

# **CAS - 4 (REVISED 2018)**

**COST ACCOUNTING STANDARD ON  
COST OF PRODUCTION /  
ACQUISITION / SUPPLY OF GOODS  
/ PROVISION OF SERVICES**

# Implementation of GST w.e.f. July 1, 2017

- The concept of 'captive consumption' is no more relevant for computing the tax incidence. **However, the concept of cost of production or manufacture is relevant under the GST laws where the value of supply of goods or services or both are determined based on cost.**

## **Captive Consumption under Central Excise Act, 1944**

The scheme of valuation of excisable goods is contained in Sections 3A, 4 and 4A of the Central Excise Act, 1944. The goods manufactured have to be valued in a prescribed manner as per above sections to determine the excise duty payable by the assessee. Section 4(1) (a) of Central Excise Act, 1944 deals with the Valuation of excisable goods when following requirements are satisfied:

- Goods are sold at the time and place of removal from factory/warehouse;
- The assessee and the buyer of the goods are not related; and
- The price is the sole consideration of sale.

If any one of the above requirements is not satisfied, assessable value shall be determined under the Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000 notified on 30.6.2000, as provided under Section 4(1) (b) of the Act. Rules 8 and 9 deal with the valuation of goods captively consumed.

# Significance of CAS-4 (Revised 2018)

- The revised CAS-4 deals with the principles and methods of classification, measurement and assignment for the determination of cost of production or acquisition or supply of goods or provision of services as required under the provisions of GST Acts/Rules. Objective of the Standard is to bring uniformity and consistency in the principles and methods of determining the cost of production or acquisition or supply of goods or provision of services as required under the provisions of GST Acts/Rules.
- The cost statements prepared based on this Standard will be used for determination of value of supply of goods or services or both. This Standard and its disclosure requirement will provide transparency in the valuation of goods and services. This standard shall further ensure adequate accuracy in computing Transaction Value of supply for goods or services or both, where the open market value of supply of goods and services or value of supply of goods or services of like kind and quality are not available or same is not verifiable. **The focus is on assisting the authorities minimising the revenue leakage.**

- **“COST OF PRODUCTION / ACQUISITION / SUPPLY OF GOODS / PROVISION OF SERVICES”** issued by the Council of the Institute of Cost Accountants of India (ICAI) during 2018, replaces CAS-4 on *Cost of Production for Captive Consumption* issued earlier.
- The CAS-4 (Revised 2018) deals with the **determination of cost of production or acquisition or supply of goods or provision of services or both.**

- ***This Standard deals with the principles and methods of classification, measurement and assignment for the determination of cost of production or acquisition or supply of goods or provision of services as required under the provisions of GST Acts/Rules.***
- To ensure adequate accuracy in computing Transaction Value of supply for goods or services or both, where
  - the open market value of supply of goods and services
  - or value of supply of goods or services of like kind and quality are not available or same is not verifiable.

- *This standard should be applied to cost statements which require classification, measurement, assignment, presentation, and disclosure of related costs for determination of the following under the relevant provisions of GST Acts/Rules.*
  - *Determination of cost of production of goods;*
  - *Determination of cost of acquisition of goods;*
  - *Determination of cost of supply of goods;*
  - *Determination of cost of provision/supply of services;*  
*and*
  - *Determination of value of supply of goods or services as per open market value or as per goods or services of like kind and quality.*

## 5. Principles of Measurement

*Cost of production or acquisition of goods or provision of services shall be measured for each type of goods or services separately.*

*Cost of production or acquisition or supply of each type of goods shall be the aggregate of direct and indirect costs relating to the production or acquisition or supply activity of those goods.*

*Cost of provision of each type of service shall be the aggregate of direct and indirect cost relating to that service activity.*

*Material cost shall be measured separately for each type of material, that is, for indigenous material, imported material, bought out components, process materials, self-manufactured items, and accessories for each type of goods or services.*

- *The material cost of normal scrap/defectives which are rejects shall be included in the material cost of goods produced or services provided.*
- *The material cost of actual scrap/ defectives, not exceeding the normal quantity shall be adjusted in the material cost of good production.*
- *Realized or realizable value of scrap or waste shall be deducted for determination of cost of production or acquisition of goods or provision of services.*
- *Material Cost of abnormal scrap /defectives should not be included in material cost but treated as loss after deducting the realisable value of such scrap / defectives.*
- **Employee Cost for each type of goods or services shall be measured separately.**
- **The cost of utilities consumed for the production or acquisition or supply of each type of goods or provision of services shall be measured for each type of utility separately i.e. power, electricity, water, steam & gas.**



**Cost of packing material used for the production or acquisition or supply of goods or provision of services shall be measured for each type of goods or services separately.**

- If goods are transferred / dispatched or supplied duly packed, the cost of such packing shall be included in the cost of goods transferred/dischatched or supplied.
- ***Direct Expenses for the production or acquisition or supply of goods or provision of services shall be measured for each type of goods or services separately.***

***High value spare shall be recognised as property, plant and equipment when they meet the definition of property, plant and equipment and depreciated accordingly. Otherwise, such items are classified as inventory and recognised in cost as and when they are consumed.***

***Repairs and maintenance cost for the production or acquisition or supply of goods or provision of services shall be measured for each type of goods or services separately.***

**Depreciation and Amortisation cost for the production or acquisition or supply of goods or provision of services shall be measured for each type of goods or services separately.**

- Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

**Cost incurred for the production or acquisition or supply of goods or provision of services after split-off point shall be measured for each type of Joint/By-Product or service for the resources consumed.**

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

Royalty and Technical Know-how Fee for production or acquisition or supply of goods or provision of services 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 Technical Know-how.

Royalty paid as a consideration for use of asset or on technology transfer, in any form, will form part of cost, however royalty paid on brand usage shall not form part of cost of production.

Quality Control cost incurred in-house for the production or acquisition or supply of goods or provision of services shall be the aggregate of the cost of resources used in the Quality Control activities in relation to each type of goods or service. 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, taxes and duties refundable or to be credited as input tax credit.

Production or Operation Overheads 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; taxes and duties refundable or to be credited as input tax credit. Production or Operation Overheads other than those referred to above shall be determined on the basis of cost incurred in connection therewith.

- **Industry Specific Operating Expenses:** In case of process peculiarity of a particular industry, it may not be easily practicable to determine element-wise conversion cost of a product. In such situation, the company may calculate cost center/cost object-wise conversion cost. It may be summarized under 'industry specific operating expenses', instead of element-wise conversion cost e.g. Textile industry-spinning, weaving, processing.

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.

Interest and other Finance costs shall not form part of cost of production or acquisition of goods or provision of services.

Impairment loss on assets shall not form part of cost of production or acquisition or supply of goods or provision of services.

Imputed costs shall not form part of cost of production or acquisition or supply of goods or provision of services.

Cost of production or acquisition or supply of goods or provision of services shall include cost of inputs received free of cost or at concessional value, net of input tax credit, from the recipient of goods or services and amortisation cost of free tools, pattern, dies, drawings, blue prints, technical maps, charts, engineering, development, art work, design work, plans, sketches, and the like necessary for the production or acquisition or supply of goods or provision of services.

Cost of production or acquisition or supply of goods or provision of services shall also include cost of rework, reconditioning, retro-fitment, production or operation overheads and other costs allocable to such activity, adjustment for stock of work-in-process and recoveries from sales of scrap and wastages and the like necessary for the production or acquisition or supply of goods or provision of services.

Subsidy or Grant or Incentive or any such payment received or receivable, from any entity other than the recipient of goods or service, with respect to any element of cost shall be deducted for ascertainment of the cost of production or acquisition or supply of goods or provision of services to which such amounts are related.

Any Grants recognized as deferred income in the financial statements shall also be reduced from the relevant element of cost of production or acquisition or supply of goods or provision of services.



The cost of production or acquisition or supply of goods or provision of services 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.

Fines, penalties, damages, demurrage and similar levies paid to statutory authorities or other third parties shall not form part of the cost of production or acquisition or supply of goods or provision of services.

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 the cost of production or acquisition or supply of goods or provision of services.

Credits or recoveries relating to any element of cost including the facilities provided to outside parties, which are material and quantifiable, shall be deducted from the total cost of production or acquisition or supply of goods or provision of services.

