



(CAS 9)

COST ACCOUNTING STANDARD ON PACKING MATERIAL COST

The following is the COST ACCOUNTING STANDARD - (CAS - 9) issued by the Council of The Institute of Cost and Works Accountants of India on "PACKING MATERIAL COST", for comments. In this Standard, the standard portions have been set in **bold italic** type. This standard should be read in the context of the background material which has been set in normal type.

1. Introduction

1.1 This standard deals with the principles and methods of determining the Packing Material Cost.

1.2 This standard deals with the principles and methods of classification, measurement and assignment of Packing Material Cost, for determination of the cost of product, and the presentation and disclosure in cost statements.

1.3 Packing Materials for the purpose of this standard are classified into primary and secondary packing materials.

2. Objective

The objective of this standard is to bring uniformity and consistency in the principles and methods of determining the packing material cost with reasonable accuracy.

3. Scope

This standard should be applied to cost statements, which require classification, measurement, assignment, presentation and disclosure of Packing Material Cost including those requiring attestation.

4. Definitions

The following terms are being used in this standard with the meaning specified.

4.1 Abnormal cost: An unusual or atypical cost whose occurrence is usually irregular and unexpected and/ or due to some abnormal situation of the production or operation.¹

¹ Adapted from CAS 1 Para 6.5.19



For example: the cost of packing material which is rejected after issue due to abnormal causes such as misprinting, use of material of wrong specification etc. (net of realisable value) may be treated as abnormal cost.

4.2 Administrative Overheads: *Cost of all activities relating to general management and administration of an organisation.* Administrative overheads shall exclude any overhead relating to production, operations and marketing.

4.3 Cost Object: *This includes a product, service, cost centre, activity, sub-activity, project, contract, customer or distribution channel or any other unit in relation to which costs are ascertained.*²

4.4 Direct Employee Cost: *The cost of employees which can be attributed to a Cost Object in an economically feasible way.*³

4.5 Direct Expenses: *Expenses relating to manufacture of a product or rendering a service, which can be identified or linked with the cost object other than direct material or direct employee cost.*⁴ Examples of Direct Expenses are royalties charged on production, job charges, hire charges for use of specific equipment for a specific job, cost of special designs or drawings for a job, software services specifically required for a job, travelling Expenses for a specific job.

4.6 Direct Materials: *Materials the costs of which can be attributed to a cost object.*⁵

4.7 Distribution Overheads: *Distribution overheads, also known as Distribution Cost, are the costs incurred in handling a product from the time it is ready for despatch until it reaches the ultimate consumer.*⁶

For example:

- Secondary packing
- Transportation cost
- Warehousing cost
- Cost of delivering the products to customers etc.

² Adapted from CIMA Terminology

³ Adapted from CAS 7 Para 4.6

⁴ Adapted from CAS 1 Para 6.2.6 and also proposed in the CAS on Direct Expenses

⁵ Adapted from CAS 6 Para 4.6.1

⁶ Adapted from CAS 1 Para 6.3.9



- Clearing and forwarding charges
- Cost of mending or replacing packing materials at distribution point.

4.8 Finance Costs: *Costs incurred by an enterprise in connection with the borrowing of funds.* This will include interest and commitment charges on bank borrowings, other short term and long term borrowings, amortisation of discounts or premium related to borrowings, amortisation of ancillary cost incurred in connection with the arrangements of borrowings, finance charges in respect of finance leases, other similar arrangements and exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest costs⁷. The terms Finance costs and Borrowing costs are used interchangeably.

4.9 Imputed Costs: *Hypothetical or notional costs, not involving cash outlay, computed for any purpose.*⁸

For example: packing material supplied by the customer.

4.10 Marketing overheads: *Marketing Overheads comprises selling overheads and distribution overheads.*

4.11 Packing Materials: Materials used to hold, identify, describe, store, protect, display, transport, promote and make the product marketable and communicate with the consumer.

4.11.1 Defectives: *Packing materials that do not meet quality standards. This may include reworks or rejects.*⁹

4.11.1.1 Reworks: *Defectives which can be brought up to the standards by putting in additional resources.*¹⁰

Rework includes repairs, reconditioning and refurbishing.

4.11.1.2 Rejects: *Defectives which can not meet the quality standards even after putting in additional resources.*¹¹

⁷ Adapted from CIMA Terminology

⁸ Adapted from CAS 1 Para 6.5.13

⁹ Adapted from CAS 6 Para 4.4

¹⁰ Adapted from CAS 6 Para 4.4.1

¹¹ Adapted from CAS 6 Para 4.4.2



Rejects may be disposed off as waste or sold for salvage value or recycled in the production process.

4.11.2 Packing Material Cost: The cost of material of any nature used for the purpose of packing of a product.

4.11.3 Primary Packing Material: Packing material which is essential to hold the product and bring it to a condition in which it can be used by or sold to a customer.

For example:

- Pharmaceutical industry: Insertions related to product, Foils for strips of tablets/capsules, vials.
- Industrial gases: Cylinders / bottles used for filling the gaseous products
- Confectionary Industry: Butter paper and wrappers.

4.11.4 Reusable Packing Material: *Packing materials that are used more than once to pack the product.*

4.11.5 Scrap: *Discarded packing material having some value in a few cases and which is usually either disposed of without further treatment or reintroduced into the production of packing material.*¹²

4.11.6 Secondary Packing Material: *Packing material that enables to store, transport, inform the customer, promote and otherwise make the product marketable.*

For example:

- Pharmaceutical industry: Cartons used for holding strips of tablets and card board boxes used for holding cartons.
- Textile industry: Card board boxes used for holding cones on which yarn is woven.
- Confectionary Industry: Jars for holding wrapped chocolates, Cartons containing packs of biscuits.

