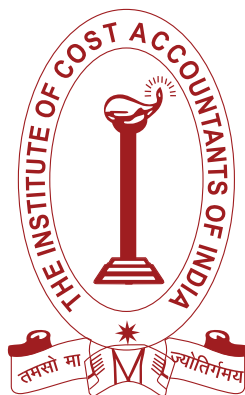


# **Companies (Cost Records and Audit) Rules, 2014**

*(as amended upto 15th July 2016)*

## **ICAI**



### **THE INSTITUTE OF COST ACCOUNTANTS OF INDIA**

(Statutory body under an Act of Parliament)



### COMPANIES (COST RECORDS AND AUDIT) RULES, 2014 [as amended upto 15<sup>th</sup> July 2016]

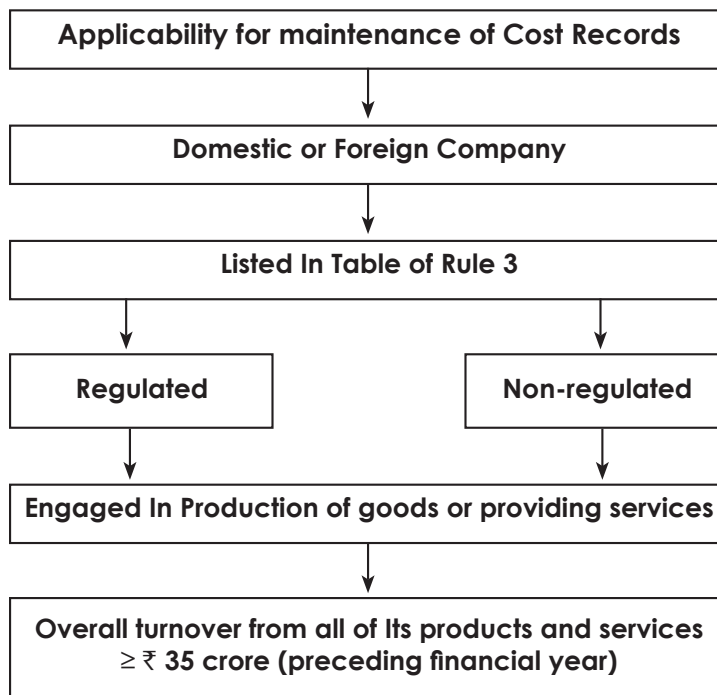
The Companies Act, 2013 empowers the Central Government to make the rules in the area of maintenance of cost records by the companies engaged in the specified industries, manufacturing / providing such goods / services; and for getting such cost records audited, vide Section 148.

Thus, it is the "subordinate legislative power" of the Central Government, to make rules for maintenance of cost records and audit thereof in respect of specific industries. Accordingly, the Central Government made, from time to time, several notifications / orders, ever since the provisions were made in the erstwhile Companies Act, 1956, as well as under the current Act of 2013.

An Analysis through diagrammatic representation.

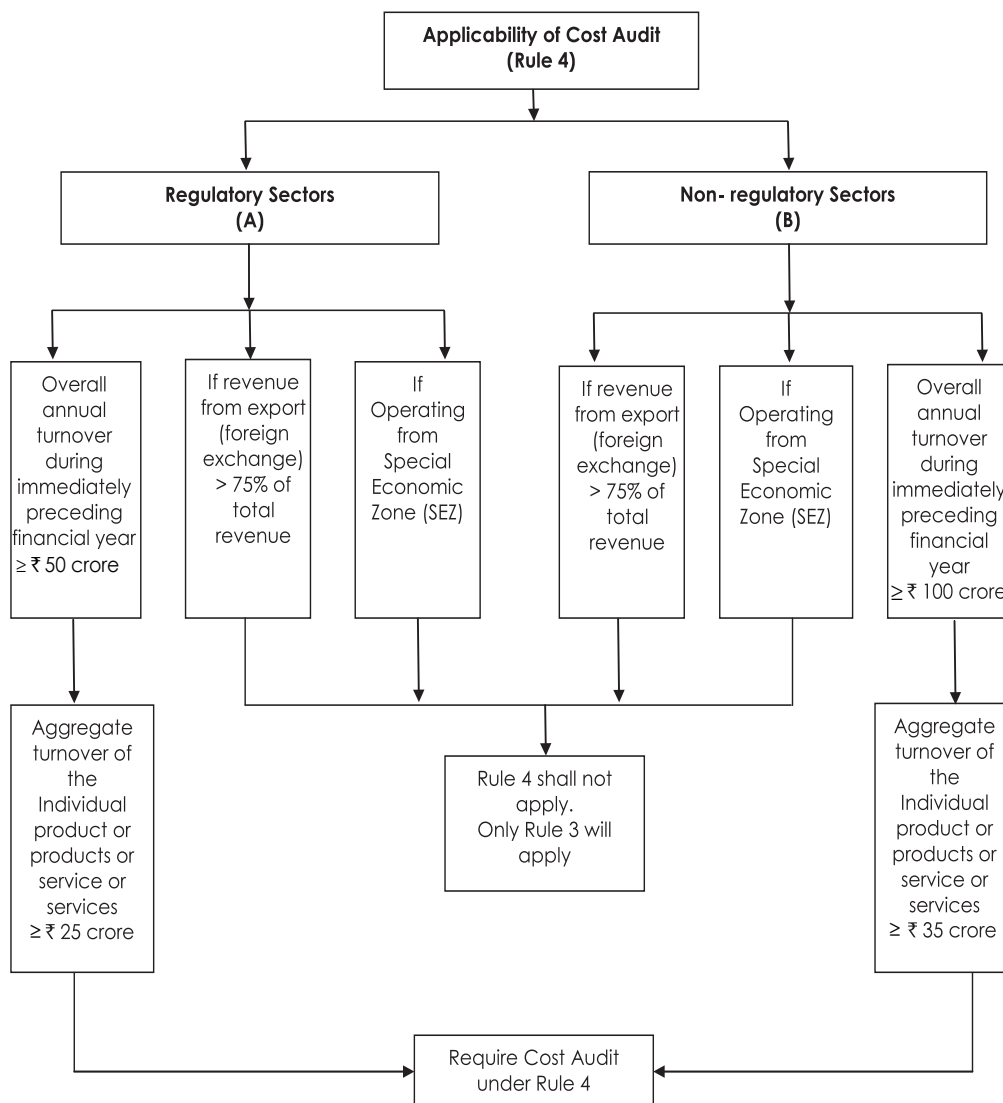
Rules/Forms	Summary
<b>Rule 1:</b> Short title and commencement	<p><b>(1)</b> These rules may be called the Companies (Cost Records and Audit) Rules, 2014.</p> <p><b>(2)</b> They shall come into force on the date of publication in the Official Gazette i.e. 30.06.2014.</p>
<b>Rule 2:</b> Definitions	<p>In these rules, defined various points -</p> <p><b>(a)</b> Act; <b>(aa)</b> Central Excise Tariff Act Heading; <b>(b)</b> Cost Accountant in practice; <b>(c)</b> cost auditor <b>(d)</b> cost audit report; <b>(e)</b> cost records; <b>(f)</b> form; <b>(g)</b> institute; <b>(h)</b> all other words and expressions used in these rules but not defined, and defined in the Act or in the Companies (Specification of Definition Details) Rules, 2014 shall have the same meanings as assigned to them in the Act or in the said rules.</p>
<b>Rule-3:</b> Application of Cost Records	<p>Two categories (regulated sectors and non-regulated sectors) have been retained and a general threshold of turnover of ₹35 crores or more has been prescribed for companies covered. Micro enterprise or a small enterprise as per MSMED Act, 2006 have been taken out of the purview.</p>

**Rule 3: Diagrammatic Representation**

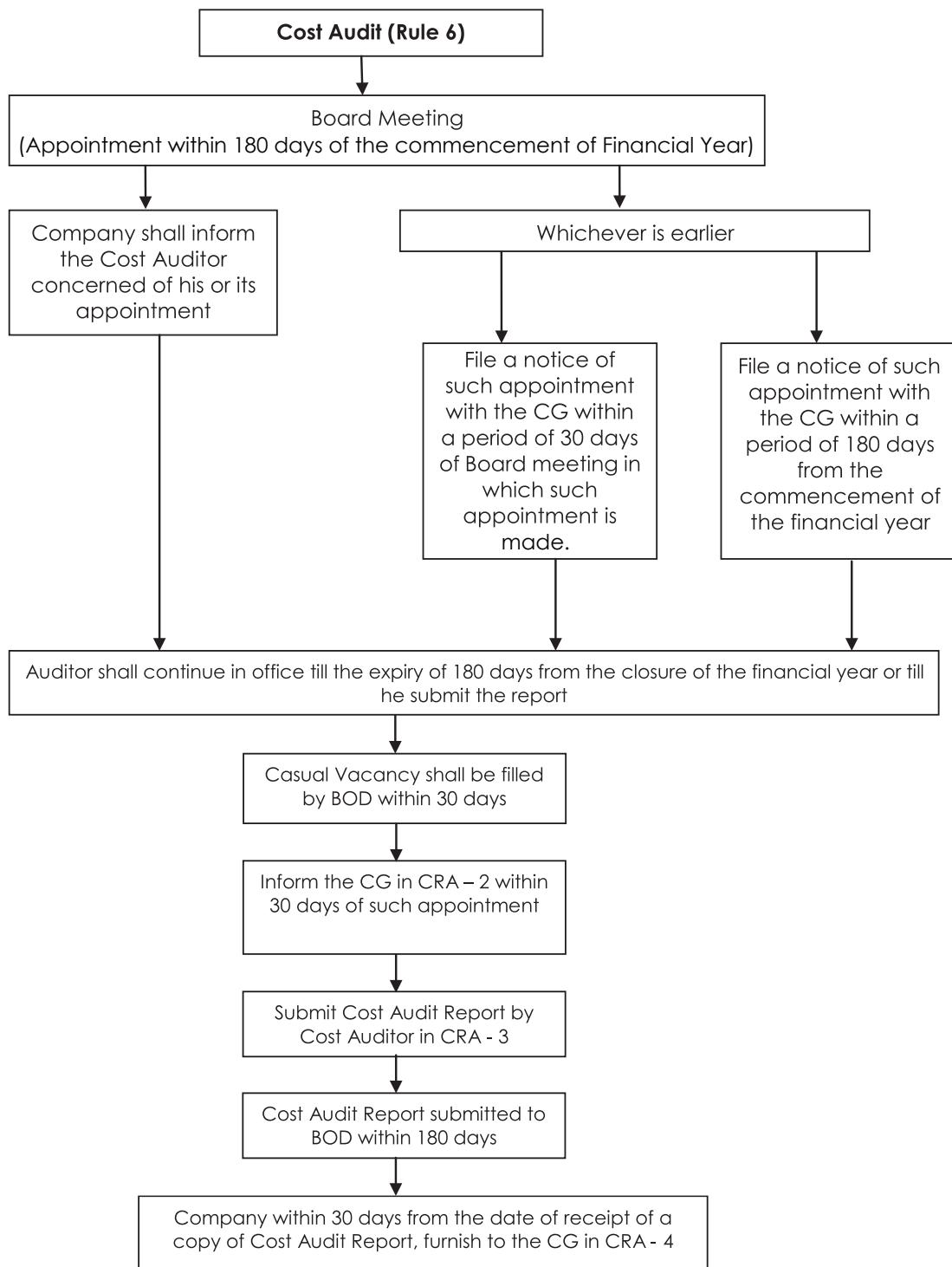


<p><b>Rule-4:</b> Applicability for Cost Audit</p>	<p>Even for regulated sectors like Telecommunication, Electricity, Petroleum and Gas, Drugs and Pharma, Fertilizers and Sugar, Cost audit requirement has been made subject to a turnover based threshold of ₹ 50 crores for all product and services and ₹ 25 crores for individual product or services. For Non-regulated sector the threshold is ₹ 100 crores and ₹ 35 crores respectively.</p>
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**Rule 4: Diagrammatic Representation**



<p><b>Rule-5:</b> Maintenance of Cost Records</p>	<p>The requirement to maintain cost records in Form CRA-1 have been postponed to Financial Year 2015-16 for the following companies in some non-regulated sectors, namely; Coffee and Tea, Milk Powder and Electricals and electronic machinery.</p>
<p><b>Rule-6:</b> Cost Audit</p>	<p>Any casual vacancy in the office of a cost auditor, whether due to resignation, death or removal to be filled by the Board of Directors within thirty days of occurrence of such vacancy and the company shall inform the Central Government in Form CRA-2 within thirty days of such appointment of cost auditor.</p>



<p><b>CRA-1:</b> Forms in which cost records shall be maintained <b>[Pursuant to rule 5(1)]</b></p>	<p>The form CRA-1 prescribes the form in which cost records shall be maintained. The form categorises the requirement of maintaining proper details as per 30 headings. The headings are as follows: <b>(1)</b> Material Cost, <b>(2)</b> Employee Cost, <b>(3)</b> Utilities, <b>(4)</b> Direct Expenses, <b>(5)</b> Repair and Maintenance, <b>(6)</b> Fixed Assets and Depreciation, <b>(7)</b> Overheads, <b>(8)</b> Administrative Overheads, <b>(9)</b> Transportation Cost, <b>(10)</b> Royalty and Technical Know-how, <b>(11)</b> Research and Development expenses, <b>(12)</b> Quality Control Expenses, <b>(13)</b> Pollution Control Expenses, <b>(14)</b> Service Department Expenses, <b>(15)</b> Packing Expenses, <b>(16)</b> Interest and Financing Charges, <b>(17)</b> Any other item of Cost, <b>(18)</b> Capacity Determination, <b>(19)</b> Work-in-progress and finished stock, <b>(20)</b> Captive Consumption, <b>(21)</b> By-Products and Joint Products, <b>(22)</b> Adjustment of Cost Variances, <b>(23)</b> Reconciliation of Cost and Financial Accounts, <b>(24)</b> Related Party Transactions, <b>(25)</b> Expenses or Incentives on Exports, <b>(26)</b> Production records, <b>(27)</b> Sales records, <b>(28)</b> Cost Statements, <b>(29)</b> Statistical Records, <b>(30)</b> Records of Physical Verification.</p>
<p><b>CRA-2:</b> Form of intimation of appointment of cost auditor by the company to <b>Central Government</b> <b>[Pursuant to rule 6(2) &amp; (3A)]</b></p>	<p><b>(1)</b> Corporate Identity number (CIN) or foreign company registration number (FCRN) of the company <b>(2)</b> General Information <b>(3)</b> Product(s)/Service(s) to which Cost Audit relates <b>(4)</b> Details of all the Cost Auditor(s) appointed <b>(5)</b> Financial year to be covered under the Cost Audit <b>(6)</b> Details of previous Cost Auditor which has not been reappointed <b>(7)</b> Attachments - Copy of the Board resolution of the company - Optional attachment - if any</p>
<p><b>CRA-3:</b> Form of Cost Audit Report <b>[Pursuant to rule 6(4)]</b></p>	<p>Clause (vii) have been added to auditor's report as under: Detailed unit-wise and product/service-wise cost statements and schedules thereto In respect of the product/services under reference of the company duly audited and certified by me/us are/are not kept in the company.</p>



<p><b>Annexure to Cost Audit Report</b></p>	<p><b>Annexure has been reclassified into four parts as under:</b></p> <p><b>Part-A</b>                  General Information,                  General Details of Cost Auditors,                  Cost Accounting Policy,                  Product/Service Details –for the company as a whole.</p> <p><b>Part-B For Manufacturing Sector</b>                  Quantitative Information,                  Abridged Cost Statement,                  Details of Materials Consumed,                  Details of Utilities Consumed,                  Details of Industry Specific Operating Expenses.</p> <p><b>Part-C For Service Sector</b>                  Quantitative Information,                  Abridged Cost Statement,                  Details of Materials Consumed,                  Details of Utilities Consumed,                  Details of Industry Specific Operating Expenses.</p> <p><b>Part-D</b>                  Product and Service Profitability Statement,                  Profit Reconciliation,                  Value Addition and Distribution of Earnings,                  Financial Position and Ratio Analysis,                  Related Party Transactions,                  Reconciliation of Indirect taxes.</p>
<p><b>CRA – 4:</b> Form for filing Cost Audit Report with the <b>Central Government</b>  <b>[Pursuant to rule 6(6)]</b></p>	<ol style="list-style-type: none"> <li>(1) Corporate identity number (CIN) or foreign company Registration number (FCRN) of the company</li> <li>(2) General Information</li> <li>(3) Corporate identity number (CIN) or foreign company Registration number (FCRN) of the company</li> <li>(4) Details of Industries/Sectors/Product(s)/Service(s) (CETA heading level, wherever applicable as per Rules for Regulated and Non-regulated sector) for which the Cost Audit Report is being submitted</li> <li>(5) Details of Industries/Sectors/Product(s)/Service(s) (CETA heading level, wherever applicable as per Rules for Regulated and Non-regulated sector) not covered in the Cost Audit Report</li> <li>(6) Details of the cost auditor(s) appointed</li> <li>(7) Details of observation of the Cost Audit report</li> <li>(8) Attachment                         <ul style="list-style-type: none"> <li>- XBRL document in respect of the cost audit report and Company's information and explanation on every Qualification and reservation contained therein</li> <li>- Optional attachment, if any.</li> </ul> </li> </ol>

**Detailed Rule as per pronouncement by the MCA, GOI is reproduce for reference:-**





**The Companies (Cost Records and Audit) Rules, 2014 came into force on 30th June, 2014. These rules were amended on 31st December' 2014 giving effect to Rule 2, 3, 4, 5, 6, 7 and Form CRA 1 & CRA 3. It was further amended on 12th June'2015 to giving effect on Form CRA 2 & CRA 4. Further amendment was made on 14<sup>th</sup> July 2016.**

Represented here under the existing provisions as applicable, after considering amendments till date, as mentioned above:

### **1. Short title and commencement**

- (1)** These rules may be called the Companies (cost records and audit) Rules, 2014.
- (2)** They shall come into force from the date of their publication in the Official Gazette.

### **2. Definitions:** In these rules, unless the context otherwise requires -

- (a)** "Act" means the Companies Act, 2013 (18 of 2013);
- (aa)** "Central Excise Tariff Act Heading" means the heading as referred to in the Additional Notes in the First Schedule to the Central Excise Tariff Act, 1985 [5 of 1986];
- (b)** "Cost Accountant in practice" means a cost accountant as defined in clause **(b)** of sub-section (1) of section 2 of the Cost and Works Accountants Act, 1959 (23 of 1959), who holds a valid certificate of practice under sub-section (1) of section 6 of that Act and who is deemed to be in practice under sub-section (2) of section 2 thereof, and includes a firm or limited liability partnership of cost accountants;
- (c)** "cost auditor" means a Cost Accountant in practice, as defined in clause **(b)**, who is appointed by the Board;
- (d)** "cost audit report" means the duly signed cost auditor's report on the cost records examined and cost statements which are prepared as per these rules, including attachment, annexure, qualifications or observations attached with or included in such report
- (e)** "cost records" means books of account relating to utilisation of materials, labour and other items of cost as applicable to the production of goods or provision of services as provided in section 148 of the Act and these rules;
- (f)** "form" means a form annexed to these rules;
- (g)** "institute" means the Institute of Cost Accountants of India constituted under the Cost and Works Accountants Act, 1959 (23 of 1959);
- (h)** all other words and expressions used in these rules but not defined, and defined in the Act or in the Companies (Specification of Definition Details) Rules, 2014 shall have the same meanings as assigned to them in the Act or in the said rules.

### **3. Application of Cost Records**

For the purposes of sub-section (1) of Section 148 of the Act, the class of companies, including foreign companies defined in clause (42) of Section 2 of the Act, engaged in the production of the goods or providing services, specified in the Table below, having an overall turnover from all its products and services of rupees thirty five crore or more during the immediately preceding financial year, shall include cost records for such products or services in their books of account, namely:-

**TABLE****(A) Regulated Sectors**

Sl. No	Industry/ Sector/ Product/ Service	Central Excise Tariff Act Heading (wherever applicable)
1	Telecommunication services made available to users by means of any transmission or reception of signs, signals, writing, images and sounds or intelligence of any nature and regulated by the Telecom Regulatory Authority of India under the Telecom Regulatory Authority of India Act, 1997 (24 of 1997); including activities that requires authorization or license issued by the Department of Telecommunications, Government of India under Indian Telegraph Act, 1885 (13 of 1885);	Not applicable.
2	Generation, transmission, distribution and supply of electricity regulated by the relevant regulatory body or authority under the Electricity Act, 2003 (36 of 2003);	Generation- 2716; Other Activity- Not Applicable
3	Petroleum products regulated by the Petroleum and Natural Gas Regulatory Board under the Petroleum and Natural Gas Regulatory Board Act, 2006 (19 of 2006);	2709 to 2715; Other Activity- Not Applicable
4	Drugs and pharmaceuticals;	2901 to 2942; 3001 to 3006.
5	Fertilizers;	3102 to 3105
6	Sugar and industrial alcohol	1701; 1703; 2207.

