



THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory Body under an Act of Parliament)

CMA Bhawan, 3 Institutional Area,

Lodhi Road, New Delhi-110003

Phone : +91-11-24622156-57-58, 24666100

Fax : +91-11-43583642

E-mail : info@icmai.in; Website : www.icmai.in

Tech/CASB/12/2015

30th, December, 2015

Shri Ratan Kumar Khatwani
Deputy Director (Cost)
Central Excise Customs & Service Tax(Audit II),
Audit Commissionerate II
Central Excise Building,
Tikarapara, Raipur (CG) -492001

**Subject: Clarification Regarding Cost Accounting Standard (CAS-4) – Scrap credit
for recoveries/scrap/By Product/Misc Income**

Dear Sir,

This has reference to your letter No.IV(16) Cost/30-02/ dated 28th October,2015 on the above subject.

The Department sought the following clarifications from the Institute with reference to CAS-4 issued by the Institute:

- (i) If unit removed scrap/By product to themselves as captive consumption, whether such transaction amount can actually be considered as "**credit for recoveries scrap/ By product/ misc. income**". Where scrap/ By product removal is for self-consumption and same transaction would be deductible from cost.It is to be noted thatscrap/ By product removal/ sale is not with other unrelated buyers.
- (ii) If transaction not deductible in such cases what would be its treatment in cost of production statement.
- (iii) As per costing literature/ cost accounting principles/ related reference, what quantity & its value can be considered as scrap/ By product out of total production quantity & value for product undercost is going to determine.

Kindly refer to *para 5.12 of CAS-4 relating to treatment of scrap and waste*. In case, scrap or waste does not have ready market and it is used for reprocessing, the scrap or waste value is taken at a rate of input cost depending upon the stage at which such scrap or waste is



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recycled. The expenses incurred for making the scrap suitable for reprocessing shall be deducted from value of scrap or waste. An illustration is also given under para 5.12 of CAS-4 explaining how the value of scrap/ waste is to be determined. The entity has to keep proper records of input and output of a process and quantity of scrap generated during processing of material. In case scrap is not sold/disposed off during the period and kept in the stock/self-used, the realizable value of scrap can be calculated from quotation /market rate.

As regards By Products, kindly refer to para 5.11 of the CAS-4 and Guidance note issued by the Institute on the Cost of production for Captive consumption. Where by product is not sold but used for self consumption, credit to main product at **substitute value** of by product may be given.

Miscellaneous income shall be analysed in detail for its nature (capital/revenue). If it is of capital nature then it is to be ignored. If related to production, it shall be adjusted in the cost of production.

Thanking you,

Yours faithfully,

(J K Budhiraja)

Senior Director (Technical) and

Secretary to Cost Accounting Standards Board (CASB) and

Secretary to Technical Cell of CASB