4.12 Packing Material Development Cost: *Cost of evaluation of packing material such as pilot test, field test, consumer research, feed back, and final evaluation cost.*

¹² Adapted from Para 4.9 of CAS 6



4.13 Production overheads: *Indirect costs involved in the production process or in rendering service*¹³.

The terms Production Overheads, Factory Overheads, Works Overheads and Manufacturing Overheads denote the same meaning and are used interchangeably. Production overheads shall include administration cost relating to production, factory, works or manufacturing.

4.14 Selling Overheads: *Selling Overheads, also known as Selling Costs, are the expenses related to sale of products and include all Indirect Expenses in sales management for the organization.*¹⁴

4.15 Standard Cost: *A predetermined cost of resource inputs for the cost object computed with reference to set of technical specifications and efficient operating conditions.*¹⁵

Standard costs are used as scale of reference to compare the actual costs with the standard cost with a view to determine the variances, if any, and analyse the causes of variances and take proper measure to control them. Standard costs are also used for estimation.

5. Principles of Measurement

5.1 Principle of valuation of receipts of packing material:

5.1.1 *The packing material receipts should be valued at purchase price including duties and taxes, freight inwards, insurance, and other expenditure directly attributable to procurement (net of trade discounts, rebates, taxes and duties refundable or to be credited) that can be quantified at the time of acquisition.*

Examples of taxes and duties to be deducted from cost are CENVAT credits, credit for countervailing customs duty, sales tax set off/ vat credits and other similar items of credit recovered/ recoverable.

5.1.2 *Finance costs directly incurred in connection with the acquisition of Packing Material shall not form part of Packing Material Cost.*

¹³ Adapted from CAS-1 Para 6.3.3 and 6.3.4

¹⁴ Adapted from CAS 1 Para 6.3.7

¹⁵ Adapted from CAS 6 Para 4.15



5.1.3 Self manufactured packing materials shall be valued including direct material cost, direct employee cost, direct expenses, job charges, factory overheads including share of administrative overheads comprising factory management and administration and share of research and development cost incurred for development and improvement of existing process or product.

5.1.4 The valuation of captive consumption of packing materials shall be in accordance with paragraph 5 of Cost Accounting Standard 4.

5.1.5 Normal loss or spoilage of packing material prior to receipt in the factory shall be absorbed in the cost of balance materials net of amounts recoverable from suppliers, insurers, carriers or recoveries from disposal.

5.1.6 The forex component of imported packing material 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 packing material cost.

Explanation: The date on which a transaction (whether for goods or services) is recognised in accounting in conformity with generally accepted accounting principles.

5.1.7 Any demurrage, detention charges or penalty levied by the transport agency or any authority shall not form part of the cost of packing materials.

5.1.8 Any Subsidy/Grant/Incentive or any such payment received/receivable with respect to packing material shall be reduced for ascertainment of the cost to which such amounts are related.

5.2. Principle of valuation of issue of packing material

Issues shall be valued using appropriate assumptions on cost flow.

For example: First In First Out, Last In First Out, Weighted Average Rate.

The method of valuation shall be followed on a consistent basis.

5.3 Wherever, packing material costs include transportation costs, determination of costs of transportation shall be governed by CAS 5 – Cost Accounting Standard on determination of average (equalized) cost of transportation.



5.4 Packing Material Costs shall not include imputed costs. However in case of Cost of Production of Excisable Goods for Captive Consumption the computation of cost shall be as per CAS 4.

5.5 Where packing materials are accounted at standard cost, the price variances related to such materials shall be treated as part of packing material cost and the portion of usage variances due to normal reasons shall be treated as part of packing material cost. Usage variances due to abnormal reasons shall be treated as part of abnormal cost.

5.6 The normal loss arising from the issue or consumption of packing materials shall be included in the packing materials cost.

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

5.8 The credits/recoveries in the nature of normal scrap arising from packing materials if any, should be deducted from the total cost of packing materials to arrive at the net cost of packing materials.

6. Assignment of Cost

6.1 Assignment of packing material costs to cost objects: Packing material costs shall be directly traced to a cost object to the extent it is economically feasible.

6.2 Where the packing material costs are not directly traceable to the cost object, these may be assigned on the basis of quantity consumed or similar measures like technical estimates.

6.3 The packing material cost of reusable packing shall be assigned to the cost object taking into account the number of times or the period over which it is expected to be reused.

6.4 Cost of primary packing materials shall form part of the cost of production.

6.5 Cost of secondary packing materials shall form part of distribution overheads.



7. Presentation

7.1 Packing Materials shall be classified as primary and secondary and within this classification as purchased – indigenous, imported and self manufactured.

7.2 Where separate cost statements are prepared for packing costs, the cost of packing materials consumed shall be presented in terms of type of packing in which the materials are used (For example; Bale, Bag, Carton, Pallet). Such statements shall also include cost and quantitative information, wherever it is found material and quantifiable.

8. Disclosures

8.1 The cost statements shall disclose the following:

- 1. The basis of valuation of Packing Materials.**
- 2. Where Packing Materials Cost is disclosed at standard cost, the price and usage variances.**
- 3. The cost and price of Packing Materials received from/supplied to related parties¹⁶.**
- 4. Packing Materials cost incurred in foreign exchange.**
- 5. Any Subsidy/Grant/Incentive and any such payment reduced from Packing Materials Costs.**
- 6. Credits/recoveries relating to the Packing Materials Costs.**
- 7. Any abnormal cost excluded from Packing Materials Costs.**
- 8. Penalties and damages paid etc. excluded from Packing Materials Costs.**

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

¹⁶ Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement