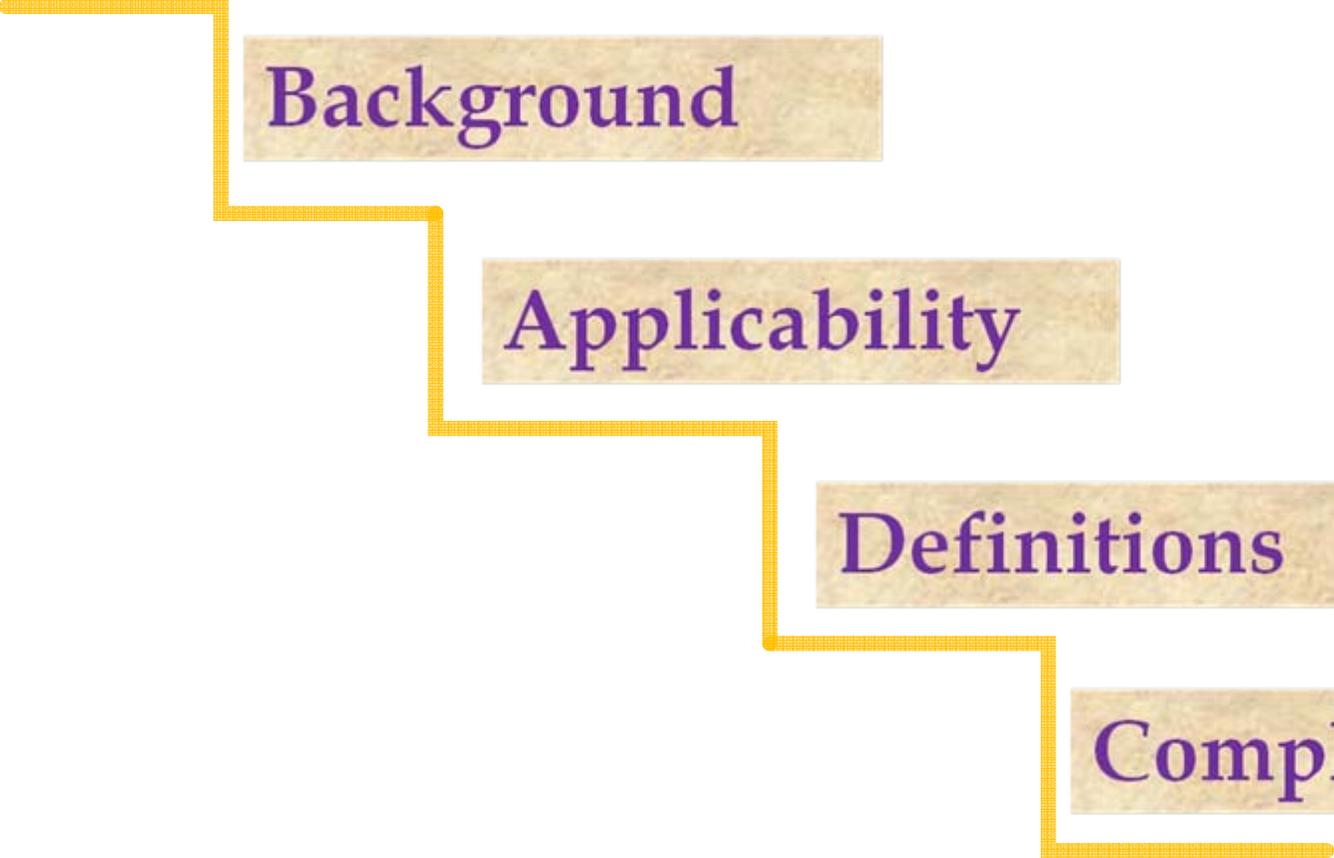


***ANALYSIS OF  
COMPANIES (COST ACCOUNTING RECORDS) RULES, 2011  
&  
COMPANIES (COST AUDIT REPORT) RULES, 2011***

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Cost Accountants*

# ***AGENDA***



**Background**

**Applicability**

**Definitions**

**Compliances**

The background features a light beige color with a subtle grid pattern. Overlaid on this are several sets of wavy, parallel lines in a slightly darker shade of beige, creating a sense of motion and depth. The lines flow across the frame, some curving upwards and others downwards.

