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PAPER - 17

COST & MANAGEMENT AUDIT

SYLLABUS 2022

Module 4 : Overview of Cost Accounting Standards and GACAP

CAS - 25 : Cost Accounting Standards on Valuation of Inventory will be inserted after CAS 24 Cost Accounting Standard on Treatment of Revenue in Cost Statements (Revised 2017)

CAS - 25 (w.e.f. 12th February 2026)

Cost Accounting Standard on Valuation of Inventory

The following is the COST ACCOUNTING STANDARD (CAS - 25) on Valuation of Inventory issued by the Council of The Institute of Cost Accountants of India[1]. 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 Inventory is an integral part of working capital. Its proper valuation is important in consideration of its impact on profitability of the organization as well as for planning material procurement and other such operational activities. Moreover, proper valuation of various classes of inventory like 'Raw material', 'Work-in-process', 'Finished goods' etc. will lead to Operating Efficiency in terms of conversion period of each of the class.

1.2 Inventory broadly includes goods which will be used in future production processes (e.g. raw materials, parts, supplies, packing material, consumables, stores and spares, etc.), goods which are in the production process (e.g. work-in-process), and goods awaiting sale (e.g. finished goods).

1.3 This standard deals with the principles of valuation of various cost components of inventory to arrive at proper value of Inventory.

1.4 This standard focuses on valuation of inventory on historical cost basis, for cost and financial reporting purposes.

1.5 This standard deals with the principles and methods of classification, measurement and assignment for determination of inventory value whether produced or acquired.

2. Objective:

2.1 ***The valuation of inventory largely influences the cost and financial statements of an entity and the margins reflected therein. The valuation of inventory is dependent on reasonable accuracy of exclusion and inclusion of various elements of cost and the extent of inclusion thereof and the method of valuation applied for determination of inventory value. The primary objective***

of this standard is to determine the cost elements and extent thereof to be included in the valuation of inventories and the method of valuation to be applied for determination of inventory value which is recognised as a current asset and carried forward until the related revenues are recognised.

2.2 ***Inventory valuation is an important process for any business entity, as it affects the accuracy of cost / financial statements and the ability to make informed business decisions.***

2.3 ***The Objective of this standard is also to bring uniformity and consistency in the principle and method of determining the value of inventory with reasonable accuracy, as on a particular date for reporting in cost / financial statements of the organization.***

3. Scope:

3.1 ***This standard should be applied for the valuation of inventory.***

3.2 ***This standard shall not be applied for valuation of inventories of the following categories:***

a. ***Work-in-process arising under "Construction Contract" including directly related service contracts***
b. ***Real Property.***
c. ***Intangible Asset.***
d. ***Shares, debentures and other financial instruments held as stock-in-trade.***
e. ***Inventories of live-stock, agricultural produce and forest products.***

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 incurred due to some abnormal situation.***

4.2 ***Administrative Overheads: Cost of all activities relating to general management and administration of an entity.***

Administration cost relating to production, factory, works or manufacturing and providing of services form part of Production overheads.

4.3 ***Cost Object: An activity, contract, cost centre, customer, process, product, project, service, or any other object for which costs are ascertained.***

4.4 ***Intangible Asset: An identifiable non-monetary asset without physical substance.***

4.5 ***Inventories: Inventories are assets:***

a) held for sale in the ordinary course of business.
b) in the process of production for such sale.
c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventory refers to the goods and materials a business holds for the purpose of production or manufacture and for sale to its customer.

4.6 ***Inventory in Transit: Inventory in Transit is the goods owned by the entity which have left its point of origin but have not reached its intended destination. Inventory in Transit covers both inward and outward movement of goods.***

4.7 ***Materials :***

4.7.1 Direct Materials: Materials the costs of which can be attributed to a cost object in an economically feasible way.

4.7.2 Indirect Materials: Materials the costs of which cannot be directly attributed to a particular cost object.

4.8 ***Material Cost: The cost of Material used for the purpose of production of a product or rendering a service.***

4.9 ***Net Realizable Value: Net Realizable value is the estimated selling price in the ordinary course of business LESS the estimated costs of completion and the estimated costs necessary to make the sale.***

4.10 ***Non-Moving Inventory: Non-moving inventory refers to inventory that has not moved within a certain period of time.***

The period shall be more than 12 months in case of inventory class or group such as direct materials, work in process, finished goods and Goods or merchandise for resale.

The period shall be more than 24 months in case of indirect materials, process materials, additives, catalysts etc.

4.11 ***Normal Capacity: is the capacity achieved or achievable for goods or services on an average over a number of periods or seasons under normal circumstances.***

Normal capacity is determined based on the actual capacity achieved or expected to be achieved over a period of time, or average of achievable capacity over a period of time. Average of three to five normal years may be considered for this calculation.

The periods influenced by abnormalities should be excluded for this purpose.

4.12 ***Packing Material Cost: The Cost of Material of any nature used for the purpose of packing of a product.***

Packing material can be classified into primary packing material and secondary packing material. Primary packing material is essential to hold and preserve the product for its use by the customer and secondary packing material enables to store, transport, inform the customer, promote and otherwise make the product marketable.

4.13 ***Production Overhead: Indirect Costs involved in the production of a product or in rendering a service.***

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

4.14 ***Real Property: Real property refers to Land and any permanent structures attached to it.***

E.g.: Commercial or Residential Units, Buildings, Houses, any other physical structures, etc.

4.15 ***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 in place of raw material.***

4.16 ***Slow Moving Inventory: Slow moving inventory refers to inventory that has low turnover rates within a certain period of time.***

- Turnover rate relates to outward movement of inventory items over a period of time.
- Turnover rate = Actual quantity of outward movement during immediate preceding 12 months / Closing inventory Quantity as on reporting date.

4.17 ***Standard Cost: A predetermined cost of a product or service based on technical specification and efficient operating conditions.***

5. Principles of Measurement

5.1. "Ownership" of inventory by the entity is the basic criteria for valuation of inventory items.

a) Items of inventory owned by the entity, though lying outside the premises of entity shall be considered in the valuation of inventory.

b) Items under the physical possession of the entity but not owned by the entity shall not form part of the inventory valuation of the entity. Some of such cases are:

- Goods that are not for sale, even if they are technically in the company's possession. E.g. donated items, non-marketable goods.
- Goods in the process of being returned – Items that are being returned to suppliers or customers and are not part of active inventory. E.g. Items or goods received from customers for repairs – Items in physical possession but not owned by the company.
- Items on Loan or borrowed- Goods temporarily borrowed or rented but not owned by the business. E.g. Borrowed tools, leased equipments etc. – Items in physical possession but not owned by the company.
- Consignment stock - Stock held physically by the entity but ownership is not with the entity. E.g. retailer holding stock on behalf of wholesaler or manufacturer.

- In case of a contract manufacturer / Loan Licensee, goods lying with the entity that belong to the customer.

5.2. Inventory consists of Items of Stock that are categorised under groups / classes such as:

a) Direct Materials such as raw materials, self-manufactured materials, manufactured/bought-out components, assemblies and sub-assemblies, accessories, spare parts, etc.

b) Indirect Materials such as tools, stores and spares, machinery spares, jigs and fixtures, consumable stores, dies, patterns, moulds, etc.

c) Process materials, additives, catalysts.

d) Packing material.

e) Work-in-process/Semi finished goods/ intermediate products.

f) Finished Goods (Self Manufactured / Produced/ By Products/Joint Products).

g) Goods or merchandise for resale (Traded Goods)

h) Scrap Material.

5.3. Change in Accounting / Cost Accounting Policy – In case of change in the accounting / cost accounting policy that has material impact on the valuation of the inventory, the opening & closing inventory shall be recalculated and restated for the current and previous periods as per the disclosure requirements under specific statutes.