**(B) Non-regulated Sectors**

Sl No	Industry/ Sector/ Product/ Service	CETA Heading (wherever applicable)
1	Machinery and mechanical appliances used in defense, space and atomic energy sectors excluding any ancillary item or items; Explanation. - For the purposes of this sub-clause, any company which is engaged in any item or items supplied exclusively for use under this clause shall be deemed to be covered under these rules.	8401; 8801 to 8805; 8901 to 8908.
2	Turbo jets and turbo propellers;	8411
3	Arms and ammunitions and Explosives	3601 to 3603; 9301 to 9306
4	Propellant powders; prepared explosives (other than propellant powders); safety fuses; detonating fuses; percussion or detonating caps; igniters; electric detonators;	3601 to 3603
5	Radar apparatus, radio navigational aid apparatus and radio remote control apparatus;	8526
6	Tanks and other armoured fighting vehicles, motorised, whether or not fitted with weapons and parts of such vehicles, that are funded (investment made in the company) to the extent of ninety per cent or more by the Government or Government agencies	8710

7	Port services of stevedoring, pilotage, hauling, mooring, re-mooring, hooking, measuring, loading and unloading services rendered by a Port in relation to a vessel or goods regulated by the Tariff Authority for Major Ports;	Not applicable.
8	Aeronautical services of air traffic management, aircraft operations, ground safety services, ground handling, cargo facilities and supplying fuel rendered by airports and regulated by the Airports Economic Regulatory Authority under the Airports Economic Regulatory Authority of India Act, 2008 (27 of 2008);	Not applicable.
9	<b>Iron and Steel</b>	7201 to 7229; 7301 to 7326
10	Roads and other infrastructure projects corresponding to para No. (1) (a) as specified in Schedule VI of the Companies Act, 2013; (18 of 2013)	Not applicable
11	Rubber and allied products being regulated by the Rubber Board constituted under the Rubber Act, 1947 (XXIV of 1947).	4001 to 4017
12	Coffee and tea;	0901 to 0902
13	Railway or tramway locomotives, rolling stock, railway or tramway fixtures and fittings, mechanical (including electro mechanical) traffic signalling equipment's of all kind;	8601 to 8608.
14	Cement;	2523; 6811 to 6812
15	Ores and Mineral products;	2502 to 2522; 2524 to 2526; 2528 to 2530; 2601 to 2617
16	Mineral fuels (other than Petroleum), mineral oils etc.;	2701 to 2708
17	Base metals;	7401 to 7403; 7405 to 7413; 7419; 7501 to 7508; 7601 to 7614; 7801 to 7802; 7804; 7806; 7901 to 7905; 7907; 8001; 8003; 8007; 8101 to 8113
18	Inorganic chemicals, organic or inorganic compounds of precious metals, rare-earth metals of radioactive elements or isotopes, and Organic Chemicals;	2801 to 2853; 2901 to 2942; 3801 to 3807; 3402 to 3403; 3809 to 3824.
19	Jute and Jute Products	5303, 5310
20	Edible Oil;	1507 to 1518
21	Construction Industry as per para No. (5) (a) as specified in Schedule VI of the Companies Act, 2013 (18 of 2013)	Not applicable.
22	Health services, namely functioning as or running hospitals, diagnostic centres, clinical centres or test laboratories;	Not applicable.
23	Education services, other than such similar services falling under philanthropy or as part of social spend which do not form part of any business.	Not applicable
24	Milk powder;	0402
25	Insecticides;	3808

<b>26</b>	Plastics and polymers;	3901 to 3914; 3916 to 3921; 3925
<b>27</b>	Tyres and tubes;	4011 to 4013
<b>28</b>	Paper;	4801 to 4802
<b>29</b>	Textiles;	5004 to 5007; 5106 to 5113; 5205 to 5212; 5303; 5310; 5401 to 5408; 5501 to 5516
<b>30</b>	Glass;	7003 to 7008; 7011; 7016
<b>31</b>	Other machinery;	8402 to 8487
<b>32</b>	Electricals or electronic machinery;	8501 to 8507; 8511 to 8512; 8514 to 8515; 8517; 8525 to 8536; 8538 to 8547.
<b>33</b>	Production, import and supply or trading of following medical devices, namely:- (i) Cardiac stents; (ii) Drug eluting stents; (iii) Catheters; (iv) Intra ocular lenses; (v) Bone cements; (vi) Heart valves; (vii) Orthopaedic implants; (viii) Internal prosthetic replacements; (ix) Scalp vein set; (x) Deep brain stimulator; (xi) Ventricular peripheral shunt; (xii) Spinal implants; (xiii) Automatic palpable cardiac defibrillator; (xiv) Pacemaker (temporary and permanent); (xv) Patent ductus arteriosus, atrial septal defect and ventricular septal defect closure device; (xvi) Cardiac re-synchronize therapy ; (xvii) Urethra spincture devices; (xviii) Sling male or female; (xix) Prostate occlusion device; and (xx) Urethral stents:	9018 to 9022

Provided that nothing contained in serial number 33 shall apply to foreign companies having only liaison offices.

Provided further that nothing contained in this rule shall apply to a company which is classified as a micro enterprise or a small enterprise including as per the turnover criteria under sub-section (9) of section 7 of the Micro, Small and Medium Enterprises Development Act, 2006 (27 of 2006).

#### 4. Applicability for Cost Audit

- (1) Every company specified in item (A) of rule 3 shall get its cost records audited in accordance with these rules if the overall annual turnover of the company from all its products and services during the immediately preceding financial year is rupees fifty crore or more and the aggregate turnover of the individual product or products or service or services for which cost records are required to be maintained under rule 3 is rupees twenty five crore or more.
- (2) Every company specified in item (B) of rule 3 shall get its cost records audited in accordance with these rules if the overall annual turnover of the company from all its products and services during the immediately preceding financial year is rupees one hundred crore or more and the aggregate turnover of the individual product or products or service or services for which cost records are required to be maintained under rule 3 is rupees thirty five crore or more.
- (3) The requirement for cost audit under these rules shall not apply to a company which is covered in rule 3; and
  - (i) whose revenue from exports, in foreign exchange, exceeds seventy five per cent of its total revenue; or
  - (ii) which is operating from a special economic zone;
  - (iii) which is engaged in generation of electricity for captive consumption through Captive Generating Plant. For this purpose, the term "Captive Generating Plant" shall have the same meaning as assigned in rule 3 of the Electricity Rules, 2005"

#### 5. Maintenance of records

- (1) Every company under these rules including all units and branches thereof, shall, in respect of each of its financial year commencing on or after the 1st day of April, 2014, maintain cost records in **form CRA-1**.

**Provided** that in case of company covered in serial number 12 and serial numbers 24 to 32 of item (B) of rule 3, the requirement under this rule shall apply in respect of each of its financial year commencing on or after 1st day of April, 2015.
- (2) The cost records referred to in sub-rule (1) shall be maintained on regular basis in such manner as to facilitate calculation of per unit cost of production or cost of operations, cost of sales and margin for each of its products and activities for every financial year on monthly or quarterly or half-yearly or annual basis.
- (3) The cost records shall be maintained in such manner so as to enable the company to exercise, as far as possible, control over the various operations and costs to achieve optimum economies in utilisation of resources and these records shall also provide necessary data which is required to be furnished under these rules.

#### 6. Cost Audit

- (1) The category of companies specified in rule 3 and the thresholds limits laid down in rule 4, shall within one hundred and eighty days of the commencement of every financial year, appoint a cost auditor.

Provided that before such appointment is made, the written consent of the cost auditor to such appointment, and a certificate from him or it, as provided in sub-rule (1A), shall be obtained

- (1A) The cost auditor appointed under sub-rule (1) shall submit a certificate that—
  - (a) the individual or the firm, as the case may be, is eligible for appointment and is not disqualified for appointment under the Act, the Cost and Works Accountants Act, 1959 (23 of 1959) and the rules or regulations made thereunder;



- (b) the individual or the firm, as the case may be, satisfies the criteria provided in section 141 of the Act, so far as may be applicable;
  - (c) the proposed appointment is within the limits laid down by or under the authority of the Act; and
  - (d) the list of proceedings against the cost auditor or audit firm or any partner of the audit firm pending with respect to professional matters of conduct, as disclosed in the certificate, is true and correct."
- (2) Every company referred to in sub-rule (1) shall inform the cost auditor concerned of his or its appointment as such and file a notice of such appointment with the Central Government within a period of thirty days of the Board meeting in which such appointment is made or within a period of one hundred and eighty days of the commencement of the financial year, whichever is earlier, through electronic mode, in **form CRA-2**, along with the fee as specified in Companies (Registration Offices and Fees) Rules, 2014.
- (3) Every cost auditor appointed as such shall continue in such capacity till the expiry of one hundred and eighty days from the closure of the financial year or till he submits the cost audit report, for the financial year for which he has been appointed.
- Provided that the cost auditor appointed under these rules may be removed from his office before the expiry of his term, through a board resolution after giving a reasonable opportunity of being heard to the Cost Auditor and recording the reasons for such removal in writing;
- Provided further that the Form CRA-2 to be filed with the Central Government for intimating appointment of another cost auditor shall enclose the relevant Board Resolution to the effect;
- Provided also that nothing contained in this sub-rule shall prejudice the right of the cost auditor to resign from such office of the company
- (3A) Any casual vacancy in the office of a cost auditor, whether due to resignation, death or removal, shall be filled by the Board of Directors within thirty days of occurrence of such vacancy and the company shall inform the Central Government in Form CRA-2 within thirty days of such appointment of cost auditor.
- (3B) The cost statements, including other statements to be annexed to the cost audit report, shall be approved by the Board of Directors before they are signed on behalf of the Board by any of the director authorised by the Board, for submission to the cost auditor to report thereon
- (4) Every cost auditor, who conducts an audit of the cost records of a company, shall submit the cost audit report along with his or its reservations or qualifications or observations or suggestions, if any, in form **CRA-3**.
- (5) Every cost auditor shall forward his duly signed report to the Board of Directors of the company within a period of one hundred and eighty days from the closure of the financial year to which the report relates and the Board of Directors shall consider and examine such report, particularly any reservation or qualification contained therein.
- (6) Every company covered under these rules shall, within a period of thirty days from the date of receipt of a copy of the cost audit report, furnish the Central Government with such report alongwith full information and explanation on every reservation or qualification contained therein, in Form CRA-4in Extensible Business Reporting Language format in the manner as specified in the Companies (Filing of Documents and Forms in Extensible Business Reporting language) Rules, 2015 alongwith fees specified in the Companies (Registration Offices and Fees) Rules, 2014."

**FORM CRA-1**

**[Pursuant to rule 5(1) of the Companies (Cost Records and Audit) Rules, 2014]**

**Particulars relating to the Items of Costs to be included in the Books of Accounts**

**1. Material Costs**

- (a)** Proper records shall be maintained showing separately all receipts, issues and balances both in quantities and cost of each item of raw material required for the production of goods or rendering of services under reference.
- (b)** The material receipt shall 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 by the taxing authorities) that can be quantified with reasonable accuracy at the time of acquisition.
- (c)** Finance costs incurred in connection with the acquisition of materials shall not form part of material cost.
- (d)** Self-manufactured materials or captive consumption shall be valued including direct material cost, direct employee cost, direct expenses, factory overheads, share of administrative overheads relating to production but excluding share of other administrative overheads, finance cost and marketing overheads.
- (e)** Spares which are specific to an item of equipment shall not be taken to inventory, but shall be capitalized with the cost of the specific equipment. Cost of capital spares or insurance spares, whether procured with the equipment or subsequently, shall be amortised over a period, not exceeding the useful life of the equipment.
- (f)** Normal loss or spoilage of material prior to reaching the factory or at places where the services are provided shall be absorbed in the cost of balance materials net of amounts recoverable from suppliers, insurers, carriers or recoveries from disposal.
- (g)** Losses due to shrinkage or evaporation and gain due to elongation or absorption of moisture etc., before the material is received shall be absorbed in material cost to the extent they are normal, with corresponding adjustment in the quantity.
- (h)** The forex component of imported 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 material cost.
- (i)** Any demurrage or detention charges, or penalty levied by transport or other authorities shall not form part of the cost of materials.
- (j)** Subsidy or Grant or Incentive and any such payment received or receivable with respect to any material shall be reduced from cost for ascertainment of the cost of the cost object to which such amounts are related.
- (k)** Issues shall be valued using appropriate assumptions on cost flow, e.g. First-in-First-out, Last-in-First-out, Weighted Average Rate. The method of valuation shall be followed on a consistent basis.
- (l)** Where materials are accounted at standard cost, the price variances related to materials shall be treated as part of material cost.
- (m)** Any abnormal cost shall be excluded from the material cost.

- (n) Wherever, material costs include transportation costs, determination of costs of transportation shall be governed by Para No. 9 on Determination of Cost of Transportation.
- (o) Self-manufactured components and sub-assemblies or captive consumption shall be valued including direct material cost, direct employee cost, direct expenses, factory overheads, share of administrative overheads relating to production but excluding share of other administrative overheads, finance cost and marketing overheads.
- (p) The material cost of normal scrap or defectives which are rejects shall be included in the material cost of goods manufactured. The material cost of actual scrap or defectives, not exceeding the normal shall be adjusted in the material cost of good production. Material Cost of abnormal scrap or defectives shall not be included in material cost but treated as loss after giving credit to the realisable value of such scrap or defectives.
- (q) Material costs shall be directly traced to a Cost object to the extent it is economically feasible or shall be assigned to the cost object on the basis of material quantity consumed or similar identifiable measure and valued as per above principles.
- (r) Where the material costs are not directly traceable to the cost object, the same shall be assigned on a suitable basis like technical estimates.
- (s) Where a material is processed or part manufactured by a third party according to specifications provided by the buyer, the processing or manufacturing charges payable to the third party shall be treated as part of the material cost.
- (t) Wherever part of the manufacturing operations or activity is subcontracted, the subcontract charges related to materials shall be treated as direct expenses and assigned directly to the cost object.
- (u) The cost of indirect materials shall be assigned to the various Cost objects based on a suitable basis such as actual usage or technical norms or a similar identifiable measure.
- (v) The cost of materials like catalysts, dies, tools, moulds, patterns etc., which are relatable to production over a period of time shall be amortized over the production units benefited by such cost.
- (w) The cost of indirect material with life exceeding one year shall be included in cost over the useful life of the material.

## **2. Employee Cost**

- (a) Proper records shall be maintained in respect of employee costs in such a manner as to enable the company to book these expenses cost centre wise or department wise with reference to goods or services under reference and to furnish necessary particulars. Where the employees work in such a manner that it is not possible to identify them with any specific cost centre or service centre or department, the employees cost shall be apportioned to the cost centre or service centres or departments on equitable and reasonable basis and applied consistently.
- (b) Employee cost shall be ascertained taking into account the gross pay including all allowances payable along with the cost to the employer of all the benefits.
- (c) Bonus whether payable as a statutory minimum or on a sharing of surplus shall be treated as part of employee cost. Exgratia payable in lieu of or in addition to bonus shall also be treated as part of the employee cost.
- (d) Remuneration payable to Managerial Personnel including Executive Directors on the Board and other officers of a corporate body under a statute shall be considered as part of the



- employee cost of the year under reference whether the whole or part of the remuneration is computed as a percentage of profits. Remuneration paid to non-executive directors shall not form part of employee cost but shall form part of administrative overheads.
- (e)** Separation costs related to voluntary retirement, retrenchment, termination and other related matters shall be amortised over the period benefitting from such costs.
  - (f)** Employee cost shall not include imputed costs.
  - (g)** Cost of Idle time is ascertained by the idle hours multiplied by the hourly rate applicable to the idle employee or a group of employees.
  - (h)** Where employee cost is accounted at standard cost, variances due to normal reasons related to employee cost shall be treated as part of employee cost. Variances due to abnormal reasons shall be treated as part of abnormal cost.
  - (i)** Any subsidy, grant, incentive or any such payment received or receivable with respect to any employee cost shall be reduced for ascertainment of cost of the cost object to which such amounts are related.
  - (j)** Any abnormal cost where it is material and quantifiable shall not form part of the employee cost.
  - (k)** Penalties, damages paid to statutory authorities or other third parties shall not form part of the employee cost.
  - (l)** The cost of free housing, free conveyance and any other similar benefits provided to an employee shall be determined at the total cost of all resources consumed in providing such benefits.
  - (m)** Any recovery from the employee towards any benefit provided, namely, housing shall be reduced from the employee cost.
  - (n)** Any change in the cost accounting principles applied for the determination of the employee cost shall be made only if it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an enterprise.
  - (o)** Where the employee services are traceable to a cost object, such employees' cost shall be assigned to the cost object on the basis such as time consumed or number of employees engaged or other related basis or similar identifiable measure.
  - (p)** While determining whether a particular employee cost is chargeable to a separate cost object, the principle of materiality shall be adhered to.
  - (q)** Where the employee costs are not directly traceable to the cost object, the same shall be assigned on suitable basis like estimates of time based on time study.
  - (r)** The amortised separation costs related to voluntary retirement, retrenchment, and termination or other related matters for the period shall be treated as indirect cost and assigned to the cost objects in an appropriate manner provided that unamortised amount related to discontinue operations, shall not be treated as employee cost.
  - (s)** Recruitment costs, training cost and other such costs shall be treated as overheads and dealt with accordingly.
  - (t)** Overtime premium shall be assigned directly to the cost object or treated as overheads depending on the economic feasibility and the specific circumstance requiring such overtime.

- (u) Idle time cost shall be assigned direct to the cost object or treated as overheads depending on the economic feasibility and the specific circumstances causing such idle time.

**3. Utilities**

- (a) Proper records shall be maintained showing the quantity and cost of each major utility such as power, water, steam, effluent treatment and other related utilities produced and consumed by the different cost centres in such detail as to have particulars for each utility separately.
- (b) Each type of utility shall be treated as a distinct cost object.
- (c) Cost of utilities purchased shall be measured at cost of purchase including duties and taxes, transportation cost, 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 with reasonable accuracy at the time of acquisition.
- (d) Cost of self-generated utilities for own consumption shall comprise direct material cost, direct employee cost, direct expenses and factory overheads.
- (e) In case of utilities generated for the purpose of inter unit transfers, the distribution cost incurred for such transfers shall be added to the cost of utilities determined as above.
- (f) Cost of utilities generated for the intercompany transfers shall comprise direct material cost, direct employee cost, direct expenses, factory overheads, distribution cost and share of administrative overheads.
- (g) Cost of utilities generated for the sale to outside parties shall comprise direct material cost, direct employee cost, direct expenses, factory overheads, distribution cost, share of administrative overheads and marketing overheads. The sale value of such utilities shall also include the margin.
- (h) Finance costs incurred in connection with the utilities shall not form part of cost of utilities.
- (i) The cost of utilities shall include the cost of distribution of such utilities. The cost of distribution shall consist of the cost of delivery of utilities up to the point of consumption.
- (j) Cost of utilities shall not include imputed costs.
- (k) 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.
- (l) Any subsidy or grant or incentive or any such payment received or receivable with respect to any cost of utilities shall be reduced for ascertainment of the cost to which such amounts are related.
- (m) 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.
- (n) Any abnormal cost where it is material and quantifiable shall not form part of the cost of utilities.
- (o) Penalties, damages paid to statutory authorities or other third parties shall not form part of the cost of utilities.

- (p) Credits or recoveries relating to the utilities including cost of utilities provided to outside parties, material and quantifiable, shall be deducted from the total cost of utility to arrive at the net cost of utility.
- (q) Any change in the cost accounting principles applied for the measurement of the cost of utilities shall be made only if, it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an organisation.
- (r) While assigning cost of utilities, traceability to a cost object in an economically feasible manner shall be the guiding principle.
- (s) Where the cost of utilities is not directly traceable to cost object, it shall be assigned on the most appropriate basis.
- (t) The most appropriate basis of distribution of cost of a utility to the departments consuming services is to be derived from usage parameters.

