



**GUIDANCE NOTE
ON
MAINTENANCE OF
COST ACCOUNTING RECORDS
FOR
CONSTRUCTION INDUSTRY
INCLUDING REAL ESTATE AND PROPERTY
DEVELOPMENT ACTIVITY**



Issued by

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

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Foreword



Consequent upon the issuance of Notification no. GSR 429(E) dated 3rd June 2011 relating to the Maintenance of Cost Accounting Records (Rules) 2011 and the clarifications issued vide F.No. 52/1/CAB-2012 dated 25th May 2012 by the Ministry of Corporate Affairs, it was felt by the Institute to issue a detailed Guidance Note on Maintenance of Cost Accounting Records for the Construction Industry keeping in view the specific nature of the Industry.

For this purpose a Working Group consisting of members of the Industry and Professionals was formed by the Institute. The Working Group after detailed deliberations in various meetings came out with a Draft, which was exposed to public for comments. The Draft so prepared has been finalised in the light of the comments received.

I am confident that this Guidance Note would help the members of the Industry and Professionals to understand and implement the various principles of Maintenance of Cost Accounting Records relating to Construction Industry.

I wish to place on record my appreciation to all the members of the Working Group and other Invitees who attended the meetings of the Working Group and helped in finalizing this document. The list of all such members appears in acknowledgement.

I thankfully acknowledge the contribution of Shri BB Goyal, Advisor (Cost), Cost Audit Branch, Ministry of Corporate Affairs for sparing his time and efforts in reviewing the final draft of the Guidance Note and providing inputs and suggestions for improving the same.

Date: 16th October 2012
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Chapter 1

Introduction

GSR 429 (E) dated 3rd June 2011 notified by the Ministry of Corporate Affairs introduced Companies (Cost Accounting Records) Rules, 2011. Rule 3 states that:

“Application- (1) These rules shall apply to every company, including a foreign company as defined under section 591 of the Act, which is engaged in the production, processing, manufacturing, or mining activities and wherein, the aggregate value of net worth as on the last date of the 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.

Provided that these rules shall not apply to a company which is a body corporate governed by any special Act;

Provided further that these 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”

A copy of the above notification is attached as annexure I.

In view of the above as well as the clarification issued on 25th May 2012 (annexed as annexure II) by the Ministry of Corporate Affairs, companies engaged in:

- a) Construction (incl. development or real estate) industry who meets with the threshold limits laid down in Rule 3 of the Companies (Cost Accounting Records) Rules, 2011 shall be required to maintain cost accounting records and file compliance report with the Central Government in accordance with the provisions of these Rules. This includes companies undertaking construction jobs with the use of own materials (whether self



- manufactured / produced or procured from outside) and / or development of residential, commercial or industrial estates i.e. development of township, residential units, commercial complex, office blocks, industrial parks (including SEZ), etc. or construction of highways rails, roads, bridges, industrial & non-industrial structures, or other infrastructure facilities etc or 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.
- b) As per MCA's General Circular No. 67/2011 dated 30th November 2011 (annexed as annexure III) companies engaged in construction business as contractors or sub-contractors wherein they are paid only the conversion charges are exempted from the applicability of companies (Cost Accounting Records) Rules, 2011.
- c) Companies (Cost Accounting Records) Rules, 2011 do not apply to such Joint Ventures that are non-corporate entities [i.e not companies registered under the companies Act] or to unlisted companies that are below the specified threshold limits or to a body corporate governed by any special Act.



Chapter 2

Background of the Construction Industry

2.1 The Construction activity which, inter alia includes building / re-building / restoring structures or infrastructure facilities, typically using civil, mechanical or other branches of engineering, plays an important role in the development of the economy as it has multiplier effect across various sectors creating investment opportunities. The construction industry contributes a significant share of the country's GDP and employment.

Features of a construction contract / project are as follows:

- Execution of projects as a contractor / sub-contractor or as a developer.
- Projects involving design, detailed engineering, procurement, manufacturing / fabrication, installation, commissioning.
- The contracts / projects are finalised normally through a bidding process and the projects are executed as per client's requirements at client's project site.
- The client normally makes payment based on the progress of work as per the contract.
- Contracts also normally stipulate work / quality certification by a client nominated third party consultant.
- Contracts also lay down performance guarantee conditions, warranty / defect liability period, liquidated damages for schedule delay, price variation clause if any, client's obligations during construction period, method to be followed for any change in scope of work, claim management, force-majeure clause, arbitration etc.
- The duration of a project may vary from project to project for different industries. Normally the projects are of long duration (more than 12 months) and revenue is recognised generally based on Accounting Standard (AS-7) notified by Government of India, Ministry of Corporate Affairs.

2.2 The categories under which the Constructions Industry may be operating are:

- Construction involving civil and heavy engineering
- Real estate and Property development
- Construction projects involving specialty trades

Few examples of above categories are as under:

- Construction involving civil and heavy engineering
 - Industrial and mining infrastructure



- Highways, roads, ports, railways, airports etc.
- Rapid Mass Transport System,
- Water Supply System,
- Bulk Material Handling System,
- River Linking Projects,
- Sewerage System,
- Solid Waste Management
- Power systems
- Irrigation and agriculture system
- Telecommunication system

Real estate and Property development

- Commercial real estate
- Housing, schools, hospitals, Land and Township Infrastructure Development,

Construction projects involving specialty trades

- Refineries, Chemical plants, Fertilizer plants including complex and heavy process plant equipment
- Oil and Gas projects including fabrication of Process Platforms, construction of sub-sea and other pipelines
- Floating systems
- Power projects
- Nuclear Power Plant Construction
- Transmission and distribution lines
- Electrical construction

2.3 Construction Project Models

2.3.1 Public Private Partnership (PPP) Model

Project under PPP arrangement, i.e. development, financing, constructing, maintenance and operation, are implemented for the Project Term by a Private / Public Sector Company to be selected by the Government or a statutory entity.

The PPP Projects are usually in the following sectors:

- Roads and bridges, railways, seaports, airports, inland waterways, hotels;
- Power generation, transmission etc.;
- Urban transport, water supply, sewerage, solid waste management and other physical infrastructure in urban areas;
- Infrastructure projects in Special Economic Zones

PPP Projects normally operate on the following basis:

- BOO - Build Own Operate
- BOLT - Build Own Lease Transfer
- BOOST - Build Own Operate Share Transfer
- BOT- Build, Operate and Transfer
- BOOT- Build, Own, Operate and Transfer
- BOLT - Build Own Lease Transfer
- BLOT- Build, Lease, Operate and Transfer
- DBFO - Design Build Finance Operate
- DBFOT- Design, Build, Finance, Operate and Transfer
- EPC- Engineering, Procurement and Construction.
- OMT - Operate Maintain Transfer

2.3.2 Real Estate Development Model

The term real estate is essentially used in connection with development of land and construction/development of everything that is permanently attached to the land. These permanent fixtures to the land include buildings, fencing to the buildings and other fixtures such as plumbing, heating and lighting appliances.

Real estate development is the act of purchasing land, real estate, making improvements to the land and / or existing buildings on it and / or new construction - either by themselves or by contractors and selling the property after development. Developers purchase the land / real estate from Government / existing owner.

Some commonly used models of Real estate development are:

- Green field development (Traditional model)
- Redevelopment model

Examples of Real estate development projects are:

- Housing, Land and Township Infrastructure Development
- Development of commercial real estate
- Development of Corporate IT parks

2.3.3 EPC Contracting Model

The Developer of a project (either Govt or Private player under PPP model) delegates a portion of the contract to an EPC (Engineering, Procurement and Construction,

including installation, commissioning etc. wherever applicable) Contractor. These contracts are finalised normally through a technical and commercial bidding process and the projects are executed as per client's requirements at the project site.

Examples of commonly used models of EPC contracts are:

- LSTK- Lump sum turnkey contracts
- Cost plus contracts
- Item Rate Contract
- A Combination of above

The EPC Contracting model is normally used for executing a construction contract awarded either by Govt. or Private Player

2.3.4 Construction involving in-house fabrication or manufacturing

Companies, as Developer (2.5.1, 2.5.2) or Contractor (2.5.3), may have in-house facilities for undertaking long duration (more than 12 months) manufacturing / fabrication of equipment / structures for use in the main construction project.

These equipment / structures are manufactured / fabricated as per client's design, specification and other requirements, which are unique for each contract. Materials are either procured by the Company or provided by the Client based on the terms of contract.

The business model generally involves engineering, procurement, manufacturing / fabrication, transportation to project site and installation / commissioning in the main construction project.

Examples of in-house fabrication or manufacturing used for construction projects are:

- Cement concrete slabs, beams, columns etc. for infrastructure projects
- Reactors for Chemical Plants
- Heat exchangers for Fertilizer Plants
- Process platforms for Oil & Gas exploration projects
- Transmission towers for power transmission line projects



Chapter 3

Maintenance of Cost Accounting Records

- 3.1 The Rules have prescribed that cost accounting records are required to be maintained in accordance with the "*generally accepted cost accounting principles*" and the "*cost accounting standards*" issued by the Institute of Cost Accountants of India to the extent these are relevant and applicable. The rules do not prescribe any specific format of cost statement and the company is free to adopt a system suitable to provide cost information.
- 3.2 There cannot be any exhaustive list of cost records that are required to be maintained. This would depend on the particular situation, structure of the company and the activities that the company is engaged in. What is intended is to ensure maintenance of such records and details in a structured manner on a regular basis so that the accumulation is possible on a periodical basis to arrive at the cost of a particular cost object. Such analysis of individual cost components and relating it to the activity for which the same is incurred would help the company in taking proper management decisions.
- 3.3 It should be kept in mind that in a manufacturing organisation, the operations include certain repetitive processes resulting in a particular "product" that can be measured in finite manner. In a construction activity, each project or operation can be different and distinct and there is a need to define the "cost object" in relation to which the costs are required to be accumulated and reported.
- 3.4 Reference is also drawn to the product group classification notified by the Ministry of Corporate Affairs where the construction industry has been classified under the following service groups:
- a) Construction of residential buildings
 - b) Construction of non-residential buildings
 - c) Construction of highways, road, bridges etc.
 - d) Construction of industrial and non industrial plants, structures and facilities
 - e) Laying of pipelines, communication and power lines
 - f) Other construction activities not elsewhere specified
 - g) Real estate development activities
 - h) Architectural and engineering services
 - i) Construction and Real Estate Related Services



3.5 Exemption from applicability of Companies (Cost Accounting Records) Rules 2011, to the construction Industry:

3.5.1 Companies engaged in construction business as contractors or sub-contractors wherein they are paid only the conversion charges (MCA Circular No. F. No. 52/1/CAB-2012 dated 25th May 2012);

3.5.2 Joint Ventures that are non-corporate entities [i.e. not companies registered under the Companies Act] or to unlisted companies that are below the specified threshold limits or to a body corporate governed by any special Act. (MCA Circular No F. No. 52/1/CAB-2012 dated 25th May 2012);

3.6 Companies which have not commenced their business are exempt for maintenance of cost records till their business operations commence. The term 'commencement of business' is to be read in context of section 149 of the Companies Act 1956. In case of a manufacturing company, commencement of commercial operation means the plant has been commissioned on a commercial scale. In other context, commencement of business operations is to be read as defined under the above section. Applicability of CARR for various construction projects modals is given below:

- **PPP model**

The primary business model is Build, Operate and Transfer. CARR will be applicable from the time the Company starts building or constructing the project (either by themselves or through contractor) after getting necessary approvals for commencement of work from appropriate government / local authorities.

- **EPC Contracting Model**

The business model is primarily Engineering, Procurement and Construction. CARR will be applicable from the initial stage of Engineering or Procurement or construction activity, as applicable.

- **Real Estate Development Model:**

The business model is primarily development and sale of real estate. CARR will be applicable from the start of development /construction activity on getting necessary approvals for commencement of work from appropriate government / local authorities.

- **Construction involving in-house fabrication or manufacturing:**

The business model involves engineering, procurement, manufacturing / fabrication, construction and / or installation / commissioning. Hence CARR will



be applicable from the initial stage of Engineering or Procurement or Construction activity, as applicable.”

3.7 These rules will not apply to construction activity which is not meant for sale or for commercial use. For example, a company not engaged in construction business, but constructing staff quarters for its employees or erecting manufacturing plant, will not be covered under the maintenance of CARR relating to Construction activity.

3.8 **Nature of cost accounting records for construction activity**

Companies are to maintain books of accounts as per section 209 of the Companies Act 1956, including cost accounting records on going concern basis. Therefore even if a company has not commenced any project or activity, still records are required to be maintained. In case of companies engaged in manufacturing or production of items for self consumption then:

(a) Valuation of product which are covered under CETA, shall be in accordance with Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000 read with CAS-4 (Cost Accounting Standard on Cost of Production for Captive Consumption), wherein valuation is to be based on cost of production plus 10% for determining the assessable value under the above rules.

(b) For determining the value of inter-unit transfer of items for captive consumption whether excisable or not, the value shall be only at cost of production.

(c) Detailed records for other elements like research and development cost, quality control cost, pollution control cost etc. shall be captured, if material. The developer of a construction project, many a times, subcontracts the entire construction activity to one or many contractor/(s). In such circumstances, the records relating to utilisation of material / labour / other items of costs are maintained by the contractor. The developer will maintain the contractor account with the details of bills submitted by the contractor / certification of work done / payment made to contractor etc. These records enable the developer to keep a control on the work done by contractor / work yet to be done / quality of work done etc.”

3.9 **Cost Object**

3.9.1 The Companies (Cost Accounting Records) Rules 2011 requires records to 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. Hence, it is necessary to define cost object in relation to a construction activity. In a manufacturing activity, there is a well defined product that emanates out of the manufacturing/production process which is uniform across the product range of that product. In case of construction activity, each activity and sub-activity involved in the process of attaining the final output is unique and the final output would also be different from one to the other.

For example:

(A) A company engaged in construction of residential flats may have different types of flats in the same building, and in blocks of flats, the buildings containing those flats may be different in structure and construction. The Project in the context of construction activity is to be considered as the cost object.

(B) A company is constructing 3 residential projects A, B & C in 3 different places. Project A consists of 3 buildings, Project B consists of 5 buildings and Project C consists of 2 buildings each of such building containing different types of flats. The company is also engaged in Project D which is construction of a 15 KM stretch of road which also includes a Bridge. Project E of the company is construction and erection of a Power Plant.

The company has received the contract of road and bridge construction as 2 separate projects (say Projects D1 and D2).

For maintenance of cost accounting records, the company would be required to maintain specified records in respect of Projects A, B, C, D1, D2 and E as its distinct and individual cost objects.

3.9.2 Detailed cost records are also to be maintained for each sub cost centre / sub project. These records are also used for internal reporting (MIS) , cost control and decision making process as these are useful for determining the cost of project / activity separately.

3.10 Methodology

3.10.1 Project Costing Methodology

Once a project is awarded based on Technical / Commercial / Price evaluation, a

distinct project number is allotted for each project. As per the requirement of management, costs can be collected for various activities and the same can be in the form of Work Breakdown Structure (WBS) or Sub-project numbers etc. . All costs incurred for the project should be captured against its WBS number / cost object / Sub-project number. . All common functions like Quality Control, HR, Finance & Accounts, Legal, Secretarial etc. is to be identified by separate cost center codes and all costs relating to such functions is to be assigned to respective cost centers. These costs are to be absorbed by the projects by use of appropriate recovery mechanism by following the Generally Accepted Cost Accounting Principles (GACAP), applicable Cost Accounting Standards (CAS).

3.10.2 Usage cost of common pool of Plant & Machinery:

Construction companies typically use fixed assets like cranes, crushing equipments, etc. which are used over multiple projects. All such common assets can be under the control of a separate department with the objective of improving the utilization and productivity of such plant and machinery and the resultant operating efficiency of the projects.

All costs (like salaries & wages of department and operating staff, fuels, consumables, repairs & maintenance, consumable spares, insurance, depreciation, specific interest cost etc.) relating to such plant and machineries are to be accumulated in distinct cost centre codes and an internal hire rate for different types of machinery can be worked out considering the normal utilization of such assets. Projects using such assets are to be charged based on utilization at the agreed internal hire rate. Any under / over recovery of cost of this department is to be periodically reviewed and necessary corrective actions / adjustments are to be carried out.

3.11 Construction industry maintains its accounts and recognises revenue on the basis of Accounting Standard - 7. The revenue recognition for cost accounting records would follow the same principle.

3.12 Cost statements would be prepared in respect of individual projects as explained above. For continuing projects, the costs would represent the amount of expenses pertaining to the project as considered in its financial profit and loss account. Similarly, the corresponding revenue recognized for the project during the financial period would be considered for arriving at the margin as per cost accounts.



- 3.13 Expenses, which are classified as non-cost items as per the generally accepted cost accounting principles and cost accounting standards should not be considered as a part of cost and should be considered as a charge in the costing profit and loss account (reconciliation statement between cost accounts and financial accounts).
- 3.14 In respect of large companies engaged in various different construction projects, the administrative overheads and corporate expenses are not allocated to individual project accounts. However, for cost accounting records and to arrive at the true project costs, such overheads should be apportioned to individual projects on a suitable basis.
- 3.15 Interest and Financing charges, not directly related or identified with a particular project should be apportioned to the projects on a suitable basis.



Chapter 4 **Generally Accepted Cost Accounting Principles and Cost Accounting Standards**

4.1 Rules 4(3) of the CARR 2011 provides that the cost records shall 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. The variations, if any, shall be clearly indicated and explained.

4.2 The Institute has notified the Generally Accepted Cost Accounting Principles (GACAP) in November 2011. GACAP is compilation of Cost Accounting Principles currently being followed in India. It has also incorporated the principles contained in the Cost Accounting Standards (CAS) issued by the Cost Accounting Standards Board (CASB) of the Institute. The applicability and relevance of the GACAP and CASs to the construction industry is discussed below.

4.3 GACAP

Chapter 1, 2, 3, 4 and 5 of GACAP relate to Introduction, objective, scope, nature of content and Format and conceptual frame work. These are general chapters. Chapter 6 deals with definition of various terms used in Cost accounting and chapters 7 to 10 deals with application of principles applicable to elements of cost and applicability of cost accounting practices and so on. The cost elements covered in detail in these chapters are:

- a) Material cost
- b) Employee cost
- c) Direct expenses
- d) Cost of utilities
- e) Repairs and Maintenance
- f) Production overheads
- g) Administrative overheads
- h) Selling & Distribution Overheads
- i) Interest and Finance charges

Treatment of above elements in cost of cost object has been discussed in these chapters.

4.4 It is clarified that GACAP and CAS are not only for manufacturing industry but also for construction industry. Cost is to be determined for a cost object. The cost object has been defined as:



“This includes a product, service, cost centre, activity, sub-activity, project, contract, customer or distribution channel or any other unit in relation to which costs are finally ascertained.”

Thus each contract / sub-contract is a cost object and costs are to be captured contract wise. Since each contract is a heterogeneous, job costing system is applicable.



Chapter 5

Cost Accounting Standards (CASs)

5.1 The Institute of Cost Accountants of India, recognizing the need for structured approach to the measurement of cost in manufacture or service sector and to provide guidance to the user organizations, government bodies, regulators, research agencies and academic institutions to achieve uniformity and consistency in classification, measurement and assignment of cost to product and services, constituted Cost Accounting Standards Board (CASB) with the objective of formulating the Cost Accounting Standards.

5.2 The Board has so far released 14 Cost Accounting Standards. The structure of Cost Accounting Standard consists of:

- Introduction,
- Objectives of issuing standards,
- Scope of standard,
- Definitions and explanations of the terms used in the standard,
- Principles of Measurement, Assignment of Cost,
- Presentation and Disclosure.

5.3 While formulating the Cost Accounting Standards, the CASB takes into consideration the applicable laws, usage and business environment prevailing in India. CASB also gives due consideration to the Cost Accounting Standards, principles and practices being followed by the other countries in the world. If due to subsequent changes in the law, a particular standard or any part thereof becomes inconsistent with such a law, the provisions of the said law shall prevail.

5.4 Applicability of CAS:

14 Cost Accounting Standards have been issued and their applicability is discussed as under:

CAS No	Title	Applicability
CAS 1	Classification of Cost	Applicable. To be applied for proper classification and assessment of cost of a cost object and for preparation of Cost Statements on consistent and uniform basis.
CAS 2	Capacity Determination	Not Applicable for construction activity.
CAS 3	Overheads	Equally apply to Construction activities. Overhead expenses are to classified as Site / Works / Construction Overheads, Administrative Overheads. Selling Overheads



		or any other classification as may be applicable. For control purposes, the Overheads are to be classified as Fixed, Variable or Semi Variable, keeping in mind the nature and purpose of the cost. Absorption of overheads is to be done on suitable / rationale basis viz. estimate of efforts involved etc.
CAS 4	Cost of Production for Captive Consumption	Applicable to the extent relevant
CAS 5	Average (equalized) Cost of Transportation	Applicable to the extent relevant
CAS 6	Material Cost	Applicable for measurement / assignment of material cost. Quantitative details to be kept as practice in the industry and materiality of the material cost.
CAS 7	Employee Cost	Applicable for measurement / assignment of employee cost
CAS 8	Cost of Utilities	Applicable to the extent relevant
CAS 9	Packing Material Cost	Applicable to the extent relevant
CAS 10	Direct Expenses	Applicable
CAS 11	Administrative Overheads	Applicable to the extent relevant
CAS 12	Repair & Maintenance Cost	Applicable to the extent relevant
CAS 13	Service Cost Centre	Applicable to the extent relevant
CAS 14	Pollution Control Cost	Applicable to the extent relevant



Chapter 6

Cost Accounting Policies

To have uniformity and consistency in the treatment of various elements of cost, it is desirable that companies shall lay down a cost accounting policy which shall be adopted for determining the cost of the project. The policy shall cover the following areas:

- a) Identification of cost centres / cost objects (projects) and cost drivers.
- b) Accounting for material cost, stores at store yards, employee cost, and other relevant cost components.
- c) Accounting, allocation and absorption of Overheads
- d) Accounting for Depreciation / Amortization, Transfer in and transfer out of equipment from the site.
- e) Accounting for scraps, wastage etc.
- f) Basis for Inventory Valuation
- g) Methodology for valuation of Inter-Unit / Inter Company and Related Party transactions.
- h) Treatment of abnormal and non-recurring costs including classification of other non-cost items.

The following are examples of Non Cost Items which are treated as reconciliation items:-

- o Compensations on account of damage / loss of life etc,
- o Insurance claims received (pertaining to previous years)
- o Idle cost on the project (example: waiting for the ROW, etc, on NHAI contracts)
- o Demurrage charges,
- o Contract Cancellation Expenses,
- o Warranty / Defect Liability cost (in excess of normal provision for such items)
- o Liquidated damages (adjusted against contract value in financial accounts),
- o Encashment of BG charges and incidental arbitration charges,
- o Pre operative expenses,
- o Provisions, Contingent liabilities and contingent assets
- o Under absorption of overheads due to idle capacity
- o Foreseeable loss (Financial provision for projected loss)
- o Cost incurred in subsequent financial years for closed jobs
- o Impairment of Fixed Assets
- o Bad debts written off
- o Donation
- o Forex variations



- o Inventory write-off
- o Profit/Loss on sale of business
- o Provisions No Longer Required written back
- o Unclaimed credit balances
- o Assets scrapped / obsolete
- o Penal recoveries from Sub-Contractors



Chapter 7 Preliminary Steps for the CARR Compliance

The following steps may be taken by the companies engaged in construction activity w.r.t. compliance of the Companies (Cost Accounting Record) Rules 2011:

A. Steps required for maintenance of Cost Records:

- (i) Prepare check list for compliance with the provisions of CAS and GACAP in regard to the following elements of cost:
 - Material Cost
 - Employee Cost
 - Cost of Utilities
 - Repairs and Maintenance
 - Construction / Site overheads
 - Administrative / Corporate office overheads
 - Selling & Distribution Overheads
 - Interest and Finance charges

It is to be ensured that the above expenses have been properly codified and identified with relevant cost object /projects and the cost has been measured and assigned as per CASs.

- (ii) Project wise detailed cost statements are to be prepared for internal use giving relevant details of quantity and value. Suggested format for the preparation of the same is given at Annexure V.
- (iii) Ensure that inter unit transfers are at cost in the cost records.
- (iv) All the cost statements are to be consolidated at 'product group' level and Costing Profit to be reconciled with the audited financial profit".
- (v) Prepare the relevant annexure to the Compliance Report.

B. Steps required for compliance of CAR:

- (i) Prepare Compliance Report as prescribed in Form B.
- (ii) Compliance Report is to be certified by a Cost Accountant (as per the definition prescribed in the rules). For the above purpose, the Cost Accountant may be either a permanent employee of the company or a practicing cost accountant /



firm holding valid certificate of practice. In either case, it is recommended that Board of Directors is kept informed about the arrangement.

- (iii) Board of Directors of the company need to approve all the Annexure to the compliance report.
- (iv) Compliance Report is to be filed in Form B as per the notification dated 3rd June 2011, and no other details of cost records are required to be filed with the Government. A template of the annexure to the Compliance Report is annexed at annexure IV. Necessary guidance for filling the annexure is given in paragraph C.
- (v) Form A of the Compliance Report along with Annexure is required to be e-filed with the Central Government within 180 days from the close of financial year.

C. Filling of Annexure to the Compliance Report

Item 1: General

- a. Name of the Company,
- b. Registered office address
- c. Financial year to which the Compliance Report relates

Fill above details of the company.

Item 2: Quantitative information: under this item information is to be given under six columns. Following steps are to be taken:

Column 1	Identify the product code as per Product Group Classification issued by Ministry of Corporate Affairs relating to product produced / manufactured/ services rendered and trading activities
Column 2	Indicate the nomenclature of each product code as indicated in column 1.
Column 3	Unit of measurement is to be indicated in this column for produced /manufactured / fabricated products.
Column 4	Annual production quantity is to be indicated for produced/ manufactured/ fabricated products. The total production quantity should match with the excise records. For service and trading activities, quantity need not be indicated, if not relevant.
Column 5	The 'Net Sales' column has two sub columns viz. 'quantity' and 'value (in Rupees)'. Quantitative and sale value details will be nil, if produced / manufactured / fabricated products are captively consumed. For service / trading activities net sales value (net of taxes and duties) are to be indicated.
	Total Income is to be indicated as per financial accounts.

Item 3: Reconciliation statement

Column 2	<p>It is a reconciliation of net margin (Profit and loss as per cost accounts). Details to be furnished in column 2:</p> <p>A: Net margin (profit or loss) produced or manufactured group is to be indicated as per audited cost report relating to products covered under cost audit and for others as per cost statements.</p> <p>B: The above applies for services also.</p> <p>C: Trading activities: If any trading activities are carried, net margin (profit or loss) of trading activities may be determined taking into consideration cost of merchandise purchased and share of common services.</p> <p>Summation of the above will give net margin (profit or loss) as per cost accounts.</p>
	<i>Income</i> not considered in cost accounts to be indicated against this item under the column.
	Expenses not considered in cost accounts to be indicated against this item under the column.
	<p>Add / less difference in stock valuation: prepare statement for the stock adjustment indicating financial as well as cost valuation of stock in quantity and value relating to products manufactured or produced. For others product group details may be furnished in value as per cost accounts.</p> <p>For Real Estate business, any difference in valuation of inventory between financial books and cost accounting records needs to be disclosed.</p>

D. Filing of the Compliance Report in XBRL Mode

The Ministry of Corporate Affairs vide General Circular no. 8/2012 dated 10th May 2012 has mandated the filing of Cost Audit Report and Compliance Report in the eXtensible Business Reporting Language (XBRL) mode from the financial year 2011 – 12.

The Ministry of Corporate Affairs, vide General Circular no. 18/2012 dated 26th July 2012 has extended the last date for filing of the Cost Audit Reports and Compliance Reports for the year 2011 -12, with the Central Government in the XBRL mode upto 31st December 2012.



For this purpose the Costing Taxonomy and related Business Rules including sample instance document may be downloaded from the website of Ministry of Corporate Affairs. The specific links are as follows:

Costing Taxonomy –

http://mca.gov.in/Ministry/pdf/Costing_taxonomy_2012-09-12.zip

Business Rules -

http://mca.gov.in/Ministry/pdf/Business_Rules_XBRL_Cost_Audit_taxonomy_2012_21_Sep_2012.zip

The Existing Form A of Compliance Report is not to be used for filing the same in XBRL mode. For filing of Compliance Report in XBRL mode Form 23CR-XBRL is to be used, which can be downloaded from the website of Ministry of Corporate Affairs. The e-form 23CR-XBRL needs to be digitally signed by the Cost Accountant.

The process of uploading the filled Form 23CR-XBRL is same as the process of filing of any other e-form. The Compliance Report filed by the Company is not public document and cannot be viewed in public domain by anyone.

The following steps are to be followed in sequence in order to file the Compliance Report in XBRL mode:

1. Mapping the individual cost elements of the company to the elements of the costing taxonomy.
2. Populating the relevant data in the software/filing tool.
3. Creating instance document.
4. Validating the Instance Document with the Validation Tool of MCA.
5. Use available tool to convert the Instance document to a human readable format and check correctness of data.
6. Attaching the Instance Document to the e-Form and filing on MCA Portal.

The Institute is in the process of issuing a guidance note on filing of Cost Audit Report and Compliance report in XBRL mode, which may be referred to.



Annexure I

[TO BE PUBLISHED IN THE GAZETTE OF INDIA, EXTRAORDINARY PART-II, SECTION-3, SUB-SECTION (i)]

MINISTRY OF CORPORATE AFFAIRS

Notification

New Delhi, dated the 3rd June, 2011

G.S.R. 429(E) - In exercise of the powers conferred by clause (b) of sub-section (1) of section 642 read with clause (d) of sub-section (1) of section 209 of the Companies Act, 1956 (1 of 1956), and in supersession of the Cost Accounting Records Rules in so far as they relate to the Cost Accounting Records Rules published vide (i) G.S.R. 311 dated 2nd March, 1967, (ii) G.S.R. 1260 dated 10th August, 1967, (iii) G.S.R. 1447 dated 16th September, 1967, (iv) G.S.R. 1448 dated 18th September, 1967, (v) G.S.R. 1467 dated 20th September, 1967, (vi) G.S.R. 1503 dated 27th September, 1967, (vii) G.S.R. 2298 dated 15th September, 1969, (viii) G.S.R. 2574 dated 24th October, 1969, (ix) G.S.R. 334 dated 25th February, 1972, (x) G.S.R. 1529 dated 27th November, 1972, (xi) G.S.R. 590(E) dated 29th December, 1975, (xii) G.S.R. 601(E) dated 31st December, 1975, (xiii) G.S.R. 606 dated 20th April, 1976, (xiv) G.S.R. 605 dated 22nd April, 1976, (xv) G.S.R. 126(E) dated 24th March, 1977, (xvi) G.S.R. 157(E) dated 1st April, 1977, (xvii) G.S.R. 417(E) dated 28th June, 1977, (xviii) G.S.R. 45(E) dated 31st January, 1979, (xix) G.S.R. 506(E) dated 10th May, 1984, (xx) G.S.R. 688 dated 25th June, 1984, (xxi) G.S.R. 767 dated 7th July, 1984, (xxii) G.S.R. 664 dated 1st July, 1985, (xxiii) G.S.R. 574 dated 31st July, 1990, (xxiv) G.S.R. 258(E) dated 3rd March, 1993, (xxv) G.S.R. 677(E) dated 29th October, 1993, (xxvi) G.S.R. 678(E) dated 29th October, 1993, (xxvii) G.S.R. 186(E) dated 12th April, 1996, (xxviii) G.S.R. 202(E) dated 6th May, 1996, (xxix) G.S.R. 271(E) dated 9th July, 1996, (xxx) G.S.R. 537(E) dated 11th September, 1997, (xxxi) G.S.R. 536(E) dated 11th September, 1997, (xxxii) G.S.R. 704(E) dated 28th September, 2001, (xxxiii) G.S.R. 276(E) dated 24th April, 2001, (xxxiv) G.S.R. 277(E) dated 24th April, 2001, (xxxv) G.S.R. 685(E) dated 8th October, 2002, and (xxxvi) G.S.R. 562(E) dated 2nd September, 2004, except as respects things done or omitted to be done before such supersession, the Central Government hereby makes the following rules, namely:-

1. **Short Title and Commencement-** (1) These rules may be called The Companies (Cost Accounting Records) Rules, 2011.
(2) They shall come into force on the date of their publication in the Official Gazette.
2. **Definitions and Interpretations.** - In these rules, unless otherwise so provided,---
 - (a) "Act" means the Companies Act, 1956 (1 of 1956);
 - (b) "Compliance Report" means compliance report duly authenticated and signed by a cost accountant in the prescribed form of compliance report;
 - (c) "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 is either a permanent employee of the company or holds a valid certificate of practice under sub-section (1) of section 6 and who is deemed to be in practice under sub-section (2) of section 2 of that Act and includes a firm of cost accountants;
 - (d) "Cost Accounting Standards" means the standards of cost accounting, issued by the Institute;
 - (e) "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;
 - (f) "Form-A" means the form prescribed in these rules for filing compliance report and other documents with the Central Government in the electronic mode;



- (g) “Form-B” means the form of the compliance report and includes Annexure to the compliance report;
- (h) “Generally Accepted Cost Accounting Principles” means the principles of cost accounting issued by the Institute;
- (i) “Institute” means the Institute of Cost and Works Accountants of India constituted under the Cost and Works Accountants Act, 1959 (23 of 1959);
- (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.
- (k) “Mining Activity” includes any act, process or method employed in relation to the extraction of ores, minerals, oils, gases or other geological materials from the earth’s crust, including sea bed or river bed.
- (l) “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
 - (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.
- (m) “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.



- (n) “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 or application.
- (o) “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.
- (p) “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) All other words and expressions used in these rules but not defined, and defined in the Act and rules made under clause (d) of sub-section (1) of section 209 of the Act shall have the same meanings as assigned to them in the Act or rules, as the case may be.
3. **Application-** (1) These rules shall apply to every company, including a foreign company as defined under section 591 of the Act, which is engaged in the production, processing, manufacturing, or mining activities and wherein, the aggregate value of net worth as on the last date of the 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.
- Provided that these rules shall not apply to a company which is a body corporate governed by any special Act;*
- Provided further that these rules shall not apply to the activities or products covered in any of the following rules,-*
- (i) *Cost Accounting Records (Bulk Drugs) Rules, 1974*
 - (j) *Cost Accounting Records (Formulations) Rules, 1988*
 - (k) *Cost Accounting Records (Fertilizers) Rules, 1993*
 - (l) *Cost Accounting Records (Sugar) Rules, 1997*
 - (m) *Cost Accounting Records (Industrial Alcohol) Rules, 1997*
 - (n) *Cost Accounting Records (Electricity Industry) Rules, 2001*
 - (o) *Cost Accounting Records (Petroleum Industry) Rules, 2002*
 - (p) *Cost Accounting Records (Telecommunications) Rules, 2002*
4. **Maintenance of records-** (1) 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 1st day of April, 2011, keep cost records.
- (2) The cost records referred to in sub-rule (1) 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.

- (3) The cost records shall 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. The variations, if any, shall be clearly indicated and explained.
 - (4) 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 with a view to achieve optimum economies in utilization of resources. These records shall also provide necessary data which is required to be furnished under these rules.
 - (5) All such cost records and cost statements, maintained under these rules shall be reconciled with the audited financial statements for the financial year specifically indicating expenses or incomes not considered in the cost records or statements so as to ensure accuracy and to reconcile the profit of all product groups with the overall profit of the company. The variations, if any, shall be clearly indicated and explained.
 - (6) All such cost records, cost statements and reconciliation statements, maintained under these rules, relating to a period of not less than eight 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.
 - (7) It shall be the duty of every person, referred to in sub-section (6) and (7) of section 209 of the Companies Act, 1956 (1 of 1956), to take all reasonable steps to secure compliance by the company with the provisions of these rules in the same manner as he is liable to maintain accounts required under sub-section (1) of section 209 of the said Act.
5. **Form of the Compliance Report** - Every company to which these rules apply shall submit a compliance report, in respect of each of its financial year commencing on or after the 1st day of April, 2011, duly certified by a cost accountant, along with the Annexure to the Central Government, in the prescribed form.
 6. **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.
 7. **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.
 8. **Penalties** – (1) 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 five thousand rupees.
(2) 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 sub-section (6) of section 209 of the Act, shall be punishable as provided under sub-section (2) of section 642 read with sub-sections (5) and (7) of section 209 of Companies Act, 1956 (1 of 1956).
 9. **Savings**- The supersession of the Cost Accounting Records Rules, shall not in any way affect-
 - a) any right, obligation or liabilities acquired, accrued or incurred thereunder;
 - b) any penalty, forfeiture or punishment incurred in respect of any contravention committed thereunder; and
 - c) any investigation, legal proceeding or remedy in respect of any such right, privilege, obligation, liability, penalty, forfeiture or punishment as aforesaid, and; any such



investigation, legal proceeding or remedy may be instituted, continued or enforced and any such penalty, forfeiture or punishment may be imposed as if those rules had not been superseded.