In case of reporting of Financial / Cost Statements, where comparative figures for Current Period & Previous Period are presented, the revised inventory figures for both current and previous period shall be presented.

Example : For reporting in Financial & Cost Statements, in case of change of accounting policy in the year 2025-26, the Closing Inventory for 2024-25 & 2023-24 needs to be recalculated. The Closing Inventory for 2022-23 does not require recalculation.

5.4. Cost of inventory shall be computed using the principles set out in this standard. However in certain cases the cost needs to be adjusted for inventory valuation.

Some of such cases are –

- Items that are incomplete which are not actively in the production line or process e.g. abandoned production, unassembled parts that are not in use.
- Expired goods- goods that are no longer saleable or useable and are considered waste or scrap. E.g. expired food products, medicines, outdated electronic items.
- Prototype – Prototypes that are created for testing, research or demonstration and not intended for sale. (not part of inventory)
- Goods held for legal reasons – Products held by the company under legal circumstances, not for normal business use or sale. E.g. seized products, goods under litigation.

5.5. General Principles for inclusions in cost of inventory:

5.5.1. Cost of inventories shall comprise of all costs of purchase of goods, cost of purchase of services and Conversion Cost incurred in bringing the inventories to their present location and conditions.

a) Conversion Cost includes, Direct Employee Cost, Direct Expenses, Cost of Utilities, Depreciation, Production Overheads, Cost of Primary Packing and other costs.

b) All these costs are aggregated to arrive at the cost of inventory belonging to any class or group of inventory.

c) It shall include all the direct and indirect costs and overheads allocated and apportioned, relevant to the procurement, manufacturing, producing and storing the inventories (in certain cases).

d) Production based levies / duties / taxes shall form part of cost of inventory.

5.5.2. The determination of Normal Capacity shall be governed by Cost Accounting Standard on Capacity Determination (CAS-2).

5.5.3. Costs directly related to the acquisition or production of inventories should be included in their valuation. The expenditure incurred for transfer of finished goods from one place to another place such as from factory to branch or godown is towards the cost of acquisition of such finished goods at the destination and hence shall be included in the valuation of inventory at branch or godown. The determination of Transport cost shall be governed by Cost Accounting Standard on Average (Equalized) Cost Of Transportation (CAS-5).

5.5.4. The cost of internally developed intangible assets that have contributed towards the completion effort need to be included in the valuation of inventory by way of depreciation or amortisation.

5.5.5. Costs shall be classified as Fixed, Variable & Semi Variable.

a) Fixed costs are costs which do not vary with the change in the volume of activity. Fixed indirect costs are termed fixed overheads.

b) Variable costs are the cost which tends to directly vary with the volume of activity.

c) Semi Variable Costs are the costs that contain both fixed and variable elements. They partly change with the change in the level of activity. Semi Variable Costs shall be bifurcated into Variable Cost & Fixed Cost and treated accordingly.

5.5.6. The fixed cost for the purpose of their inclusion in the cost of conversion shall be based on the normal capacity of the production facilities.

a) In case of under-utilization of the production facility on account of low production or idleness of the facility, as compared to Normal Capacity, the Fixed Costs relating to the underutilized capacity shall not be included in the cost of conversion. Unallocated Fixed Costs shall not form part of Cost of Inventory and shall be recognised as an expense in the period in which they are incurred.

The actual level of production shall be used when it approximates to normal capacity.

b) In case of over utilization of the production facility as compared to Normal Capacity, Total Fixed Costs shall be included in the cost of conversion.

5.5.7. The allocation of Variable Costs for the purpose of their inclusion in the cost of conversion shall be based on the actual production achieved.

5.6. For the purpose of deciding principle of Valuation, inventory shall be classified into Purchased / Procured and Self Manufactured / Produced.

Items manufactured through contract manufacturing, subcontracting, process outsourcing shall be considered as Self Manufactured / Produced.

5.7. Valuation of Purchased / Procured inventory items shall be carried out using following principles :

5.7.1. Inventory as on a particular date is the resultant of opening stocks plus receipts less issues of a given period expressed both in terms of quantity and value.

5.7.2. Valuation of Inventory of an entity shall be governed by Cost Accounting Standard on Material Cost (CAS-6) for Principles of Measurement using principle of valuation of issue of material on First-in-First-out or Last-in-First-out or Weighted Average Cost assumption on cost flow.

Principle of valuation of issue of material with assumption on cost flow at Last-in-First-out (LIFO) may be appropriate for purposes like cost estimation for pricing, determination of product profitability etc.,

The principle of valuation of inventory needs to be applied based on the applicable legal / statutory requirement.

5.7.3. All costs associated with bringing the inventory to its current location and condition shall form part of the cost of inventory.

Cost associated with bringing the inventory to its current location and condition includes freight inward, loading & unloading charges, material/goods handling cost, cost of container, parcel cost, cartage cost, custom clearing agent commission, non-refundable taxes, duties & levies, inward quality control costs, direct and indirect employee cost attribute to the procurement process and storing of goods (in certain cases), etc. Any trade discount, rebates, recoveries and other similar items shall be deducted from the cost.

5.8. Valuation of Self Manufactured / Produced inventory items shall be carried out using following principles :

5.8.1. Cost of Self Manufactured / Produced inventory items shall include Direct Material Cost, cost of bought-out services and Conversion Cost incurred in relation to the item of inventory.

a) Direct Material Cost includes Raw Materials, Components and Process Materials / Chemicals, etc.

b) Conversion Cost includes Direct Employee Cost, Direct Expenses, Cost of Utilities, Depreciation, Production Overheads, Cost of Primary Packing and other costs.

c) Production Overheads includes costs pertaining to Consumables and Stores, Repairs and Maintenance, Quality Control, Research & Development, Royalty & Technical Know-how, Pollution Control, Administration Cost related to production etc. incurred for the specific items of inventory.

d) Cost of Self Manufactured / Produced inventory items shall not include the share of other administrative overheads, finance cost and selling / marketing and distribution overheads.

e) Other Costs may include industry specific expenses relating to the manufacture / production of the specific item of inventory.

5.8.2. Determination of Direct Material Cost shall be governed by the principles set out in Para 5.6 above.

5.8.3. Cost of bought out services shall include purchase price including duties and taxes, insurance, and other expenditure directly

attributable to procurement of the service (net of trade discounts, rebates, taxes and duties refundable or to be credited by the taxing authorities) that can be quantified with reasonable accuracy at the time of procurement.

5.8.4. Determination of Direct Employee Cost shall be governed by the Cost Accounting Standard on Employee Cost (CAS-7).

5.8.5. Determination of Direct Expenses shall be governed by the Cost Accounting Standard on Direct Expenses (CAS-10).

5.8.6. Determination of Utilities Cost shall be governed by the Cost Accounting Standard on Cost of Utilities (CAS-8).

5.8.7. Determination of Depreciation Cost shall be governed by the Cost Accounting Standard on Depreciation and Amortisation (CAS-16).

5.8.8. Determination of Primary Packing Cost shall be governed by the Cost Accounting Standard on Packing Material Cost (CAS-9).

5.8.9. Determination of Consumables & Stores Cost shall be governed by Cost Accounting Standard on Material Cost (CAS-6).

5.8.10. Determination of Repairs & Maintenance Cost shall be governed by the Cost Accounting Standard on Repairs and Maintenance Cost (CAS-12).

5.8.11. Determination of Quality Control Cost shall be governed by the Cost Accounting Standard on Quality Control (CAS-21).

5.8.12. Determination of Research & Development Cost shall be governed by the Cost Accounting Standard on Research and Development Costs (CAS-18).

5.8.13. Determination of Royalty & Technical Know-how Cost shall be governed by the Cost Accounting Standard on Royalty and Technical Know-how Fee (CAS-20).

5.8.14. Determination of Pollution Control Cost shall be governed by the Cost Accounting Standard on Pollution Control Cost (CAS-14).

5.8.15. Determination of Production Overheads shall be governed by the Cost Accounting Standard on Production and Operation Overheads (CAS-3).

5.9. Cost of Inventory of Packing Material:

5.9.1. Cost of Primary Packing Materials and Secondary Packing Materials in stock shall be calculated by 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.

5.9.2. Determination of Cost of Packing Material shall be governed by the Cost Accounting Standard on Packing Material Cost (CAS-9).

5.10. Cost of Inventory of Work-in-process/Semi Finished Goods/ Intermediate Products

5.10.1. Cost of Work-in-process/Semi Finished Goods/ Intermediate Products shall be calculated using the principles set out in the paragraph 5.7 above.

5.10.2. The costs incurred upto the stage of completion as on the valuation date shall only be considered for calculating cost of Work-in-process/Semi Finished Goods/ Intermediate Products.

All direct or indirect costs remaining to be incurred after the valuation date in bringing the Work-in-process/Semi Finished Goods/ Intermediate Products inventory to its finished condition shall not be considered for calculating cost of Work-in Process.

5.11. Cost of Inventory of Finished Goods:

5.11.1. ***Cost of Inventory of Self Manufactured / Produced Finished Goods shall be calculated using the principles set out in the paragraph 5.7 above.***

5.11.2. Cost of Inventory of Traded Finished Goods shall be calculated using the principles set out in the paragraph 5.6 above.

5.12. Cost of Inventory of Scrap Material:

5.12.1. Inventory of Scrap Material which is to be disposed of without further processing or operation shall be valued at expected selling price (less) cost of sale or disposal.

5.12.2. Inventory of Scrap Material which is to be disposed of with further processing or operation shall be valued at expected Selling Price (less) Cost of further processing or operation, (less) Cost of sale or disposal.

5.12.3. ***Inventory of Scrap Material which is recycled or reused in the process of manufacture is to be valued at replacement cost of material being replaced by the use of such scrap (less) associated expenses and value reduction on account of quality considerations.***

5.13. Cost of Inventory in Transit - Cost of acquisition of the goods upto the location as on date of valuation shall be considered in the valuation of inventory in transit.

a) In case of goods being transferred from factory to branch or godown, proportionate cost of acquisition of such goods at the destination shall be included in the cost of Inventory in Transit.

b) In case of goods being transferred from factory or branch or godown to a customer, the cost of supply of such goods to the customer shall not be included in the cost of Inventory in Transit since the same shall be considered as cost of distribution.

c) In case of goods being transferred to the factory or branch or godown of the entity, the cost of acquisition of such goods at the destination shall be included in the cost of Inventory in Transit.

5.14. Joint Products, By-Products: Determination of Cost of Joint Products and By-Products shall be governed by the Cost Accounting Standard on Joint Costs (CAS-19).

5.15. Exclusions from the Cost of Inventories

In determining the cost of inventories the following costs shall be excluded and recognised as expenses for the period in which they are incurred, namely:—

- Abnormal costs of wasted materials, labour, or other production costs;
- Storage costs, unless those costs are necessary in the production process prior to a further production stage;
- R&D Costs related to developing new products, prototypes, or new technologies;
- Administrative overheads that do not contribute to bringing the inventories to their present location and condition;
- Selling / marketing overheads;
- Distribution overheads incurred in handling a product from the time it is completed in the works until it reaches the ultimate consumer;
- Finance Costs incurred in connection with the holding of inventory shall not form part of cost of inventory;
- Contingent liabilities - Potential liabilities that are not related to the direct acquisition or production of inventory such as pending law suits are excluded.

5.16. Cost Formulae – Cost of inventories shall be assigned by using the First-in First-out (FIFO) or Last-in First-Out (LIFO) or Weighted Average cost formulae. The weighted average shall be calculated on a periodic basis or on moving basis (as and when new consignment is received) depending upon the circumstances as may be appropriate to the entity.

5.16.1. Goods or services produced and identified for specific project or customer or market shall be valued by assigning specific identification of their individual costs.

5.16.2. Measurement of cost of inventories can also be done by applying standard cost formula if the results approximate the actual cost. The variances can be adjusted to the standard cost formula for bringing the standard cost of inventory to the actual cost of inventory.

5.16.3. Measurement of cost of inventories can also be done by applying retail method in case of stock held for retail sale where inventory consist of large number of rapidly changing items that have similar margins and for which it is impracticable to use other costing methods. The cost of inventory is determined by reducing from the sales value of the inventory, the appropriate gross margin percentage.

5.17. Net realisable value: Any or all items of inventory under any class or group of inventory shall be valued at cost or net realisable value whichever is lower.

The principle supports "Conservatism" as a fundamental principle in accounting with a considerate view that the value of asset should not be more than the one which will be realized at the point of sale or use.

5.17.1. Net Realisable value shall be based on the most reliable evidence available at the time of valuation.

5.17.2. Net realisable value is the net amount which is expected to be realized on the sale of inventory in an ordinary course of business.

5.17.3. The estimates of Net Realisable Value shall take into consideration the fluctuation of price directly relating to events occurring after the valuation date.

5.17.4. Net realisable value shall be based on the most reliable evidence available at the time of valuation. The estimates of net realisable value shall also take into consideration the purpose for which the inventory is held. The estimates shall take into consideration fluctuations of price or cost directly relating to events occurring after the end of previous year to the extent that such events confirm the conditions existing on the last day of the previous year.

5.17.5. Writing down inventory below cost, based on the NRV, is to be carried out only to recognise an actual or anticipated loss and not merely a reduction in expected profits due to market price fluctuations.

5.17.6. Inventories shall be written down to net realizable value on an individual item basis. Where items form part of the same product line, have a similar nature, purpose and end use and are produced and

marketed in the same geographical area, such items may be grouped and written down to net realizable value collectively on an aggregate basis.

5.17.7. Materials, other supplies held for use in the production of finished products shall not be written down below the cost, where the finished products in which they shall be incorporated are expected to be sold at or above the cost. Where there has been a decline in the price of materials and it is estimated that the cost of finished products will exceed the net realisable value, the value of materials shall be written down to net realisable value which shall be the replacement cost of such materials.

5.17.8. Work-in-process held for use in the production of finished products shall not be written down below the cost, where the finished products in which they shall be incorporated are expected to be sold at or above the cost. Where the finished product is expected to have NRV lower than cost of the finished product, the Work-in-process shall be valued at cost or NRV whichever is lower. In this case NRV for Work-in-process will be calculated by reducing from the NRV of the finished product all the costs required to convert the work-in-process into finished product.

5.17.9. On any subsequent date of inventory valuation the net realisable value shall be reassessed for the items which were valued on net realisable value basis, the cost being higher than the net realization on the date of valuation. The amount of write down is reversed to the extent that the carrying amount is the lower of the cost and the net realisable value on the date of reassessment.

5.17.10. When a binding sale agreement exists for the items in the inventory, then the sales price as per such sales agreement shall be considered for calculation of Net Realisable Value for such specific items in inventory.

5.17.11. For calculation of NRV, the estimated selling price in the ordinary course of business needs to be adjusted by the estimated costs necessary to make the sale.

Illustrative list of estimated costs necessary to make sale include –

- Sales commission
- Trade Discount
- Brokerage
- Special advertising needed to sell that item
- Packing/repacking required specifically for sale
- Export clearance/documentation charges
- Freight outward (ONLY when necessary to make the sale)

5.18. Recognition as an expense or income:

5.18.1. On recognition of revenue through sales, the corresponding inventory value shall be recognised as cost in the same period.

5.18.2. The amount of write-down in the value of inventory due to its nature as "slow moving" or "non-Moving" or due to net realisable value being lower than the cost or due to damage or obsolescence shall be recognised as an expense for the period in which such write-down takes place.

5.18.3. The quantity of inventory found physically shorter than that of the book quantity shall be valued at the rate of inventory as on the date of inventory valuation and shall be recognised as expense in the same period. The quantity of inventory found physically in excess than that of the book quantity shall be valued at the rate of inventory as on the date of inventory valuation and shall be recognised as gain or income in the same period.

5.18.4. Any abnormal or non-recurring events, e.g. Losses due to theft, spoilage or other reasons, impacting inventory valuation should not form part of inventory value and should be recognised as expense or income for the period in which it arises.

5.18.5. For compilation of cost statements, items mentioned above in paragraphs 5.18.2 to 5.18.4 and such other items shall not be considered as part of the cost and shall form part of profit/loss reconciliation statement between financial records and cost records.

5.18.6. An entity may purchase inventory on deferred settlement terms, this arrangement effectively contains an unstated financing element, in

such cases, the difference shall be recognised as interest expense over the period of financing and not added to the cost of the inventories.

Example: Difference between the purchase price for normal credit terms and the deferred settlement price.

Deferred Settlement refers to an arrangement where the payment or settlement of a transaction, date, or obligation is delayed or postponed to a later date.

6. Assignment of Costs:

The basis of assignment of costs to the items of inventory is dealt with in this section.

6.1. ***While assigning various elements of costs of purchase, cost of services, conversion cost etc. to various classes or groups of inventory, traceability to an item of inventory in an economically feasible manner shall be the guiding principle.***

The cost which can be traced directly to each item of inventory shall be directly assigned.

6.2. ***Assignment of various elements of costs of purchase, cost of services, conversion cost etc. to various classes or groups of inventory, which are not directly traceable to the items of inventory shall be based on either of the following two principles:***

6.2.1. Cause and Effect- Cause is the process or operation or activity and effect is the incurrence of the cost.

6.2.2. Benefits Received- To be apportioned to various cost objects in proportion to the benefits received by them.

6.3. ***The principles of assignment of various cost elements as given under respective Cost Accounting Standards shall be followed.***

7. Presentation:

7.1. ***The total value of inventories and its classification in appropriate inventory groups / classes shall be presented.***

7.2. ***Statement showing Valuation of Inventory shall be presented and certified as per Appendix 1 to this standard or as near thereto.***

8. Disclosure:

The following information should be disclosed regarding valuation of inventory in the cost statements.

8.1. ***Quantity and rates of major items of inventory of a particular group / class shall be disclosed. Major items are defined as those which form 5% or more of the value of Inventory of that group / class.***

8.2. ***The basis of valuation of inventory shall be disclosed.***

8.3. ***If the items of inventory are valued at NRV, the cost and NRV shall be disclosed.***

8.4. ***Details of physical verification of inventory along with method and periodicity shall be disclosed.***

8.5. ***Inventory adjustments such as shortages and excesses both in terms of quantity and value for each class of inventory shall be disclosed.***

8.6. ***Inventory valuation as on a particular date submitted to the bank or other financial institutions in order to avail cash credit facility against hypothecation of stock or such other facilities or assistance, the difference between such inventory valuation compared to inventory valuation carried out by adopting the principles laid down in this standard on a particular date shall be disclosed.***

8.7. ***The amount of inventories recognised as an expense during the period along with the nature thereof shall be disclosed.***

8.8. ***Any amount of production based levies / duties / taxes included in the cost of inventory*** **shall be disclosed.**

8.9. ***Any abnormal cost excluded from the inventory value shall be disclosed.***