#### **4. Direct Expenses**

- (a) Proper records shall be maintained in respect of direct expenses in such a manner as to enable the company to book these expenses cost centre wise or cost object or department wise with reference to goods or services under reference and to furnish necessary particulars.
- (b) Direct expenses incurred for the use of bought out resources shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of trade discounts, rebates, taxes and duties refundable or to be credited.
- (c) Other direct expenses shall be determined on the basis of amount incurred in connection therewith.
- (d) Direct expenses 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 such direct expenses.
- (e) If an item of direct expenses does not meet the test of materiality, it can be treated as part of overheads.
- (f) Finance costs incurred in connection with the self-generated or procured resources shall not form part of direct expenses. Direct expenses shall not include imputed costs.
- (g) Where direct expenses are accounted at standard cost, variances due to normal reasons shall be treated as part of the direct expenses. Variances due to abnormal reasons shall not form part of the direct expenses.
- (h) Any subsidy or grant or incentive or any such payment received or receivable with respect to any direct expenses shall be reduced for ascertainment of the cost of the cost object to which such amounts are related.
- (i) Any abnormal portion of the direct expenses where it is material and quantifiable shall not form part of the direct expenses.
- (j) Penalties, damages paid to statutory authorities or other third parties shall not form part of the direct expenses.
- (k) Credits or recoveries relating to the direct expenses, material and quantifiable, shall be deducted to arrive at the net direct expenses.

- (l) Any change in the cost accounting principles applied for the measurement of the direct expenses shall be made only if, it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an organisation.
- (m) Direct expenses that are directly traceable to the cost object shall be assigned to that cost object.

#### **5. Repairs and Maintenance**

- (a) Proper records showing the expenditure incurred by the workshop, tool room and on repairs and maintenance in the various cost centres or departments shall be maintained under different heads.
- (b) Repairs and maintenance cost shall be the aggregate of direct and indirect cost relating to repairs and maintenance activity. Direct cost shall include the cost of materials, consumable stores, spares, manpower, equipment usage, utilities and other identifiable resources consumed in such activity. Indirect cost shall include the cost of resources common to various repairs and maintenance activities such as manpower, equipment usage and other costs allocable to such activities.
- (c) Cost of in-house repairs and maintenance activity shall include cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources used in such activity.
- (d) Cost of repairs and maintenance activity carried out by outside contractors inside the entity shall include charges payable to the contractor and cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other costs incurred by the entity for such jobs.
- (e) Cost of repairs and maintenance jobs carried out by contractor at its premises shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discount), taxes and duties refundable or to be credited. This cost shall also include the cost of other resources provided to the contractors.
- (f) Cost of repairs and maintenance jobs carried out by outside contractors shall include charges made by the contractor and cost of own materials, consumable stores, spares, manpower, equipment usage, utilities and other costs used in such jobs.
- (g) Each type of repairs and maintenance shall be treated as a distinct activity, if material and identifiable.
- (h) Cost of repairs and maintenance activity shall be measured for each major asset category separately.
- (i) Cost of spares replaced which do not enhance the future economic benefits from the existing asset beyond its previously assessed standard of performance shall be included under repairs and maintenance cost.
- (j) High value spare, when replaced by a new spare and is reconditioned, which is expected to result in future economic benefits, the same shall be taken into stock. Such a spare shall be valued at an amount that measures its service potential in relation to a new spare which amount shall not exceed the cost of reconditioning the spare. The difference between the total of the cost of the new spare and the reconditioning cost and the value of the reconditioned spare shall be treated as repairs and maintenance cost.
- (k) The cost of major overhaul shall be amortised on a rational basis.

- (l) Finance costs incurred in connection with the repairs and maintenance activities shall not form part of Repairs and maintenance costs.
- (m) Repairs and maintenance costs shall not include imputed costs.
- (n) Price variances related to repairs and maintenance, where standard costs are in use, shall be treated as part of repairs and maintenance cost. The portion of usage variances attributable to normal reasons shall be treated as part of repairs and maintenance cost. Usage variances attributable to abnormal reasons shall be excluded from repairs and maintenance cost.
- (o) Subsidy or Grant or Incentive or amount of similar nature received or receivable with respect to repairs and maintenance activity, if any, shall be reduced for ascertainment of the cost of the cost object to which such amounts are related.
- (p) Any repairs and maintenance cost resulting from some abnormal circumstances, namely, major fire, explosion, flood and similar events, if material and quantifiable, shall not form part of the repairs and maintenance cost.
- (q) Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the repairs and maintenance cost.
- (r) Credits or recoveries relating to the repairs and maintenance activity, material and quantifiable, shall be deducted to arrive at the net repairs and maintenance cost.
- (s) Any change in the cost accounting principles applied for the measurement of the repairs and maintenance cost shall be made only if, it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an organisation.
- (t) Repairs and maintenance costs shall be traced to a cost object to the extent economically feasible.
- (u) Where the repairs and maintenance cost is not directly traceable to cost object, it shall be assigned based on either of the following the principles of (1) Cause and Effect - Cause is the process or operation or activity and effect is the incurrence of cost and (2) Benefits received – overheads are to be apportioned to the various cost objects in proportion to the benefits received by them.
- (v) If the repairs and maintenance cost (including the share of the cost of reciprocal exchange of services) is shared by several cost objects, the related cost shall be measured as an aggregate and distributed among the cost objects.

#### **6. Fixed Assets and depreciation**

- (a) Proper and adequate records shall be maintained for assets used for production of goods or rendering of services under reference in respect of which depreciation has to be provided for. These records shall, inter-alia, indicate grouping of assets under each good or service, the cost of acquisition of each item of asset including installation charges, date of acquisition and rate of depreciation.
- (b) Depreciation and amortisation shall be measured based on the depreciable amount and the useful life. The residual value of an intangible asset shall be assumed to be zero unless:
  - (i) there is a commitment by a third party to purchase the asset at the end of its useful life; or
  - (ii) there is an active market for the asset and:
    - a. residual value can be determined by reference to that market; and
    - b. it is probable that such a market will exist at the end of the asset's useful life.
    - c. The residual value of a fixed asset shall be considered as zero if the entity is unable to estimate the same with reasonable accuracy.

- (c) The minimum amount of depreciation to be provided shall not be less than the amount calculated as per principles and methods as prescribed by any law or regulations applicable to the entity and followed by it.
- (d) In case of regulated industry the amount of depreciation shall be the same as prescribed by the concerned regulator.
- (e) While estimating the useful life of a depreciable asset, consideration shall be given to the following factors:
  - (i) Expected physical wear and tear;
  - (ii) Obsolescence; and
  - (iii) Legal or other limits on the use of the asset.
- (f) The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights, but may be shorter depending on the period over which the entity expects to use the asset.
- (g) If the contractual or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost. The useful life of a re-acquired right recognised as an intangible asset in a business combination is the remaining contractual period of the contract in which the right was granted and shall not include renewal periods.
- (h) The useful life of an intangible asset, in any situation, shall not exceed 10 years from the date it is available for use.
- (i) Depreciation shall be considered from the time when a depreciable asset is first put into use. An asset which is used only when the need arises but is always held ready for use. Example: fire extinguisher, stand by generator, safety equipment shall be considered to be an asset in use. Depreciable assets shall be considered to be put into use when commercial production of goods and services commences.
- (j) Depreciation on an asset which is temporarily retired from production of goods and services shall be considered as abnormal cost for the period when the asset is not in use.
- (k) Depreciation of any addition or extension to an existing depreciable asset which becomes an integral part of that asset shall be based on the remaining useful life of that asset.
- (l) Depreciation of any addition or extension to an existing depreciable asset which retains a separate identity and is capable of being used after the expiry of the useful life of that asset shall be based on the estimated useful life of that addition or extension.
- (m) The impact of higher depreciation due to revaluation of assets shall not be assigned to cost object.
- (n) Impairment loss on assets shall be excluded from cost of production.
- (o) The method of depreciation used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.
- (p) An entity can use any of the methods of depreciation to assign depreciable amount of an asset on a systematic basis over its useful life, namely, Straight-line method; Diminishing balance method; and Units of production method, etc.
- (q) The method of amortisation of intangible asset shall reflect the pattern in which the economic benefits accrue to entity.

- (r) The methods and rates of depreciation applied shall be reviewed at least annually and, if there has been a change in the expected pattern of consumption or loss of future economic benefits, the method applied shall be changed to reflect the changed pattern.
- (s) Spares purchased specifically for a particular asset, or class of assets, and which would become redundant if that asset or class of asset was retired or use of that asset was discontinued, shall form part of that asset. The depreciable amount of such spares shall be allocated over the useful life of the asset.
- (t) Cost of small assets shall be written off in the period in which they were purchased as per the accounting policy of the entity.
- (u) Depreciation of an asset shall not be considered in case cumulative depreciation exceeds the original cost of the asset, net of residual value.
- (v) Where depreciation for an addition of an asset is measured on the basis of the number of days for which the asset was used for the preparation and presentation of financial statements, depreciation of the asset for assigning to cost of object shall be measured in relation to the period, the asset actually utilized.
- (w) Depreciation shall be traced to the cost object to the extent economically feasible.
- (x) Where the depreciation is not directly traceable to cost object, it shall be assigned based on either of the following two principles; namely:-
  - (i) **Cause and Effect** - Cause is the process or operation or activity and effect is the incurrence of cost and
  - (ii) **Benefits received** - overheads are to be apportioned to the various cost objects in proportion to the benefits received by them.

## 7. Overheads

- (a) Proper records shall be maintained for various items of indirect expenses comprising overheads pertaining to goods or services under reference. These expenses shall be analysed, classified and grouped according to functions.
- (b) 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 (other than cash discounts), taxes and duties refundable or to be credited.
- (c) Overheads other than those referred to above shall be determined on the basis of cost incurred in connection therewith.
- (d) Any abnormal cost where it is material and quantifiable shall not form part of the overheads.
- (e) Finance costs incurred in connection with procured or self-generated resources shall not form part of overheads.
- (f) Overheads shall not include imputed cost.
- (g) Overhead variances attributable to normal reasons shall be treated as part of overheads. Overhead variances attributable to abnormal reasons shall be excluded from overheads.
- (h) Any subsidy or grant or incentive or amount of similar nature received or receivable with respect to overheads shall be reduced for ascertainment of the cost of the cost object to which such amounts are related.

- (i) Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the overheads.
- (j) Credits or recoveries relating to the overheads, material and quantifiable, shall be deducted from the total overhead to arrive at the net overheads. Where the recovery exceeds the total overheads, the balance recovery shall be treated as other income.
- (k) Any change in the cost accounting principles applied for the measurement of the overheads shall be made only if, it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an entity.
- (l) While assigning overheads, traceability to a cost object in an economically feasible manner shall be the guiding principle. The cost which can be traced directly to a cost object shall be directly assigned.
- (m) Overheads shall be classified according to functions, viz., works, administration, selling and distribution, head office, corporate etc.
- (n) Assignment of overheads to the cost objects shall be based on either of the following two principles; (1) Cause and Effect - Cause is the process or operation or activity and effect is the incurrence of cost and (2) Benefits received – overheads are to be apportioned to the various cost objects in proportion to the benefits received by them.
- (o) The variable production overheads shall be absorbed to products or services based on actual capacity utilisation.
- (p) The fixed production overheads shall be absorbed based on the normal capacity.
- (q) Assignment of Administration Overheads shall be in accordance with para No. 8.
- (r) Marketing overheads that can be identified to a product or service shall be assigned to that product or service.
- (s) Marketing overheads that cannot be identified to a product or service shall be assigned to the products or services on the most appropriate basis.

#### **8. Administrative Overheads**

- (a) Administrative overheads shall be the aggregate of cost of resources consumed in activities relating to general management and administration of an organisation.
- (b) In case of leased assets, if the lease is an operating lease, the entire rentals shall be included in the administrative overheads. If the lease is a financial lease, the finance cost portion shall be segregated and treated as part of finance costs.
- (c) The cost of software (developed in house, purchased, licensed or customised), including upgradation cost shall be amortised over its estimated useful life.
- (d) The cost of administrative services procured from outside shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discount), taxes and duties refundable or to be credited.
- (e) Any subsidy or grant or incentive or any amount of similar nature received or receivable with respect to any Administrative overheads shall be reduced for ascertainment of the cost of the cost object to which such amounts are related.
- (f) Administrative overheads shall not include any abnormal administrative cost.





- (g) Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the administrative overheads.
- (h) Credits or recoveries relating to the administrative overheads including those rendered without any consideration, material and quantifiable, shall be deducted to arrive at the net administrative overheads.
- (i) Any change in the cost accounting principles applied for the measurement of the administrative overheads shall be made only if it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an organisation.
- (j) While assigning administrative overheads, traceability to a cost object in an economically feasible manner shall be the guiding principle.
- (k) Assignment of administrative overheads to the cost objects shall be based on either of the following two principles; namely:-
  - (i) **Cause and Effect** - Cause is the process or operation or activity and effect is the incurrence of cost.
  - (ii) **Benefits received** - overheads are to be apportioned to the various cost objects in proportion to the benefits received by them.

#### 9. Transportation Cost

- (a) Proper records shall be maintained for recording the actual cost of transportation showing each element of cost such as freight, cartage, transit insurance and others after adjustment for recovery of transportation cost. Abnormal costs relating to transportation, if any, are to be identified and recorded for exclusion of computation of average transportation cost.
- (b) In case of a manufacturer having his own transport fleet, proper records shall be maintained to determine the actual operating cost of vehicles showing details of various elements of cost, such as salaries and wages of driver, cleaners and others, cost of fuel, lubricant grease, amortized cost of tyres and battery, repairs and maintenance, depreciation of the vehicles, distance covered and trips made, goods hauled and transported to the depot.
- (c) In case of hired transport charges incurred for despatch of goods, complete details shall be recorded as to date of despatch, type of transport used, description of the goods, destination of buyer, name of consignee, challan number, quantity of goods in terms of weight or volume, distance involved, amount paid and other related details.
- (d) Records shall be maintained separately for inward and outward transportation cost specifying the details particulars of goods despatched, name of supplier or recipient, amount of freight etc.
- (e) Separate records shall be maintained for identification of transportation cost towards inward movement of material (procurement) and transportation cost of outward movement of goods removed or sold for both home consumption and export.
- (f) Records for transportation cost from factory to depot and thereafter shall be maintained separately.
- (g) Records for transportation cost for carrying any material or product to job-workers place and back shall be maintained separately so as include the same in the transaction value of the product.

- (h) Records for transportation cost for goods involved exclusively for trading activities shall be maintained separately and the same shall not be included for claiming any deduction for calculating assessable value excisable goods cleared for home consumption.
- (i) Records of transportation cost directly allocable to a particular category of products shall be maintained separately so that allocation can be made.
- (j) For common transportation cost, both for own fleet or hired ones, proper records for basis of apportionment shall be maintained.
- (k) Records for transportation cost for exempted goods, excisable goods cleared for export shall be maintained separately.
- (l) Separate records of cost for mode of transportation other than road like ship or air are to be maintained, which shall be included in total cost of transportation.
- (m) Inward transportation costs shall form the part of the cost of procurement of materials which shall be identified for proper allocation or apportionment to the materials or products.
- (n) Outward transportation cost shall form the part of the cost of sale and shall be allocated or apportioned to the materials and goods on a suitable basis.
- (o) The following basis shall be used, in order of priority, for apportionment of outward transportation cost depending upon the nature of products, unit of measurement followed and type of transport used, namely:-
  - (i) Weight;
  - (ii) Volume of goods;
  - (iii) Tonne-Km;
  - (iv) Unit or Equivalent unit;
  - (v) Value of goods;
  - (vi) Percentage of usage of space.
- (p) Once a basis of apportionment is adopted, the same shall be followed consistently.
- (q) For determining the transportation cost per unit, distance shall be factored in to arrive at weighted average cost.
- (r) Abnormal and non recurring cost shall not be a part of transportation cost.

#### **10. Royalty and Technical Know-how**

- (a) Adequate records shall be maintained showing royalty or technical know-how fee including other recurring or non-recurring payments of similar nature, if any, made for the goods or services under reference to collaborators or technology suppliers in terms of agreements entered into with them.
- (b) Royalty and technical know-how Fee 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 asset. Amortisation of the amount of royalty or technical know-how fee paid for which the benefit is ensued in the current or future periods shall be determined based on the production or service volumes estimated for the period over which the asset is expected to benefit the entity.



- (c) Amount of the royalty and technical know-how fee shall not include finance costs and imputed costs.
- (d) Any subsidy or grant or incentive or any such payment received or receivable with respect to amount of royalty and technical know-how fee shall be reduced to measure the amount of royalty and technical know-how fee.
- (e) Penalties, damages paid to statutory authorities or other third parties shall not form part of the amount of royalty and technical know-how fee.
- (f) Credits or recoveries relating to the amount royalty and technical know-how fee, material and quantifiable, shall be deducted to arrive at the net amount of royalty and technical know-how fee.
- (g) Any change in the cost accounting principles applied for the measurement of the amount of royalty and technical know-how fee shall be made only if, it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an organisation.
- (h) Royalty and technical know-how fee that is directly traceable to a cost object shall be assigned to that cost object. In case such fee is not directly traceable to a cost object then it shall be assigned on any of the following basis, namely:-
  - (i) Units produced;
  - (ii) Units sold; or
  - (iii) Sales value.
- (i) The amount of royalty fee paid for mining rights shall form part of the cost of material.
- (j) The amount of royalty and technical know-how fee shall be assigned on the nature or purpose of such fee. The amount of royalty and technical know-how fee related to product or process know how shall be treated as cost of production; if related to trademarks or brands shall be treated as cost of sales.

#### 11. Research and Development Expenses

- (a) Research and development costs shall include all the costs that are directly traceable to research or development activities or that can be assigned to research and development activities strictly on the basis of (a) cause and effect or (b) benefits received. Such costs shall include the following elements, namely:-
  - (i) the cost of materials and services consumed in research and development activities.
  - (ii) cost of bought out materials and hired services as per invoice or agreed price including duties and taxes directly attributable thereto net of trade discounts, rebates, taxes and duties refundable or to be credited.
  - (iii) the salaries, wages and other related costs of personnel engaged in research and development activities;
  - (iv) the depreciation of equipment and facilities, and other tangible assets, and amortisation of intangible assets to the extent that they are used for research and development activities;
  - (v) overhead costs, other than general administrative costs, related to research and development activities.

- (vi) costs incurred for carrying out research and development activities by other entities and charged to the entity; and
  - (vii) expenditure incurred in securing copyrights or licences;
  - (viii) expenditure incurred for developing computer software;
  - (ix) costs incurred for the design of tools, jigs, moulds and dies;
  - (x) other costs that can be directly attributed to research and development activities and can be identified with specific projects.
- (b) Subsidy or grant or incentive or amount of similar nature received or receivable with respect to research and development activity, if any, shall be reduced from the cost of such research, and development activity.
- (c) Any abnormal cost where it is material and quantifiable shall not form part of the research and development cost.
- (d) Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the research and development cost.
- (e) Research and development costs shall not include imputed costs.
- (f) Credits or recoveries relating to research and development cost, if material and quantifiable, including from the sale of output produced from the research and development activity shall be deducted from the research and development cost.
- (g) Research and development costs attributable to a specific cost object shall be assigned to that cost object directly. Research and development costs that are not attributable to a specific product or process shall not form part of the product cost.
- (h) Development cost which results in the creation of an intangible asset shall be amortised over its useful life. Assignment of development costs shall be based on the principle of "benefits received".
- (i) Research and development costs incurred for the development and improvement of an existing process or product shall be included in the cost of production. In case the Research and development activity related to the improvement of an existing process or product continues for more than one accounting period, the cost of the same shall be accumulated and amortised over the estimated period of use of the improved process or estimated period over which the improved product shall be produced by the entity after the commencement of commercial production, as the case may be, if the improved process or product is distinctly different from the existing process or product and the product is marketed as a new product. The amount allocated to a particular period shall be included in the cost of production of that period. If the expenditure is only to improve the quality of the existing product or minor modifications in attributes, the principle shall not be applied.
- (j) Development costs attributable to a saleable service namely, providing technical know-how to outside parties shall be accumulated separately and treated as cost of providing the service.

## 12. Quality control expenses

- (a) Adequate records shall be maintained to indicate the expenses incurred in respect of quality control department or cost centre or service centre for goods or services under reference. Where these services are also utilized for other goods or services of the company, the basis of apportionment to goods or services under reference and to other goods or services shall be on equitable and reasonable basis and applied consistently.

