



POSERS (with brief answers) on
Companies (Cost Accounting Record) Rules, 2011 &
Companies (Cost Audit Report) Rules, 2011

Q.1 Whether 44 (forty four) industry specific Cost Accounting Record Rules prevails as on date?

In supersession of 36 (thirty six) out of 44 (forty four) cost accounting record rules, the Ministry of Corporate Affairs (“MCA”) vide notification no. G.S.R. 429(E) dated 03rd June, 2011 has notified the general cost accounting record rules, referred to as The Companies (Cost Accounting Records) Rules, 2011 (“Record Rules”) applicable to all industries except the 8 industries mentioned herein after for which specific rules would continue to prevail.

Q.2. What is the applicability of Record Rules?

The Record Rules shall apply to every company, including a foreign company as defined under section 591 of the Act, which is engaged in production, processing, manufacturing or mining activities **and** wherein:

- a) the aggregate value of net worth as on 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, whether in India or outside India.

Q.3. Which industries are excluded from the purview of Record Rules?

The Record Rules shall **not** apply to the activities or products covered in any of the following rules:

- a) Cost Accounting Records (Bulk Drugs) Rules, 1974



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

Q.4. Are these Record Rules applicable to Manufacturing Industries only?

No, Record Rules are applicable on all companies engaged in production, processing, manufacturing or mining activities and satisfying any of the 3 requirements (net worth or turnover or listing) mentioned herein above.

Q.5. What is 'Manufacturing Activity' and is it defined under Record Rules?

The term "manufacturing activity" has been defined in Record Rules as:

(j) "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.

Q.6. What is 'Turnover' and is it defined under Record Rules?

The expression 'turnover' has been defined in Record Rules as:



“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;

Q.7 Whether any specific format is available for the cost statements?

As per sub rule (2) of Rule 4, the companies are required to maintain cost records 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 statements are to be prepared for every unit and every product produced, processed, manufactured or mined. As per sub rule (3), the cost records are to be maintained in accordance with the generally accepted cost accounting principles and cost accounting standards issued by the Institute; to the extent these are found to be relevant and applicable. These Rules have not prescribed any specific formats for the cost statement. A guidance note on the subject is under preparation by ICWAI, inter alia, containing model formats for cost records, statements, schedules etc.

Q.8 Who can authenticate the Compliance Report as per the Companies (Cost Accounting Records) Rules 2011?

As per Rule 5, the Compliance Report and annexure thereto is required to be certified by a “cost accountant” as defined under Rule 2(c). As per Rule 7, the annexure to the Compliance Report is to be duly approved by the Board of Directors. A “cost accountant” within the definition of these Rules does not include:

- a) A member holding a part-time certificate of practice; or
- b) A member who is in full time employment whose membership fees are in arrears;
- c) A member of ICWAI who has been admitted as a member through reciprocal arrangement of membership by virtue of being a member of Institute of Management Accountants USA.

Q.9 Whether there is any ceiling on the number of Compliance Reports which can be authenticated by a practicing cost accountant or a cost accountant in permanent employment of the company?

There is no ceiling on the number of Compliance Reports that can be authenticated by a cost accountant in whole-time practice. A cost accountant working as permanent employee can authenticate the Compliance Report of the company where he is employed provided his membership dues are not in arrears. He cannot authenticate Compliance Report of any other company even under the same group.

Q.10 Can a cost accountant who is working as permanent employee of a company and responsible for maintenance of cost records therein authenticate Compliance Report of the same company?

Yes.



Q11. Can a cost accountant who has been appointed as cost auditor of the company authenticate the Compliance Report of that company?

Yes.

Q.12 What constitutes the cost records under Rule 2(e)? Whether the format of “Abridged Cost statement” prescribed in the Companies (Cost Audit Report) Rules, 2011 can be considered as a sample cost statement?

Books of account and other records relating to utilization of materials, labour and other items of cost that provides data/information to compute the cost of production, cost of sales and margin of each of the products/activities of the company on monthly/quarterly/half-yearly/annual basis are considered part of the cost records. It includes statistical, quantitative and other records which enable the company to exercise, as far as possible, control over the various operations and costs with a view to achieve optimum economies in utilization of resources. Cost records are required to be maintained on continuous basis from the basic stage of inputs to the final output. There cannot be any exhaustive list of cost records. This would depend on the materiality of cost components in the cost of the product/activity. The abridged cost statement can be used as a sample cost statement. This may be modified according to the need of the company.

Q.13 Whether production, processing, manufacturing or mining involving manual operation, without the use of power will be also covered under these Rules?

Yes. The definition of product in Rule 2(m) includes manual operation as well. Therefore, any production, processing, manufacturing or mining activity – whether by use of power or not – are included for the purposes of these Rules.

Q.14 Whether product manufactured for 100% captive / self consumption shall be covered under the Companies (Cost Accounting Records) Rules 2011?

The test of inclusion under the Rules is whether it is a production, processing, manufacturing or mining activity resulting in a product [for definition of “product” refer to Rule 2(m)] intended for use, consumption, sale, transport, store, delivery or disposal and whether the company carrying out the activity falls within the criteria mentioned under Rule 3(1). If the company meets requirement of Rule 3(1), the activity – whether

Q.15 Whether Cost Audit Report Rules, 2001 exists as on date?

In supersession of the Cost Audit Report Rules, 2001, MCA has notified The Companies (Cost Audit Report) Rules, 2011 (“**Audit Rules**”), vide notification no. G.S.R.430 (E) dated 03rd June, 2011.



Q.16 Which are the Companies to whom Audit Rules apply?

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

It is pertinent to mention that the Cost Audit Branch, MCA has issued an order no. F. No. 52/26/CAB-2010 dated 02nd May, 2011 (“**2nd 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 2nd May Order is that all companies to which any of the following rules apply:

- a) Cost Accounting Records (Bulk Drugs) Rules, 1974 or
- (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.



Q. 17 Who is a “Cost Auditor” within the scope of 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 and shall be a cost accountant within the meaning of the Cost and Works Accountants Act, 1959. “Cost Accountant” for the purpose of these rules 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) and who holds a valid certificate of practice under subsection (1) of section 6 and who is deemed to be in practice under subsection (2) of section 2 of that Act and includes a firm of cost accountants.

Q.18. Can a Cost Accountant in employment be a Cost Auditor?

No person in employment can be appointed as a cost auditor.

Q.19. What is the 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.
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

a) Covering Letter

b) Certified Copy of Board Resolution passed by the Company for appointment of Cost Auditor.



c) A Certificate in writing by the proposed Cost Auditor showing compliance of Section 224 (1B).

d) Online payment of filing fee or payment by challan for the required amount payable to PAY AND ACCOUNTS OFFICER, MCA payable at NEW DELHI.

6. 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/-

7. Receipt of approval from the Cost Accounts Branch, MCA .

8. Conduct of Cost Audit.

9. Approval of the Cost Audit Report and Annexure to the Cost Audit Report to the Audit Committee.

10. 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.

PRACTICAL ISSUES WOULD BE DISCUSSED DURING THE COURSE OF THE STUDY CIRCLE

MEETING