8.10. ***Any demurrage or detention charges, penalty levied by transporter or other authorities excluded from the value of inventory shall be disclosed.***

8.11. ***Any Subsidy/Grant/Incentive or any such payment reduced from cost of inventory shall be disclosed.***

8.12. ***Cost of inventory procured from related parties shall be disclosed.***

8.13. ***Any change in the cost accounting principles and/or methods applied for the determination of the value of inventory as on date as compared to the previous reporting date which has a material effect on the value of inventory shall be disclosed. The value of opening stock of inventory of the relevant period should also be valued based on the changed principles and methods and effect thereof shall be considered in the inventory valuation for the period under reference. For revaluation of opening stock, transactions for the immediately preceding period shall be considered.***

Where the effect of such changes is not ascertainable wholly or partly, the fact shall be disclosed.

8.14. ***The policies adopted in measuring inventories including the cost formulae used shall be disclosed.***

Any change in policy which has a material effect shall be disclosed. The amount by which any item is affected by such change shall also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact shall be indicated.

8.15. ***Where Standard Costing has been used as a measurement of cost, details of such inventories and a confirmation of the fact that standard cost approximates the actual cost shall be disclosed.***

8.16. ***Disclosures shall be made only where significant, material and quantifiable.***

8.17. ***Disclosures may be made in the body of the Cost statement or as a footnote or as a separate schedule.***

8.18. ***If the fundamental accounting assumptions of Going Concern, Consistency and Accrual are not followed, the fact shall be disclosed.***

9. Effective Date :

This Cost Accounting Standard shall be effective from the period commencing on or after 12th February 2026 for being applied for the preparation and certification of Cost Accounting Statements.

Appendix 1

Statement Showing Valuation of Inventory as on _____

A. General Information

Particulars	
Name of the Entity:	
Address of the Entity:	
Name of Unit / Place of Business:	
Address of Unit / Place of Business:	

B. Details of Inventory Valuation

Particulars (Class/Group of Inventory)	**Material Cost**	**Cost of Bought out Service**	**Conversion Cost**	**Total Cost**	**NRV**	**Inventory Value**	**Difference in Inventory Value & Total Cost**	**% Difference w.r.t. Total Cost**
Name of Class / Group								
..... (specify)								
..... (specify)								
..... (specify)								
..... (specify)								
Total								

Notes:

1. *Class / Group refer to Raw Material, Work-in-Process, Finished Goods, etc. Refer para 5.2 of the CAS – 25.*
2. *Separate Annexure shall be prepared for each unit / place of business and for the entity as a whole.*
3. *Cost Formula used for Inventory Valuation used (First-in-first-out, Last-in-first-out, Weighted Average) shall be clearly disclosed for each class of inventory.*

Date: Place:

Seal & Signature of the Company's Authorised Representative

Certificate

1. I/We have examined the books of account, cost records and other records with respect to inventory and valuation of inventory of _____ [name and address of the entity] as on _____.

2. I/We have conducted Inventory Valuation in compliance with the requirements under the relevant Cost Accounting Standards and Generally Accepted Cost Accounting Principles.

3. I/ We have obtained all the information and explanations which to the best of my/our knowledge and belief were necessary for the purposes of the Inventory Valuation.

4. In my/our opinion, from my/our examination of the books of account, cost records and other records, it appears that proper books of account, cost records and other records with respect to inventory have been kept by the entity / unit / place of business visited by me/us, and proper data adequate for the purposes of inventory valuation have been received from the entity / unit / place of business not visited by me/us subject to the comments given below –

   a.
   b.
   ……..

5. In my/our opinion and to the best of my/our information and according to explanations given to me/us, the Inventory Valuation presented in Annexure A attached to this certificate is true and correct subject to comments given below –

   a.
   b.
   ……

Seal & Signature of the Cost Accountant

Name of the Partnership Firm / Proprietorship Firm:

Name of the Cost Accountant:

Membership No.: UDIN:

Date: Place: