CAS - 24
COST ACCOUNTING STANDARD ON TREATMENT OF REVENUE IN COST STATEMENTS

The following is the COST ACCOUNTING STANDARD on **"TREATMENT OF REVENUE IN COST STATEMENTS"**(CAS-24) issued by the Council of the Institute of Cost Accountants of India. In this Standard, the standard portions have been set in ***bold italic*** type. These are to be read in the context of the background material which has been set in normal type.

1. Introduction

This standard deals with the principles and methods of classification, measurement, treatment and assignment of revenue and its presentation and disclosure in cost statements.

2. Objective

The objective of this standard is to bring uniformity and consistency in the principles and methods for treatment of revenue in cost statements with reasonable accuracy.

3. Scope

This standard shall be applied to cost statements which require classification, measurement, treatment, assignment, presentation and disclosure of revenue including those requiring attestation.

4. Definitions

The following terms are being used in this standard with the meaning specified. Any term not defined in this Standard shall have the same meaning and expression as set out in the Glossary of Terms issued by the Council.

4.1 By-product: Product with relatively low value produced incidentally in the manufacturing of the product or service.

4.2 Defectives: Materials, products or intermediate products that do not meet quality standards. This may include reworks or rejects.

4.3 Intermediate product: An intermediate product is a product that requires further processing before it is saleable.

4.4 Joint product: Products or services that are produced simultaneously, by the same process, identifiable at the end of the process and recognised as main products or services having sufficient value.

4.5 Net Sales Realization: is the revenue from operations net of discounts and indirect taxes.

4.6 Other Income: is the income that cannot be classified as revenue from operations.

Examples:

- Profit on sale of property, plant and equipment and investments;
- Interest from investments or deposits outside the business;
- Insurance claims received, not adjusted against an item of cost;
- Penalties or liquidated damages received, not adjusted against an item of cost;
- Fees received, not adjusted against an item of cost;
- Rent or lease from properties leased (unless the primary activity itself is leasing);
- Grants received;
- Royalties received(unless it is a part of major activity of the entity);
- Credits for previous years' adjustments;
- Dividend income on investments(other than in a financial enterprise);
- Gain on foreign currency transaction and translation (other than considered as finance cost);
- Excess provisions written back;
- Credits on account of revaluation of capital assets;
- All items of abnormal revenue such as recoveries from book debts written off in the previous period; and
- Prior period income.

4.7 Reporting Period: is the period for which the cost statementsare prepared.

4.8 Revenue: The term Revenue will have the same meaning as assigned in the Accounting Standards notified by the Central Government under the Companies (Accounting Standards) Rules 2006 or in the Indian Accounting Standards notified under the Companies (Indian Accounting Standards) Rules 2015, as applicable.

The terms Revenue and Sales Realisation denote the same meaning and are used interchangeably.

4.9 Revenue from operations: is the income arising in the course of the ordinary activities of an entity from the sale of goods or rendering of services.

Revenue from operations represents income arising from the sale of goods or rendering of services and includes other operating revenue, such as sale of scrap, government subsidies,or incentives received. Revenue from operations is generally recognised at the net value excluding indirect taxes. Sometime, revenue is presented at the gross value including excise duty and the excise duty is presented as deduction from such gross value of the revenue.

Other Operating Revenue is the incidental income arising in the course of ordinary activities of an entity but not arising from the sale of main goods or services, and it does not include Other Income.

Examples:

- Sale of By-products;
- Sale of manufacturing scrap;
- Export incentives received from Government; and
- Product related subsidies or grants received from Government.

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

4.11 Scrap: Discarded material having no or insignificant value and which is usually either disposed off without further treatment (other than reclamation and handling) or reintroduced into the process in place of raw material.

4.12 Spoilage: Production that does not meet the quality requirements or specifications and cannot be rectified economically.

4.13 Waste: Material lost during production or storage and discarded material which may or may not have any value.

Example of waste is hard waste and soft waste in textile industry.

5. *Principles of Measurement*

5.1 Revenue from sale of goods or services provided during a reporting period shall be measured based on the net sales realization.

5.2 Revenue from sale of joint products shall be measured separately for each main product or service sold.

5.3 Revenue from sale of goods or services shall be measured separately for each unit or location of an entity for each type of goods sold or service provided. It shall be sub-classified into revenue from exports, domestic sales, manufactured goods, operations, and trading activities.

