



**EXPOSURE DRAFT**

**COST ACCOUNTING**

**STANDARD**

**ON**

**MANUFACTURING COST**  
**(CAS-22)**

Issued by

**Cost Accounting Standards Boards of  
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## Exposure Draft (CAS – 22)

### COST ACCOUNTING STANDARD ON MANUFACTURING COST

The following is the COST ACCOUNTING STANDARD –22(CAS - 22) for determination of “**MANUFACTURING COST**”. 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 **Manufacturing Cost**.
- 1.2 *This standard deals with the principles and methods of classification, measurement and assignment for determination of the Manufacturing Cost of excisable products and the presentation and disclosure in cost statements.*

#### 2. Objective

*The objective of this standard is to bring uniformity and consistency in the principles and methods of determining the Manufacturing Cost for excisable products.*

#### 3. Scope

*This standard should be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of Manufacturing Cost for excisable products.*

#### 4. Definitions

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

- 4.1 *Abnormal and non-recurring 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.*



Administrative overheads need to be analysed in relation to production/manufacturing activities and other activities. Administrative overheads in relation to production/manufacturing activities shall be included in the manufacturing cost.

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

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

**4.4 Defectives: End Product and/or intermediate product units that do not meet quality standards. This may include reworks or rejects.**

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

Rework includes repairs, reconditioning, retrofitment and refurbishing.

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

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

**4.5 Depreciation: Depreciation is a measure of the wearing out, consumption or other loss of value of a depreciable asset arising from use, efflux of time or obsolescence through technology and market changes. Depreciation does not include impairment loss.**

**Depreciation is allocated so as to charge a fair proportion of the depreciable amount in each accounting period during the estimated useful life of the asset.**

**Depreciable amount of a depreciable asset is its historical cost, or other amount substituted for historical cost in the financial statements, less the estimated residual value.**

**Useful life of asset is either**

**(i) the period over which a depreciable asset is expected to be used by the enterprise; or**



- (ii) *the number of production or similar units expected to be obtained from the use of the asset by the entity.*

**4.6 Direct Expenses:** *Expenses relating to manufacture of a product or rendering a service, which can be identified to the excisable product other than direct material cost and direct employee cost.*

**4.7 Employee Cost:** *The aggregate of all kinds of consideration paid, payable and provisions made for future payments for the services rendered by employees of an enterprise (including temporary, part time and contract employees). Consideration includes wages, salary, contractual payments and benefits, as applicable or any payment made on behalf of employee. This is also known as Labour Cost.*

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

**4.7.2 Indirect Employee Cost:** *The cost which cannot be directly attributed to a particular excisable product.*

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

**4.9 Manufacturing cost:** *Manufacturing cost for excisable products is the aggregate of costs of all resources consumed in the process of manufacturing an excisable product.*

Manufacturing Cost includes cost of Materials (including process materials), Employee Cost, Cost of Utilities, Primary Packing Cost, Direct Expenses, Repairs and Maintenance Cost, Pollution Control Cost, Quality Control Cost, Research & Development Cost, Cost of Inputs received free of cost, Depreciation and Amortisation (including amortisation cost of free tools, patterns and dies and the like), cost of rework, reconditioning, retrofitment, Manufacturing Overheads, other costs allocable to such activity, adjustment for stock of work-in-process and recoveries for sales of scrap and wastages and the like but does not include expenses of the above nature incurred for post manufacturing purposes.

The terms Manufacturing Cost and Cost of Production are used interchangeably.

Cost of Inputs received free of cost: Cost of Inputs supplied free of cost by the user of the product.



#### **4.10 Manufacturing overheads: Indirect costs involved in the manufacturing process.**

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

Manufacturing Overheads shall be classified on the basis of behaviour as Variable Manufacturing Overheads, and Fixed Manufacturing Overheads.

Variable Manufacturing Overheads comprise of expenses which vary in proportion to the change of volume of production. For example, cost of utilities etc.

Fixed Manufacturing overheads comprise of expenses which does not change with the change in volume of production. For example, salaries, rent, repair and maintenance etc.

