Frequently Asked Questions (FAQs) on Cost Accounting Standard on Cost of Production for Captive Consumption (CAS – 4)

Q.1: What is the objective of Cost Accounting Standard on Cost of production for Captive Consumption (CAS -4)?

Answer: The Institute of Cost Accountants of India released Cost Accounting Standard on Cost of Production for Captive Consumption (CAS - 4) on 3rd January 2003, with a view to bring uniformity in the principles and methods used for determining the cost of production of excisable goods used for captive consumption for the purposes of Rule 8 of the Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000.

Q.2: Whether the Cost of Production of captively consumed goods is to be calculated as per CAS 1, CAS 2, CAS 3 and CAS 4 issued by the Institute?

Answer: Rule 8 of the Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000 requires determination of cost of production or manufacture where the excisable goods are not sold by the assessee but are used for consumption by him or on his behalf in the production or manufacture of other articles. CAS-4 defines the methodology of cost determination for this purpose and imbibes the principles postulated in CAS 1, CAS 2 and CAS 3 which are general principles of costing.

Q.3: How Cost of Production of captively consumed goods is to be calculated?

Answer: CAS-4 stipulates that Cost of Production of captively consumed goods shall consist of material consumed, direct wages and salaries, direct expenses, works overheads, quality control cost, research and development cost, packing cost, administrative overheads relating to production and to arrive at the cost of production for captive consumption, adjustment for stock of work-in-progress, finished goods, recoveries for sales of scrap, wastage etc. are to be carried out. It further stipulates that the fixed 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 production cost on the basis of the normal capacity or actual capacity utilization of the plant, whichever is higher. The cost accounts for this purpose shall be reconciled with the audited financial accounts.

Q.4: Whether the Cost of Production is to be calculated separately for each production unit or the Company as a whole?

Answer: In case of Multi location units, the Cost of Production is to be determined separately for each unit and not for the Company as a whole.

Q.5: What is the periodicity of CAS - 4 Certification?

Answer: Cost determination of a product is always for a period and computed on the basis of actual accounts of the company. The CBEC circular no. M.F.(D.R.) F.No. 354/81/2000-TRU, dated 30-6-2000 also envisages to value goods which are captively consumed on cost construction method. Further, costs so determined should be actual cost reconciled with the audited accounts of the company to ensure correctness. In any case, the actual cost for a period can only be available after the accounts for the period is audited. Consequently, it is contemplated that the cost of production certification under CAS-4 be done half-yearly and goods cleared. The company would be provisionally assessed under rule 7 of Central Excise Rules, 2002. After the end of the year and annual certification under CAS-4 on the basis of audited annual accounts, differential duty, if any, shall be paid by the company.

Q 6: Is a certificate issued under CAS – 4 by any professional other than a Cost Accountant in Practice valid or not?

Answer: No, the certificate has to be issued by a Cost Accountant in practice only.

Q.7: Which year's cost of production would be relevant for CAS - 4?

Answer: The Cost of production has to be the relevant year's average cost of production.

Q.8: Is the cost of production required to be determined for different varieties, sizes separately?

Answer: In case the company is manufacturing and consuming the goods in different varieties and/or sizes etc., the cost of production for each of the variety / size should be worked out separately

Q.9: Is CAS - 4 applicable to manufacturers falling in the category of proprietorship, partnership, co-operative sector, SSI Units?

Answer: Yes. CAS-4 is applicable to all entities who are liable to pay excise duty and is clearing goods under Rule 8 of the Central Excise Valuation Rules for the purpose of captive consumption of such goods, irrespective of the constitution of the entity.

Q.10: Whether all items of Profit & Loss Account, are to be considered while determining the Cost of Production as per CAS - 4?

Answer: Profit & Loss Account represents the true and fair view of profit for a period and is derived on the basis of financial accounts of a company consisting of various items of incomes and expenses considered in accordance with the relevant accounting standards. Cost accounting, on the other hand consists of items of costs classified according to its nature and incidence which are allocated and apportioned to products on the basis of cost accounting standards and generally accepted cost accounting principles to arrive at the cost of production. CAS-4, which defines the cost components to be considered to arrive at cost of production for captive consumption has defined the various items of cost components to be considered for the purpose and the resultant cost is required to be reconciled with the audited Profit & Loss Account to ensure that all items of costs are considered in the cost construction and such items of expenses or incomes which do not form part of cost of production are properly dealt with in the reconciliation between the cost accounts and financial accounts. For example, Loss on sale of fixed assets, bad debts written off, unabsorbed overheads due to under-utilization of capacity, abnormal costs, Loss/Gain on foreign exchange transactions, miscellaneous incomes not related to the product or production activity etc. do not form part of cost of production though these would appear in the Profit & Loss Account. Further, expenses relating to selling and distribution or corporate overheads will also not form part of Cost of production though expenses comprised in such overheads would be a part of the Profit & Loss Account. However, such other operating incomes, e.g., sale of scrap, sale of used empty containers of the input material would be considered as a credit to the Cost of Production.

Q.11: What is the treatment of overheads for working out the Cost of Production, under CAS - 4?

Answer: The variable production overheads are to be absorbed based on actual capacity utilisation and the fixed production overheads are to be absorbed on Normal Capacity or Actual Capacity Utilisation, whichever is higher. In case Actual Capacity Utilisation is lower than the Normal Capacity, the absorption of Fixed Overheads should be done on normal capacity irrespective of Actual Capacity Utilised.

Q.12: Whether any inputs received free of cost shall be included in the Cost of Production under CAS – 4 or not?

Answer: Landed Cost of input material received free of cost shall be included in the Cost of Production for Captive Consumption for the purpose of determination of value as contemplated in Rule 8.

Q.13: When the goods produced are used by the assesses in the production or manufacture of other articles in the same premises or elsewhere, is the Cost of Production required to be calculated as per CAS – 4 and assessable value 110% thereof?

Answer: As per Rule 8 of the Central Excise Valuation Rules, where the excisable goods are not sold but are used for consumption by the assesses or on his behalf in the production or manufacture of other articles, the assessable value shall be 110% of Cost of Production unless exempted and the Cost of Production is to be calculated as per CAS - 4.

Q.14.Whether Interest and Finance charges are to be included while working out the Cost of Production?

Answer: Interest and finance charges do not form part of Cost of Production for Captive Consumption. As per the Valuation Rules, the assessable value is considered to be 110% of the cost of production determined in accordance with CAS-4.