

**COST RECORDS AS PER
COMPANIES (COST RECORDS AND AUDIT)
RULES 2014**

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About Institute & CMA Profession

- The Institute of Cost Accountants of India (ICAI) was **established** in the year **1959** by an **Act of Parliament**.
- It is the only National Institute in India specializing in the field of Cost and Management Accounting.
- **Members** of the Institute are known as **Cost And Management Accountants** simply abbreviated as **CMA's**.
- ICAI is headquartered in Kolkata with four Regional Head Quarters, each in Delhi, Mumbai, Chennai and Kolkata, 96 Chapters spread across India with many extension centers controlled by the local chapter catering to remote locations of the locality and 8 Overseas Centers.
- The Institute has **65,000 Members** and more than **5,00,000 students**.

Mechanism of Cost Record Maintenance and Cost Audit

- This mechanism was first introduced in 1965.
- This unique mechanism is very less publicized.
- It involves calculating & certifying the **true cost & margin of various products & services.**
- **This mechanism was revamped by Government in 2011 based on a detailed report of Expert Group appointed by Government.**
- Under 2011 Mechanism - Cost Record Maintenance and Cost Audit became applicable to All companies in India engaged in Manufacturing / Processing / Mining Operations.
- **Cost of Production of all the companies in India is reported to the GOI, which may be used by the GOI for controlling / regulating Profiteering by capitalist sections of the society to benefit “Common Man”.**

Expert Group on Cost Records & Cost Audit

- Expert Group (EG) was formed by Government in 2008.
- EG and its sub committees consisted of 44 experts from various segments across country like MCA, CII, FICCI, ASSOCHAM, ICSI, Institute of Chartered Accountants, Institute of Cost Accountants, Industry, Academicians, Consumer / Investor Forums, etc.
- The EG also studied International Practices in field of Cost Audit in Developed and Developing Countries.
- 600 plus page report was submitted to Government giving 39 recommendations and detailed basis for the recommendation.
- Based on the recommendation of EG only the Government has issued Cost Accounting Records Rules 2011 and Cost Audit Report Rules 2011.

COST AUDIT AND COST RECORD RULES 2014

- COMPANIES ACT 2013 CAME INTO EFFECT
- THIS NECESSITATED THE NEW RULES AND REGULATIONS FOR COST AUDIT AND COST RECORDS
- THE RULE FIRST CAME IN JUNE 2014
- FURTHER CLARITY GIVEN TO THIS RULE BY AMENDMENT IN JAN-2015 (COST RECORDS AND COST AUDIT (AMENDMENT)RULE 2014)

COST RECORD RULE 2014

A) WHAT IS COST RECORDS

1.COST RECORDS IS INSTRUMENTAL IN ENABLING ONE TO TRANSFORM THE PROCESS OF MAUFACTURE/PRODUCTION/SERVICE INTO FINANCIAL VALUES SO AS TO ARRIVE AT THE VALUE ADDITION AT EACH LEVEL OF PRODUCTION ACTIVITY AND FINALLY TO ARRIVE AT THE COST OF PRODUCTION,COST OF SALES AND MARGIN EARNED PRODUCTWISE.

2.COST RECORDS INTERSECT IN THE PRODUCTION,STATITICAL AND FINANCIAL RECORDS.

COST RECORD RULE 2014

Utility of Cost Record and Cost Audit

EMPHASIS ON MODERN CONCEPT OF “ACTIVITY BASED COSTING SYSTEM”:

A methodology that measures the cost and performance of cost objects, activities and resources. Cost objects consume activities and activities consume resources. Resource costs are assigned to activities based on their use of those resources, and activity costs are reassigned to cost objects (outputs) based on the cost objects' proportional use of those activities. Activity-based costing incorporates causal relationships between cost objects and activities and between activities and resources.

Utility of Cost Record and Cost Audit

- Consumer Forums – Fair Pricing & Curtailing Profiteering
- Investor Forums - Corporate Performance and Economic Efficiency
- National Economy (Social Cost Benefits) – Optimum Utilization of Scarce Resources.
- Regulators – Control Price Mechanism
- Banks and Financial Institutions – Early Detection of NPA & Prevention of Sickness
- Government - Policy on Taxation, Policy on Subsidies for various sectors, Fight cases of Dumping , Detect Revenue Leakages & Tax Evasion
- Industry - Create Cost Consciousness, Specific benefit to SME segment, Analyze Resource Utilization, Improve Productivity and Cost Optimization, Decision Making.

Utility of Cost Record and Cost Audit

COST AUDIT ENSURES RESOURCE RECONCILIATION AND RESOURCE OPTIMIZATION:

Cost Audit and Cost Records are not only reconciliation statement in figures but it is a “Statement of Resource Cost and Resource Utilization” and is summary chain of following reconciliation statements –

- a) BOM Consumption V/S. R.M. Consumed (Stores Ledger)
- b) Direct Manpower and Indirect Manpower paid for and utilized.
- c) Utilities Consumption – Standard V/S Actual
- d) Normal Overheads V/S Abnormal
- e) Assets Management & Utilization
- f) Quantum of work outsourced and job work charges paid
- f) Standard Loss / Rejection Percentage V/S Actual
- g) Finally Profit Reconciliation in Figures to be reported

COST RECORDS VS FINANCIAL RECORDS

- VOUCHERS, JOURNALS AND DAY BOOKS
- LEDGER POSTING
- TRIAL BALANCE EXTRACT
- STATISTIC RECORDS ON RESOURCE UTILISATION
- ACCUMULATING THE DATA FOR A GIVEN PERIOD ACTIVITY/COSTWISE
- ALLOCATION AND APPROPRIATION OF COST ELEMENTS ACTIVITY/PRODUCTWISE

COST RECORDS VS FINANCIAL RECORDS

- P&L ACCOUNT AND BALANCE SHEET
- FUND FLOW AND RATIO ANALYSIS
- PRODUCTWISE COST SHEET
- ANALYTICAL TABLES FOR COST CONTROL

Companies (cost records and audit) Rules, 2014 (COST RECORDS)

- I. INPUT MATERIALS/SERVICES
 - A. RAWMATERIALS/DIRECT MATERIALS
 - B. INTERMEDIATE MATERIALS
 - C. CAPTIVE CONSUMED
 - D. BOUGHTOUT/SUB-ASSEMBLIES AND ACCESSORIES
 - E. CONSUMABLE STORES (COST CENTREWISE)
 - F. TOOLS,JIGS AND MOULDS
 - G. MATERIALS THROUGH OUTSOURCE PRODUCTION

Companies (cost records and audit) Rules, 2014

(COST RECORDS)

I. INPUT MATERIALS/SERVICES

- A. In the case of consumable stores and small tools, indirect services, the cost of which are insignificant (less than 5% of the cost of material consumed), the company may, if it so desires, maintain such records for the group of such consumable stores, tools and indirect services.
- B. Proper records shall be maintained showing the quantity and value of wastage, spoilage, rejections and losses . The method followed for adjusting the above losses as well as the income derived from the disposal of rejected and waste
- C. Details of non-moving materials for more than 12 months.

Companies (cost records and audit) Rules, 2014 (COST RECORDS)

2.SALARY AND WAGES

- (a) piece rate wages (wherever applicable);
- (b) incentive wages, either individually or collectively as production bonus or under any other scheme based on output;
- (c) overtime wages;(d) earnings of casual or contractual labour;(e) bonus or gratuity, statutory as well as other;
- (f) contribution to superannuating scheme;(g) cost of employees stock option;
- (h) leave travel concession; (i) paid holidays;(j) leave with pay;
- (k) Training, workshop, seminar expenses;
- (l) Medical/health, safety, education expenses;
- (m) any other statutory provision for labour welfare;
- (n) any other free or subsidized facility.

Companies (cost records and audit) Rules, 2014

(COST RECORDS)

2.SALARY AND WAGES

- Where the employees work in such a manner that it is not possible to identify them with any specific cost centre/service centre or department, the employees cost shall be apportioned to the cost centre/service centres or departments on equitable and reasonable basis and applied consistently.
- The idle labour cost shall be separately recorded under classified headings indicating the reasons therefor. The method followed for accounting of idle time payments shall be disclosed in the cost records.
- Labour cost on capital expenses to be indicated separately and the method followed consistently
- Retirement benefit and such as benefits under voluntary retirement scheme, expenses treated as abnormal and not forming part of salaries and wages and cost of production of goods/rendering of services.

Companies (cost records and audit) Rules, 2014 (COST RECORDS)

3.UTILITIES

- Proper records shall be maintained showing the quantity and cost of each major utility such as power, water, steam, effluent treatment, etc. produced and consumed by the different cost centres in such detail as to have particulars for each utility separately.
- The cost of utility allocated/apportioned to the cost centers and further to the individual goods/services shall be on equitable and reasonable basis and applied consistently.

Companies (cost records and audit) Rules, 2014 (COST RECORDS)

4.SERVICE DEPARTMENT EXPENSES

- Proper records shall be maintained to indicate expenses incurred in respect of each service cost centre like engineering, work shop, designing, laboratory, safety, transport, computer cell, welfare etc. These expenses shall be apportioned to other services and production departments on equitable and reasonable basis and applied consistently.
- Where these services are utilized for other goods/services of the company also, the basis of apportionment of such expenses to goods/services under reference and to the other goods/services shall be on equitable and reasonable basis and applied consistently.

Companies (cost records and audit) Rules, 2014 (COST RECORDS)

5.REPAIRS AND MAINTENANCE XPENSES

- 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. The records shall also indicate the basis of charging such expenses to different cost centres or departments.
- In addition to the above, records shall indicate the amount and also the proportion of closing inventory of stores and spare parts representing items which have not moved for over twenty four months.

Companies (cost records and audit) Rules, 2014 (COST RECORDS)

5.REPAIRS AND MAINTENANCE XPENSES

- The expenditure on major repair works from which benefit is likely to accrue for more than one financial year shall be shown separately and absorbed in the cost over the period for which such benefits are expected to accrue on equitable and reasonable basis and applied consistently. Method of accounting along with the basis of allocation of such costs shall also be clearly indicated in cost Records.

Companies (cost records and audit) Rules, 2014 (COST RECORDS)

6. DEPRECIATION AND LEASE CHARGES

- Proper and adequate records shall be maintained for assets used for production of goods/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/service, the cost of acquisition of each item of asset including installation charges, date of acquisition and rate of Depreciation.

Companies (cost records and audit) Rules, 2014 (COST RECORDS)

6. DEPRECIATION AND LEASE CHARGES

- Those records which enable to identify and/or allocate gross fixed assets, accumulated depreciation up to the year and net fixed assets under the heads; land and building, plant and machinery, furniture and fixtures etc. employed for goods/services under reference shall be maintained. The basis of apportionment of common assets to the goods/services under reference shall be on equitable and reasonable basis and applied consistently. In case of revaluation of assets, the same shall be indicated separately and depreciation on revaluation shall also be indicated Separately.

Companies (cost records and audit) Rules, 2014 (COST RECORDS)

6. DEPRECIATION AND LEASE CHARGES

- The basis on which depreciation is calculated and allocated or apportioned to various cost centre/service centres or departments and absorbed on all goods/services shall be clearly indicated in the cost records.
- Proper records shall be maintained giving details of assets taken or given on lease. The breakup of lease rental in terms of financial charges, depreciation etc. paid or received shall be maintained separately. The details shall be maintained separately for assets taken from or given to related party.

Companies (cost records and audit) Rules, 2014 (COST RECORDS)

7.OVERHEADS

- Proper records shall be maintained for various items of indirect expenses comprising overheads pertaining to goods/services under reference. These expenses shall be analyzed, classified and grouped according to functions, namely, works, administration, selling and distribution, Head Office expenses.

Companies (cost records and audit) Rules, 2014 (COST RECORDS)

8. DIRECT EXPENSES

- Direct expenses are such expenses that are directly identifiable with a product/service or a production/service centre.
- 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.

9. Administrative overheads

10. Transportation Cost

Companies (cost records and audit) Rules, 2014 (COST RECORDS)

11. ROYALTY AND TECHNICAL KNOW HOW FEE
12. RESEARCH AND DEVELOPMENT EXPENSES
- 13.QUALITY CONTRL EXPENSES
- 14.POLLUTION CONTROL EXPENSES
- 15.PACKING EXPENSES
16. INTEREST AND FINANCING CHARGES
- 17.ANY OTHER ITEM OF COST

Companies (cost records and audit) Rules, 2014
(COST RECORDS)

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
 - ((ii) capacities of individual or interrelated production centres;
 - (iii) operational constraints or capacity of critical machines; or
 - (iv) number of shifts
 - (v) manufacturers' Technical specifications;

Companies (cost records and audit) Rules, 2014
(COST RECORDS)

18.CAPACITY DETERMINATION(CONTD)

- (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.

Companies (cost records and audit) Rules, 2014 (COST RECORDS)

18.CAPACITY DETERMINATION(CONTD)

- (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 equipments;
 - (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.

Companies (cost records and audit) Rules, 2014 (COST RECORDS)

19. WIP AND FINISHED GOODS

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.

Companies (cost records and audit) Rules, 2014 (COST RECORDS)

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

22.ADJUSTMENT OF COST VARIANCES

23.RWCONCILIATION OF PROFIT WITH FINANCE RECORDS

Companies (cost records and audit) Rules, 2014 (COST RECORDS)

24.RELATED PARTY TRANSACTION

- 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.

Companies (cost records and audit) Rules, 2014
(COST RECORDS)

24.RELATED PARTY TRANSACTION(CONTD)

(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.

Companies (cost records and audit) Rules, 2014 (COST RECORDS)

24.RELATED PARTY TRANSACTION(CONTD)

- (d) In respect of related party transactions or supplies made or services rendered - 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;

Companies (cost records and audit) Rules, 2014 (COST RECORDS)

24. RELATED PARTY TRANSACTION (CONTD)

- (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.

Companies (cost records and audit) Rules, 2014
(COST RECORDS)

25. EXPENSES OR INCENTIVE ON EXPORTS

26. PRODUCTION RECORDS

27.SALES RECORDS

Companies (cost records and audit) Rules, 2014 (COST RECORDS)

28.COST STATEMENTS

- Separate cost statements as specified Unitwise
- Cost statements (monthly, quarterly and annually) showing quantitative information in respect of each good or service under reference shall be prepared.
- showing quantity, capacity, production, production as per excise records, stock purchased for trading, stock and other adjustments, quantity available for sale, wastage and actual sale.
- Statement on reconciliation of indirect taxes VAT, Excise duty and Service tax

Companies (cost records and audit) Rules, 2014 (COST RECORDS)

28.COST STATEMENTS(CONTD.)

- 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.
- 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.

Companies (cost records and audit) Rules, 2014
(COST RECORDS)

THANKING YOU

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