Work in process/progress stock shall be measured at cost computed for different stages of completion.

- Stock of work-in-process/progress shall be valued at cost on the basis of stages of completion as per cost accounting principles. Opening and closing stock of work-in-process/progress shall be adjusted for computation of cost of production or acquisition of goods or provision of services.

Cost of production or acquisition or supply of goods or provision of services shall be determined on 'normal cost' basis. For this purpose, any abnormal and non-recurring costs, abnormally low plant utilization, abnormal rejections, accidents, strikes, fires, unexpected Court orders etc. shall be ignored.

While assigning various elements of cost, traceability to goods or services in an economically feasible manner shall be the guiding principle. The cost which can be traced directly to each type of goods or services shall be directly assigned.

Assignment of cost of producing or acquisition or supply of goods or providing services, which are not directly traceable to the goods or services shall be based on either of the following two principles;

- Cause and Effect – Cause is the process or operation or activity and effect is the incurrence of cost.
- Benefits received – to be apportioned to various cost objects in proportion to the benefits received by them.

# Presentation

Cost Statements should be prepared as per the applicable format given in the Appendix to this Standard or as near thereto as possible, as listed below:

- *Appendix-1: Statement of Cost of Production of the taxable goods*
- *Appendix-2: Statement of Cost of Provision/Supply of the taxable Services*
- *Appendix-3: Statement of Cost of Acquisition of taxable goods*
- *Appendix-4: Statement of Open Market Value / Value as per Goods or Services of like kind and quality*

Companies covered under the Companies (Cost Records and Audit) Rules, 2014 issued under section 148 of the Companies Act 2013 shall prepare and present the cost records and cost statements in compliance with the said Rules, applicable Cost Accounting Standards, and Generally Accepted Cost Accounting Principles issued by the Institute.

Companies not covered under these Rules and all other entities shall prepare and present the cost records and cost statements in compliance with the applicable Cost Accounting Standards and Generally Accepted Cost Accounting Principles issued by the Institute.

Cost Statements as certified by the Cost Accountant in practice should enable the business entity to determine value of taxable goods or services at the time of supply and issue of tax invoice as required under section 31 of the CGST Act.

In cases where it may not be possible to determine true and fair cost of goods or services at the time of supply of such goods or services or both, the company should compute the cost on budgeted/estimated/standard cost basis and the Cost Accountant may issue provisional Cost certificate on such basis. In such cases, final certificate shall be issued after costs are finalized. In case of any variations in the costs and hence the value of goods or services, the supplier shall issue a Debit or Credit Note as per provisions of section 34 of the CGST Act.

- Examples of such cases are – Input costs or prices based on the LME prices; existence of cost escalation clauses in the supply contract; or where future costs of inputs and input services are unpredictable, uncertain and volatile, etc.

Certified Cost Statements shall be presented with the following periodicity:

- In case of registered person, whose aggregate turnover in the preceding financial year did not exceed the limits prescribed in Section 10 (1) of the CGST Act 2017, the Certified Cost Statement shall be issued for a six month period. For example costs for April to September shall be certified in March of the same year.
- In case of registered person, whose aggregate turnover in the preceding financial year exceeds the limits prescribed in Section 10 (1) of the CGST Act 2017, Certified Cost Statement shall be issued on quarterly basis e.g. costs for July to September shall be certified in June of the same year.
- Certified Cost Statement shall also be issued for the completed financial year, annually based on audited accounts on or before 31<sup>st</sup> December of the next financial year.

# Disclosures

Disclosure shall be made only where material, significant, and quantifiable.

If there is any change in cost accounting principles and practices during the period under review which may materially affect the cost of production or acquisition of goods or provision services in terms of comparability with previous period(s), the same shall be disclosed.

If opening stock and closing stock of work-in-progress are not readily available for certification purpose, the same should be disclosed.

- Any fact which may have material impact on the costs as certified should be disclosed.

# Thank You. Best Wishes

*“To succeed, you must have tremendous perseverance, tremendous will.*

*‘I will drink the ocean’, says the persevering soul;*

*‘at my will mountains will crumble up’.*

*Have that sort of energy, that sort of will; work hard, and you will reach the goal.”*

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