ Adapted from CAS 1 paragraph 6.2.6 and also proposed in the CAS on Direct Expenses



special designs or drawings for a job, software services specifically required for a job, travelling Expenses for a specific job.

4.6 Direct Materials: *Materials the costs of which can be attributed to a cost object.*⁵

4.7 Distribution Overheads: *Distribution overheads, also known as Distribution Cost, are the costs incurred in handling a product from the time it is ready for despatch until it reaches the ultimate consumer.*⁶

For example:

- Secondary packing
- Transportation cost
- Warehousing cost
- Cost of delivering the products to customers etc.
- Clearing and forwarding charges
- Cost of mending or replacing packing materials at distribution point.

4.8 Finance Costs: *Costs incurred by an enterprise in connection with the borrowing of funds.* This will include interest and commitment charges on bank borrowings, other short term and long term borrowings, amortisation of discounts or premium related to borrowings, amortisation of ancillary cost incurred in connection with the arrangements of borrowings, finance charges in respect of finance leases, other similar arrangements and exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest costs⁷. The terms Finance costs and Borrowing costs are used interchangeably.

4.9 Imputed Costs: *Hypothetical or notional costs, not involving cash outlay, computed for any purpose.*⁸

For example: packing material supplied by the customer.

4.10 Marketing overheads: *Marketing Overheads comprises selling overheads and distribution overheads.*

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

4.11.1 Defectives: *Packing materials that do not meet quality standards. This may include reworks or rejects.*⁹

4.11.1.1 Reworks: *Defectives which can be brought up to the standards by putting in additional resources.*¹⁰

Rework includes repairs, reconditioning and refurbishing.

4.11.1.2 Rejects: *Defectives which can not meet the quality standards even after putting in additional resources.*¹¹

Rejects may be disposed off as waste or sold for salvage value or recycled in the production process.

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

4.11.3 Primary Packing Material: *Packing material which is essential to hold the product and bring it to a condition in which it can be used by or sold to a customer.*

For example:

- Pharmaceutical industry: Insertions related to product, Foils for strips of tablets/capsules, vials.
- Industrial gases: Cylinders / bottles used for filling the gaseous products

⁵ Adapted from CAS 6 paragraph 4.6.1

⁶ Adapted from CAS 1 paragraph 6.3.9

⁷ Adapted from CIMA Terminology

⁸ Adapted from CAS 1 paragraph 6.5.13

⁹ Adapted from CAS 6 paragraph 4.4

¹⁰ Adapted from CAS 6 paragraph 4.4.1

¹¹ Adapted from CAS 6 paragraph 4.4.2



- Confectionary Industry: Butter paper and wrappers.

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

4.11.5 Scrap: *Discarded packing material having some value in a few cases and which is usually either disposed of without further treatment or reintroduced into the production of packing material.*¹²

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

For 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.

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

4.13 Production overheads: *Indirect costs involved in the production process or in rendering service*¹³.

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

4.14 Selling Overheads: *Selling Overheads, also known as Selling Costs, are the expenses related to sale of products and include all Indirect Expenses in sales management for the organization.*¹⁴

4.15 Standard Cost: *A predetermined cost of resource inputs for the cost object computed with reference to set of technical specifications and efficient operating conditions.*¹⁵

Standard costs are used as scale of reference to compare the actual costs with the standard cost with a view to determine the variances, if any, and analyse the causes of variances and take proper measure to control them. Standard costs are also used for estimation.

5. Principles of Measurement

5.1 Principle of valuation of receipts of packing material:

5.1.1 *The packing material receipts 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) that can be quantified at the time of acquisition.*

Examples of taxes and duties to be deducted from cost are CENVAT credits, credit for countervailing customs duty, sales tax set off/ vat credits and other similar items of credit recovered/ recoverable.

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

5.1.3 *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.*

¹² Adapted from paragraph 4.9 of CAS 6

¹³ Adapted from CAS-1 paragraph 6.3.3 and 6.3.4

¹⁴ Adapted from CAS 1 paragraph 6.3.7

¹⁵ Adapted from CAS 6 paragraph 4.15



5.1.4 The valuation of captive consumption of packing materials shall be in accordance with paragraph 5 of Cost Accounting Standard 4.

5.1.5 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.

5.1.6 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.

Explanation: The date on which a transaction (whether for goods or services) is recognised in accounting in conformity with generally accepted accounting principles.

5.1.7 Any demurrage, detention charges or penalty levied by the transport agency or any authority shall not form part of the cost of packing materials.

5.1.8 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.

5.2. Principle of valuation of issue of packing material

Issues shall be valued using appropriate assumptions on cost flow.

For example: First In First Out, Last In First Out, Weighted Average Rate.

The method of valuation shall be followed on a consistent basis.

5.3 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.

5.4 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.

5.5 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.

5.6 The normal loss arising from the issue or consumption of packing materials shall be included in the packing materials cost.

5.7 Any abnormal cost where it is material and quantifiable shall be excluded from the packing material cost.

5.8 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.

6. Assignment of Cost

6.1 Assignment of packing material costs to cost objects: Packing material costs shall be directly traced to a cost object to the extent it is economically feasible.

6.2 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.

6.3 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.



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

6.5 Cost of secondary packing materials shall form part of distribution overheads.

7. Presentation

7.1 Packing Materials shall be classified as primary and secondary and within this classification as purchased – indigenous, imported and self manufactured.

7.2 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.

8. Disclosures

8.1 The cost statements shall disclose the following:

- 1. The basis of valuation of Packing Materials.**
- 2. Where Packing Materials Cost is disclosed at standard cost, the price and usage variances.**
- 3. The cost and price of Packing Materials received from/supplied to related parties¹⁶.**
- 4. Packing Materials cost incurred in foreign exchange.**
- 5. Any Subsidy/Grant/Incentive and any such payment reduced from Packing Materials Costs.**
- 6. Credits/recoveries relating to the Packing Materials Costs.**
- 7. Any abnormal cost excluded from Packing Materials Costs.**
- 8. Penalties and damages paid etc. excluded from Packing Materials Costs.**

8.2 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.

8.3 Disclosures shall be made only where material, significant and quantifiable.

8.4 Disclosures shall be made in the body of the Cost Statement or as, a foot note or as a separate schedule.

¹⁶ Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement