



Date: 13th April 2020

**Advisory on the Treatment of Various Items of Cost in light of the COVID19 Pandemic
& Presentation / Disclosures of such items of costs in form CRA 3 of The Companies
(Cost Records & Audit) Rules 2014**

The Novel Coronavirus COVID19 is a Global Pandemic and has disrupted the social & business activities worldwide. The Indian Government along with full support & cooperation from State Governments has adopted a policy of Lockdown to battle this Pandemic. I am confident that we will win this war against humanity.

In times like these, we as professionals have a much higher responsibility. We have to ensure that the businesses return to smooth functioning once the situation starts normalising and hence we are providing the necessary guidance to the stakeholders. It is our responsibility to address the issues in the treatment of various items of cost so that the reporting to the stakeholders is True & Fair. With this objective, the Cost Accounting Standards Board of The Institute of Cost Accountant of India is issuing this advisory on “Treatment of Various Items of Cost in light of the COVID19 Pandemic”.

The Companies (Cost Records & Audit) Rules 2014, as amended from time to time form the basis for compilation of the Cost Records & Annexure to the Cost Audit Report for the companies covered under these rules. It is necessary for the stakeholders to understand the impact of the COVID19 Pandemic in monetary terms as well as it is necessary for the Cost Auditors to assess the accuracy of the COVID19 Pandemic Impact calculated by the organisations and to comment upon the same. The advisory will cover this aspect as well.

Thus this Advisory is issued in two parts namely –

- A. Treatment of Various Items of Cost in light of the COVID19 Pandemic
- B. Presentation / Disclosure of the various items of Quantity Information & Costs in Form CRA 3 – Cost Audit Report & Annexure to Cost Audit Report

The objective of this advisory is to guide the stakeholders on treatment of various elements of costs in compilation of any Cost Statement and compilation of Cost Records & Annexures to Cost Audit Report for the year 2019-20. Hence this Advisory is applicable for the Accounting Period ended 31st March 2020

In case of any specific technical query regarding treatment of Cost in light of COVID19 Pandemic, the same can be referred to the Technical Cell of the Institute along with the details of the Industry and giving actual practical issue faced.

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Part A

Treatment of Various Items of Cost in light of the COVID19 Pandemic



1.00 Abnormal Costs

1.10 Definition

The concept of Abnormal Cost is deep rooted in the Costing Principles and also in the Cost Accounting Standards issued by the Institute. The Abnormal Cost is defined in the Cost Accounting Standards as –

‘An unusual or atypical cost whose occurrence is usually irregular and unexpected and / or due to some abnormal situation of the production or operation’

Thus the concept of Abnormal Cost is well defined and well established through the Cost Accounting Standards. The current situation of COVID19 Pandemic and its impact on the production and operations of the businesses is both Irregular and Unexpected and the situation is certainly Abnormal. Thus the impact of COVID19 Pandemic fits the premise of Abnormal Cost as defined in the Cost Accounting Standards. Hence the Costs pertaining to or arising out of the COVID19 Pandemic shall be treated as Abnormal Costs.

1.20 Treatment

Various Cost Accounting Standards have clearly specified the treatment of the Abnormal Cost. Treatment of Abnormal Cost specified under various Cost Accounting Standards is given below –

CAS4 – Cost Accounting Standard On Cost Of Production / Acquisition / Supply Of Goods / Provision Of Services :

5.19. Any abnormal cost, where it is material and quantifiable, shall not form part of the cost of production or acquisition or supply of goods or provision of service.

CAS5 – Determination Of Average (Equalized) Cost Of Transportation :

6.5 Abnormal and non recurring cost shall not be a part of transportation cost.

CAS6 – Material Cost :

5.2.3 Any abnormal cost shall be excluded from the material cost.

CAS7 – Employee Cost :

5.9. Any abnormal cost where it is material and quantifiable shall not form part of the Employee cost.

CAS8 – Cost of Utilities :

5.10 Any abnormal cost where it is material and quantifiable shall not form part of the cost of utilities.



CAS9 – Packing Material Cost :

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

CAS10 – Direct Expenses :

5.8 Any abnormal portion of the direct expenses where it is material and quantifiable shall not form part of the Direct Expenses.

CAS11 – Administrative Overheads :

5.6 Administrative overheads shall not include any abnormal administrative cost.

CAS12 – Repairs And Maintenance Cost :

5.14 Any repairs and maintenance cost resulting from some abnormal circumstances, if material and quantifiable, shall not form part of the repairs and maintenance cost.

CAS13 – Cost of Service Cost Centre :

5.8 Any abnormal cost where it is material and quantifiable shall not form part of the cost of the service cost centre.

CAS14 – Pollution Control Cost :

5.14 Any Pollution Control cost resulting from abnormal circumstances, if material and quantifiable, shall not form part of the Pollution Control cost.

CAS15 – Selling and Distribution Overheads :

5.6 Any abnormal cost relating to selling and distribution activity shall be excluded from the Selling and Distribution Overheads.

CAS16 – Depreciation and Amortisation :

6.3. Depreciation on an asset which if remains idle or temporarily retired from production of goods and services or remains idle shall be considered as abnormal cost for the period when the asset is not in use.

CAS18 – Research and Development Costs :

5.3 Any abnormal cost where it is material and quantifiable shall not form part of the Research, and Development Cost.

CAS21 – Quality Control :

5.7 Any abnormal portion of the Quality Control cost where it is material and quantifiable shall not form part of the Cost of Quality Control.

CAS22 – Manufacturing Cost :

5.16 Any abnormal cost, where it is material and quantifiable, shall not form part of the manufacturing cost of excisable good.



CAS23 – Overburden Removal Cost :

5.11. Any overburden removal cost resulting from some abnormal circumstances if material and quantifiable shall not form part of the overburden removal cost.

Thus Majority of the Cost Elements and treatment of Abnormal Cost in each of these Cost Elements is already covered by the Cost Accounting Standards. In case of the missing Cost Elements, reference needs to be drawn from the Generally Accepted Cost Accounting Principles (GACAP) issued by the CASB of ICAI. GACAP

Chapter 7 Principles applicable to Elements of Cost of GACAP states :

3. Any abnormal cost where it is material and quantifiable will not form part of the cost.

From the above it is clear that the Cost Accounting Standards treat the Abnormal Cost as a Non-Cost Item and thus the same should not form part of Cost while compiling Cost Statements. Thus the costs associated with COVID19 Pandemic or the costs associated with the operational period affected by the COVID19 Pandemic, which are Abnormal in nature, shall be treated as Non-Cost Item and shall be reported in the Reconciliation Statement between Costing & Financial Profit / (Loss).

1.30 Abnormal Cost Due to Sudden Shutdown of Operations

The COVID19 Pandemic and the resulting Shutdown were both un-anticipated and sudden events. Due to this situation the productions and operations had to be closed in emergency situation. This may result into losses or incurring of costs. These shall be treated as Abnormal and treated accordingly in costing. Some of the examples are listed below (the list is only illustrative)

- Loss of Raw Material, Work in Process and Finished Goods on account of Quality deterioration
- Expenses incurred during Closer Period on Plant Maintenance
- Loss of Process Material, Consumables, etc.
- Costs associated with Employees due to sudden lockdown

2.00 Normal Capacity & its application

2.10 CAS 2 – Capacity Determination defines the Normal Capacity

4.5 Normal capacity: Normal capacity is the production achieved or achievable on an average over a number of periods or seasons under normal circumstances taking into account the loss of capacity resulting from planned maintenance.

Thus by the definition as given in the CAS 2, Normal Capacity is to be determined based on the Normal Circumstances. Outbreak of COVID19 is not a “Normal



Circumstance”. Hence for calculation of the Normal Capacity, period lost due to COVID19 situation (including partial / full shutdown, scaling down of manpower deployment, etc.) needs to be adjusted / reduced. This will give the true representation of the Normal Capacity.

For considering the loss of production/operation days due to COVID 19 Pandemic, only loss of productive days available should alone be considered, i.e. number of days of normal shutdown due to technical reasons / maintenance or other normal circumstances should be excluded

This is specifically very important in the light of principle of absorption of Fixed & Variable Costs. The said principle is given in various Cost Accounting Standards as well as in GACAP.

CAS 3 – Production & Operation Overheads :

6.3.1 The variable Production or Operation Overheads shall be absorbed to products or services based on actual production.

6.3.2 The fixed Production or Operation Overheads shall be absorbed based on the normal capacity.

CAS4 – Cost Accounting Standard On Cost Of Production / Acquisition / Supply Of Goods / Provision Of Services :

6.4. The variable production or operation overheads shall be absorbed based on actual production.

6.5. The fixed production or operation overheads and other similar item of fixed costs such as quality control cost, research and development costs and administrative overheads relating to manufacturing shall be absorbed in the cost of production or acquisition or supply of goods or provision of services on the basis of the normal capacity or actual capacity utilization of the plant or service centre, whichever is higher.

CAS22 – Manufacturing Cost :

6.3 The variable manufacturing/production overheads shall be absorbed based on actual production.

6.4 The fixed manufacturing/production overheads and other similar item of fixed costs such as quality control cost, research and development costs and 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.



GACAP prescribes principle applicable to Elements of Cost :

The fixed overheads are absorbed by products based on normal capacity or actual capacity utilization whichever is higher. Variable overheads are absorbed by products based on actual capacity utilization.

Form CRA 1 of The Companies (Cost Records & Audit) Rules, 2014 also prescribes similar treatment of Fixed & Variable Costs.

Thus determination of the Normal Capacity is critical for the absorption of the Fixed Costs. As already mentioned in point 1.00 above, the Costs Associated with COVID19 Pandemic or the costs associated with the period of operations affected due to COVID 19 Pandemic are to be treated as Abnormal Cost. Since we are eliminating the Cost from the Cost Statements it is appropriate to also eliminate the capacity portion related to COVID 19 Pandemic.

Hence for calculation of the Normal Capacity, capacity lost due to COVID19 situation (including partial / full shutdown, scaling down of manpower deployment, etc.) needs to be adjusted / reduced.

3.00 Variable Abnormal Cost

The Concept of Variable Cost is well established and well defined through the Cost Accounting Standards & GACAP.

CAS 1 – Classification of Costs :

4.33 Variable Costs: Variable costs are the cost which tends to directly vary with the volume of activity.

CAS4 – Cost Accounting Standard On Cost Of Production / Acquisition / Supply Of Goods / Provision Of Services :

Variable Production or Operation Overheads comprise of expenses which vary in proportion to the change of volume of production or activity or services provided.

CAS22 – Manufacturing Cost :

Variable Manufacturing Overheads comprise of expenses which vary in proportion to the change in volume of production.

GACAP prescribes principle applicable to Elements of Cost :

Variable Costs are the cost which tend to directly vary with the volume of activity.

Thus the Variable Costs will move in direct proportion to the volume of production / activity. However COVID19 Pandemic is an abnormal situation. There will be certain costs which by their behaviour under normal circumstances are “Variable” in nature, but under Abnormal situation of COVID19 Pandemic, they are to be incurred



irrespective of volume of production / activity. Such portion of the Variable Cost needs to be identified and should be treated as Abnormal Cost. Thus identification of Variable Abnormal Cost is necessary.

Some Examples of Variable Abnormal Costs are – Direct Employee Cost for the period of COVID19 Lockdown / Partial Operations, Excess Consumption of Utilities, Consumables, Stores, etc. due to Closing Down & Starting Operations due to COVID19 Lockdown, etc.

Example :

Cost Information

Particulars	For the Year	Abnormal (COVID19)	To be Absorbed in Costing
Variable Cost	12,00,000	1,00,000	11,00,000
Fixed Cost	18,00,000	1,50,000	16,50,000
Total Cost	30,00,000	2,50,000	27,50,000

Capacity Information

Normal Days of operation in the Year	352
Standard Production Per Day	100
Normal Capacity (Normal Year)	35,200
Days Lost Due to COVID19	30
Loss of Capacity (COVID19)	3,000
Normal Capacity (for COVID19 affected Year)	32,200
Actual Capacity	25,000

For Cost Records Compilation

Particulars	Cost information
Variable Cost is to be absorbed on Actual Production	11,00,000
Fixed Cost to be absorbed on Standard Production	12,81,056
Un-absorbed Fixed Cost	3,68,944

Presentation in Reconciliation Statement

Particulars	Amount
Expenses Not Considered in Cost Accounts	
Un-absorbed Cost (Capacity Under Utilization)	3,68,944
COVID 19 – Unabsorbed Abnormal Cost	2,50,000



4.00 Interest Cost

The Interest Cost needs a special mention as many of the financial institutions have announced relief measures for the businesses due to the situation of COVID19. One of major reliefs is the Moratorium in the payment of instalments for a period of 3 months. Thus there is a relief as to Cash Flow for the businesses. But in accounting treatment, the interest will accrue in the books of accounts and will appear as the Interest & Finance Cost. **The amount of Interest / Finance Charge pertaining to the period of COVID19 operational stoppage needs to be ascertained and shall be treated as Abnormal Cost.**

Additionally, it is likely that the businesses will have to incur additional interest cost for the moratorium availed. This excess Interest/Finance Cost whenever incurred shall be treated as Abnormal Cost resulting out of the COVID19 Pandemic.



Part B

Presentation / Disclosure of the various items of Quantity Information & Costs in Form CRA 3 – Cost Auditors Report & Annexure to Cost Audit Report



**1.00 CRA 3 – Part B – 1. Quantity Information (For Manufacturing Sector)
CRA 3 – Part C – 1. Quantity Information (For Service Sector)**

Quantity of Production / Capacity Lost due to COVID19 Pandemic shall be given as part of Notes under this para.

2.00 CRA 3 – Part D – 2. Profit Reconciliation (for the company as a whole)

2.10 CSR Costs

The Government of India vide Circular No. 05/01/2019-CSR Dated 23.03.2020 has clarified that spending of CSR Funds for COVID19 is eligible CSR Activity.

The cost incurred on CSR Activity is treated as Non-Cost Item in the Cost Records and is reported under this para. It is advised that the CSR Cost should be classified into CSR for COVID19 & other CSR Activities. The same shall be disclosed as separate line items in the Profit Reconciliation Statement.

2.20 Other Abnormal Costs due to COVID 19

As mentioned in part A of this Advisory, costs pertaining to the COVID19 Pandemic are to be treated as Abnormal Costs. Thus they will form part of the Profit Reconciliation Statement. It is advised that the Un-absorbed Abnormal Cost due to the COVID19 Pandemic shall be reported as a separate line item giving description as “COVID 19 – Unabsorbed Costs”. Using this common description by all can facilitate the authorities to consolidate the information if required.

3.00 CRA 3 – Cost Audit Report – 2. Observations and suggestions, if any, of the Cost Auditor, relevant to the cost audit.

The Cost Auditors during the process of Cost Audit will be assessing and auditing the impact of COVID19 Pandemic on the operations of the company. This will also include impact in terms of capacity as well as costs. It is suggested that the Auditors may include as part of observations & suggestions a separate Cost Statement giving detailed, cost element wise breakup of the “COVID 19 – Unabsorbed Costs”. This will be very helpful to the Management of the Company as well as all the stakeholders of the Cost Audit Report. It is further suggested that this Cost Statement may also contain quantity information pertaining to the COVID19 Pandemic impact (like capacity utilization, idle capacity due to COVID19, impact on Production, etc). It is suggested that such note may also briefly explain the assumptions / working used by the company to identify the costs associated with COVID19 Pandemic and comment upon its appropriateness.