- (b) Quality control cost incurred in-house shall be the aggregate of the cost of resources consumed in the quality control activities of the entity. 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 (other than cash discounts), taxes and duties refundable or to be credited by the Tax Authorities. Such cost shall include cost of conformance to quality, namely, (a) prevention cost; and (b) appraisal cost.
- (c) Identification of quality control costs shall be based on traceability in an economically feasible manner.
- (d) Quality control costs other than those referred to above shall be determined on the basis of amount incurred in connection therewith.
- (e) Finance costs incurred in connection with the self-generated or procured resources shall not form part of quality control cost.
- (f) Quality control costs shall not include imputed costs.
- (g) Any Subsidy or grant or incentive or any such payment received or receivable with respect to any quality control cost shall be reduced for ascertainment of the cost of the cost object to which such amounts are related.
- (h) Any abnormal portion of the quality control cost where it is material and quantifiable shall not form part of the cost of quality control.
- (i) Penalties, damages paid to statutory authorities or other third parties shall not form part of the quality control cost.
- (j) Any change in the cost accounting principles applied for the measurement of the quality control cost shall be made only if, it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an organisation.
- (k) Quality control cost that is directly traceable to the cost object shall be assigned to that cost object. Assignment of quality control cost to the cost objects shall be based on benefits received by them on the principles, namely:-
  - (i) **Cause and effect** - Cause is the process or operation or activity and effect is the incurrence of cost and
  - (ii) **Benefits received** - overheads are to be apportioned to the various cost objects in proportion to the benefits received by them.

### 13. Pollution control expenses

- (a) Adequate records shall be maintained to indicate the expenses incurred in respect of pollution control. The basis of apportionment to goods or services under reference and to other goods or services shall be on equitable and reasonable basis and applied consistently.
- (b) Pollution control costs shall be the aggregate of direct and indirect cost relating to pollution control activity. Direct cost shall include the cost of materials, consumable stores, spares, manpower, equipment usage, utilities, resources for testing and certification and other identifiable resources consumed in activities such as waste processing, disposal, remediation and others. Indirect cost shall include the cost of resources common to various pollution control activities such as pollution control registration and such like expenses.
- (c) Costs of pollution control which are internal to the entity shall be accounted for when incurred. They shall be measured at the historical cost of resources consumed.

- (d) Future remediation or disposal costs which are expected to be incurred with reasonable certainty as part of onerous contract or constructive obligation, legally enforceable shall be estimated and accounted based on the quantum of pollution generated in each period and the associated cost of remediation or disposal in future.
- (e) Contingent future remediation or disposal costs e.g. those likely to arise on account of future legislative changes on pollution control shall not be treated as cost until the incidence of such costs become reasonably certain and can be measured.
- (f) External costs of pollution which are generally the costs imposed on external parties including social costs are difficult to estimate with reasonable accuracy and are excluded from general purpose cost statements.
- (g) Social costs of pollution are measured by economic models of cost measurement. The cost by way of compensation by the polluting entity either under future legislation or under social pressure cannot be quantified by traditional models of cost measurement. They are best kept out of general purpose cost statements.
- (h) Cost of in-house pollution control activity shall include cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources used in such activity.
- (i) Cost of pollution control activity carried out by outside contractors inside the entity shall include charges payable to the contractor and cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other costs incurred by the entity for such jobs.
- (j) Cost of pollution control jobs carried out by contractor at its premises shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discount), taxes and duties refundable or to be credited. This cost shall also include the cost of other resources provided to the contractors.
- (k) Cost of pollution control jobs carried out by outside contractors shall include charges made by the contractor and cost of own materials, consumable stores, spares, manpower, equipment usage, utilities and other costs used in such jobs.
- (l) Each type of pollution control namely, water, air, soil pollution shall be treated as a distinct activity, if material and identifiable.
- (m) Finance costs incurred in connection with the pollution control activities shall not form part of pollution control costs.
- (n) Pollution control costs shall not include imputed costs.
- (o) Price variances related to pollution control, where standard costs are in use, shall be treated as part of pollution control cost. The portion of usage variances attributable to normal reasons shall be treated as part of pollution control cost. Usage variances attributable to abnormal reasons shall be excluded from pollution control cost.
- (p) Subsidy or grant or incentive or amount of similar nature received or receivable with respect to Pollution control activity, if any, shall be reduced for ascertainment of the cost of the cost object to which such amounts are related.
- (q) Any Pollution control cost resulting from abnormal circumstances, if material and quantifiable, shall not form part of the pollution control cost.
- (r) Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the pollution control cost.
- (s) Credits or recoveries relating to the pollution control activity, material and quantifiable, shall be deducted to arrive at the net pollution control cost.

- (f) Research and development cost to develop new process, new products or use of new materials to avoid or mitigate pollution shall be treated as research and development costs and not included under pollution control costs. Development costs incurred for commercial development of such product, process or material shall be included in pollution control costs.
- (u) Any change in the cost accounting principles applied for the measurement of the pollution control cost shall be made only if, it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an organisation.
- (v) Pollution Control costs shall be traced to a cost object to the extent economically feasible.
- (w) Direct costs of pollution control such as treatment and disposal of waste shall be assigned directly to the product, where traceable economically.
- (x) Where these costs are not directly traceable to the product but are traceable to a process which causes pollution, the costs shall be assigned to the products passing through the process based on the quantity of the pollutant generated by the product.
- (y) Where the pollution control cost is not directly traceable to cost object, it shall be treated as overhead and assigned based on either of the following two principles; namely:-
  - (1) **Cause and Effect** - Cause is the process or operation or activity and effect is the incurrence of cost and
  - (2) **Benefits received** - overheads are to be apportioned to the various cost objects in proportion to the benefits received by them.

#### 14. Service department expenses

- (a) Proper records shall be maintained in respect of service departments, that is, cost centres which primarily provides auxiliary services across the enterprise, to indicate expenses incurred in respect of each such service cost centre like engineering, work shop, designing, laboratory, safety, transport, computer cell, welfare and other related centres.
- (b) Each identifiable service cost centre shall be treated as a distinct cost object for measurement of the cost of services subject to the principle of materiality.
- (c) Cost of service cost centre shall be the aggregate of direct and indirect cost attributable to services being rendered by such cost centre.
- (d) Cost of in-house services shall include cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources used in such service.
- (e) Cost of other resources shall include related overheads.
- (f) Cost of services rendered by contractors within the facilities of the entity shall include charges payable to the contractor and cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources provided to the contractors for such services.
- (g) Cost of services rendered by contractors at their premises shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discount), taxes and duties refundable or to be credited. This cost shall also include the cost of resources provided to the contractors.
- (h) Cost of services for the purpose of inter unit transfers shall also include distribution costs incurred for such transfers.
- (i) Cost of services for the purpose of inter-company transfers shall also include distribution cost incurred for such transfers and administrative overheads.

- (j) Cost of services rendered to outside parties shall also include distribution cost incurred for such transfers, administrative overheads and marketing overheads.
- (k) Finance costs incurred in connection with the service cost Centre shall not form part of the cost of Service Cost Centre.
- (l) The cost of service cost centre shall not include imputed costs.
- (m) Where the cost of service cost centre is accounted at standard cost, the price and usage variances related to the services cost Centre shall be treated as part of cost of services. Usage variances due to abnormal reasons shall be treated as part of abnormal cost.
- (n) Any Subsidy or grant or incentive or any such payment received or receivable with respect to any service cost centre shall be reduced for ascertainment of the cost to which such amounts are related.
- (o) The cost of production and distribution of the service 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 service shall include the committed costs of maintaining such a facility for the service.
- (p) Any abnormal cost where it is material and quantifiable shall not form part of the cost of the service cost centre.
- (q) Penalties, damages paid to statutory authorities or other third parties shall not form part of the cost of the service cost centre.
- (r) Credits or recoveries relating to the service cost centre including charges for services rendered to outside parties, material and quantifiable, shall be reduced from the total cost of that service cost centre.
- (s) Any change in the cost accounting principles applied for the measurement of the cost of Service cost centre shall be made, only if it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an enterprise.
- (t) While assigning cost of services, traceability to a cost object in an economically feasible manner shall be the guiding principle.
- (u) Where the cost of services rendered by a service cost centre is not directly traceable to a cost object, it shall be assigned on the most appropriate basis.
- (v) The most appropriate basis of distribution of cost of a service cost centre to the cost centres consuming services is to be derived from logical parameters related to the usage of the service rendered. The parameter shall be equitable, reasonable and consistent.

#### **15. Packing expenses**

- (a) Proper records shall be maintained separately for domestic and export packing showing the quantity and cost of various packing materials and other expenses incurred on primary or secondary packing indicating the basis of valuation.
- (b) The packing material receipts shall 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.
- (c) Finance costs directly incurred in connection with the acquisition of packing material shall not form part of packing material cost.



- (d) 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.
- (e) 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.
- (f) 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.
- (g) Any demurrage, detention charges or penalty levied by the transport agency or any authority shall not form part of the cost of packing materials.
- (h) Any subsidy or grant or incentive or any such payment received or receivable with respect to packing material shall be reduced for ascertainment of the cost to which such amounts are related.
- (i) Issue of packing materials shall be valued using appropriate assumptions on cost flow, namely, First In First Out, Last In First Out, weighted average rate. The method of valuation shall be followed on a consistent basis.
- (j) Wherever, packing material costs include transportation costs, the determination of costs of transportation shall be in accordance with para No. 9 on determination of cost of transportation.
- (k) Packing material costs shall not include imputed costs.
- (l) 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.
- (m) The normal loss arising from the issue or consumption of packing materials shall be included in the packing materials cost.
- (n) Any abnormal cost where it is material and quantifiable shall be excluded from the packing material cost.
- (o) The credits or recoveries in the nature of normal scrap arising from packing materials if any, shall be deducted from the total cost of packing materials to arrive at the net cost of packing materials.
- (p) Packing material costs shall be directly traced to a cost object to the extent it is economically feasible.
- (q) 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.
- (r) 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.
- (s) Cost of primary packing materials shall form part of the cost of production.
- (t) Cost of secondary packing materials shall form part of distribution overheads.



## 16. Interest and financing charges

- (a) Interest and financing charges are costs incurred by an enterprise in connection with the borrowing of fund or other costs which in effect represent payment for the use of non- equity fund.
- (b) Interest and financing charges incurred shall be identified for-
  - (i) acquisition or construction or production of qualifying assets including fixed assets; and
  - (ii) other finance costs for production of goods or operations or services rendered which cannot be classified as qualifying assets.
- (c) Interest and financing charges directly attributable to the acquisition or construction or production of a qualifying asset shall be included in the cost of the asset.
- (d) Interest and financing charges shall not include imputed costs.
- (e) Subsidy or grant or incentive or amount of similar nature received or receivable with respect to Interest and Financing Charges if any, shall be reduced to ascertain the net interest and financing charges.
- (f) Penal Interest for delayed payment, fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the interest and financing charges. In case the company delays the payment of statutory dues beyond the stipulated date, interest paid for delayed payment shall not be treated as penal interest.
- (g) Interest paid for or received on investment shall not form part of the other financing charges for production of goods or operations or services rendered;
- (h) Assignment of interest and financing charges to the cost objects shall be based on either of the following two principles; namely:-
  - (1) **Cause and Effect** - Cause is the process or operation or activity and effect is the incurrence of cost and
  - (2) **Benefits received** - to be apportioned to the various cost objects in proportion to the benefits received by them.

## 17. Any other item of cost

Proper records shall be maintained for any other item of cost being indispensable and considered necessary for inclusion in cost records for calculating cost of production of goods or rendering of services, cost of sales, margin in total and per unit of the goods or services under reference.

## 18. Capacity determination

- (a) Capacity shall be determined in terms of units of production or equivalent machine or man hours.
- (b) Installed capacity is determined based on-
  - (i) manufacturers' Technical specifications;
  - (ii) capacities of individual or interrelated production centres;
  - (iii) operational constraints or capacity of critical machines; or
  - (iv) number of shifts

- (c) In case manufacturers' technical specifications are not available, the estimates by technical experts on capacity under ideal conditions shall be considered for determination of installed capacity. In case any production facility is added or discarded the installed capacity shall be reassessed from the date of such addition or discard. In case the same is reassessed as per direction of the Government, it shall be in accordance with the principles laid down in the said directives. In case of improvement in the production process, the installed capacity shall be reassessed from the date of such improvement.
- (d) Normal capacity shall be determined vis-a-vis installed capacity after carrying out adjustments for
  - (i) holidays, normal shut down days and normal idle time;
  - (ii) normal time lost in batch change over;
  - (iii) time lost due to preventive maintenance and normal break downs of equipment's;
  - (iv) loss in efficiency due to ageing of the equipment; or
  - (v) number of shifts;
- (e) Capacity utilization is actual production measured as a percentage of installed capacity.

#### **19. Work-in-progress and finished stock**

The method followed for determining the cost of work-in-progress and finished stock of the goods and for services under delivery or in-process shall be appropriate and shall be indicated in the cost records so as to reveal the cost element that have been taken into account in such computation. All conversion costs incurred in bringing the inventories to their present location and condition shall be taken into account while computing the cost of work-in-progress and finished stock. The method adopted for determining the cost of work-in progress and finished goods shall be followed consistently.

#### **20. Captive consumption**

If the goods or services under reference are used for captive consumption, proper records shall be maintained showing the quantity and cost of each such goods or services transferred to other departments or cost centres or units of the company for self-consumption and sold to outside parties separately.

#### **21. By-Products and Joint Products**

- (a) Proper records shall be maintained for each item of by-product, if any, produced showing the receipt, issues and balances, both in quantity and value. The basis adopted for valuation of by-product for giving credit to the respective process shall be equitable and consistent and shall be indicated in cost records. Records showing the expenses incurred on further processing, if any, and actual sales realisation of by-product shall be maintained. The proper records shall be maintained in respect of credits or recoveries from the disposal of by-products.
- (b) Proper records shall be maintained the cost up to the point of separation of products or services shall be apportioned to joint products or services on reasonable and equitable basis and shall be applied consistently. The basis on which such joint costs are apportioned to different products or services arising from the process shall be indicated in the cost records. Proper records shall be maintained in respect credits or recoveries from the disposal of joint products or services.

## **22. Adjustment of cost variances.**

Where the company maintains cost records on any basis other than actual such as standard costing, the records shall indicate the procedure followed by the company in working out the cost of the goods or services under such system. The cost variances shall be shown against separate heads and analyzed into material, labour, overheads and further segregated into quantity, price and efficiency variances. The method followed for adjusting the cost variances in determining the actual cost of the goods or services shall be indicated clearly in the cost records. The reasons for the variances shall be duly explained in the cost records and statements.

## **23. Reconciliation of cost and financial accounts**

The cost statements shall be reconciled with the financial statements for the financial year specifically indicating the expenses or incomes not considered in the cost records or statements so as to ensure accuracy and to adjust the profit of the goods or services under reference with the overall profit of the company. The variations, if any, shall be clearly indicated and explained.

## **24. Related party transactions**

- (a)** Related Party means related party as defined under clause (76) of section 2 of the Companies Act, 2013 (18 of 2013).
- (b)** "Normal" price means price charged for comparable and similar products in the ordinary course of trade and commerce where the price charged in the sole consideration of sale and such sale is not made to a related party. Normal price can be construed to be a price at which two unrelated and non-desperate parties would agree to a transaction and where such transaction is not clouded due to the proximity of the parties to the transaction and free from influence though the parties may have shared interest.
- (c)** The basis adopted to determine Normal price shall be classified as under:
  - (i)** Comparable uncontrolled price method;
  - (ii)** Resale price method;
  - (iii)** Cost plus method;
  - (iv)** Profit split method;
  - (v)** Transactional net margin method; or
  - (vi)** Any other method, to be specified.
- (d)** In respect of related party transactions or supplies made or services rendered by a company to a company termed "related party relationship" and vice-a-versa, records shall be maintained showing contracts entered into, agreements or understanding reached in respect of -
  - (i)** purchase and sale of raw materials, finished goods, rendering of services, process materials and rejected goods including scraps and other related materials;
  - (ii)** utilisation of plant facilities and technical know-how;

- (iii) supply of utilities and any other services;
  - (iv) administrative, technical, managerial or any other consultancy services;
  - (v) purchase and sale of capital goods including plant and machinery; and
  - (vi) any other payment related to the production of goods or rendering of services under reference.
- (e) These records shall also indicate the basis followed for arriving at the rates charged or paid for such goods or services so as to enable determination of the reasonableness of such rates in so far as they are in any way related to goods or services under reference.

#### **25. Expenses or incentives on exports**

- (a) Proper records showing the expenses incurred on the export sales, if any, of the goods or services under reference shall be separately maintained so that the cost of export sales can be determined correctly. Separate cost statements shall be prepared for goods or services exported giving details of export expenses incurred or incentive earned.
- (b) Proper records shall be maintained giving the details of export commitments license-wise and the fulfillment of these commitments giving the reasons for non-compliance, if any. In case, duty free imports are made, the cost statements shall reflect this fact. If the duty free imports have been made after actual production, the statement shall reflect this fact also.

#### **26. Production Records**

Quantitative records of all finished goods (packed or unpacked) or services rendered showing production, issues for sales and balances of different type of the goods or services under reference, shall be maintained. The quantitative details of production of goods or services rendered shall be maintained separately for self-produced, third party on job work, loan license basis etc.

#### **27. Sales records**

Separate details of sales shall be maintained for domestic sales at control price, domestic sales at market price, export sales under advance license, export sales under other obligations, export sales at market price, and sales to related party or inter unit transfer. In case of services details of domestic delivery or sales at control price, domestic delivery or sales at market price, export delivery or sales under advance license, export delivery or sales under other obligations, export delivery or sales at market price, and delivery or sales to related party or inter unit transfer. Such details shall be maintained separately for each plant or unit wise or service center wise for total as well as per unit sales realization.

#### **28. Cost statements**

- (a) Cost statements (monthly, quarterly and annually) showing quantitative information in respect of each good or service under reference shall be prepared showing details of available capacity, actual production, production as per excise records, capacity utilization (in-house), stock purchased for trading, stock and other adjustments, quantity available for sale, wastage and actual sale during current financial year and previous year.



- (b) Such statements shall also include details in respect of all major items of costs constituting cost of production of goods or services, cost of sales of goods or services and margin in total as well as per unit of the goods or services. The goods or services emerging from a process, which forms raw material or an input material or service for a subsequent process, shall be valued at the cost of production or cost of service up to the previous stage.
- (c) Cost Statements (monthly, quarterly and annually) in respect of reconciliation of indirect taxes showing details of total clearances of goods or services, assessable value, duties or taxes paid, CENVAT or VAT or Service Tax credit utilized, duties or taxes recovered and interest or penalty paid.
- (d) If the company is operating more than one plant, factory or service centre, separate cost statements as specified above shall be prepared in respect of each plant, factory or service centre.
- (e) Any other statement or information considered necessary for suitable presentation of costs and profitability of goods or services produced by the company shall also be prepared.

### **29. Statistical Records**

- (a) The records regarding available machine hours or direct labour hours in different production departments and actually utilized shall be maintained for production of goods or rendering of services under reference and shortfall suitably analyzed. Suitable records for computation of idle time of machines or labour shall also be maintained and analyzed.
- (b) Proper records shall be maintained to enable the company to identify the capital employed, net fixed assets and working capital separately for the production of goods or rendering of services under reference and other goods or services to the extent such elements are separately identifiable. Non-identifiable items shall be allocated on a suitable and reasonable basis to different goods or services. Fresh investments on fixed assets for production of goods or rendering of services under reference that have not contributed to the production of goods or rendering of services during the relevant period or year shall be indicated in the cost records. The records shall, in addition, show assets added as replacement and those added for increasing existing capacity.

### **30. Records of Physical Verification**

Records of physical verification may be maintained in respect of all items held in the stock such as raw materials, process materials, packing materials, consumables stores, machinery spares, chemicals, fuels, finished goods and fixed assets etc. Reasons for shortages or surplus arising out of such verifications and the method followed for adjusting the same in the cost of the goods or services shall be indicated in the records.



## FORM NO. CRA-2

[Pursuant to section 148(3) of Companies Act, 2013 and rule 6(2) & 6(3A) of the Companies (cost records and audit) Rules, 2014]



**Form of intimation of appointment of cost auditor by the company to Central Government**

Form language  English  Hindi

Note: Refer the instruction kit for filing the form.

IN CASE OF REVISED CRA-2, ALL THE DETAILS MUST BE FILLED AFRESH.

1.(a) \*Corporate identity number (CIN) or foreign company registration number (FCRN) of the company

Pre-fill

(b) Global location number (GLN)

2.(a) Name of the company

(b) Address of the registered office or of the principal place of business in India of the company

(c) \*e-mail ID of the company

(d) \*Phone(with STD code)

 - 

(e) \*Nature of intimation of appointment of cost auditor(s)

I

(i) \*Firm registration number(FRN) of the Cost auditor/Cost Auditor's firm/LLP

(ii) \*Name of the Cost Auditor/Cost Auditor's firm/LLP

(iii) \*Date of casual vacancy

(iv) \*Reason of casual vacancy

3. \*Product(s)/ Service(s) to which Cost Audit relates -

(a) Number of Industries/Sectors/Products/Services (CETA Heading Level, wherever applicable as per rules) covered under regulated sectors

Details of such industries/sectors/products/services

Industries/sectors/products/services	CETA heading (wherever Applicable)	No. of tariff items/ Products/ services
<input type="text"/>	<input type="text"/>	<input type="text"/>



(b) Number of Industries/Sectors/Products/Services (CETA Heading Level, wherever applicable as per rules) covered under non-regulated sectors

Details of such industries/sectors/products/services

Industries/sectors/products/services	CETA heading (wherever Applicable)	No. of tariff items/ Products/ services
<input type="text"/>	<input type="text"/>	<input type="text"/>

(4) \*Details of all the cost auditor(s) appointed

Number of cost auditor(s)

I (a) \*Category of the auditor  Individual  Partnership firm  Limited liability partnership (LLP)

(b) (i) \*Membership number of the cost auditor or member representing the firm/LLP

(ii) \*Name of the cost auditor or member representing the firm/LLP

(iii) \*Firm Registration Number(FRN) of the Cost Auditor/Cost Auditor's firm/LLP

(iv) \*Name of the Cost auditor's firm/LLP

(c) (i) Address \* Line I   
Line II

(ii) \*City

(iii) \*State

(iv) \*Country

(v) \* Pin code

(vi) \*e-mail ID of the firm or member

(d) \*Date of the board meeting in which cost auditor was appointed  (DD/MM/YYYY)

(e) \*Type of appointment  
 Original  Appointment due to casual vacancy  Appointment for new products/services/location

(f) \*Scope of audit of the cost auditor/firm/LLP

5.\* Financial year to be covered by the cost auditor(s)

From  (DD/MM/YYYY) To  (DD/MM/YYYY)

(6)(a) \*Is there any change in cost auditor(s) appointed from the previous financial year  Yes  No  Not applicable





**Attachments**

List of attachments

(1). \*Copy of Board resolution of the company

Attach

(2). Optional attachment, if any

Attach

Remove attachment

**Declaration**

I am authorized by the Board of Directors of the Company vide resolution number\*   
dated \*  to sign this form and declare that all the requirements of Companies Act, 2013 and the rules made thereunder in respect of the subject matter of this form and matters incidental thereto have been complied with. I also declare that all the information given herein above is true, correct and complete including the attachments to this form and nothing material has been suppressed.

\*To be digitally signed by

\*Designation

\*Director identification number of the director; or PAN of the Manager or CEO or CFO or authorized representative; or Membership number of the Company Secretary

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Note: Attention is drawn to provisions of Section 448 and 449 which provide for punishment for false statement / certificate and punishment for false evidence respectively.

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Modify

Check Form

Prescrutiny

Submit

**This Form has been taken on file maintained by the Central Government through electronic mode and on the basis of statement of correctness given by the company**



**Form CRA-3**

**[Pursuant to rule 6(4) of the Companies (Cost Records and Audit) Rules, 2014]**

**FORM OF THE COST AUDIT REPORT**

I/We, ..... having been appointed as Cost Auditor(s) under section 148(3) of the Companies Act, 2013(18 of 2013) of.....(mention name of the company) having its registered office at.....(mention registered office address of the company) (hereinafter referred to as the company), have audited the Cost Records maintained under section 148 of the said Act, in compliance with the cost auditing standards, in respect of the..... [mention name(s) of Product(s)/service(s)] for the period/year.....(mention the financial year) maintained by the company and report, in addition to my/our observations and suggestions in para 2.

- (i) I/We have/have not obtained all the information and explanations, which to the best of my/our knowledge and belief were necessary for the purpose of this audit.
  - (ii) In my/our opinion, proper cost records, as per rule 5 of the Companies (Cost Records and Audit) Rules, 2014 have/have not been maintained by the company in respect of product(s)/service(s) under reference.
  - (iii) In my/our opinion, proper returns adequate for the purpose of the cost audit have/have not been received from the branches not visited by me/us.
  - (iv) In my/our opinion and to the best of my/our information, the said books and records give/do not give the information required by the Companies Act, 2013, in the manner so required.
  - (v) In my/our opinion, the company has/does not have adequate system of internal audit of cost records which to my/our opinion is commensurate to its nature and size of its business.
  - (vi) In my/our opinion, information, statements in the annexure to this cost audit report gives/does not give a true and fair view of the cost of production of product(s)/rendering of service(s), cost of sales, margin and other information relating to product(s)/service(s) under reference.
  - (vii) Detailed unit-wise and product/service-wise cost statements and schedules thereto in respect of the product /service under reference of the company duly audited and certified by me/us are/are not kept in the company.
2. Observations and suggestions, if any, of the Cost Auditor, relevant to the cost audit.

Dated: this ..... day of ..... 20.....

at ..... (mention name of place of signing this report)

SIGNATURE AND SEAL OF THE COST AUDITOR(S)

MEMBERSHIP NUMBER(S)

**Notes:**

- (1) Delete words not applicable.
- (2) If as a result of the examination of the books of account, the cost auditor desires to point out any material deficiency or give a qualified report, he/she shall indicate the same against the relevant para (i) to (vii) in the prescribed form of the Cost Audit Report giving details of discrepancies he/she has come across.
- (3) The report, suggestions, observations and conclusions given by the cost auditor under this paragraph shall be based on verified data, reference to which shall be made here and shall, wherever practicable, be included after the company has been afforded an opportunity to comment on them.

**Annexure to the Cost Audit Report****PART - A****1. General Information**

1	Corporate identity number or foreign company registration number	
2	Name of company	
3	Address of registered office or of principal place of business in India of company	
4	Address of corporate office of company	
5	Email address of company	
6	Date of beginning of reporting financial year	
7	Date of end of reporting financial year	
8	Date of beginning of previous financial year	
9	Date of end of previous financial year	
10	Level of rounding used in cost statements	
11	Reporting currency of entity	
12	Number of cost auditors for reporting period	
13	Date of board of directors meeting in which annexure to cost audit report was approved	
14	Whether cost auditors report has been qualified or has any reservations or contains adverse remarks	
15	Consolidated qualifications, reservations or adverse remarks of all cost auditors	
16	Consolidated observations or suggestions of all cost auditors	
17	Whether company has related party transactions for sale or purchase of goods or services	

## 2. General Details of Cost Auditor

1	Whether cost auditor is lead auditor	
2	Category of cost auditor	
3	Firm's registration number	
4	Name of cost auditor/cost auditor's firm	
5	PAN of cost auditor/cost auditor's firm	
6	Address of cost auditor or cost auditor's firm	
7	Email id of cost auditor or cost auditor's firm	
8	Membership number of member signing report	
9	Name of member signing report	
10	Name(s) of product(s) or service(s) with CETA heading	
11	SRN number of Form 23C / CRA-2	
12	Number of audit committee meeting attended by cost auditor during year	
13	Date of signing cost audit report and annexure by cost auditor	
14	Place of signing cost audit report and annexure by cost auditor	

## 3. Cost Accounting Policy

- (1) Briefly describe the cost accounting policy adopted by the Company and its adequacy or otherwise to determine correctly the cost of production/operation, cost of sales, sales realization and margin of the product(s)/service(s) under reference separately for each product(s)/service(s). The policy shall cover, inter alia, the following areas:
- Identification of cost centres/cost objects and cost drivers.
  - Accounting for material cost including packing materials, stores and spares, employee cost, utilities and other relevant cost components.
  - Accounting, allocation and absorption of overheads.
  - Accounting for depreciation/amortization.
  - Accounting for by-products/joint-products or services, scarps, wastage etc.
  - Basis for Inventory Valuation.
  - Methodology for valuation of Inter-Unit/Inter Company and Related Party transactions.
  - Treatment of abnormal and non-recurring costs including classification of other non-cost items.
  - Other relevant cost accounting policy adopted by the Company.



- (2) Briefly specify the changes, if any, made in the cost accounting policy for the product(s)/ service(s) under audit during the current financial year as compared to the previous financial year.
- (3) Observations of the Cost Auditor regarding adequacy or otherwise of the Budgetary Control System, if any, followed by the company.

**4. PRODUCT/SERVICE DETAILS (for the company as a whole)**

Name of Product(s) /Services)	UOM	CETA heading (wherever applicable)	Covered under Cost Audit Yes / No	Net Operational Revenue (net of taxes, duties etc.)	
				Current Year	Previous Year
1.					
2.					
3.					
4.					
.....					
<b>Total net revenue from operations</b>					
Other Incomes of company					
<b>Total revenue as per financial accounts</b>					
Extra ordinary income, if any					
<b>Total revenue including extra ordinary income, if any</b>					
<b>Turnover as per Excise/Service Tax Records</b>					

**Note:** Explain the difference, if any, between Turnover as per Annual Accounts and Turnover as per Excise/Service Tax Records



**PART-B**  
**For Manufacturing Sector**

<b>1. QUANTITATIVE INFORMATION (for each product with CETA heading separately)</b>			
<b>Name of Product</b>			
<b>CETA heading</b>			
<b>Particulars</b>	<b>Unit of measure</b>	<b>Current Year</b>	<b>Previous Year</b>
<b>1. Available Capacity</b>			
<b>(a)</b> Installed Capacity			
<b>(b)</b> Capacity enhanced during the year, if any			
<b>(c)</b> Capacity available through leasing arrangements, if any			
<b>(d)</b> Capacity available through loan license / third parties			
<b>(e) Total available Capacity</b>			
<b>2. Actual Production</b>			
<b>(a)</b> Self manufactured			
<b>(b)</b> Produced under leasing arrangements			
<b>(c)</b> Produced on loan license / by third parties on job work			
<b>(d) Total Production</b>			
<b>3. Production as per Excise Records</b>			
<b>4. Capacity Utilization (in-house) %</b>			
<b>5. Finished Goods Purchased</b>			
<b>(a)</b> Domestic Purchase of Finished Goods			
<b>(b)</b> Imports of Finished Goods			
<b>(c) Total Finished Goods Purchased</b>			
<b>6. Stock and Other Adjustments</b>			
<b>(a)</b> Change in Stock of Finished Goods			
<b>(b)</b> Self/Captive Consumption (incl. samples etc.)			
<b>(c)</b> Other Quantitative Adjustments, if any (wastage etc.)			
<b>(d) Total Adjustments</b>			
<b>7. Total Available Quantity for Sale [2(d) +5(c) + 6(d)]</b>			
<b>8. Actual Sales</b>			
<b>(a)</b> Domestic Sales of Product			
<b>(b)</b> Domestic Sales of Traded Product			
<b>(c)</b> Export Sale of Product			
<b>(d)</b> Export Sale of Traded Product			
<b>(e) Total Quantity Sold</b>			

2. ABRIDGED COST STATEMENT (for each product with CETA heading separately)								
Name of Product								
CETA heading								
Unit of Measure								
		Production	Finished Goods Purchased	Finished Stock Adjustment	Captive Consumption	Other Adjustments	Quantity Sold	
	Current Year							
	Previous Year							
Sl No.	Particulars				Current Year		Previous Year	
					Amount (₹)	Rate per Unit (₹)	Amount (₹)	Rate per Unit (₹)
1	Materials Consumed (specify details as per Para 2A)							
2	Process Materials/chemicals							
3	Utilities (specify details as per Para 2B)							
4	Direct Employees Cost							
5	Direct Expenses							
6	Consumable Stores and Spares							
7	Repairs and Maintenance							
8	Quality Control Expenses							
9	Research and Development Expenses							
10	Technical know-how Fee / Royalty, if any							
11	Depreciation/Amortization							
12	Other Production Overheads							
13	Industry Specific Operating Expenses (specify details as per Para 2C)							
<b>14</b>	<b>Total (1 to 13)</b>							
15	Increase/Decrease in Work-in-Progress							
16	Less: Credits for Recoveries, if any							
17	Primary Packing Cost							
<b>18</b>	<b>Cost of Production/Operations (14 + 15 to 17)</b>							
19	Cost of Finished Goods Purchased							
<b>20</b>	<b>Total Cost of Production and Purchases (18 +19)</b>							
21	Increase/Decrease in Stock of Finished Goods							
22	Less: Self/Captive Consumption (incl. Samples, etc.)							
23	Other Adjustments (if any)							

<b>24</b>	<b>Cost of Production/Operation of Product Sold (20 + 21 to 23)</b>				
25	Administrative Overheads				
26	Secondary Packing Cost				
27	Selling and Distribution Overheads				
<b>28</b>	<b>Cost of Sales before Interest (24 to 27)</b>				
29	Interest and Financing Charges				
<b>30</b>	<b>Cost of sales (28 + 29)</b>				
<b>31</b>	<b>Net sales Realization (net of Taxes and Duties)</b>				
<b>32</b>	<b>Margin [Profit/(Loss) as per Cost Accounts] (31 – 30)</b>				

<b>Notes:</b>	
1.	Separate Cost Statement shall be prepared for each CETA Heading representing the product.
2.	In case the same product has different unit of measure, separate cost statement shall be provided for different unit of measures.
3.	The items of cost shown In the Proforma are Indicative and the same shall be reflected keeping in mind the materiality of the item of cost in the product. The Proforma may be suitably modified to meet the requirement of the industry/product.
4.	In case the company follows a pre-determined or standard costing system, the above cost statement should reflect figures at actuals after adjustment of variances if any.

**2A. Details of Materials Consumed**

Name of Product									
CETA heading									
Sl. No	Description of Material	Category	UOM	Current Year			Previous Year		
				Quantity	Rate per Unit (₹)	Amount	Quantity	Rate per Unit (₹)	Amount
1.									
2.									
3.									
4.									
5.									
6.									
7.									
8.									
9.									
10.									





**Category:** Indigenous/ Imported/ Self Manufactured

**2B. Details of Utilities Consumed**

Name of Product								
CETA heading								
Sl. No.	Description of Material	UOM	Current Year			Previous Year		
			Quantity	Rate per Unit (₹)	Amount	Quantity	Rate per Unit (₹)	Amount
1.								
2.								
3.								
4.								
5.								
6.								
7.								
8.								
9.								
10.								

**2C. Details of Industry Specific Operating Expenses**

Name of Product			
CETA heading			
Sl. No.	Description of Industry Specific Operating Expenses	Current Year	Previous Year
		Amount	Amount
1.			
2.			
3.			
4.			
5.			
6.			
7.			
8.			
9.			
10.			

**PART-C**  
**For Service Sector**

<b>1. QUANTITATIVE INFORMATION (for each service separately)</b>			
<b>Name of Service</b>			
<b>Service Code (if applicable)</b>			
<b>Particulars</b>	<b>Unit of Measurement</b>	<b>Current Year</b>	<b>Previous Year</b>
<b>1. Available Capacity</b>			
<b>(a)</b> Installed Capacity			
<b>(b)</b> Capacity enhanced during the year, if any			
<b>(c) Total available Capacity</b>			
<b>2. Actual Services Provided</b>			
<b>(a)</b> Own Services			
<b>(b)</b> Services under contractual arrangements			
<b>(c)</b> Outsourced Services			
<b>(d) Total Services</b>			
<b>3. Total Services provided as per Service Tax Records</b>			
<b>4. Capacity Utilization (in-house) %</b>			
<b>5. Actual Sales</b>			
<b>(a)</b> Services rendered - Domestic			
<b>(b)</b> Services rendered - Export			
<b>(c) Total Services Rendered</b>			

2. ABRIDGED COST STATEMENT (for each service separately)					
Name of Service					
Service Code (if applicable)					
Unit of Measure					
		Services Provided	Captive Consumption	Other Adjustments	Services rendered
	<b>Current Year</b>				
	<b>Previous Year</b>				
Sl. No.	Particulars	Current Year		Previous Year	
		Amount (₹)	Rate per Unit (₹)	Amount (₹)	Rate per Unit (₹)
1	Materials Consumed (specify details as per Para 2A)				
2					
3	Utilities (specify details as per Para 2B)				
4	Direct Employees Cost				
5	Direct Expenses				
6	Consumable Stores and Spares				
7	Repairs and Maintenance				
8	Quality Control Expenses				
9	Research and Development Expenses				
10	Technical know- how Fee / Royalty, if any				
11	Depreciation/Amortization				
12	Other Overheads				
	Industry Specific Operating Expenses (specify details as per Para 2 C)				
13	<b>Total (1 to 12)</b>				
14	Less: Credits for Recoveries, if any				
15	<b>Cost of Services provided (13 - 14)</b>				
16	Cost of Outsourced/Contractual Services				
17	<b>Total Services available (15 + 16)</b>				
18	Less: Self/Captive Consumption				
19	Other Adjustments (if any)				
20	<b>Cost of Services Sold (17 - 18 + 19)</b>				
21	Administrative Overheads				
22	Selling and Distribution Overheads				
23	<b>Cost of Sales before Interest (20+21+22)</b>				
24	Interest & Financing Charges				
25	<b>Cost of Sales (23 + 24)</b>				
26	<b>Net Sales Realization (Net of Taxes and Duties)</b>				

27	<b>Margin [Profit/(Loss) as per Cost Accounts] (26 - 25)</b>				
----	--	--	--	--	--

**NOTES:**

1.	Separate Cost Statement shall be prepared for each service
2.	The items of cost shown in the proforma are indicative and the same shall be reflected keeping in mind the materiality of the Item of cost in the service.
3.	The Proforma may be suitably modified to meet the requirement of the Industry/service.
4.	In case the Company follows a pre-determined or standard costing system, the above cost statement shall reflect figures at actuals after adjustment of variances, if any.

**2A. Details of Materials Consumed**

Name of Service									
Service Code (if applicable)									
Sl. No.	Description of Material	Category	UOM	Current Year			Previous Year		
				Quantity	Rate per Unit (₹)	Amount	Quantity	Rate per Unit (₹)	Amount
1.									
2.									
3.									
4.									
5.									
6.									
7.									
8.									
9.									
10.									

**Category:** Indigenous/ Imported/ Self Manufactured

**2B. Details of Utilities Consumed**

Name of Service									
Service Code (if applicable)									
Sl. No.	Description of Material	UOM		Current Year			Previous Year		
				Quantity	Rate per Unit (₹)	Amount	Quantity	Rate per Unit (₹)	Amount
1.									
2.									
3.									
4.									
5.									
6.									
7.									
8.									
9.									
10.									

**2C. Details of Industry Specific Operating Expenses**

Name of Service			
Service Code (if applicable)			
Sl. No.	Description of Industry Specific Operating Expenses	Current Year	Previous Year
		Amount	Amount
1.			
2.			
3.			
4.			
5.			
6.			
7.			
8.			
9.			
10.			

**PART-D****1. PRODUCT AND SERVICE PROFITABILITY STATEMENT (for audited products/services)**

Sl. no.	Particulars	Current Year			Previous Year		
		Sales ₹	Cost of Sales ₹	Margin ₹	Sales ₹	Cost of Sales ₹	Margin ₹
	Product 1						
	Product 2						
	Product 3						
	.....etc.						
	Service 1						
	Service 2						
	Service 3						
	..... etc.						
	<b>Total</b>						

**2. PROFIT RECONCILIATION (for the company as a whole)**

Sl. no.	Particulars	Current Year ₹	Previous Year ₹
1	Profit or Loss as per Cost Accounting Records		
	(a) For the audited product(s)/service(s)		
	(b) For the un-audited product(s)/service(s)		
<b>2</b>	<b>Add: Incomes not considered in cost accounts (specify details)</b>		
	a)		
	b)		
	c)		
	d)		
	e)		
	f)		
	g)		
	h)		
	i)		
	j)		
	<b>Total</b>		
<b>3</b>	<b>Less: Expenses not considered in cost accounts (specify details)</b>		
	a)		
	b)		
	c)		
	d)		
	e)		
	f)		
	g)		
	h)		
	i)		
	j)		
4	Difference In Valuation of stock between financial accounts and cost accounts		
<b>5</b>	<b>Adjustments for others (Specify)</b>		
6	Profit or Loss as per Financial Accounts		
<b>Note:</b> Show abnormal wastages, expenses on strikes/lock-outs and any other items of expenses or incomes of abnormal nature etc. not considered in cost separately			

<b>3. VALUE ADDITION AND DISTRIBUTION OF EARNINGS (for the company as a whole)</b>			
<b>Sl. No.</b>	<b>Particulars</b>	<b>Current Year ₹</b>	<b>Previous Year ₹</b>
	<b>Value Addition:</b>		
1	Gross Sales (excluding sales returns)		
2	Less: Excise duty, etc.		
3	<b>Net Sales</b>		
4	Add: Export Incentives		
5	Add/less: Adjustment In Finished Stocks		
6	Less: Cost of bought out inputs		
	(a) Cost of Materials Consumed		
	(b) Process Materials / Chemicals		
	(c) Consumption of Stores and Spares		
	(d) Utilities (e.g. power and fuel)		
	(e) Others, if any		
	<b>Total Cost of bought out inputs</b>		
7	<b>Value Added</b>		
8	Add: Income from any other sources		
9	Add: Extra Ordinary Income		
10	<b>Earnings available for distribution</b>		
	<b>Distribution of Earnings to:</b>		
1	Employees as salaries and wages, retirement benefits, etc.		
2	Shareholders as dividend		
3	Company as retained funds		
4	Government as taxes (specify)		
5	Extra Ordinary Expenses		
6	Others, if any (specify)		
7	<b>Total distribution of earnings</b>		

**4. FINANCIAL POSITION AND RATIO ANALYSIS (for the company as a whole)**

Sl. no.	Particulars	Units	Current Year	Previous Year
<b>A.</b>	<b>Financial Position</b>			
1	Share Capital			
2	Reserves and Surplus			
3	Long Term Borrowings			
4	(a) Gross Assets			
	(b) Net Assets			
5	(a) Current Assets			
	(b) Less: Current Liabilities & Provisions			
	(c) Net Current Assets			
6	Capital Employed			
7	Net Worth			
<b>B.</b>	<b>Financial Performance</b>			
1	Value Added			
2	Net Revenue from Operations of Company			
3	Profit before Tax (PBT)			
<b>C.</b>	<b>Profitability Ratios</b>			
1	PBT to Capital Employed (B3/A6)	%		
2	PBT to Net worth (B3/ A7)	%		
3	PBT to Value Added (B3/B4)	%		
4	PBT to net revenue from Operations (B3/B4)	%		
<b>D.</b>	<b>Other Financial Ratios</b>			
1	Debt- Equity Ratio	%		
2	Current Assets to Current Liabilities	%		
3	Value Added to Net Sales	%		
<b>E.</b>	<b>Working Capital ratios</b>			
1	Raw Materials Stock to Consumption	Months		
2	Stores and Spares to Consumption	Months		
3	Finished Goods Stock to Cost of Sales	Months		

**Notes. 1.** Capital Employed means average of net fixed assets (excluding effect of revaluation of Fixed assets) plus Non-current investments and net current assets existing at the beginning and close of the financial year.

**2.** Net Worth is as defined under clause (57) of section 2 of the Companies Act, 2013.



**5. RELATED PARTY TRANSACTIONS (for the company as a whole)**

Sl. no.	Name of the Related Party	Name of the Product / Service	Nature of Transaction (Sale, Purchase etc.)	Quantity in Kgs.	Transfer Price	Amount ₹	Normal Price	Basis adopted to determine the Normal Price
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								

**Notes:** 1. Details shall be furnished for each Related Party and Product /Service separately.

2. Details of Related Party transactions without Indicating the Normal Price and the basis thereof shall be considered as incomplete Information.

**6. RECONCILIATION OF INDIRECT TAXES (for the Company as a whole)**

	Particulars	Assessable Value ₹	Excise Duty ₹	Service Tax ₹	Cess and Others ₹	VAT/ CST ₹
	<b>Total Clearances</b>					
1	Domestic					
2	Export					
3	Stock Transfers (Net)					
4	Others etc.					
5	<b>Total Excise Duty (1 to 4)</b>					
6	Service Tax					
7	VAT, CST etc.					
8	Other State Taxes, if any					
9	<b>Total Duties/Taxes Payable (5 to 8)</b>					
	Duties/Taxes Paid					
10	Cenvat/VAT Credit Utilised- Inputs					



11	Cenvat/VAT Credit Utilised – Capital Goods					
12	Cenvat/VAT Credit Utilised – Input Services					
13	Cenvat/VAT Credit Utilised – Others					
14	<b>Total (10 to 13)</b>					
15	Paid through PLA/Cash					
16	<b>Total Duties/Taxes paid (14 + 15)</b>					
17	Duties/Taxes recovered					
18	Difference between Duties/Taxes Paid and Recovered					
19	Interest/Penalty/Fines Paid (interest paid on price revision)					

**Note:** Provide separate amounts in notes in respect of item 4 above.

<u>SIGNATURE</u>	<u>SIGNATURE</u>	<u>SIGNATURE</u>
NAME	NAME	NAME
COST AUDITOR	COMPANY SECRETARY/DIRECTOR	DIRECTOR
MEMBERSHIP NUMBER	MEMBERSHIP/DIN NUMBER	DIN NUMBER
SEAL	STAMP	STAMP
DATE	DATE	DATE

**Note.**

- (1) Wherever, there is any significant variation in the current year's figure over the previous year's figure for any item shown under each para of the Annexure to the Cost Audit Report, reasons thereof shall be given by the Cost Auditor.
- (2) Wherever, duration of the current year or the previous year is not 12 (twelve) months, same shall be clearly indicated in the Report.

# FORM NO. CRA-4

[Pursuant to section 148(6) of Companies Act, 2013 and rule 6(6) of the Companies (cost records and audit) Rules, 2014]



## Form for filing Cost Audit Report with the Central Government

सत्यमेव जयते

Form Language  English  Hindi

Refer the instruction kit for filing the form.

1.(a) \*Corporate identity number (CIN) or foreign company registration number (FCRN) of the company

(b) Global location number (GLN) of company

2.(a) Name of the company

(b) Address of the registered office or of the principal place of business in India of the company

(c) \*e-mail ID of the company

(d) \*SRN of 23C/ CRA-2 filed for appointment of Cost Auditor(s)

3. (a) \*Financial year for which cost auditor was initially appointed  
From  (DD/MM/YYYY) To  (DD/MM/YYYY)

(b) \*Whether any change in Financial Year  Yes  No

(d) \*Date of Board of Directors meeting in which Annexure to the cost audit report was approved  (DD/MM/YYYY)

4. (a) \*State number of Industries/ Sectors/ Product(s)/ Service(s) (CETA heading level, wherever applicable as per Rules) for which the Cost Audit Report is being submitted

(i) Regulated

(ii) Non-Regulated

(b) Details of such Industries/ Sectors/ product(s)/ service(s) of the company

(i) Details of such industries/sectors/products/services under regulated sectors

Industries/sectors/products/services	CETA heading (wherever Applicable)	No. of tariff items/Products/ services
<input type="text"/>	<input type="text"/>	<input type="text"/>

(ii) Details of such industries/sectors/products/services under non-regulated sectors

Industries/sectors/products/services	CETA heading (wherever Applicable)	No. of tariff items/Products/ services
<input type="text"/>	<input type="text"/>	<input type="text"/>



5 (a) \*State number of Industries/ Sectors/ Product(s)/ Service(s) (CETA heading level, wherever applicable as per Rules) not covered in the Cost Audit Report

- (i) Regulated
- (ii) Non-Regulated

(b) (i) Details of such Industries/ Sectors/ product(s)/ service(s) of the company under regulated sector

Industries/sectors/products/services	CETA heading (wherever Applicable)	No. of tariff items/Products/ services
<input type="text"/>	<input type="text"/>	<input type="text"/>

(b) (ii) Details of such Industries/ Sectors/ product(s)/service(s) of the company under non-regulated sector

Industries/sectors/products/services	CETA heading (wherever Applicable)	No. of tariff items/Products/ services
<input type="text"/>	<input type="text"/>	<input type="text"/>

(6) Details of the cost auditor(s) appointed

\* (i) Number of cost auditor(s) appointed

(a) \*Category of the auditor  Individual  Partnership firm  Limited liability partnership (LLP)

(b)(i) \*Membership number of the Cost Auditor/ member representing the Cost Auditor's Firm/LLP

(ii) \* Name of the Cost Auditor/ member representing the Cost Auditor's Firm/LLP

(iii) \* Firm registration number(FRN) of the Cost Auditor/Cost Auditor's firm/LLP

(iv) \* Name of the Cost Auditor's firm/LLP

(c) (i) Address \* Line I   
Line II

(ii) \*City

(iii) \*State

(iv) Country

(v) \* Pin code

(vi) \*e-mail ID of the firm or member

(d) \*Date of the board meeting in which cost auditor was appointed  (DD/MM/YYYY)

(e) \*Type of appointment  Original  Appointment due to casual vacancy  
 Appointment for new products/services/locations

(f) \*Scope of audit of the cost auditor/firm/LLP

(g) \*Date of receipt of copy of cost audit report by the company  (DD/MM/YYYY)



7. (a) \*Whether the cost auditor's report has been qualified  Yes  No

If yes, please state

(b) \*Whether cost auditor's report has any reservations  Yes  No

If yes, please state

(c) \*Whether the cost auditor's report has any adverse remarks  Yes  No

If yes, please state

(d) \*Whether the cost auditor's report contain any observations or suggestions

If yes, cost auditor's observations/ suggestions  Yes  No

**Attachments**

(1) \*XBRL document in respect of the cost audit report and company's information and explanations on every qualification and reservation contained therein

Attach

List of attachments

(2). Optional attachment, if any.

Attach

Remove attachment

**Declaration**

\*To the best of my knowledge and belief, the information given in this form and its attachments is correct and complete I am authorized by the Board of Directors of the Company vide \*resolution number  \*dated  to sign and submit the application.

(DD/MM/YYYY)

It is confirmed that the attached XBRL document(s) are the XBRL converted copy(s) of the duly signed cost audit report as required under Section 148(2) and company's information and explanations as required under Section 148(6) of the Companies Act, 2013 and the rules made thereunder. It is further confirmed that such document(s) have been prepared using XBRL taxonomy as notified by the Ministry of Corporate Affairs for this purpose.

**\*To be digitally signed by**

Director or Manager or CEO or CFO or Secretary of the company (in case of Indian company) or authorised representative (in case of Foreign company)

\*Designation

\*Director identification number of the Director; or PAN of the Manager or CEO or CFO or authorized representative; or membership number of the Company Secretary

**Note: Attention is drawn to provisions of Section 448 and 449 which provide for punishment for false statement / certificate and punishment for false evidence respectively.**

Modify

Check Form

Prescrutiny

Submit

**This form has been taken on file by the Central Government through electronic mode and on the basis of statement of correctness given by the company**

**FAQ-1****19/03/2015**

**Frequently Asked Questions on  
Maintenance of Cost Accounting Records and  
Cost Audit under Companies Act, 2013**

**1.1 Which Rules govern maintenance of cost accounting records and cost audit as per Section 148 of the Companies Act, 2013?**

The Central Government issued Companies (Cost Records and Audit) Rules, 2014 on June 30, 2014. Subsequently, it issued Companies (Cost Records and Audit) Amendment Rules, 2014 on December 31, 2014. The Amendment Rules has introduced certain changes to the original Rules issued on June 30, 2014. The Companies (Cost Records and Audit) Rules, 2014 read with the Amendment Rules 2014 are now applicable and governs the maintenance of cost accounting records and cost audit as per Section 148 of the Companies Act, 2013.

**1.2 What is the applicability of the Companies (Cost Records and Audit) Rules, 2014 and what is the date on which it becomes effective and applicable?**

- (a) The Rules have classified sectors/industries under Regulated and Non-Regulated sectors. The sectors/industries covered under Table A of the Rules are under the Regulated Sector and sectors/industries covered under Table B are under the Non-Regulated Sector.
- (b) Every company, including foreign companies defined in clause (42) of section 2 of the Act, engaged in the production of the goods or providing services, specified in Tables A and B, having an overall turnover from all its products and services of rupees thirty five crore or more during the immediately preceding financial year, shall be required to maintain cost accounting records.

However, foreign companies having only liaison office in India and engaged in production, import and supply or trading of medical devices listed in Sl. 33 of Table B are exempted. Further, companies which are classified as a micro enterprise or a small enterprise including as per the turnover criteria under sub-section (9) of section 7 of the Micro, Small and Medium Enterprises Development Act, 2006 (27 of 2006) are also excluded from the purview of the Rules.

- (c) The Rules are effective from April 1, 2014 in respect of certain class of companies and for the others it is effective from April 1, 2015 as detailed below:

**Rules Applicable from April 1, 2014 – Regulated Sectors**

<b>Sl.</b>	<b>Industry /Sector/ Product/Service</b>	<b>CETA Heading</b>
1.	Telecommunication services made available to users by means of any transmission or reception of signs, signals, writing, images and sounds or intelligence of any nature (other than broadcasting services) and regulated by the Telecom Regulatory Authority of India under the Telecom Regulatory Authority of India Act, 1997 (24 of 1997);	Not applicable

2.	Generation, transmission, distribution and supply of electricity regulated by the relevant regulatory body or authority under the Electricity Act, 2003 (36 of 2003), other than for captive generation (referred to in the Electricity Rules, 2005);	.....
3.	Petroleum products regulated by the Petroleum and Natural Gas Regulatory Board under the Petroleum and Natural Gas Regulatory Board Act, 2006 (19 of 2006);	2709 to 2715;
4.	Drugs and pharmaceuticals	2901 to 2942; 3001 to 3006.
5.	Fertilizers;	3102 to 3105.
6.	Sugar and industrial alcohol;	1701; 1703; 2207

**Rules Applicable from April 1, 2014 – Non-Regulated Sectors**

Sl.	Industry /Sector/ Product/Service	CETA Heading
1.	Machinery and mechanical appliances used in defence, space and atomic energy sectors excluding any ancillary item or items; Explanation.–For the purposes of this sub-clause, any company which is engaged in any item or items supplied exclusively for use under this clause, shall be deemed to be covered under these rules.	8401 to 8402; 8801 to 8805; 8901 to 8908
2.	Turbo jets and turbo propellers;	8411
3.	Arms and ammunitions;	3601 to 3603; 9301 to 9306.
4.	Propellant powders; prepared explosives (other than propellant powders); safety fuses; detonating fuses; percussion or detonating caps; igniters; electric detonators;	3601 to 3603
5.	Radar apparatus, radio navigational aid apparatus and radio remote control apparatus;	8526
6.	Tanks and other armoured fighting vehicles, motorised, whether or not fitted with weapons and parts of such vehicles, that are funded (investment made in the company) to the extent of ninety percent or more by the Government or Government agencies;	8710
7.	Port services of stevedoring, pilotage, hauling, mooring, re-mooring, hooking, measuring, loading and unloading services rendered by a Port in relation to a vessel or goods regulated by the Tariff Authority for Major Ports under section 111 of the Major Port Trusts Act, 1963 (38 of 1963);	Not applicable.
8.	Aeronautical services of air traffic management, aircraft operations, ground safety services, ground handling, cargo facilities and supplying fuel rendered by airports and regulated by the Airports Economic Regulatory Authority under the Airports Economic Regulatory Authority of India Act, 2008 (27 of 2008);	Not applicable.
9.	Steel;	7201 to 7229; 7301 to 7326

Sl.	Industry /Sector/ Product/Service	CETA Heading
10.	Roads and other infrastructure projects corresponding to para No.(1) (a) as specified in Schedule VI of the Companies Act, 2013;	Not applicable.
11.	Rubber and allied products being regulated by the Rubber Board constituted under the Rubber Act, 1947 (XXIV of 1947)	4001 to 4017
12.	Railway or tramway locomotives, rolling stock, railway or tramway fixtures and fittings, mechanical (including electro mechanical) traffic signalling equipment's of all kind;	8601 to 8608.
13.	Cement;	2523; 6811 to 6812
14.	Ores and Mineral Products;	2502 to 2522; 2524 to 2526; 2528 to 2530; 2601 to 2617
15.	Mineral fuels (other than Petroleum), mineral oils etc.;	2701 to 2708
16.	Base metals;	7401 to 7403; 7405 to 7413; 7419; 7501 to 7508; 7601 to 7614; 7801 to 7802; 7804; 7806; 7901 to 7905; 7907; 8001; 8003; 8007; 8101 to 8113.
17.	Inorganic chemicals, organic or inorganic compounds of precious metals, rare-earth metals of radioactive elements or isotopes, and Organic Chemicals;	2801 to 2853; 2901 to 2942; 3801 to 3807; 3402 to 3403; 3809 to 3824.
18.	Jute and Jute Products;	5303, 5310
19.	Edible Oil;	1507 to 1518
20.	Construction Industry as per para No.(5) (a) as specified in Schedule VI of the Companies Act, 2013 (18 of 2013)	Not applicable.
21.	Health services, namely functioning as or running hospitals, diagnostic centres, clinical centres or test laboratories;	Not applicable.
22.	Education services, other than such similar services falling under philanthropy or as part of social spend which do not form part of any business.	Not applicable.
23.	Production, import and supply or trading of following medical devices, namely: Cardiac Stents, Drug Eluting Stents, Catheters, Intra Ocular Lenses, Bone Cements, Heart Valves, Orthopaedic Implants, Internal Prosthetic Replacements, Scalp Vein Set, Deep Brain Stimulator, Ventricular peripheral Shud, Spinal Implants, Automatic Impalpable Cardiac Deflobillator, Pacemaker (temporary and permanent), patent ductus arteriosus, atrial septal defect and ventricular septal defect closure device, Cardiac Re-synchronize Therapy, Urethra Spinicture Devices, Sling male or female, Prostate occlusion device, Urethral Stents	9018 to 9022



### Rules Applicable from April 1, 2015 – Non-Regulated Sectors

Sl.	Industry /Sector/ Product/Service	CETA Heading
1.	Coffee and tea;	0901 to 0902
2.	Milk powder;	0402
3.	Insecticides;	3808
4.	Plastics and Polymers;	3901 to 3914; 3916 to 3921; 3925
5.	Tyres and Tubes;	4011 to 4013
6.	Paper;	4801 to 4802
7.	Textiles;	5004 to 5007; 5106 to 5113; 5205 to 5212; 5303; 5310; 5401 to 5408; 5501 to 5516
8.	Glass;	7003 to 7008, 7011, 7016
9.	Other machinery;	8403 to 8487
10.	Electricals or electronic machinery;	8501 to 8507; 8511 to 8512; 8514 to 8515; 8517; 8525 to 8536; 8538 to 8547.

**1.3 The Institute of Cost Accountants of India (ICAI-CMA) had, from time to time, issued FAQs subsequent to implementation of Companies (Cost Accounting Records) Rules, 2011 and Companies (Cost Audit report) Rules, 2011. Will the clarifications and FAQs remain valid subsequent to Companies (Cost Records and Audit) Rules, 2014 coming into effect?**

The FAQs and clarifications issued earlier are no longer valid. The same may be considered as withdrawn and not applicable for the Companies (Cost Records and Audit) Rules, 2014 unless specifically mentioned in these FAQs.

**1.4 What constitutes the cost records under Rule 2(e)?**

As per Rule 2(e) the Companies (Cost Records and Audit) Rules, 2014, "cost records" means 'books of account relating to utilization of materials, labour and other items of cost as applicable to the production of goods or provision of services as provided in section 148 of the Act and these Rules'. There cannot be any exhaustive list of cost accounting records. Any transaction - statistical, quantitative or other details - that has a bearing on the cost of the product/activity is important and form part of the cost accounting records.

Cost records are to be kept on regular basis to make it possible to "calculate per unit cost of production/operations, cost of sales and margin for each of its products for every financial year on monthly/quarterly/half-yearly/annual basis". What is required is to maintain such records and details in a structured manner on a regular basis so that accumulation is possible on a periodical basis.

**1.5 The Rules state that cost records are to be maintained in Form CRA-1. However, CRA-1 does not prescribe any format but only provides principles to be followed for different cost elements. What are the role and status of Cost Accounting Standards/GACAP and its applicability vis-à-vis CRA-1?**

The principles of maintenance of cost accounting records have been notified in the Rules in CRA-1. The principles are in sync with the cost accounting standards. The Rules are principle based and no formats have been prescribed for maintenance of cost accounting records like pre-2011 industry specific rules. No separate format based records maintenance has been prescribed even for the Regulated Industry and the prescription has left it open for industry to maintain cost accounting records according to its size and nature of business so long as

it determines a true and fair view of the cost of production, cost of sales and margin of the products/services. The cost audit report is required to be in conformity with the “cost auditing standards” as referred to in Section 148 of the Companies Act, 2013.

It is also to be noted that the Council of the Institute of Cost Accountants of India has made it mandatory for cost accountants in practice to follow and conform to the Cost Accounting Standards issued by it and it is incumbent on the cost auditors to report any deviations from cost accounting standards.