***COMPANIES (COST ACCOUNTING  
RECORDS) RULES, 2011***



***BACKGROUND***

# BACKGROUND

- MCA had earlier issued 44 'Cost Accounting Record Rules' in respect of number of products / industries (as listed under section 209 (1) (d) of Companies Act)
- According to these rules, all companies engaged in activities of production or manufacturing, etc. (for which cost accounts records have been prescribed) should maintain accounting records relating to the utilisation of materials, labour and other items of cost
- Each book of account and the proforma prescribed by the rules made for specific industry should be completed within the prescribed time limit after the end of the relevant financial year of the company
- However, in **supersession of 36 out of 44 cost accounting record rules**, MCA issued the general Cost Accounting Records Rules known as The Companies (Cost Accounting Records) Rules, 2011 vide G.S.R. 429(E) dated **3<sup>rd</sup> June, 2011**.
- As per sub-rule (2) of Rules1, these rules have come into force on the date of publication in the Official Gazette i.e. 3<sup>rd</sup> June, 2011 .

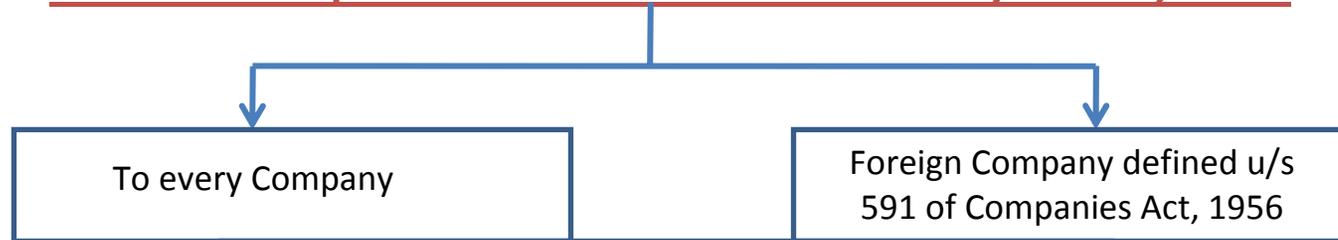


# ***APPLICABILITY***

COMPANIES (COST ACCOUNTING RECORDS) RULES, 2011

# APPLICABILITY

## COMPANIES (COST ACCOUNTING RECORDS) RULES, 2011



which is engaged in **production, processing, manufacturing or mining activities** and wherein:

aggregate value of **net worth** as on the last date of immediately preceding financial year **exceeds** five crores of rupees

OR

wherein the aggregate value of the **turnover** made by the company from sale or supply of all **products or activities** during the immediately preceding financial year **exceeds** twenty crores of rupees

OR

wherein the company's **equity or debt securities** are **listed** or are in **the process of listing** on any stock exchange, whether in India or outside India

# ***APPLICABILITY***

## **Exceptions** (i.e. rules shall not apply to:-

- i. a company which is a body corporate governed by any special act;
- ii. to the activities or products covered in the Cost Accounting Record Rules specifically made for Bulk Drugs, Formulations, Fertilizers, Sugar, Industrial Alcohol, Electricity Industry, Petroleum Industry, Telecommunications

## **Supersedes :-**

all earlier 36 Record Rules except for **8** regulated groups of industries mentioned above in exception (ii).



# ***DEFINITIONS***

# DEFINITIONS

## COMPANIES (COST ACCOUNTING RECORDS) RULES, 2011:

“**Manufacturing Activity**” includes any act, process or method employed in relation to -

(i) transformation of raw materials, components, sub-assemblies, or parts into semi-finished or finished products; or

(ii) making, altering, repairing, fabricating, generating, composing, ornamenting, furnishing, finishing, packing, re-packing, oiling, washing, cleaning, breaking-up, demolishing, or otherwise treating or adapting any product with a view to its use, sale, transport, delivery or disposal; or

(iii) constructing, reconstructing, reconditioning, **servicing, refitting, repairing,** finishing or breaking up of any products

# ***DEFINITIONS***

**“Processing Activity”** includes any act, process, procedure, function, operation, technique, treatment or method employed in relation to -

(i) altering the condition or properties of inputs for their use, consumption, sale, transport, delivery or disposal; or

(ii) accessioning, arranging, describing, or storing products; or

(iii) developing, fixing, and washing exposed photographic or cinematographic film or paper to produce either a negative image or a positive image; or

(iv) printing, publishing, finishing, perforation, trimming, cutting, or packaging; or

(v) pumping oil, gas, water, sewage or any other product; or

(vi) transforming or transmitting, distributing power or electricity; or

(vii) harboring, berthing, docking, elevating, lading, stripping, stuffing, towing, handling, or warehousing products; or

# ***DEFINITIONS***

(viii) preserving or storing any product in cold storage; or

(ix) constructing, reconstructing, reconditioning, repairing, servicing, refitting, finishing or demolishing of buildings or structures; or

(x) farming, feeding, rearing, treating, nursing, caring, and stocking of living organisms; or

(xi) **telecasting, broadcasting,** telecommunicating voice, text, picture, information, data or knowledge through any mode or medium; or

(xii) **obtaining, compiling, recording, maintaining, transmitting, holding or using the information or data or knowledge; or**

(xiii) executing instructions in memory to perform some transformation and/or computation on the data in the computer's memory.

# ***DEFINITIONS***

**“Production Activity”** includes any act, process, or method employed in relation to -

(i) transformation of tangible inputs (raw materials, semi-finished goods, or sub-assemblies) and intangible inputs (ideas, information, know how) into **goods or services**; or

(ii) manufacturing or processing or mining or growing a product for use, consumption, sale, transport, delivery or disposal; or

(iii) creation of value or wealth by producing goods or services.

**“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 does not include any non-operational income;

# ***DEFINITIONS***

**“Product”** means any tangible or intangible good, material, substance, **article, idea, know-how, method**, information, object, **service**, etc. that is the result of human, mechanical, industrial, chemical, or natural act, process, procedure, function, operation, technique, or treatment and is intended for use, consumption, sale, transport, store, delivery or disposal.

**“Product Group”** in relation to tangible products means a group of homogenous and alike products, produced from same raw materials and by using similar or same production process, having similar physical or chemical characteristics and common unit of measurement, and having same or similar usage or application; and in relation to intangible products means a group of homogenous and alike products or services, produced by using similar or same process or inputs, having similar characteristics and common unit of measurement, and having same or similar usage.

# ***DEFINITIONS***

## ***COMPANIES (COST ACCOUNTING RECORDS) RULES, 2011:***

**“Cost Records”** means books of account relating to utilisation of materials, labour and other items of cost as applicable to the production, processing, manufacturing or mining activities of the company

**“Form-A”** means the form prescribed in these rules for filing compliance report and other documents with the Central Government in the electronic mode

**“Form-B”** means the form of the compliance report and includes Annexure to the compliance report.



# ***COMPLIANCES***

Companies (Cost Accounting Records) Rules, 2011

# ***MAINTENANCE OF RECORDS***



- Every company to which these rules apply, **including all units and branches** thereof shall, in respect of each of its financial year commencing on or after the **1<sup>st</sup> day of April, 2011**, keep cost records.
- The cost records referred to in sub-rule (1) above shall be kept **on regular basis** in such manner so as to make it possible to calculate 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/ quarterly/ half-yearly/annual basis**.
- The cost records shall be maintained in accordance with the **generally accepted cost accounting principles and cost accounting standards** issued by the Institute. The variations, if any, shall be indicated and explained.

# ***MAINTENANCE OF RECORDS***

- The cost records shall be maintained in such manner so as to **enable the control** over various operations and costs.
- All such cost records and cost statements, shall be **reconciled** with the audited financial statements for the financial year
- All such cost records, cost statements, maintained under these rules shall be **reconciled**   
with the audited financial statements for the financial years immediately preceding a financial year or where the company had been in existence for a period less than **eight years**, in respect of all the preceding years shall be kept in good order.

# ***FORM OF THE COMPLIANCE REPORT***



- ✓ Every company to which these rules apply shall submit a **Compliance Report**,
- ✓ in the respect of each of its financial year commencing on or after the **1<sup>st</sup> day of April,2011**,
- ✓ duly certified by a **Cost Accountant**, along with the Annexure to the Central Government, in the prescribed form.

# ***TIME LIMIT FOR SUBMISSION OF COMPLIANCE REPORT***



Every company shall submit the compliance report referred to in rule 5 to the Central Government within **one hundred and eighty days** from the close of the company's financial year to which the compliance report relates.

# ***AUTHENTICATION OF ANNEXURE TO THE COMPLIANCE REPORT***



The Annexure prescribed with the compliance report, as **certified** by the cost accountant, shall be approved by the **Board of Directors** before submitting the same to the Central Government by the company.

# PENALTIES



- If default is made by the Cost Accountant in complying with the provisions of these rules, he shall be punishable with fine, which may extend to Rupees 5000 (five thousand rupees only).
  
- If a Company contravenes any provisions of these rules:
  - the company and every officer thereof who is in default,
  - including the persons referred to in section 209(6) of the Companies Act, 1956
  - shall be punishable as provided under section 642(2) read with sections 209(5) and (7) of Companies Act, 1956.

# SAVINGS

The **supersession of the Cost Accounting Records Rules**, shall **not** in any way affect-

- any **right, obligation or liabilities** acquired, accrued or incurred there under;
- any **penalty, forfeiture or punishment** incurred in respect of any contravention committed there under; and
- any **investigation, legal proceeding** or remedy in respect of any such right, privilege, obligation, liability, penalty, forfeiture or punishment as aforesaid and;
- any such investigations, legal proceeding or remedy may be institute, continued or enforced and ;
- any such penalty, forfeiture or punishment may be imposed as if those rules had not been superseded.



***COMPANIES (COST AUDIT  
REPORT) RULES, 2011***



***BACKGROUND***

# ***BACKGROUND***

- MCA had earlier issued Cost Audit Report Rules, 2001 which has now been superseded by the Cost Audit Report Rules, 2011.
- MCA has notified Companies (Cost Audit Report) Rules, 2011 vide notification number G.S.R. 430(E) dated 03<sup>rd</sup> June, 2011
- **General Circular No. 15/2011 [TO BE INSERTED]**

It is pertinent to mention that the Cost Audit Branch, MCA has issued an order no. F. No. 52/26/CAB-2010 dated 02<sup>nd</sup> May, 2011 (“**2<sup>nd</sup> May Order**”) providing for the eligibility of companies mandatorily required to get their cost accounting records audited by a cost auditor. The criterion fixed for applicability of 2<sup>nd</sup> May Order is that all companies to which any of the following rules apply:

- (a) Cost Accounting Records (Bulk Drugs) Rules, 1974
- (b) Cost Accounting Records (Formulations) Rules, 1988 or
- (c) Cost Accounting Records (Fertilizers) Rules, 1993 or
- (d) Cost Accounting Records (Sugar) Rules, 1997 or
- (e) Cost Accounting Records (Industrial Alcohol) Rules, 1997 or
- (f) Cost Accounting Records (Electricity Industry) Rules, 2001 or
- (g) Cost Accounting Records (Petroleum Industry) Rules, 2002 or
- (h) Cost Accounting Records (Telecommunications) Rules, 2002

and wherein:

- (a) the aggregate value of net worth as on the last date of the immediately preceding financial year exceeds rupees **five crores**; or
- (b) the aggregate value of the turnover made by the company from sale or supply of all products or activities during the immediately preceding financial year exceeds rupees **twenty crores**; or
- (c) the company’s equity or debt securities are **listed** or are in process of listing on any stock exchange, where in India or outside India;

shall get the cost accounting records audited by a cost auditor.



# ***APPLICATION***

COMPANIES (COST AUDIT REPORT) RULES, 2011

# ***APPLICABILITY***

## ***COMPANIES (COST AUDIT REPORT) RULES, 2011***

These rules shall apply to every company in respect of which an audit of the cost records has been ordered by the Central Government under sub-section (1) of section 233B of the Act.

Every cost auditor appointed under sub-rule (2) shall, within thirty days of receipt of letter of appointment, inform his appointment to the Central Government through electronic mode, in the prescribed form, alongwith the requisite enclosures.

Notwithstanding anything contained in sub-rule (2) and (3) above, every company and every cost auditor shall follow the procedure prescribed vide Ministry of Corporate Affairs' General Circular No. 15/2011 [File No. 52/5/CAB-2011] dated April 11, 2011.



# ***DEFINITIONS***

# ***DEFINITIONS***

## ***COMPANIES (COST AUDIT REPORT) RULES, 2011***

**“Cost Auditor”** means an auditor appointed to conduct an audit of cost records, under sub-section (2) of section 233B of the Act;

**“Form-I”** means the Form prescribed in these rules for filing cost audit report and other documents with the Central Government in the electronic mode;

**“Form-II”** means the Form of the cost auditor’s report and includes auditor's observations and suggestions, and Annexure to the cost audit report;

**“Form-III”** means the Form of the performance appraisal report;

**“Product”** same as defined under Companies (Cost Accounting Records) Rules, 2011.

**“Product Group”** same as defined under Companies (Cost Accounting Records) Rules, 2011.



# ***COMPLIANCES***

Companies (Cost Audit Report) Rules, 2011

# MAINTENANCE OF RECORDS



- Maintenance of cost records is a pre requisite to conduct the Cost Audit.
- Every company including all units and branches.
- To be kept on **regular basis** to calculate per unit cost of production or cost of operation, cost of sales and margin.
- For each of its products and activities
- On monthly / quarterly / half-yearly / annual basis
- In accordance with the Generally Accepted Cost Accounting Principles and Cost accounting Standards issued by ICWAI.
- Variations are to be clearly indicated and explained.
- To achieve **optimum economies** in utilizations of resources.
- To be reconciled with the annual financial audited statements
- To be kept in good order for **eight years**.
- Every Cost Auditor shall also furnish **performance appraisal report** to the Board / Audit Committee of company
- Every Cost Auditor to reply to the **clarifications**, if any, sought by Central Government within 30 days of receipt of communication

# ***FORM OF THE COMPLIANCE REPORT***



## **FORM – I**

- General information about the company and the Cost Auditor.
- Attachment - Cost Audit Report as per the Companies (Cost Audit Report) Rules, 2011.

**FORM II** - Cost Audit Report Annexure to the Cost Audit Report

**FORM III** - Performance Appraisal Report

# ***TIME LIMIT FOR SUBMISSION OF COMPLIANCE REPORT***



Time limit for submission of the compliance report – with in **180 days** from the close of the company financial year (before 30 June 2011 for the current year).

# ***AUTHENTICATION OF ANNEXURE TO THE COMPLIANCE REPORT***



- Authentication of the Cost Audit Report and its annexure should be **approved** by the BOD before submitting to the Central Government by the Cost Auditor.
- The annexure duly audited by the Cost Auditor should be signed by the Company Secretary and at least one Director. If there is no Company Secretary, the same to be signed by at least **two directors**.

# ***PENALTIES***



Cost accountant – If default is made in complying with the provision punishable with fine up to Rs. five thousand.

Company and officers – If default imprisonment up to 6months or Rs. 10,000/- or both

Every cost auditor, who conducts an audit of the cost records of the company, shall submit the report along with auditor's observations and suggestions, and Annexure to the Central Government in the prescribed form and at the same time forward a copy of such report to the company

The cost audit report submitted on or after 1st day of April, 2012, irrespective of the financial year of the company to which it relates.

Every company as specified in sub-rule (1) of rule 3 shall, keep and maintain cost details, statements, schedules, etc. for each unit and each product or activity comprised in each product group, duly authenticated by atleast **two Directors** of the company and the cost auditor.

The cost details, statements, schedules, etc. of every company, as specified in sub-rule (3), relating to a period of not less than **eight financial years** immediately preceding a financial year, shall be kept in good order.

Every cost auditor, who submits a report under sub-rule (1), shall also give clarifications, if any, required by the Central Government within thirty days of the receipt of the communication addressed to him calling for such clarifications.



# ***RECENT AMENDMENTS***

Companies (Cost Audit Report) Rules, 2011  
And

Companies (Cost Accounting Records) Rules, 2011

# MINISTRY OF CORPORATE AFFAIRS

## ***Master Circular No.- 2/2011 (superseding all earlier circulars on this subject)***

a cost auditor is required to comment on the scope and performance of internal audit of cost records the cost auditor cannot also be the internal auditor of a company for the period for which he is conducting the cost audit

number of companies in respect of which cost audit reports have not been submitted and have become overdue shall also be taken into account for the purposes of ceiling under section 224 (1 B)

cost accountants ensure that full and complete details of cost accounts are furnished in their cost audit reports

His obligation to answer queries from the Ministry of Corporate Affairs arising out of review of cost audit reports should not debar him from accepting another appointment as cost auditor of a company

cost audit report shall be signed by anyone of the partners of the firm responsible for the conduct of cost audit in his own hand alongwith his membership number, for and on behalf of the firm. In any case the report should not be signed by merely affixing the firms' name.