5.4 **Revenue from sale of goods or services shall be measured separately for sale of each type of by-products, defectives, second grade products, rejects, scrap, spoilage, or wastes.**

5.5 **If a by-product is further processed before sale, sales realisation of such by-product shall be net of further processing cost. Its net sales realisation shall be adjusted against the joint cost of production of relevant main products.**

5.6 **Net Sales realization of defectives, second-grade products, rejects, scrap, spoilage, and waste products shall be adjusted against the cost of production of related goods sold.**

5.7 **Revenue from sale of inputs, utilities, intermediate products, and shared or support services shall be adjusted against the cost of purchase or cost of production of the related input, utility, intermediate product and shared or support service.**

5.8 **Other income shall not be considered in determining profit or loss as per cost accounts.**

5.9 **Revenue generated from utilization of assets created under the CSR program shall not be considered in determining profit or loss as per cost accounts.**

5.10 **Product or service related subsidies, grants,or incentives, received or receivable on sale of goods or rendering of services shall be part of revenue from operations and shall be identified with each product sold or service rendered.**

5.11 **Any subsidy, grant, incentive or any such payment received or receivable to support the current operations of the entity other than those in the nature of capital grant and other than items referred in paragraph 5.10 above shall be treated as reduction in the related cost.**

Reference:

- para 5.6 of CAS-3, Cost Accounting Standard on Production and Operation Overheads;
- para 5.1.9 of CAS-6, Cost Accounting Standard on Material Cost;
- para 5.8 of CAS-7, Cost Accounting Standard on Employee Cost;
- para 5.8 of CAS-8, Cost Accounting Standard on Cost of Utilities;
- para 5.1.8 of CAS-9, Cost Accounting Standard on Packing Material Cost;
- para 5.7 of CAS-10, Cost Accounting Standard on Direct Expenses;
- para 5.5 of CAS-11, Cost Accounting Standard on Administrative Overheads;
- para 5.13 of CAS-12, Cost Accounting Standard on Repair and Maintenance Cost;

- para 5.6 of CAS-13, Cost Accounting Standard on Cost of Service Cost Centre;
- para 5.13 of CAS-14, Cost Accounting Standard on Pollution Control Cost;
- para 5.5 of CAS-15, Cost Accounting Standard on Selling and Distribution Overheads;
- para 5.4 of CAS-17, Cost Accounting Standard on Interest and Financing Charges;
- para 5.2 of CAS-18, Cost Accounting Standard on Research and Development Costs;
- para 5.6 of CAS-19, Cost Accounting Standard on Joint Costs;
- para 5.3 of CAS-20, Cost Accounting Standard on Royalty and Technical Know-how Fee;
- para 5.6 of CAS-21, Cost Accounting Standard on Quality Control; and
- para 5.19 of CAS-22, Cost Accounting Standard on Manufacturing Cost.

5.12 **Any change in the cost accounting principles applied for the determination of revenue shall be made only if it is required by law or regulations or for compliance with the requirements of a cost accounting standard or the change would result in more appropriate preparation or presentation of cost statements of an entity.**

6. Assignment of Revenue

Revenue for each type of product or service shall be assigned directly to that product or service to the extent it is economically feasible.

Economic feasibility implies that it is practically feasible to assign the revenue to a particular product or service with reasonable cost and efforts. Reasonable cost and efforts are matters of judgement.

7. Presentation

7.1 **Net sales realization for each product or service shall be indicated separately for exports, domestic sales, manufactured goods, operations,and trading activities and matched against the cost of sales (net of duties) and margin of respective product or service.**

7.2 **The quantity of goods sold or services provided, where applicable, and selling price per unit shall be presented under each product or service.**

8. Disclosures

8.1 **The cost statements shall disclose the following:**

1. **Revenue from sale of goods or services made to each related party with basis of determining the selling price;**

2. **Revenue from by-products and costs of further processing after split-off point, reduced from cost of relevant product;**

3. **Amount and nature of any subsidy, grant or incentive received or receivable and included in the revenue.**

8.2 **Any change in the cost accounting principles and methods applied for the measurement and assignment of revenue during the period covered by the cost statement which has a material effect on the revenue 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 statements or as a foot note or as a separate schedule.**

9. Effective date:

This Cost Accounting Standard shall be effective from the period commencing on or after 1st April, 2017 for being applied for the preparation and certification of Cost Accounting Statement for goods sold and services provided.