**1.6 What is the meaning of “Turnover” in relation to the Companies (Cost Records and Audit) Rules, 2014?**

Sub-section 91 of Section 2 of the Companies Act, 2013 defines “turnover” as “the aggregate value of the realization of amount made from the sale, supply or distribution of goods or on account of services rendered, or both, by the company during a financial year. For the purposes of these Rules, “Turnover” means gross turnover made by the company from the sale or supply of all products or services during the financial year. It includes any turnover from job work or loan license operations but exclude duties and taxes. Export benefit received should be treated as a part of sales.

**1.7 Whether overall annual Turnover/individual turnover definition will include other operational income like Job work income, scrap sale, trading turnover, export benefits, sales of services etc.?**

The Turnover shall include other operational income like Job work income, scrap sale, trading turnover, export benefits, sales of services etc.

**1.8 Is maintenance of cost accounting records mandatory for a multi-product company where all the products are not covered under the Rules even if the Turnover of the individual product/s that are covered under the Rules is less than rupees thirty five crores?**

The Rules provide threshold limits for the company as a whole irrespective of whether all its products are as per the prescribed industry/sector provided under Table A or Table B. The Rules do not provide any minimum product specific threshold limits for maintenance of cost accounting records and consequently the company would be required to maintain cost accounting records for the products covered under Table-A or Table-B or both even if the turnover of such products is below rupees thirty five crores.

**1.9 What is the difference between Cost Accounting policy and Cost Accounting system?**

Cost Accounting Policy of a company state the policy adopted by the company for treatment of individual cost components in cost determination.

The Cost Accounting system of a company, on the other hand, provides a flow of the cost accounting data/information across the activity flow culminating in arriving at the cost of final product/service.

**1.10 A company meets the threshold limits for both maintenance of cost records and cost audit in Year-0 (previous year) and consequently comes under the purview of the Rules in Year-1 (current year). If the turnover of company gets reduced to lower than the prescribed threshold limit in Year-1 (current year), whether Cost Records and Cost Audit will be applicable for Year-2 (next year).**

Rule 3 of the Companies (Cost Records and Audit) Rules, 2014 states that a company engaged in the production of the goods or providing of services as prescribed having an overall turnover from all its products and services of rupees thirty five crore or more during the immediately preceding financial year, shall include cost records for such products or services in their books of account. Since the threshold limit for applicability of maintenance of cost accounting records is met in Year-0, the cost records are required to be maintained from Year-1. Once the maintenance of cost records becomes applicable, it would be maintained on a continuous

basis in the subsequent years also. In the same line, cost audit will be applicable from Year-1 and for every year thereafter.

**1.11 How to identify products covered under 4-digit CETA Code as mentioned in the Rules?**

Central Excise Tariff Act Heading has been defined in Rule 2(aa) of Companies (Cost Records and Audit) Rules 2014. It states "*Central Excise Tariff Act Heading*" means the heading as referred to in the Additional Notes in the First Schedule to the Central Excise Tariff Act, 1985 [5 of 1986].

First Schedule to the Central Excise Tariff Act, 1985 states – "*heading*" in respect of goods, means a description in list of tariff provisions accompanied by a four-digit number and includes all sub-headings of tariff items the first four-digits of which correspond to that number.

**1.12 The Rules prescribed in 2011 had introduced the concept of reporting under "Product Group". The present Rules are silent about Product Group. What is the requirement of preparation of cost statements of products/services so far as maintenance of cost accounting records is concerned and reporting thereof in the cost audit report?**

The concept of "Product Group" has been dispensed with in the present Rules. The cost records referred to in sub-rule (1) of Rule 5 is required to be maintained on regular basis in such manner as to facilitate calculation of per unit cost of production or cost of operations, cost of sales and margin for **each of its products and activities**. Hence, it is imperative that the cost accounting records are required to be maintained and cost statements prepared for each and every product/service/activity that the company is engaged in.

So far as reporting is concerned, Abridged Cost Statement for every product identified with the CETA Code is required to be provided. For activities/services for which CETA Code is not applicable, the Abridged Cost Statement shall be for each service/activity.

**1.13 Whether separate Form CRA-2 is required to be filed by a company having two or more different types of products covered under cost audit?**

CRA-2 Form (intimation for appointment of cost auditor to Central Government) has replaced the earlier Form 23C (application seeking approval for appointment of cost auditor). A single Form CRA-2 is required to be filed providing details of the sectors/industries covered under cost audit and details of cost auditor. For Companies appointing multiple cost auditors, only one single Form CRA-2 is required to be filed. Provision has been made in the Form to accommodate details of multiple cost auditors.

**1.14 The Tables listing the industry/sector/product/service in the Rules have described the same by way of description as well as CETA Heading, wherever applicable. For certain sectors, the coverage under the CETA Heading are apparently not in line with the description of the sector. How to determine the coverage in such cases?**

The description and the CETA Heading have to be read harmoniously and construed to be supplementing each other. The CETA Heading has been provided in the amended Rules in addition to what was provided in the original Rules issued in June 2014. The CETA Codes are inclusive and all products covered under the codes are covered irrespective of the description.

For example, in case of Petroleum Industry, the description states "Petroleum products regulated by the Petroleum and Natural Gas Regulatory Board under the Petroleum and Natural Gas Regulatory Board Act, 2006 (19 of 2006)" and the CETA Headings are 2709 to 2715. Hence, all products covered under CETA Headings 2709 to 2715 are included as well as activities like storage, transportation, distribution of Crude Oil or Gas etc. and any other activity that is defined under the Petroleum and Natural Gas Regulatory Board Act, 2006 and regulated by the PNGRB are covered.

Similarly, Rubber and allied products would include all rubber products as specified under CETA Codes 4001 to 4017 and will not be restricted only to such rubber products regulated by the Rubber Board.

Companies engaged in manufacturing Machinery and mechanical appliances falling under CETA Codes 8401 to 8402; 8801 to 8805; 8901 to 8908 are similarly covered irrespective of its ultimate customer/consumer, subject to the company meeting the threshold limits prescribed and it is not necessary that the products have to be exclusively used in defence, space and atomic energy sectors.

**1.15 What is meant by Telecommunication Services and what is its coverage?**

The Companies (Cost Records and Audit) Rules, 2014 has covered "Telecommunication services made available to users by means of any transmission or reception of signs, signals, writing, images and sounds or intelligence of any nature (other than broadcasting services) and regulated by the Telecom Regulatory Authority of India under the Telecom Regulatory Authority of India Act, 1997 (24 of 1997)". The Telecom Regulatory Authority of India Act, 1997 defines "telecommunication service" as "service of any description (including electronic mail, voice mail, data services, audio text service, video text services, radio paging and cellular mobile telephone services) which is made available to users by means of any transmission or reception of signs, signals, writing, images and sounds or intelligence of any nature, by wire, radio, visual or other electro-magnetic means but shall not include broadcasting services".

Subsequently, the Central Government has included broadcasting services within the ambit of telecommunication services by notifying "broadcasting services and cable services to be telecommunication service". [Notification No. 39 issued by Ministry of Communication and Information Technology dated 9 January 2004, S.O. No. 44(E) issued by TRAI, vide F. No. 13-1/2004].

In view of the above, Telecommunication Services made available to users and regulated by the Telecom Regulatory Authority of India under the Telecom Regulatory Authority of India Act, 1997 would include all such services being regulated by TRAI including broadcasting services.

**1.16 What is the coverage of "Roads and other infrastructure projects" under Item 10 of Table B of the Rules?**

"Roads and other infrastructure projects" has been defined to be corresponding to para No.(1)(a) as specified in Schedule VI of the Companies Act, 2013. Sub-clause (a) to Para (1) of Schedule VI of the Companies Act, 2013 covers "Roads, national highways, state highways, major district roads, other district roads and village roads, including toll roads, bridges, highways, road transport providers and other road-related services". Hence, every activity including construction and maintenance of the above projects are covered under the Rules.

**1.17 What is the coverage of Construction Industry under Item 21 of Table B of the Rules?**

Construction Industry has been defined to be corresponding to para No. (5)(a) as specified in Schedule VI of the Companies Act, 2013. Para (5) of Schedule VI of the Companies Act, 2013 pertains to "Industrial, commercial and social development and maintenance" and covers "real estate development, including an industrial park or special economic zone" as per sub-clause (a). Hence, every construction activity in relation to the above are covered under the Rules.

**1.18 What is the coverage of Aeronautical Services?**

Clause 3(B)(8) of the Companies (Cost Records and Audit) Rules, 2014 covers under the ambit of the Rules "Aeronautical services of air traffic management, aircraft operations, ground safety services, ground handling, cargo facilities and supplying fuel rendered by airports and regulated by the Airports Economic Regulatory Authority under the Airports Economic Regulatory Authority of India Act, 2008 (27 of 2008)".

The Airports Economic Regulatory Authority of India Act, 2008 has defined "aeronautical services" as follows:

- (i) For navigation, surveillance, and supportive communication thereto for air traffic management;

- (ii) For the landing, housing or parking of an aircraft or any other ground facility offered in connection with aircraft operations at an airport;
- (iii) For ground safety services at an airport;
- (iv) For ground handling services relating to aircraft, passengers and cargo at an airport;
- (v) For the cargo facility at an airport;
- (vi) For supplying fuel to the aircraft at an airport;

The Rule has covered all the above services under the ambit of maintenance of cost accounting records and cost audit subject to threshold limits.

However, all airports and aircraft operations belonging to or subject to the control of the Armed Forces or paramilitary Forces of the Union are excluded from the scope of these Rules.

**1.19 Whether maintenance of cost accounting records and cost audit thereof, subject to threshold limits prescribed, is applicable to products which are for 100% captive consumption?**

The Companies (Cost Records and Audit) Rules, 2014 has specified different products and services for which maintenance of cost accounting records and cost audit thereof, subject to threshold limits prescribed, is mandatory.

In case a product is manufactured and 100% captively consumed for production of some other product which is also covered under these Rules and is subject to cost audit, then the cost of such captively consumed product would form part of the final product which is also under cost audit and as such a separate cost audit report for the captively consumed product will not be necessary.

However, if the product is partly for captive consumption and partly sold, or if the product is 100% captively consumed for production of some other product which is not covered under these Rules, then cost audit would be applicable for such captively consumed product(s).

**1.20 What would be the treatment of cost consumption of electricity from a captive generating plant and applicability of cost audit to such captive generating plants?**

Rule 3(A)(2) dealing with generation, transmission, distribution and supply of electricity has excluded captive generation as defined in the Electricity Rules, 2005. It may be noted that in case of a company whose product(s)/service(s) are covered under the Rules and it consumes electricity from the captive generating plant, determination of cost of generation, transmission, distribution and supply of electricity as per CRA-1 would be mandatory since the cost of consumption of electricity has to be at cost. Hence, maintenance of cost records for generation, transmission, distribution and supply of electricity would be applicable. However, cost audit will not be applicable to such captive plants, provided the entire generation is consumed captively and no portion is sold outside.

**1.21 A Company is engaged in both Regulated and Non-Regulated sectors and all its products are not covered under the Rules. How to determine applicability of cost audit for the products covered under the Regulated and Non-Regulated sectors since different threshold limits have been prescribed under Rule 4?**

Rule 4 states that cost audit would be applicable for products under:

- (a) Table A if the overall turnover of the company is at least ₹ 50 crore and
- (b) Table B if the overall turnover of the company is ₹ 100 crore.

Hence, the coverage of cost audit for a company where all its products are covered under Table A or Table B or a combination of the two would be guided by these threshold limits.

In case of a multi-product company where all its products are not covered under Table A or Table B or a combination of both, then the following would apply:

- (a) If the overall turnover of the company is more than ₹ 50 crore but less than ₹100 crore, then only products covered under Table-A will be covered under cost audit provided the sum total of all the products of the company covered under Table A and Table B is more than ₹25 crore.
- (b) If the overall turnover of the company is more than ₹100 crore, then:
  - (i) products under both Table A and Table B will be covered under cost audit provided the sum total of all the products of the company covered under Table A and Table B is more than ₹ 35 crore
  - (ii) only products of Table A will be covered if the sum total of all the products of the company covered under Table A and Table B is more than ₹ 25 crore but less than ₹ 35 crore.

Explanation: Rule 4 has defined threshold limits for Table A and Table B separately but the aggregate turnover of the individual product or products or service or services has been defined to be all products for which cost records are required to be maintained under rule 3.

**1.22 A company does job work for others. The raw materials are supplied to the company by the principal and the job worker gets conversion charges only. The Job Worker company pays the excise duty which is reimbursed by the principal. Will the job worker be covered under the Companies (Cost Records and Audit) Rules, 2014?**

The Rules are applicable to a company. If the products of the Job Worker is listed under Table A or Table B of the Rules and the Job Worker company meets the threshold limits as prescribed, then the job worker company will be required to maintain cost accounting records. If the threshold criteria of the cost audit as prescribed are met, the company would be covered under cost audit also. Payment of excise duty by the Job Worker and in turn getting reimbursement for it is immaterial for application of the Rules.

**1.23 Whether companies registered under Section 8 of the Companies Act, 2013 (corresponding to Section 25 of the Companies Act, 1956) and One Person Company (OPC) introduced in Companies Act, 2013 covered under the Rules?**

The Companies (Cost Records and Audit) Rules, 2014 are applicable to every company registered under the Companies Act, 2013 which are engaged in production of goods or providing of services listed in Table-A or Table-B of Rule 3. Different threshold limits have been prescribed in the Rules for applicability of maintenance of cost accounting records and coverage under cost audit. Exemption has been granted only to companies which are classified as a micro enterprise or a small enterprise including as per the turnover criteria under sub-section (9) of section 7 of the Micro, Small and Medium Enterprises Development Act, 2006 (27 of 2006) and foreign companies having only liaison offices engaged in Production, import and supply or trading of medical devices specified under Item 33 of Table-B of Rule 3. Any other legal entity registered as a company that meets the conditions stated in Rule 3 and Rule 4 are covered.

**1.24 The manufacturing process of a company generates Metal Scrap during production of its main products which may or may not be covered under cost audit. Such scrap is sold in the market after the same is cleared under CETA Codes that are covered in the Rules. Will the company be covered under cost audit for generation of scrap?**

Generation of scrap is not a production or processing or manufacturing but is incidental to manufacture of its main products. The Rules are applicable to production of goods or providing of services. CETA Codes have been inducted in the Rules for proper identification of Products that are manufactured. The act of payment of Excise Duty is immaterial in the context of application of the Rules. The generation of scrap and its consequent sale in the market cannot be construed to be covered under the Rules.

**1.25 Whether Value Addition and Distribution of Earnings [Part D, Para 3] is to be computed based on Cost record data or audited financial data?**

Value Addition statement is to be computed based on audited financial accounts.

**1.26 Whether Financial Position and Ratio Analysis [Part D, Para 4] is to be computed based on Cost record data or audited financial data?**

Financial Position and Ratio Analysis is to be computed based on audited financial accounts. This reporting Para has been aligned with the nomenclature of Schedule III of the Companies Act, 2013.

**1.27 What is the procedure for appointment of cost auditor under the Companies Act, 2013?**

The cost auditor is to be appointed by the Board of Directors on the recommendation of the Audit Committee, where the company is required to have an Audit Committee. The cost auditor proposed to be appointed is required to give a letter of consent to the Board of Directors. The company shall inform the cost auditor concerned of his or its appointment as such and file a notice of such appointment with the Central Government within a period of thirty days of the Board meeting in which such appointment is made or within a period of one hundred and eighty days of the commencement of the financial year, whichever is earlier, through electronic mode, in **form CRA-2**, along with the fee as specified in Companies (Registration Offices and Fees) Rules, 2014.

Any casual vacancy in the office of a cost auditor, whether due to resignation, death or removal, shall be filled by the Board of Directors within thirty days of occurrence of such vacancy and the company shall inform the Central Government in Form CRA-2 within thirty days of such appointment of cost auditor.

**1.28 Who can be appointed as a cost auditor?**

Only a Cost Accountant, as defined under section 2(28) of the Companies Act, 2013, can be appointed as a cost auditor.

Clause (b) of sub-section (1) of section 2 of the Cost and Works Accountants Act, 1959 defines "Cost Accountant". It means a Cost Accountant who holds a valid certificate of practice under sub-section (1) of section 6 of the Cost and Works Accountants Act, 1959 and is in whole-time practice. Cost Accountant includes a Firm of Cost Accountants and a LLP of cost accountants.

**1.29 What are the eligibility criteria for appointment as a cost auditor?**

Eligibility Criteria under Section 141 of the Companies Act, 2013 read with Rule 10 of the Companies (Audit and Auditors) Rules, 2014 and Section 148 of the Companies Act, 2013. The following persons are not eligible for appointment as a cost auditor:

- (a) A body corporate. However, a Limited Liability partnership registered under the Limited Liability Partnership Act, 2008 can be appointed. [Section 141(3)(a)].
- (b) An officer or employee of the company. [Section 141(3)(b)].
- (c) A person who is a partner, or who is in the employment, of an officer or employee of the company. [Section 141(3)(c)].
- (d) A person who, or his relative or partner is holding any security of or interest in the company or any of its subsidiary or of its holding or associate company or a subsidiary of such holding company. [Section 141(3)(d)(i)].
- (e) Relatives of any partner of the firm holding any security of or interest in the company of face value exceeding ₹ 1 lakh. [Section 141(3)(d)(i) and Rule 10(1) of Companies (Audit and Auditors) Rules, 2014].

- (f) A person who is indebted to the company or its subsidiary, or its holding or associate company or a subsidiary or such holding company, for an amount exceeding ₹ 5 lakhs. [Section 141(3)(d)(ii) and Rule 10(2) of Companies (Audit and Auditors) Rules, 2014].
- (g) A person who has given any guarantee or provided any security in connection with the indebtedness of any third person to the company or its subsidiary, or its holding or associate company or a subsidiary of such holding company, for an amount exceeding ₹ 1 lakh. [Section 141(3)(d)(iii) and Rule 10(3) of Companies (Audit and Auditors) Rules, 2014].
- (h) A person or a firm who, whether directly or indirectly, has business relationship with the company or its subsidiary, or its holding or associate company or subsidiary of such holding company or associate company. [Section 141(3)(e) and Rule 10(4) of Companies (Audit and Auditors) Rules, 2014].

"Business Relationship" is defined in Rule 10(4) of Companies (Audit and Auditors) Rules, 2014 and the same shall be construed as any transaction entered into for a commercial purpose, except commercial transactions which are in the nature of professional services permitted to be rendered by a cost auditor or a cost audit firm under the Act and commercial transactions which are in the ordinary course of business of the company at arm's length price - like sale of products or services to the cost auditor, as customer, in the ordinary course of business, by companies engaged in the business of telecommunications, airlines, hospitals, hotels and such other similar businesses.

- (i) A person whose relative is a director or is in the employment of the company as a director or key managerial personnel of the company. [Section 141(3)(f)].
- (j) A person who is in the full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor if such person or persons is at the date of such appointment or reappointment holding appointment as auditor of more than twenty companies. [Section 141(3)(g)].
- (k) A person who has been convicted by a court for an offence involving fraud and a period of ten years has not elapsed from the date of such conviction. [Section 141(3)(h)].
- (l) Any person whose subsidiary or associate company or any other form of entity, is engaged as on date of appointment in consulting and providing specialised services to the company and its subsidiary companies: [Section 141(3)(i) and Section 144].
  - (a) accounting and book keeping services
  - (b) internal audit
  - (c) design and implementation of any financial information system
  - (d) actuarial services
  - (e) investment advisory services
  - (f) investment banking services
  - (g) rendering of outsourced financial services
  - (h) management services

**1.30 The Companies Act, 2013 has introduced provision regarding rotation of auditors. Is the provision of rotation of auditors applicable to cost auditors also?**

The provisions for maintenance of cost accounting records and cost audit are governed by Section 148 of the Companies Act, 2013. The provisions of Section 148 clearly states that no person appointed under Section 139 as an auditor of the company shall be appointed for conducting audit of cost records of the company. Section 148 also provides that qualifications,



disqualifications, rights, duties and obligations applicable to auditors (financial) shall apply to a cost auditor appointed under this section. The eligibility, qualifications and disqualifications are provided in Section 141 of the Act and powers and duties are provided in Section 143. Section 143(14) specifically states that the provisions of Section 143 shall mutatis mutandis apply to a cost auditor appointed under Section 148. There are no other provisions governing the appointment of a cost auditor.

Section 139(3) of the Act, applicable to appointment of auditors (financial), and Rule 6 of Companies (Audit and Auditors) Rules, 2014 deals with the provision of rotation of auditors and these provisions are applicable only to appointment of auditors (financial). The Act does not provide for rotation in case of appointment of cost auditors and the same is not applicable to a cost auditor. It may, however, be noted that though there is no statutory provision for rotation of cost auditors, individual companies may do so as a part of their policy, as is the practice with Public Sector Undertakings.

### 1.31 What is the procedure to be followed for fixing the remuneration of a cost auditor?

Rule 14 of the Companies (Audit and Auditors) Rules, 2014 has laid down the procedure of appointment and fixing the remuneration of a cost auditor. It states as follows:

**Remuneration of the Cost Auditor:** For the purpose of sub-section (3) of section 148,—

- (a) in the case of companies which are required to constitute an audit committee—
  - (i) the Board shall appoint an individual, who is a cost accountant in practice, or a firm of cost accountants in practice, as cost auditor on the recommendations of the Audit committee, which shall also recommend remuneration for such cost auditor;
  - (ii) the remuneration recommended by the Audit Committee under (i) shall be considered and approved by the Board of Directors and ratified subsequently by the shareholders;
- (b) in the case of other companies which are not required to constitute an audit committee, the Board shall appoint an individual who is a cost accountant in practice or a firm of cost accountants in practice as cost auditor and the remuneration of such cost auditor shall be ratified by shareholders subsequently.

### 1.32 What are the duties of the Companies in relation to provisions of Section 148 of the Companies Act, 2013 and the Rules framed thereunder?

Every company required to get cost audit conducted under Section 148(2) of the Companies Act, 2013 shall:-

- (a) Appoint a cost auditor within one hundred and eighty days of the commencement of every financial year;
- (b) Inform the cost auditor concerned of his or its appointment;
- (c) File a notice of such appointment with the Central Government within a period of thirty days of the Board meeting in which such appointment is made or within a period of one hundred and eighty days of the commencement of the financial year, whichever is earlier, through electronic mode, in **form CRA-2**, along with the fee as specified in Companies (Registration Offices and Fees) Rules, 2014;
- (d) Within a period of thirty days from the date of receipt of a copy of the cost audit report, furnish the Central Government with such report alongwith full information and explanation on every reservation or qualification contained therein, in **form CRA-4** along with fees specified in the Companies (Registration Offices and Fees) Rules, 2014.

**1.33 Is a cost auditor required to audit and certify monthly, quarterly, half-yearly and yearly cost statements?**

As per Rule 5, every company under these rules including all units and branches thereof are required, in respect of each of its financial year, to maintain cost records in form CRA-1. The cost records are required to be maintained on regular basis in such manner so as to facilitate calculation of per unit cost of production or cost of operations, cost of sales and margin for each of its products and activities for every financial year on monthly or quarterly or half-yearly or annual basis. The cost auditor is appointed to conduct audit of the cost records and make report thereon for the financial year for which he is appointed. It is not incumbent upon the cost auditor to certify monthly, quarterly, half-yearly cost statements.

**1.34 CRA-3 requires Details of Material Consumed, Details of Utilities Consumed and Details of Industry Specific Operating Expenses respectively [Part B and Part C, Para 2(a), 2(b) and 2(c)]. In case of companies where number of materials or utilities or industry specific operating expenses is more than 10 each, which items should be disclosed in the respective paras?**

It is to be noted that the cost audit report is required to be filed in XBRL mode and there is no provision for extending the number of items under any of the heads to accommodate more than 10 items. Hence, in cases where number of such items is more than 10 under any of the heads of material or utility or industry specific operating expenses, the 9 main items in terms of value should be provided separately and the balance items should be clubbed together under "Others" and shown as the tenth item.

**1.35 Whether figures are to be provided for Rupees per Unit or Amount in Rupees in the Product and Service Profitability Statement [CRA-3, Part D, Para 1]?**

Amount in Rupees are required to be provided under this Para. The number of products or services will be equal to the number of products and services covered under cost audit and for which Abridged Cost Statement has been provided.

**1.36 Is there any obligation on the part of cost auditor to report offence of fraud being or has been committed in the Company by its officers or employees?**

Sub-rule (7) of Rule 6 of the Companies (Cost Records and Audit) Rules 2014 states that *"the provisions of sub-section (12) of section 143 of the Act and the relevant rules made thereunder shall apply mutatis mutandis to a cost auditor during performance of his functions under section 148 of the Act and these rules"*.

As per sub-section (12) of section 143 of the Companies Act 2013, extract of which is given above, it is obligatory on the part of cost auditor to report offence of fraud which is being or has been committed in the company by its officers or employees, to the Central Government as per the prescribed procedure under the Rules.

As per the proviso to above sub-section, it has been stated that in case of a fraud involving lesser than the specified amount, the auditor shall report the matter to the audit committee constituted under section 177 or to the Board in other cases within such time and in such manner as may be prescribed.

## FAQ-2

08/07/2015

### Frequently Asked Questions on Maintenance of Cost Accounting Records and Cost Audit under Companies Act, 2013

#### 2.1 What types of Educational Services are covered under the Companies (Cost Records and Audit) Rules 2014?

The Companies (Cost Records and Audit) Rules 2014 covers **“Education services, other than such similar services falling under philanthropy or as part of social spend which do not form part of any business”**.

Any company imparting training or education by means of any mode is covered under Education Services. However, auxiliary services provided by companies, as a separate independent entity, to educational institutions viz., (i) transportation of students, faculty and staff; (ii) catering service including any mid-day meals scheme; (iii) security or cleaning or house-keeping services in such educational institution; (iv) services relating to admission to such institution or conduct of examination are not included under Education Services.

In case the educational institution covered under the Rules is providing the above auxiliary services as a part of their total operations, then the institution will be required to maintain records for such auxiliary services also.

#### 2.2 What types of Health Services are covered under the Companies (Cost Records and Audit) Rules 2014?

The Companies (Cost Records and Audit) Rules 2014 covers **“Health services, namely functioning as or running hospitals, diagnostic centres, clinical centres or test laboratories”**.

Any company engaged in providing Health services through functioning as or running hospitals, diagnostic centres, clinical centres, test laboratories, physiotherapy centres and post-operative/ treatment centres are covered within the ambit of the Companies (Cost Records and Audit) Rules 2014. Further, companies running hospitals exclusively for its own employees are excluded from the ambit of these Rules, provided however, if such hospitals are providing health services to outsiders also in addition to its own employees on chargeable basis, then such hospitals are covered within the ambit of these Rules.

It is clarified that companies engaged in running of Beauty parlours / beauty treatment are not covered under these Rules.

#### 2.3 A company is engaged in construction of residential housing, offices, industrial units, Roads, Bridges, Marine facilities etc. having sites in India and abroad. The company also has Joint venture projects in India and abroad. Whether Companies (Cost Records and Audit) Rules 2014 would be applicable to the company?

All companies engaged in construction business either as contractors or as subcontractors, who meet with the threshold limits laid down in the Companies (Cost Records and Audit) Rules, 2014 and undertake jobs with the use of own materials [whether self-manufactured/produced or procured from outside] shall be required to maintain cost records and get cost audit conducted as per the provisions of the Companies (Cost Records and Audit) Rules, 2014.

The provisions of the Companies (Cost Records and Audit) Rules, 2014 would also apply for construction activities undertaken under BOT/BOOT mode, or the projects undertaken as EPC contractor or the projects undertaken abroad by a company incorporated in India.

The Companies (Cost Records and Audit) Rules, 2014, do not make any distinction between the Contractor and Sub-Contractor and accordingly all such companies will be included within the ambit of the Rules.

**2.4 A company is engaged in manufacturing products on its own as well as purchase the same products from other companies. The outsourced products are treated as trading activity in the financial accounts. Same products are also manufactured by supply of materials to converters. What would be treatment of such products for the purposes of maintenance of cost accounting records and cost audit?**

Products manufactured by the company as well as conversion activity through third parties will be covered under the Companies (Cost Records and Audit) Rules 2014 and the company would be required to maintain cost accounting records and get cost audit conducted subject to threshold limits. The finished products bought from outside parties (treated as Trading Activity in Financial Accounts) would be reflected as "Cost of Finished Goods Purchased" in Abridged Cost Statement.

**2.5 The Companies (Cost Records & Audit) Rules, 2014 provides exemption from cost audit to a company which is covered under rule 3, and whose revenue from exports, in foreign exchange, exceeds seventy five per cent of its total revenue. How to determine the percentage to total revenue in the following cases:**

- (i) In a company who is manufacturing Pharmaceutical products, the revenue from export of pharmaceutical products earned in foreign exchange divided by total revenue including other income etc. is 58%.**
- (ii) The revenue in foreign exchange earned from export of pharmaceutical products plus revenue in foreign exchange earned from rendering of research & development service divided by total revenue including other income etc. is 82%.**

Cost audit is applicable for specified products/services. Rule 4(3) states "The requirement for cost audit under these rules shall not apply to a company which is covered in rule 3, and (i) whose revenue from exports, in foreign exchange, exceeds seventy five per cent of its total revenue". The inclusion or coverage of a company under Rule 3 is in respect of products/services listed under Table-A and Table-B and consequently the computation of 75% is to be calculated for the specific products/services covered under Rule 3 and not in respect of all the products/services of the company.

The total revenue and turnover of R&D Activities, not being covered under Rule 3 cannot be taken into consideration for computation of 75%.

In this connection it is also clarified that "total revenue" of a company is to be considered as the total revenue as defined in Schedule III of the Companies Act, 2013. Total Revenue as defined in Schedule III is Total Operating Revenue plus Other Incomes.

**2.6 A company has units in SEZ and in non-SEZ areas. The Companies (Cost Records and Audit) Rules 2014 has exempted companies operating in special economic zones from cost audit. What would be applicability of the Companies (Cost Records and Audit) Rules 2014 on such a company in respect of maintenance of cost accounting records and cost audit?**

Rule 3 of the Companies (Cost Records and Audit) Rules 2014 is specific and it has mandated maintenance of cost accounting records on all products/activities listed under Table-A and Table-B subject to threshold limits. No exemption is available to any company from maintenance of cost accounting records once it meets the threshold limits. Hence, the above company would be required to maintain cost accounting records for all its units including the one located in the special economic zone.

In view of the provisions of Rule 4(3)(ii) of the Companies (Cost Records and Audit) Rules 2014 the unit located in the special economic zone would be outside the purview of cost audit and the company would not be required to include particulars of such unit in its cost audit report. The other units of the company located outside the special economic zone would be covered under cost audit subject to the prescribed threshold limits.

**2.7 A cost auditor is required to certify under Para 1(vii) of the Cost Audit Report – “Detailed unit-wise and product/service-wise cost statements and schedules thereto in respect of the product/service under reference of the company duly audited and certified by me/us are/are not kept in the company”. Whether product Cost Sheet prepared SKU wise/ type-wise/ size-wise/ specification-wise by the company is required to be certified by the cost auditor and kept in the company?**

Rule 5(2) of the Companies (Cost Records and Audit) Rules 2014 requires that “the cost records referred to in sub-rule (1) shall be maintained on regular basis in such manner as to facilitate calculation of per unit cost of production or cost of operations, cost of sales and margin for each of its products and activities”.

The Rules have identified products as per CETA heading as defined in Rule 2(aa) which states “Central Excise Tariff Act Heading means the heading as referred to in the Additional Notes in the First Schedule to the Central Excise Tariff Act, 1985[5 of 1986]”.

*First Schedule to the Central Excise Tariff Act, 1985 states – “heading” in respect of goods, means a description in list of tariff provisions accompanied by a four-digit number and includes all sub-headings of tariff items the first four-digits of which correspond to that number.*

The above definitions make it clear that maintenance of cost accounting records should conform to the CETA Heading and detailed unit-wise and product/service-wise cost statements and schedules thereto are required to be certified by the cost auditor.

**2.8 In the abridged cost statement, what are Industry specific operating expenses? When should this be used?**

Industry Specific operating expenses are those which are peculiar to a particular industry such as Telecommunication Industry which shows expenses such as Network Operating cost, License fee, Radio Spectrum charges, Microwave charges etc. which are peculiar to this Industry and should be disclosed separately in the cost statement. The Industry Specific operating expenses will vary from industry to industry depending upon the nature of operations. The industry specific operating expenses shall have to be identified and reported upon in the abridged cost statement.

**2.9 What is installed capacity and how is this different from total available capacity? How the installed capacity is to be calculated in a multi-product company using the same machine/facilities? Should installed capacity be the capacity at the beginning of the year or at the end of the year under audit?**

The Institute of Cost Accountants of India has defined “Installed Capacity is the maximum productive capacity, according to the manufacturer’s specifications or determined through an expert study” [CAS-2 of Cost Accounting Standards]. The Installed Capacity to be disclosed in the Quantitative Details of CRA-3 is to be considered as at the beginning of the year. Capacity enhanced during the year should be considered as the increase in Installed Capacity during the year on pro-rata basis. Available capacity is the total installed capacity after adjustment of capacity enhanced during the year and if any capacity is available by means of leasing arrangement or taking on third-party capacity for increasing the total capacity.

If the same available capacity is utilised for production of multiple products, the following different basis may be adopted to determine the available capacity in respect of each of the products:

- (i) If the company has a system of allocating the total available capacity for production of multiple products, then such allocated available capacity is to be considered for the products being manufactured by utilising the same production facility.
- (ii) If the production allocation is not pre-determined and changes from period to period, then the capacity utilisation is to be determined on the basis of total production of all the products taken together and the total available capacity should be considered for all the products.

**2.10 Whether each and every transactions with Related Parties is to be disclosed under Para D-5 of Annexure to the Cost Audit Report?**

Details of related Party Transaction are required to be provided in respect of each Related Party and each Product/Service for the year as a whole and not transaction-wise.

**2.11 Revised Form CRA-2 has been made available by the Ministry of Corporate Affairs conforming to the Companies (Cost Records and Audit) Rules, 2014 on 31st December, 2014. What are the required attachments to Form CRA-2?**

The Form has provided an attachment button for attachment of certified copy of the Board Resolution appointing the cost auditor. The consent letter of the cost auditor should be attached as optional attachment.

**2.12 Is CRA-3 applicable for companies whose financial year commenced prior to April 1, 2014? Which Rules are applicable to companies whose financial year commenced on January 1, 2014?**

The Section 148 of the Companies Act, 2013 and Companies (Cost Records and Audit) Rules, 2014 are applicable from April 1, 2014. Companies that were covered under the erstwhile Companies (Cost Accounting Records) Rules, 2011 and met the threshold limits prescribed therein are required to get the cost audit of their companies audited for the financial year 01/01/2014 to 31/12/2014 under the 2011 Rules and submit their respective reports under Companies (Cost Audit Report) Rules, 2011.

Companies (Cost Records and Audit) Rules, 2014 is applicable to companies maintaining calendar financial year from 01/01/2015 onwards subject to the products/services being covered under Table-A or Table-B of Rule 3 and meeting the prescribed threshold limits.

**2.13 The Companies (Cost Records and Audit) Rules, 2014 requires submission of a single cost audit report at company level. What is the procedure of certifying and submission of cost audit report of a company where more than one cost auditor is appointed?**

In case of a company having more than one cost auditor, it would be necessary for the company to appoint/designate one cost auditor as the lead cost auditor for consolidation of the report.

The individual cost auditors appointed for specific units/products would be required to audit and provide Para numbers A-4, B-1, B-2, B-2A, B-2B, B-2C, C-1, C-2, C-2A, C-2B, C-2C (as applicable), D-1 in respect of the products/services coming under the purview of their respective audits. The individual auditors would also be required to submit to the Board of Directors the individual cost audit report as per Form of the Cost Audit Report given in CRA-3.

The lead auditor would be responsible for preparing the Para numbers A-3, D-2, D-3, D-4, D-5, D-6 and consolidate Para numbers A-4, B-1, B-2, B-2A, B-2B, B-2C, C-1, C-2, C-2A, C-2B, C-2C (as applicable), D-1 received from the individual cost auditors.

The consolidated report should contain the reports of all the individual cost auditors including the report of the Lead Cost Auditor. In case individual cost auditors have any observations or suggestions or qualifications, they would be required to mention the same under Para 2 of the cost audit report and the lead auditor would have to mention the specific observations and/or qualifications of all the individual cost auditors in the place provided for the same in the under Para A-1.

The consolidated report so prepared would be converted to XBRL and submitted to the Central Government by the Company in Form CRA-4.

**2.14 The Companies (Cost Records and Audit) Rules, 2014 covers “Generation, transmission, distribution and supply of electricity” with no corresponding CETA Heading. Whether the Quantitative Information and Abridged Cost Statement in respect of Electricity are required to be reported under the Service Sector in the absence of a CETA Heading?**

The reporting of electricity generation activity will be considered under “Manufacturing” and should be shown under CETA Heading 2716. Transmission and Distribution activities should be reported under the “Service Sector”.

**2.15 A Company is engaged in both Regulated and Non-Regulated sectors and all its products are not covered under the Rules. How to determine applicability of cost audit for the products covered under the Regulated and Non-Regulated sectors since different threshold limits have been prescribed under Rule 4?**

The above issue was clarified in FAQ-1 vide FAQ 1.21. The issue is further clarified by means of the following example for ease of understanding.

	Turnover (₹ Crores) of					Applicability of	
	Table A Products	Table B Products	Table A + B Products	Other Products	Total Operating Revenue	Cost Records	Cost Audit
Case 1	5	10	15	19	34	No	No
Case 2	5	10	15	25	40	Yes	No
Case 3	10	15	25	26	51	Yes	Only Table A Product
Case 4	0	25	25	26	51	Yes	No
Case 5	20	14	34	75	109	Yes	Only Table A Product
Case 6	20	20	40	61	101	Yes	Both Tables A & B Products

**2.16 What is the status of companies after the notification of Companies (Cost Records and Audit) Rules, 2014, who have not filed cost audit report and/or compliance report pertaining to any year prior to financial year commencing on or after April 1, 2014?**

Companies that were covered under the Companies (Cost Accounting Records) Rules, 2011 or any of the 6 industry specific Cost Accounting Records Rules and were required to file Compliance Report and/or Cost Audit Report for and upto any financial year commencing prior to April 1, 2014 are required to comply with the erstwhile Rules and file the Compliance Report and/or Cost Audit Report in XBRL Mode for the defaulted years. For this purpose, the Costing Taxonomy 2012 will continue to be available and such reports would be required to be filed in Form A-XBRL and Form I-XBRL, as the case may be.

**2.17 Many Companies have filed Form 23C as well as Form CRA-2 for 2014-15 in respect of different products and/or multiple cost auditors, if applicable. Which SRN Number has to be reported in the cost audit report while filing the same in XBRL Mode?**

- (a) Companies who have filed multiple Form 23C in respect of multiple cost auditors will be required to provide the SRN Numbers against each Form 23C filed.
- (b) In case the company after filing individual Form 23C has also filed Form CRA-2, in such case the company will be required to provide the SRN Number of the latest CRA-2 only since the details of multiple cost auditors, if applicable for the company, would be covered under one Form CRA-2.

**2.18 A company is engaged in manufacturing of multiple products. Some of the products are covered under the Companies (Cost Records and Audit) Rules, 2014 and some are not. Part-A, Para 4 of the Annexure to the Cost Audit Report (Product/Service Details for the company as a whole) requires Net Operational Revenue to be reported for each CETA Heading for both the current year and the previous year. Can the Net Operational Revenue of all the Products that are not covered under the Rules be reported in this Para as a single line item?**

Part-A, Para 4 of the Annexure to the Cost Audit Report of Companies (Cost Records and Audit) Rules, 2014 require reporting of Net Operational Revenue of every CETA Heading separately comprised in the Total Operational Revenue as per Financial Accounts. Hence, the company would be required to report Net Revenue of every CETA Heading irrespective of whether the same is covered under maintenance of cost accounting records and cost audit or not. In case some of the Products are under the same CETA Heading but having different units of measurement (UOM), then Net Revenue is to be reported for separate UOMs. It may be noted that the number of quantitative details and abridged cost statements will have to be provided for each unique combination of CETA Heading and UOM of the Products which are covered under cost audit.

If the company is engaged in manufacturing of products as well as providing of services and/or trading, such services which are covered under the Companies (Cost Records and Audit) Rules, 2014 will be required to be reported separately according to the definition provided in the Rules classified under different types of services within the same class of service. It may be noted that the number of quantitative details and abridged cost statements will have to be provided for each classification of service covered under cost audit.

Other services that are not covered under the Rules and Revenue from Trading Activity may be reported under suitable heads denoting the service/activity.

The New Taxonomy has introduced a separate line item in this Para to report "Other Operating Incomes" which will form part of the Total Operating Revenue.