

Research Work

On

“TREATMENT OF VARIOUS ITEMS OF COST IN LIGHT OF THE COVID-19”

SUBMITTED TO:

MD. JASIM UDDIN AKOND FCMA
Honorable President

The Institute of Cost and Management Accountants of Bangladesh (ICMAB)

SUBMITTED BY:

1. **Mr. Md. Mamunur Rashid, FCMA, Vice President- ICMAB**
2. **Jayanta Kumar Podder FCMA, (F-0337), Committee Member.**
3. **Md. Ibrahim Khalil FCMA, (F-0478), Committee Member.**
4. **Md. Saifur Rahman FCMA, (F-0510), Committee Member.**
5. **Mohammad Shaheed, FCA, FCMA, (F-0611), Committee Member.**

SUBMISSION DATE:

October 8, 2020



ICMAB

THE INSTITUTE OF COST AND MANAGEMENT
ACCOUNTANTS OF BANGLADESH

ACCOUNTANTS OF BANGLADESH

TREATMENT OF VARIOUS ITEMS OF COST IN LIGHT OF THE COVID-19 PANDEMIC & PRESENTATION/DISCLOSURES OF SUCH ITEMS OF COST AS PER BANGLADESH COST ACCOUNTING STANDARDS (BCAS), COST ACCOUNTING RECORD RULES (CARR) 2018, AND COST AUDIT MANUAL BASED ON LAWS OF BANGLADESH

The ongoing COVID-19 which has been turned out the Global Pandemic has disrupted our social & business activities. Bangladesh Government along with full support & cooperation of relevant Ministries had adopted a policy of Lockdown like other countries **in the world to fight the battle of this Pandemic**. But later it has withdrawn with keeping some directives. Nevertheless, the fight against this pandemic is going on. We will overcome this situation and certainly will remove the threat against humanity in near future.

It not to be mentioned either that, we as professionals have a much higher responsibility at this situation. We have to ensure that the businesses return to smooth operation once the situation starts normalizing and hence we are providing the necessary guidance to the stakeholders. It is our responsibility to come forward and face the issues in the treatment of various items of cost so that the reporting to the stakeholders is True & Fair. With this objective, **The Institute of Cost and Management Accountants of Bangladesh (ICMAB)** is issuing this advisory on **“Treatment of Various Items of Cost in light of the COVID-19”** .

It is necessary for the stakeholders to understand the impact of the COVID-19 Pandemic in monetary terms as well as it is necessary for the Cost Auditors to assess the accuracy of the COVID-19 Pandemic Impact calculated by the organizations 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 COVID-19 Pandemic;

B. Presentation / Disclosure of the various items of Quantity Information & Costs in Cost Statements, Cost Records, Cost Audit Report and Annexure;

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 & Annexure to Cost Audit Report. Hence this Advisory is applicable for the Accounting Period as prescribed or directed by the Laws, Rules, Regulations, Circulars is/are issued from time to time by the authority concerned.

In case of any specific technical query regarding treatment of Cost in light of COVID-19 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.

PART A

Treatment of Various Items of Cost in light of the COVID-19 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 of Cost and Management Accountants of Bangladesh (ICMAB). The Abnormal Cost is defined in the Cost Accounting Standards as –

BCAS 6: 6.5.6 ABNORMAL COST

“An unusual or a typical cost whose occurrence is usually irregular and unexpected and / or due to abnormal situation of the production or operation.”

There are two situations where abnormal cost can occur. These are-

- A. Abnormal Cost in Normal operating conditions (Defectives, Rejects, Scrap, Waste and Spoilage);**
- B. Abnormal Cost in Unexpected/ Uncontrollable situation (i.e.COVID-19 Pandemic or any other Pandemic/ Epidemic).**

Thus the concept of Abnormal Cost is well defined and well established through the Bangladesh Cost Accounting Standards (BCAS). Hence, the current situation of COVID-19 Pandemic and its impact on the production and operations of the businesses is both irregular and unexpected and the situation is certainly Abnormal and also it has a cost. Thus the impact of COVID-19 Pandemic does not fit the premise of Abnormal Cost as defined in the Cost Accounting Standards. It needs to be defined and categorized as Abnormal Cost in Unexpected/ Uncontrollable Situation (i.e. COVID-19, Pandemics, Epidemics, Act of God etc.). Thus the Costs pertaining to or arising out of the COVID-19 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 Bangladesh Cost Accounting Standards (BCAS) is given below:

BCAS 1: COST CONCEPTS AND CLASSIFICATIONS

BCAS 1.7.5: As already mentioned, cost may be classified from different perspectives under consideration. Some important cost classifications are mentioned here that is advised to read in line with the descriptions given hereby:

(f) By normality: This definition of the cost is based on predictability. If the cost is predictable with certainty, such cost will be normal; otherwise, it will be abnormal.

BCAS 4: INDIRECT COSTS

BCAS 4.7.5: The cost statements shall disclose the following:

(e) Any abnormal portion of the overheads.

BCAS 6: SUPPORT DEPARTMENT COSTS

BCAS 6.6.1: Costing system, cost assignment and principles of measurement should be guided by the following considerations:

(h) Where the cost of support department is accounted at standard cost, the price and usage variances related to the support department shall be treated as part of cost of services. Usage variances due to abnormal reasons shall be treated as part of abnormal cost.

(j) The cost of production and distribution of the support department 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. Cost of standby service shall include the committed costs of maintaining such a facility for the service.

(k) Any abnormal cost where it is material and quantifiable shall not form part of the cost of the support department cost object.

BCAS 6.7.2: The cost statement shall disclose the following:

(h) Any abnormal cost excluded from cost of support department.

BCAS 8: PROCESS COSTING

BCAS 8.2: Process Costing Objectives

(c) Recognize normal & abnormal loss and its treatment in the cost sheet/statement.

BCAS 8.4: Process Costing Key Features; the key features of this standard are pointed below:

(c) Presenting normal and abnormal spoilage with its application:

BCAS 8.5.6: Abnormal Loss: The loss; when it is un-expected called Abnormal Loss.

BCAS 8.6.18: Cost of normal spoilage (or normal rework), which is usually expressed as a percentage of good units made, is deemed to be a part of product cost and thus such cost will be absorbed by good units completed in a period. However, the cost of abnormal spoilage (or abnormal rework) is treated as a periodic efficiency item and charged to periodic income. That is, the cost of abnormal spoilage (or rework) is not deemed to be a product cost rather it will be closed to periodic income statement.

BCAS 8.7.3: Notice the difference between the treatment of normal and abnormal spoilage. When spoilage is assumed to be normal, it is not tracked separately but is embedded in the total cost of good units. As a result, no one knows precisely how much spoilage adds to total manufacturing costs and whether or not an effort should be made to reduce it. The treatment of spoilage as abnormal is more in keeping with an emphasis on total quality management where there is no tolerance allowed for waste. At least the product cost of spoiled goods is tracked in a separate account. Of course, a factory engaged in total quality management would not stop at classifying spoilage as abnormal.

BCAS 13: STANDARD COSTING

BCAS 13.5.13: Idle time variance: Idle time variance is the part of labor variance which happens due to abnormal idle time. We can calculate idle time variance by multiplying standard wage rate with abnormal idle time.

BCAS 24: MATERIAL COST

BCAS 24.5.2: Abnormal Cost: Cost that is avoidable or unexpected under normal, efficient operating conditions is abnormal cost. It is not inherent in a particular production process.

BCAS 24.6.1.2: Principles of valuation of issue of material:

(d) Any abnormal cost shall be excluded from the material cost.

BCAS 24.6.1.4: The material cost of normal scrap/defectives which are rejects shall be included in the material cost of goods manufactured. The material cost of actual scrap/defectives, not exceeding the normal shall be adjusted in the material cost of goods production. Material Cost of abnormal scrap/defectives should not be included in material cost but treated as loss after giving credit to the realizable value of such scrap/defectives.

BCAS 24.7.5: The following information should be disclosed in the cost statements dealing with determination of material cost:

(d) Any abnormal cost excluded from the material cost shall be disclosed.

BCAS 25: EMPLOYEE COSTS

BCAS 25.5.3: Abnormal costs: The costs which are occurred due to unexpected, unusual, irregular and/ or abnormal situation/ condition of production or operation/ function.

BCAS 25.5.6: Abnormal idle time

The part of idle time which is caused due to irregular, unexpected, unplanned, or abnormal conditions is considered as abnormal idle time. Abnormal idle time can be avoided or minimized by taking proper plans, care and caution is considered as abnormal idle time. The causes of abnormal idle time may include temporary lack of work, machine breakdown, power failures, shortage of raw materials, waiting for tools, waiting for jobs due to unplanned production, stoppage of work due to managerial policy decisions, strikes and lockouts, and floods, earthquakes, etc.

BCAS 25.6.1.6: Cost of normal idle time will be included within the employee costs, whereas cost of abnormal idle time will not be part of employee costs.

BCAS 25.7.3: The following information should be disclosed in the cost statement of a particular cost object, either in the statement or in footnote:

(e) Abnormal costs excluded from employee costs;

BCAS 25.6.1.7: Any abnormal costs associated with the employees will not be part of employee costs.

BCAS 26: COST OF UTILITIES

BCAS 26.5.3: Abnormal cost

Abnormal cost is an unusual or a typical cost whose occurrence is usually irregular and unexpected due to some abnormal situation of the production or operation.

BCAS 26.6.1.11: Where cost of utilities is accounted at standard cost, the price variances related to utilities shall be treated as part of cost of utilities and the portion of usage variances due to normal reasons shall be treated as part of cost of utilities. Usage variances due to abnormal reasons shall be treated as part of abnormal cost.

BCAS 26.6.1.13: The cost of production and distribution of utilities 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. Cost of a stand-by utility shall include the committed costs of maintaining such a utility.

BCAS 26.6.1.14: Any abnormal cost where it is material and quantifiable shall not form part of the cost of utilities.

BCAS 26.7.3: The cost statements shall disclose the following:

(c) Where cost of utilities is disclosed at standard cost, the price and usage variances including the breakdown of normal and abnormal;

(i) Any abnormal cost excluded from cost of utilities;

BCAS 27: COST OF PRODUCTION FOR CAPTIVE CONSUMPTION

BCAS 27.6.19: Abnormal and non-recurring cost which arises for unusual or unexpected occurrence of events, like heavy break-down of plants, accidents, market compelling to sale below normal levels, abnormal idle capacity, process loss and scrap & wastage, payment like retrenchment compensation, lay-off wages, etc. should not form part of cost of production.

BCAS 28: CAPACITY DETERMINATION

BCAS 28.5.8: Abnormal Idle Capacity: Abnormal idle capacity is the difference between practical capacity and normal capacity or actual capacity utilization whichever is higher.

BCAS 28.6.8: The periods influenced by abnormalities shall be excluded for this purpose.

BCAS 29: COST OF QUALITY

BCAS 29.6.7: Any abnormal portion of the quality control cost where it is material and quantifiable shall not form part of the cost of quality.

ABNORMAL COSTS TO BE CONSIDERED FOR THE EFFECT OF COVID-19 DESPITE ABSENCE OF THE SPECIFIC BANGLADESH COST ACCOUNTING STANDARDS (BCASs)

Packing Material Cost: *(Proposed to be inserted under BCAS 27 as 27.6.10 (a))*

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

Direct Expenses: *(Proposed to be inserted under BCAS 24 as 24.6.2.2 (c))*

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

Administrative Overheads: *(Proposed to be inserted under BCAS 24 as 24.6.2.2 (c))*

Administrative overheads shall not include any abnormal administrative cost.

Repairs and Maintenance Cost: *(Proposed to be inserted under BCAS 27 as 27.6.9 (a))*

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

Cost of Service Cost Centre: *(Proposed to be inserted under BCAS 4 as 4.6.17 (a))*

Any abnormal cost where it is material and quantifiable shall not form part of the cost of the Service Cost Centre.

Pollution Control cost: *(Proposed to be inserted under BCAS 27 as 27.6.6 (a))*

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

Selling and Distribution Overheads:

(Proposed to be inserted under BCAS 4 as 4.5.2 (d))

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

Depreciation and Amortization: *(Proposed to be inserted under BCAS 6)*

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.

Research and Development Costs: *(Proposed to be inserted under BCAS 2 as 2.5.4 (a))*

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

Manufacturing Cost: *(Proposed to be inserted under BCAS 1 as 1.6.8))*

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

Overburden Removal Cost: *(Proposed to be inserted under BCAS 1 as 1.6.9))*

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 Cost Accounting Standard Committee (CASC) of ICMAB.

PRINCIPLES APPLICABLE TO ELEMENTS OF COST OF GACAP STATES:

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 COVID-19 Pandemic or the costs associated with the operational period affected by the COVID-19 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 COVID-19 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 due to date expiry/ not fit for use in any form for COVID-19.
- 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 BCAS 28 CAPACITY DETERMINATION DEFINES THE NORMAL CAPACITY

BCAS 28.5.4: NORMAL CAPACITY

Normal capacity is the level of productive capacity i.e. attained or attainable over a period of time, considering the normal conditions and variations in the line of business. Normal capacity is practical capacity minus the loss of productive capacity due to external factors.

Thus by the definition as given in the BCAS 28, Normal Capacity is to be determined based on the Normal Circumstances. Outbreak of COVID-19 is not a "Normal Circumstance" . Hence for calculation of the Normal Capacity, period lost due to COVID-19 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**.

Production & Operation Overheads:

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

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

BCAS 27 Cost of Production/ Acquisition / Supply of Goods / Provision of Services

BCAS 27.6.11: Absorption of Overheads

The variable production or operation overheads will be absorbed in production cost based on actual capacity utilization /actual production. But 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/production shall be absorbed in the cost of production or acquisition or supply of goods or provision of services on the basis of normal capacity or actual capacity utilization of the plant or Service Centre, whichever is higher.

Manufacturing Cost

BCAS 27.6.6 (a): The variable manufacturing / production overheads such as (i) Consumable stores and spares (ii) Repairs and maintenance of plant and machinery (iii) Indirect employees cost connected with production purpose and other variable items of manufacturing costs will be absorbed in production cost based on actual capacity utilization /actual production.

BCAS 27.6.6 (b): The fixed manufacturing/production overheads and other similar item of fixed costs such as (i) Depreciation of plant and machinery, factory building (iii) Lease rent of production assets (iv) Fixed repair and maintenance of plant & machinery and factory building (v) Drawing and designing cost, (vi) Insurance (plant & machinery, factory building (vii) Amortized cost of jigs, fixtures, tooling etc. (viii) Service departments costs (tool room, engineering & maintenance, pollution control etc. 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.

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 COVID-19 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 COVID-19 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.

Classification of Costs:

BCAS 4.5.3 (a): Variable Costs: Variable costs comprise of costs which vary in proportion to the change of activity of production. e.g. cost of utilities, wages etc. Cost Accounting Standard on Cost of Production / Acquisition / Supply of Goods / Provision of Services:

BCAS 13.5.6: Variable overhead: Variable overhead is those manufacturing costs that vary roughly in relation to changes in production output. The concept is used to model the future expenditure levels of a business, as well as to determine the lowest possible price at which a product should be sold.

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 tends to directly vary with the volume of activity.

Thus the Variable Costs will move in direct proportion to the volume of production/ activity. However COVID-19 Pandemic is an abnormal situation. There will be certain costs which by their behavior under normal circumstances are “Variable” in nature, but under abnormal situation of COVID-19 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 COVID-19 Lockdown / Partial Operations, Excess Consumption of Utilities, Consumables, Stores, etc. due to Closing Down & Starting Operations due to COVID-19 Lockdown, etc.

Example:

Cost Information

Particulars	For the Year	Abnormal (COVID-19)	To be Absorbed in Costing
Variable Cost	1,200,000	100,000	1,100,000
Fixed Cost	1,800,000	150,000	1,650,000
Total Cost	3,000,000	250,000	2,750,000

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 COVID-19	30
Loss of Capacity (COVID-19)	3,000
Normal Capacity (for COVID-19 affected Year)	32,200
Actual Capacity	25,000

For Cost Record Compilation

Particulars	Cost information
Variable Cost is to be absorbed on Actual Production	1,100,000
Fixed Cost to be absorbed on Standard Production	1,281,056
Un-absorbed Fixed Cost	368,944

Presentation in Reconciliation Statement

Particulars	Amount
Expenses Not Considered in Cost Accounts	-
Un-absorbed Cost (Capacity Under Utilization)	368,944
COVID-19 – Unabsorbed Abnormal Cost	250,000

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 COVID-19. One of major reliefs is the Moratorium or deferred in the payment of installments as specified by the Bangladesh Bank/ Ministry of Finance or Lender in any form. 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 COVID-19 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 COVID-19 Pandemic.

PART B

Presentation / Disclosure of the various items of Quantity Information & Costs, Cost Auditors Report & Annexure to Cost Audit Report

1.00 QUANTITY INFORMATION FOR MANUFACTURING SECTOR *(See Annexure B1)*

QUANTITY INFORMATION FOR SERVICE SECTOR *(See Annexure B2)*

Quantity of Production / Capacity Lost due to COVID-19 Pandemic shall be given as part of Notes under this para.

2.00 PROFIT RECONCILIATION FOR THE COMPANY AS A WHOLE *(See Annexure B3)*

2.10 CSR COSTS

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 COVID-19 & 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 COVID-19 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 COVID-19 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 COST AUDIT REPORT: OBSERVATIONS AND SUGGESTIONS, IF ANY, OF THE COST AUDITOR, RELEVANT TO THE COST AUDIT *(See Annexure B4)*

The Cost Auditors during the process of Cost Audit will be assessing and auditing the impact of COVID-19 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 COVID-19 Pandemic impact (like capacity utilization, idle capacity due to COVID-19, 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 COVID-19 Pandemic and comment upon its appropriateness.

Annexure B1

Quantity Information For Manufacturing Sector

Name of the Company: **ABC Company Ltd.**

Address: **Chattogram**

SI No.	Particulars	Details
1	Available Capacity	
	(a) Installed capacity	35,200
	(b) Capacity enhanced during the year, if any	-
	(c) Capacity available through leasing arrangements, if any	-
	(d) Capacity available through loan license/ third party, if any	-
	(e) Total available capacity (a+b+c+d)	35,200
	(f) Loss of Capacity due to COVID-19	3000
	(g) Actual Capacity after adjusting COVID-19 effect (e-f)	32,200
2	Actual Production	
	(a) Own Manufacturing	25,000
	(b) Manufacturing under contractual arrangements	-
	(c) Total Manufacturing (a+b)	25,000
4	Capacity Utilization {2(c)/1(g)} in %	78%
5	Actual Sales	
	(a) Domestic Sales	
	(b) Goods Exported	
	(c) Total Sales (a+b)	

Calculation of Loss of Capacity due to COVID-19

Normal Days of Operation	- 352 Days
Standard Production per Day	- 100
<u>Days Loss Due to COVID-19</u>	<u>- 30 Days</u>
Loss of Capacity	= 3000

Annexure B2

Quantity Information For Service Sector

Name of the Company: **ABC Company Ltd.**

Address: **Chattogram.**

SI No.	Particulars	Details
1	Available Capacity	
	(a) Installed capacity	35,200
	(b) Capacity enhanced during the year, if any	-
	(c) Capacity available through leasing arrangements, if any	-
	(d) Capacity available through loan license/ third party, if any	-
	(e) Total available capacity (a+b+c+d)	35,200
	(f) Loss of Capacity due to COVID-19	3000
	(g) Actual Capacity after adjusting COVID-19 effect (e-f)	32,200
2	Actual Service Provided	
	(a) Own Services	25,000
	(b) Services under contractual arrangements	-
	(c) Total Service Provided (a+b)	25,000
3	Capacity Utilization {2(c)/1(g)} in %	78%
4	Actual Service Provided	
	(a) Domestic Service Provided	
	(b) International Service Provided	
	(c) Total Service Provided (a+b)	

Calculation of Loss of Capacity due to COVID-19

Normal Days of Operation	- 352 Days
Standard Production per Day	- 100
<u>Days Loss Due to COVID-19</u>	<u>- 30 Days</u>
Loss of Capacity	= 3000

Annexure B3

Statement of Profit Reconciliation

(For the year ended June 30, 2020)

SL No.	Particulars	Current Year		Previous Year
		Details Amount (Tk.)	Amount (Tk.)	Amount (Tk.)
1	Profits/(Loss) as per Cost Accounting Records			
	i) For the Audited Product(s)/Service(s)	Xxx		
	ii) For the Un-audited Product(s)/Service(s)	Xxx	xxx	Xxx
2	Add:			
	A. Incomes not considered in Cost Accounts (Specify Details)			
	i) Interest Received from Banks	Xx		
	ii) Interest on FDR	Xx		
	iii) Insurance claim recovered	Xx		
	iv) House rent received	Xx		
	v) Sundry Credit Balances written off	Xx		
	vi) Miscellaneous	Xx	xxx	Xxx
	B. Over valuation of closing stock in Financial Accounts		xxx	Xxx
	C. Under valuation of opening stock in Financial Accounts		xxx	Xxx
3=1+2	Total (A+B+C)	-	xxxx	Xxxx
4	Less:			
	A. Expenses not considered in Cost Accounts:			
	i) Sundry balances written off	Xx		
	ii) Preliminary expenses written off	Xx		
	iii) Loss on Sale of Used Materials/Vehicles	Xx		
	iv) Penalty & Interest on Income tax	Xx		
	v) Unabsorbed Cost (Capacity Under Utilization)	Xx		
	vi) COVID-19 Unabsorbed Abnormal Cost	Xx	xxx	Xxx
	B. Under valuation of closing stock in Financial Accounts		xxx	Xxx
	C. Overvaluation of Opening stock in Financial Account		xxx	Xxx
5=4	Total (A+B+C)	-	xxxx	Xxxx
6=3-5	Profits/(Loss) as per Financial Accounts	-	xxxxx	Xxxxx
Difference due to rounded off		-	x	X

(Reference: BCAS 1 Appendix- 1E- Modified)

Annexure B3-1

ABC Manufacturing Ltd.

Statement of Comprehensive Income
For the period ended on xx, xx, xxxx

Particulars	Details	Amount (BDT)	
Sales			****
(-) Sales Returns and Allowances		***	-
(-) Sales Discount		***	***
A. Net Sales			****
B. Less: Variable Expenses			
Variable Cost of Goods Sold: [<i>From Annexure B3-2 (ii)</i>]	****		
Finished Goods, beginning inventory	***		
(-) Loss due to COVID-19 (Date Expired/Waste/ Quality Deterioration)	(***)		
(-) Special Payment given for COVID-19 support	(***)		
(+) Variable Cost of Goods Manufactured	***		
(=) Variable Cost of Goods Available for Sale	***		
(-) Finished Goods, ending inventory	(***)		
(=) Variable Cost of Goods Sold	***	****	
Variable Selling and Administrative Expenses		***	
Total Variable Expenses			(****)
C. Contribution Margin (A-B)			***
D. Less: Fixed Expenses			
Fixed Manufacturing Overhead: [<i>From Annexure B3-2 (ii)</i>]	***		
(-) Discount/Concession/ Donation received due to COVID-19	(***)	***	
Fixed Administrative and Marketing Overhead	***		
(-) Discount/Concession/ Donation received due to COVID-19	(***)	***	
Total Fixed Expenses			(***)
E. Net Operating Income (NOI) (C-D)			***

(Reference: BCAS 1 Appendix 1C -Modified)

Annexure B3-2 (i)

ABC Manufacturing Ltd.

Statement of Prime Costs For the period ended on xx, xx, xxxx			
Particulars		Amount (BDT)	Amount (BDT)
(a) Direct Materials Consumed			
Raw Materials, Beginning Inventory		***	
Add: Purchase of Raw Materials	***		
(-) Loss due to COVID-19 (Date Expired/Waste)			
(-) Purchase Returns and Allowances	(***)		
(-) Purchase Discount	(***)		
Net Purchase	***		
(+) Freight/Transportation In	***		
(+) Customs	***		
Cost of Purchase		<u>***</u>	
Cost of materials available for use		***	
Less: Raw Materials, Ending Inventory		<u>***</u>	
Direct Material Consumed			<u>***</u>
(b) Direct Labor (including contribution to PF and other benefits)			<u>***</u>
(c) Other Direct Expenses			<u>***</u>
Prime Costs <i>(Transferred to Annexure B3-2 (ii))</i>			<u>***</u>

(Reference: BCAS 1 Appendix 1D- Modified)

**Annexure
B3-2 (ii)**
ABC Manufacturing Ltd.
 Statement Cost of Goods Sold
 For the period ended on xx, xx, xxxx

Particulars				Amount (BDT)	Amount (BDT)
(a) Prime Costs (From Annexure B3-2 (i))					Xxx
(b) Manufacturing / Factory Overhead:	Sub Calculation	<u>Variable</u>	<u>Fixed</u>		
Indirect Material / Supplies:					
Beginning Inventory	xxx				
(+) Purchase	xxx				
(-) Loss due to COVID-19 (Date Expired/Waste)	(xxx)				
(-) Ending Inventory	<u>(xxx)</u>	xxx		xxx	
Indirect Labor		xxx	-	xxx	
Supervisor, Clark, Superintendent, Salary		xxx	xxx	xxx	
Factory Rent		-	xxx	xxx	
(-) Benefit/ Subsidy/Discount received due to COVID-19		xx	-	xx	
Factory Depreciation		-	xxx	xxx	
Factory Utilities		xxx	xxx	xxx	
Factory Maintenance		xxx	xxx	xxx	
Loss of Production		xxx	-	xxx	
Rework/Spoilage		xxx	xxx	xxx	
Any other Factory Related Expenses		<u>xxx</u>	<u>xxx</u>	<u>xxx</u>	
Total Manufacturing / Factory Overhead		<u>xxx</u>	<u>xxx</u>	<u>xxx</u>	<u>Xxx</u>
Cost of Production /Total Manufacturing Cost					Xxxx
Add: Work-in-Process, beginning Inventory		xx	-		<u>Xxx</u>
Gross Cost of Goods Manufactured		xx	xx		Xxx
Less: Work-in-Process, ending inventory		Xx	-		<u>Xxx</u>
Cost of Goods Manufactured (net)		<u>xxx</u>	<u>xxx</u>	<u>xxx</u>	<u>Xxx</u>
(+) Opening Inventory		xxx	-		Xxx
(-) Closing Inventory		(xxx)	-		(xxx)
Cost of Goods Sold (COGS)		<u>xxx</u>	<u>xxx</u>	<u>xxx</u>	<u>Xxx</u>

COST AUDITORS' REPORT
ABC Company Ltd.

