

# **Cost Audit & Beyond**

**18<sup>th</sup> October, 2015**

**Bhopal**



**Companies  
Act, 1956**

**2011 Rules & Cost  
Audit Orders**

Compliance Certificate  
and Cost Audit u/s  
209(1)d and 233B

**Not Applicable  
from FY 2014-15**

**Companies Act, 2013**

**30<sup>th</sup> June 2014**

Companies (Cost  
Records & Audit)  
Rules, 2014

**Applicable from FY 2014-15/ 2015-16**  
30<sup>th</sup> June 2014 Rules to be read with  
Amendments as per 31<sup>st</sup> December Rules

**31<sup>st</sup> December 2014**

Companies (Cost  
Records & Audit)  
**Amendment** Rules,  
2014

The FAQs, circulars and clarifications issued earlier are no longer valid. The same may be considered as withdrawn and not applicable for the Companies (Cost Records and Audit) Rules, 2014 unless specifically mentioned in these FAQs

# Applicability – Regulated Sector

- 6 “products” covered in this group
- Overall turnover from all its products & services of Rs. 50 cr or more during the immediately preceding financial year, &
- Aggregate turnover of the individual product or products or service or services for which cost records are required to be maintained is Rs. 25 cr or more. “Aggregate” signifies sum of all covered products & or services
- 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.
- **Applicable from FY commencing on or after 1 April, 2014**

# Applicability – Regulated Sector

Regulated Sectors	CETA Headin g
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)	N.A.
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 (as defined under the Electricity Rules 2005)	N.A.

# Applicability – Regulated Sector

Regulated Sectors	CETA Heading
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
Drugs and Pharmaceuticals	2901, 2942, 3001 to 3006
Fertilisers	3102 to 3105
Sugar and industrial alcohol	1701, 1703, 2207

## ...Applicability

FY 2013-14	T/O (Rs cr)
Fertilisers	8.00
Sugar	12.00
Trading	20.00
Total	40.00

Total Sales > Rs 35 cr	Y
Covered Products & Services > Rs 25 cr	N

<b>Maintenance</b>	<b>Y</b>
<b>Cost Audit</b>	<b>N</b>

FY 2013-14	T/O (Rs cr)
Fertilisers	18.00
Sugar	12.00
Trading	40.00
Total	70.00

Total Sales > Rs 50 cr	Y
Covered Products & Services > Rs 25 cr	Y

<b>Maintenance</b>	<b>Y</b>
<b>Cost Audit</b>	<b>Y</b>

FY 2013-14	T/O Rs/Cr
Pharma Sales	31.78
Jobwork Income	2.17
Scrap Sales	0.84
<b>Operational Income</b>	<b>34.79</b>
Other Income	1.86
Total Income	36.65

<b>Maintenance</b>	<b>?</b>
<b>Cost Audit</b>	<b>?</b>

# Applicability – Non Regulated Sector

- 33 “products” covered in this group
- Threshold for Cost Audit:  
Overall turnover from all its products & services of Rs. 100 cr or more during the immediately preceding financial year, & Aggregate turnover of the individual product or products or service or services for which cost records are required to be maintained is Rs. 35 cr or more
- Some products in this category were not included in 2014 Rules & hence they have been covered under requirements of this Rules from FY commencing on or after 1<sup>st</sup> April, 2015.

# Applicability – Non Regulated Sector

Non - Regulated Sectors	CETA Heading
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, 8402, 8801 to 8805, 8901 to 8908
turbo jets and turbo propellers	8411
arms and ammunitions	3601 to 3603, 9301 to 9306
propellant powders; prepared explosives, (other than propellant powders); safety fuses; detonating fuses; percussion or detonating caps; igniters; electric detonators	3601 to 3603
radar apparatus, radio navigational aid apparatus and radio remote control apparatus	8526
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 90% or more by the Government or Government Agencies	8710



# Applicability – Non Regulated Sector

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)	
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)	
Steel	7201 to 7229, 7301 to 7326
Roads and other infrastructure projects corresponding to para no.(1)(a) as specified in Schedule VI of the Companies' Act, 2013	
Rubber and allied products being regulated by the Rubber Board constituted under the Rubber Act, 1947 (XXIV of 1947)	4001 to 4017
Coffee & Tea (Apr/15)	0901 & 0902
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

# Applicability – Non Regulated Sector

Cement	2523, 6811, 6812
Ores & Mineral Products	2502 to 2522, 2524 to 2526, 2528 to 2530, 2601 to 2617
Mineral fuels (other than Petroleum), mineral oils etc.	2701 to 2708
Base metals	7401 to 7403, 7405 to 7413, 7419, 7501 to 7508, 7601 to 7614, 7801, 782, 7804, 7806, 7901 to 7905, 7907, 8001, 8003, 8007, 8101 to 8113
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, 3403, 3809 to 3824
Jute & Jute Products	5303, 5310
Edible Oil	1507 to 1518

# Applicability – Non Regulated Sector

Construction Industry as per Para (5)(a) as specified in Schedule VI of the Companies' Act, 2013	
Health services, namely functioning as or running hospitals, diagnostic centres, clinical centres or test laboratories	
Education services, other than such similar services falling under philanthropy or as part of social spend which do not form part of any business	
Milk Powder (Apr/15)	0402
Insecticides (Apr/15)	3808
Plastics & Polymers (Apr/15)	3901 to 3914, 3916 to 3921, 3925
Tyres & Tubes (Apr/15)	4011 to 4013
Paper (Apr/15)	4801, 4802
Textiles (Apr/15)	5004 to 5007, 5106 to 5113, 5205 to 5212, 5303, 5310, 5401 to 5408, 5501 to 5516

# Applicability – Non Regulated Sector

Glass (Apr/15)	7003 to 7008, 7011, 7016
Other Machinery (Apr/15)	8403 to 8487
Electricals & Electronic Machinery (Apr/15)	8501 to 8507, 8511, 8512, 8514, 8515, 8517, 8525 to 8536, 8538 to 8547
production, import and supply or TRADING of specified medical devices	

## 4-digit CETA Code

- 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 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.**

## 4-digit CETA Code

- Petroleum Industry : 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.
- 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.
- 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.**

# Combination of Products

- 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 Rs.50 crore but less than Rs.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 Rs.25 crore.
- b) If the overall turnover of the company is more than Rs.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 Rs.35 cr
  - 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 Rs.25 cr but less than Rs.35 cr
- 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.

# Jobwork, Scrap Coverage

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.

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.** Only for Threshold calculation, this value is to be considered



# Captive Consumption

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).

Captive Power Plants are exempt from Cost Audit (See FAQ1 for details)

- 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].
- **EG. Radio Mirchi, ZEE TV, Den Networks, etc**

Kandla	Chennai
Mumbai	Ennore
JNPT	Vishakhapatnam
Mormugaon	Paradip
New Mangalore	Kolkata
Kochi	Haldia
Tuticorin	

- 
- Roads and other infrastructure projects corresponding to para no.(1)(a) as specified in Schedule VI of the Companies' Act, 2013  
“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”
  - Construction Industry as per Para (5)(a) as specified in Schedule VI of the Companies' Act, 2013
  - “Real estate development, including an industrial park or special economic zone”

## Exemptions

- Companies falling under the following categories are exempt from Cost Audit, but covered for maintenance of Cost Records:
- Revenue from exports, in foreign exchange, exceeds 75% of its total revenue. The computation of 75% is to be calculated for the specific products/services covered and not in respect of all the products/services of the company. “Total Revenue” of a company is to be considered as the total revenue ..... plus Other Incomes.
- Operating in Special Economic Zone: Such companies would be required to maintain cost accounting records for all its units including the one located in the SEZ. The unit(s) located in the SEZ 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.
- Companies classified as Micro or Small enterprise (based on investment), including as per section 7(9) falling under MSME Development Act, 2006 are totally exempt from these Rules – need not maintain cost records

## Exemptions

Particulars	First Schedule of IDRA Act, 1951	Providing or rendering of Services
	Investment in Plant & Machinery	
Micro Enterprise	Upto Rs. 25 Lakhs	Upto Rs. 10 Lakhs
Small Enterprise	Rs. 25 Lakhs to Rs 5 Crores	Rs. 10 Lakhs to Rs 2 Crores

So far, no threshold has been notified u/s section 7(9)

- CRA 1 mentions “Cost statements (monthly, quarterly and annually) showing....”
- 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.
- ....It is not incumbent upon the cost auditor to certify monthly, quarterly, half-yearly cost statements.

- CRA1 deals with Cost Records and how to maintain the same. It incorporates all Cost Accounting Standards also.
- CRA2 is the Form to be filed by Company for appointment of Cost Auditor
- CRA3 gives format for Cost Audit Report & Annexure thereto
- CRA4 is the Form to be filed by Company for uploading the Cost Audit Report:
  - Report is attached in xbrl format
  - Cost Auditor to submit Report to Company within 180 days of year-end
  - To be filed by Company within 30 days of Board Meeting approving the Annexure to CAR
  - Effectively, Board Meeting needs to be held by 27<sup>th</sup> September and Report filing by 26<sup>th</sup> October
  - Cost Auditor need not digisign Form CRA4



## Duties of Company

- Appoint cost auditor within 180 days of the commencement of every FY & inform the cost auditor concerned of his or its appointment;
- File a notice of such appointment with the Central Government within a period of 30 days of the Board meeting in which such appointment is made or within a period of 180 days of the commencement of the financial year, whichever is earlier, through electronic mode, in **form CRA-2, along with the fee (Rs 600) as specified in Companies (Registration Offices and Fees) Rules, 2014;**
- Remuneration ratification in Shareholders' meeting
- Within a period of 30 days from the date of receipt of a copy of the cost audit report, furnish the Central Government with such report along with 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.**

Beyond.....



# Industry Reaction

- Small & Mid size Companies:

Not another compliance..

I never knew such a profession exists..

Costing is the need of the hour..

Can you do this every quarter..

What else can I get besides Cost Audit Report..

over a period of time, compliances have led to better governance with consequential benefits to the society

- Large Companies:

We already have Costing department

This will be external certification

# Industry Reaction

- I will do costing my way

Yes .... You can

- My data is confidential

You don't need to disclose your costs

- If I don't do my costing, competition will punish me, I will perish. Why is the Government imposing this?

Yes, that's the bitter truth, but, it has an adverse impact on the society

- This is an additional cost

If done properly, this service will more than pay for itself.

There is no end to the road of COST REDUCTION

# Value Add

- Acceptable & instant cost database
- Can serve as MIS
- Authentic Past Cost Data helps in reliable Budgeting & Variance Analysis
- Pricing/Sales quote, if not market driven
- Inventory Valuation
- Benchmarking Tool
- Due Diligence for M & A
- Statutory Requirements:
  - Anti-dumping
  - Transfer Pricing
  - Competition Commission
  - Excise Valuation
  - Customs

# Value Add

Can help in benchmarking by:

- Comparing costs across periods
- Comparing costs across units
- Machine Hour/Process based costing & margin – basis for optimising product mix
- Product Pricing &
- Segment/Product/Packsize/ costs & profitability
- Geographical costing (marketing & distribution) & profitability
- Domestic & export costing & margins

# Other Stakeholders

- Ready availability of:
  - ✓ Segmental/Product/Unit wise Performance
  - ✓ Exclusion of non-operational Income/Expenses, Impact of utilisation on Profit capacity
  - ✓ Cost Centre/Activity based bifurcation of performance
- Useful for:
  - ✓ Financial Auditors – CARO Reporting
  - ✓ Bankers
  - ✓ Industrial Development Authorities
  - ✓ Credit Rating Agencies
  - ✓ Excise Authorities – FIAT case, Captive Consumption, Cenvat Reversals,
  - ✓ Income Tax Authorities – Transfer Pricing, GAAR, Stock Valuation, I/O Ratio
  - ✓ Investors, particularly PE – Identification of inefficiencies, PAR

# Queries

Please forward your queries to:

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# Queries

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THANK YOU