If a company is covered under cost audit for the first time, then the cost auditor shall mention the figures for the previous year(s)



***COST AUDIT  
SECRETARIAL &  
PROCEDURAL ASPECTS***

# ***SECRETARIAL & PROCEDURAL ASPECTS TO COST AUDIT***

## **PROCEDURE FOR COST AUDIT**

1. Issue of Cost Audit Order by Cost Accounts Branch, Ministry of Corporate Affairs for the product for which the cost audit is to be conducted, for the financial year and also for every financial year continuously.
2. Receipt/downloading of notification Cost Audit Order, by the Company.
3. Proposed Cost Auditor to provide a certificate under Section 224 (IB) of The Companies Act, 1956.
4. Board Resolution to be passed by the Company for appointment of Cost Auditor.

# SECRETARIAL & PROCEDURAL ASPECTS TO COST AUDIT

## PROCEDURE FOR COST AUDIT

5. Form 23-C to be filed by the Company, with Cost Accounts Branch, MCA seeking approval for appointment of Cost Auditor.
- Enclosure with Form 23-C
- Covering Letter
  - Certified Copy of Board Resolution passed by the Company for appointment of Cost Auditor.
  - A Certificate in writing by the proposed Cost Auditor showing compliance of Section 224 (1B).
  - Online payment of filing fee or payment by challan for the required amount payable to PAY AND ACCOUNTS OFFICER, MCA payable at NEW DELHI.

**Fees payable:** ( as on date)

<u>Nominal Share Capital</u>	<u>Rs. Fees payable</u>
Less than Rs.25 lacs	Rs.500/-
Rs.25 lacs or more but less than Rs.5 Crores	Rs.1000/-
Rs.5 Crores or more	Rs.2000/-

# ***SECRETARIAL & PROCEDURAL ASPECTS TO COST AUDIT***

## **PROCEDURE FOR COST AUDIT**

6. Receipt of approval from the Cost Accounts Branch, MCA .
7. Conduct of Cost Audit.
8. Approval of the Cost Audit Report and Annexure to the Cost Audit Report to the Audit Committee.
9. Submission of the Cost Audit Report and Annexure to the Cost Audit Report to the Government with a copy to the Company, by the cost auditor.



# ***COST AUDIT***

***Suggested Step by Step approach for  
Company Secretaries***

# *Suggested step by step approach to Cost Audit*

- **Step 1**

Please check and confirm applicability of provisions on your company as discussed in Groups A, B & C above.

- **Step 2**

In case your company or any unit thereof falls in Group 'A' or Group 'B', then go for short listing a Cost Auditor to be appointed u/s 233B to comply with applicable provisions and obtain certificate of eligibility u/s 224(1B) and certificate of Independence (arm's length relationship with the company) followed by the reference to passing of board resolution for appointment of cost auditor, reference to audit committee, online filing of Form 23C with the Central Government etc.,

# *Suggested step by step approach to Cost Audit*

- **Step 3**

In case your company or any unit thereof falls in Group 'C', then go for short listing a Cost Accountant (either in service in your company or in independent practice) for ensuring issuance of Certificate of Compliance

- **Step 4**

In case your company or any unit thereof falls in Group 'A' , then go for completion/ compilation of Cost Accounting Records as per Cost Accounting Records as applicable on your industry (one of the 8 notified).

# *Suggested step by step approach to Cost Audit*

- In case your company or any unit thereof falls in Group 'B' , then go for completion of Cost Accounting Records for the F.Y. 2011-12, and for previous two years i.e. F.Y. 2010-11 & 2009-10, as per Companies (Cost Accounting Records) Rules, 2011.
- In case your company or any unit thereof falls in Group 'C' , then go for completion of Cost Accounting Records for the F.Y. 2011-12, as per Companies (Cost Accounting Records) Rules, 2011.

# *Suggested step by step approach to Cost Audit*

- In case your company or any unit thereof falls in Group 'B' , then go for completion of Cost Accounting Records for the F.Y. 2011-12, and for previous two years i.e. F.Y. 2010-11 & 2009-10, as per Companies (Cost Accounting Records) Rules, 2011.
- In case your company or any unit thereof falls in Group 'C' , then go for completion of Cost Accounting Records for the F.Y. 2011-12, as per Companies (Cost Accounting Records) Rules, 2011.

# *Suggested step by step approach to Cost Audit*

- **Step 5**

At the end of the financial year, complete these records and get them Cost Audited or get Certificate of Compliance issued from the Cost Accountant/Auditor, as the case may be.

- **Step 6**

Make the necessary disclosures in the Annual Report of your company.

# THANKS

For clarifications, pl s contact

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