#### **4.11 Material Consumed**

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

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

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

***4.12 Normal Capacity is the production achieved or achievable on an average over a period or season under normal circumstances taking into account the loss of capacity resulting from planned maintenance.***



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

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

**4.15 Repairs and Maintenance cost:** *Cost of all activities which have the objective of maintaining or restoring an asset in or to a state in which it can perform its required function at intended capacity and efficiency.*

**4.16 Research and Development Cost**

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

**4.17 Royalty:** *Royalty is compensation/periodic payments for the use of asset (tangible and/or intangible) to the owner for use of his asset in the production/manufacture, selling and distribution by an entity.*

**4.18 Scrap:** *Discarded material having some value in few cases and which is usually either disposed of without further treatment (other than reclamation and handling) or reintroduced into the production process in place of raw material.*

**4.19 Technical Know-how Fee:** *Technical Know-how Fee is a lump sum or periodical amount payable to provider of technical Know-how in the form of design, drawings, training of personnel, or practical knowledge, skills or experience.*

**4.20 Waste and spoilage:**

**4.20.1** *Waste: Material loss during production or storage due to various factors such as evaporation, chemical reaction, contamination, unrecoverable residue, shrinkage, etc., and discarded material which may or may not have value.*

**4.20.2** *Spoilage: Production that does not meet with dimensional or quality standards in such a way that it cannot be rectified economically and is sold for a disposal value. Net Spoilage is the difference between costs accumulated up to the point of rejection and the salvage value.*



## 5. Principles of Measurement

- 5.1 ***Manufacturing cost for each excisable product shall be measured separately.***
- 5.2 ***Manufacturing cost of excisable products shall be the aggregate of direct and indirect cost relating to manufacturing activity.***
- 5.3 ***Material cost shall be measured separately for each type of material that is for indigenous material, imported material, bought out components, and process for each type of excisable product.***

Cost of Inputs received free of cost from the user of the product shall be considered for determination of manufacturing cost. .

- 5.4 ***The material cost of normal scrap/defectives which are rejects shall be included in the material cost of excisable products manufactured. The material cost of actual scrap / defectives, not exceeding the normal shall be adjusted in the material cost of good production. Realized or realizable value of scrap or waste shall be credited to the cost of production. Material Cost of abnormal scrap /defectives shall not be included in material cost but treated as loss after giving credit to the realisable value of such scrap / defectives.***
- 5.5 ***Employee Cost shall be measured for each excisable product manufactured.***
- 5.6. ***The cost of utilities consumed for manufacturing of excisable products shall be measured for each type of utility.***
- 5.7 ***Packing material cost consumed for manufacturing of excisable products shall be measured for each type of excisable product.***

If excisable product is transferred/dispatched duly packed the cost of such packing shall include both cost of primary and secondary packing required for transfer/ dispatch of excisable products.

The secondary packing referred to herein before would not include cost of such packing which aims to inform the customer, promote and otherwise make the product marketable

- 5.8 ***The Direct Expenses for manufacturing of excisable products shall be measured for each excisable product.***



**5.9. Repairs and maintenance cost for manufacturing of excisable products shall be measured for each excisable product.**

**5.10 Depreciation and Amortisation for manufacturing of excisable products shall be measured for each excisable product.**

**5.11 Research & Development Costs for manufacturing of excisable products shall be measured for each excisable product.**

**5.12 Cost incurred for manufacturing of excisable products after split-off point shall be measured for each Joint/By-Product.**

*In case the manufacturing process generates scrap or waste, realized or realizable value, net of disposal cost, of scrap and waste shall be deducted from the cost of Joint Product.*

**5.13 Royalty and Technical Know-how Fee for manufacturing of excisable products 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 asset.**

Royalty paid for selling shall not form part of manufacturing cost of excisable products.

**5.14 Quality Control cost incurred in-house for manufacturing of excisable products shall be the aggregate of the cost of resources consumed in the Quality Control activities of the entity. 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 (other than cash discounts), taxes and duties refundable or to be credited by the Tax Authorities.**

**5.15 Manufacturing Overheads for excisable products 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 (other than cash discounts); taxes and duties refundable or to be credited .**

*Manufacturing Overheads other than those referred to above shall be determined on the basis of cost incurred in connection therewith.*

**5.16 Any abnormal cost, where it is material and quantifiable, shall not form part of the Manufacturing cost of excisable products.**



- 5.17 Interest and Finance cost is not a part of manufacturing cost of a excisable products.**
- 5.18 Manufacturing cost of excisable products shall include cost of inputs received free of cost and amortisation cost of free tools, dies, pattern and the like.**
- In case any input material, whether of direct or indirect nature, including packing material, is supplied free of cost by the user of the excisable product, the cost of such material shall be included in the manufacturing cost.
- For example : Amortisation Cost of Moulds , tools, dies & patterns and cost of packing material etc. received free of cost shall be included in Manufacturing Cost.
- 5.19 Any Subsidy/Grant/Incentive or any such payment received/receivable with respect to any Manufacturing cost of excisable products shall be deducted for ascertainment of the cost to which such amounts are related.**
- 5.20 The Manufacturing cost of excisable products 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.**
- 5.21 Fines, penalties, damages, demurrage and similar levies paid to statutory authorities or other third parties shall not form part of the manufacturing cost of excisable products.**
- 5.22 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 manufacturing cost of excisable products.**
- 5.23 Credits / recoveries relating to the manufacturing cost/ material and quantifiable/ shall be deducted from the total manufacturing cost to arrive at the net manufacturing cost of excisable products.**
- 5.24 Work in process/progress stock shall be measured at cost computed for different stages of completion of resources consumed**
- Stock of work-in-progress shall be valued at cost on the basis of stages of completion as per the cost accounting principles. Opening and closing stock of work-in-process/progress shall be adjusted for computation of manufacturing cost of a excisable product.**



## **6. Assignment of Cost**

- 6.1 While assigning various elements of manufacturing cost of excisable products traceability to a excisable product in an economically feasible manner shall be the guiding principle. The cost which can be traced directly to a excisable product shall be directly assigned.**
- 6.2 Assignment of manufacturing cost of excisable products where not directly traceable to the excisable products shall be based on either of the following two principles;**
- i) Cause and Effect – Cause is the process or operation or activity and effect is the incurrence of cost.**
  - ii) Benefits received – to be apportioned to various cost objects in proportion to the benefits received by them.**
- 6.3. The variable manufacturing/production overheads shall be absorbed in production cost based on actual capacity utilisation.**
- 6.4 The fixed manufacturing/production overheads and other similar item of fixed costs such as quality control cost, research and development costs, administrative overheads relating to manufacturing shall be absorbed in the manufacturing cost on the basis of the normal capacity or actual capacity utilization of the plant, whichever is higher.**
- 6.5 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 are allocated between the products on a rational and consistent basis.***
- In case by-products are produced, the net realisable value of by-products is credited to the manufacturing cost of the main product.***
- 6.6 Miscellaneous income relating to production/manufacture shall be adjusted in the determination of Manufacturing Cost.**

For example, income from sale of empty containers used for despatch of the excisable products shall be deducted in determination of manufacturing cost.



## **7 Presentation**

### **7.1 Cost statement as per Appendix 1 to this standard shall present following information:**

**7.1.1 Actual capacity utilization in absolute terms and as a percentage of normal capacity.**

**7.1.2 Cost information relating to various elements of Cost shall be presented separately.**

## **8. Disclosures**

**8.1 if there is any change in cost accounting principles and practices during the concerned period which may materially affect the cost of manufacturing of excisable products in terms of comparability with previous periods, the same shall be disclosed.**



**Appendix 1**

**Cost Statement showing Manufacturing cost of the Product \_\_\_\_\_ for the period:**

	Name of the Manufacturer		
	Address of the Manufacturer		
	Excise Registration Number		
	Name of the unit		
	Address of the unit		
	Central Excise Tariff Heading		
<b>A</b>	<b>Quantitative Information</b>	<b>Unit</b>	<b>Quantity</b>
1	Normal Capacity		
2	Production		
3	Captive Consumption		
4	Net Quantity		
5	Production as %age of Normal capacity		

<b>B</b>	<b>Cost Information</b>	<b>Unit</b>	<b>Quantity</b>	<b>Rate</b>	<b>Amount</b>	<b>Cost per Unit</b>
	Materials (specify)					
1	A.					
	B.					
	C.					
	D .....					
	E. Imputed cost of material received free					
	<b>Total material consumed</b>					
2	Process materials					
3	Utilities					
4	Direct Employee cost					
5	Direct Expenses					
6	Consumable stores and spares					
7	Repairs and maintenance					



B	Cost Information	Unit	Quantity	Rate	Amount	Cost per Unit
8	Quality control cost					
9	Research & Development cost					
10	Technical know-how Fee/Royalty if any					
11	Depreciation/Amortization					
12	Other Manufacturing overheads					
13	Total(1 to 12)					
14	Add/Less Work-in-Progress Adjustments					
15	Less Credit for recoveries , if any					
16	Primary Packing cost					
17	Manufacturing cost (13 to 16)					

Date: \_\_\_\_\_ Seal & Signature of the Company's Authorised Representative

*I/We, have verified above data on test check basis with reference to the books of account, cost accounting records and other records. Based on the information and explanations given to me/us, and on the basis of generally accepted cost accounting principles and practices and Cost Accounting Standards followed by the entity, I /We certify that the above cost data reflects true and fair view of the manufacturing cost of the above product.*

Date: \_\_\_\_\_ Seal & Signature of Cost Accountant

Place: \_\_\_\_\_ Membership No.: \_\_\_\_\_ Firm Regn No.: \_\_\_\_\_

**Note: Separate Cost Statement(s) shall be prepared for each *excisable* product**

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