[F. No. 52/10/CAB-2010]

B.B.GOYAL
ADVISER (COST)

FORM-A	Form for filing Compliance Report and other documents with the Central Government
[Pursuant to section 209(1)(d), 600(3)(b) of the Companies Act, 1956 and rule 2 of the Companies (Cost Accounting Records) Rules, 2011]	

PART I - GENERAL INFORMATION

Note: All fields marked in * are to be mandatorily filled.

1	(a)	*Corporate identity number (CIN) or foreign company registration number of the company	<input type="text"/>	Pre-Fill
	(b)	Global location number (GLN) of company	<input type="text"/>	
2	(a)	*Name of the company	<input type="text"/>	
	(b)	*Address of the registered office or of the principal place of business in India of the company	<input type="text"/>	
	(c)	*E-mail Address of the company	<input type="text"/>	
3	(a)	*Financial year covered by the compliance report	From <input type="text"/>	(DD/MM/YYYY)
			To <input type="text"/>	(DD/MM/YYYY)
	(b)	*Date of Board of directors' meeting in which annexure to the compliance report was approved	<input type="text"/>	(DD/MM/YYYY)

4. Details of the cost accountant

(a)	*Category of the cost accountant	<input type="radio"/> Individual	<input type="radio"/> Cost accountant's firm
(b)	In case of individual, whether the cost accountant is in permanent employment of the company or in practice	<input type="radio"/> In Employment	<input type="radio"/> In Practice



- (c) *Name of the cost accountant or the cost accountant's firm who has certified the cost records of the company
- (d) *Income tax permanent account number of the cost accountant or the cost accountant's firm
- (e) *Membership number of cost accountant or cost accountant's firm's registration number
- (f) Address of the cost accountant or cost accountant's firm
- (i) Line I
- Line II
- (ii) City
- (iii) State
- (iv) Country
- (v) Pin Code
- (g) *E-mail ID of the cost accountant or cost accountant's firm

5. *Quantitative Information

S. No.	Name of the Product or Service Group	Unit	Annual Production (Quantity)	Net Sales	
				(Quantity)	(Value in Rupees)
A	Produced or Manufactured Product Groups				
	1.				
	2.				
	3. etc.				
B	Services Groups				
	1.				
	2.				
	3. etc.				
C	Trading Activities (Product Group-wise)				
	1.				
	2.				
	3. etc.				
D	Other Income				
Total Income as per Financial Accounts					
PART-II					

Attachments:

- 1 Compliance report as per the Companies (Cost Accounting Records)

Attach



Rules, 2011.

2 Optional attachments(s) – if any

Attach

List of attachments

Remove attachment

Verification:

To the best of my knowledge and belief, the information given in this form and its attachments is correct and complete.

I have been authorized by the Board of directors’ resolution number

dated (DD/MM/YYYY)

To sign and submit this form.

I am authorized to sign and submit this form.

To be digitally signed by:

Managing Director or director or manager or secretary (in case of an Indian company)
or an authorized representative (in case of a foreign company)

Digital Signatures

*Designation

*Director identification number of the director or Managing Director; or Income-tax PAN of the manager or of authorized representative; or Membership number, if applicable or income-tax PAN of the secretary (secretary of a company who is not a member of ICSI may quote his/her income-tax PAN)

Director of the company

Digital Signatures

Director identification number of the director

Modify

Check Form

Pre-scrutiny

Submit

This e-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 filing company

FORM-B
FORM OF COMPLIANCE REPORT
[See rule 2, and rule 5]

I/We being in permanent employment of the company / in practice, and having been appointed as cost accountant under Rule 5 of the Companies (Cost Accounting Records) Rules, 2011 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 examined the books of account prescribed under clause (d) of sub-section (1) of section 209 of the
said Act, and other relevant records for the period/year (mention the financial year) and certify as
under:

- 1 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 compliance report.
- 2 In my/our opinion, proper cost records, as per Companies (Cost Accounting Records) Rules, 2011 prescribed under clause (d) of sub-section (1) of section 209 of the Companies Act, 1956, have/have not been maintained by the company so as to give a true and fair view of the cost of production/operation, cost of sales and margin of all the products/activities of the company.
- 3 Detailed unit-wise and product/activity-wise cost statements and schedules thereto in respect of the product groups/activities are/are not kept in the company.
- 4 In my/our opinion, the said books and records give/do not give the information required by the Companies Act, 1956 in the manner so required.
- 5 In my/our opinion, the said books and records are/are not in conformity with the generally accepted cost accounting principles and cost accounting standards issued by The Institute of Cost and Works Accountants of India, to the extent these are found to be relevant and applicable.

Dated: this ___ day of _____ 20__ at _____ (mention name of place of signing this report)

SIGNATURE AND SEAL OF THE COST ACCOUNTANT (S)
MEMBERSHIP NUMBER (S)

NOTES:

- (i) Delete words not applicable.
- (ii) If as a result of the examination of the books of account, the cost accountant desires to point out any material deficiency or give a qualified report, he shall indicate the same against the relevant para.
- (iii) Briefly give your observations and suggestions, if any, relevant to the maintenance of cost accounting records by the company.
- (iv) Cost accountant may use separate sheet(s) for (ii) and (iii) above, if required.



ANNEXURE TO THE COMPLIANCE REPORT

[See rule 2 and rule 5]

1. GENERAL:

- a) Name of the company:
- b) Registered office address:
- c) Financial year to which the Compliance Report relates.

2. QUANTITATIVE INFORMATION:

Sno.	Name of the Product or Service Group	Unit	Annual Production (Qty.)	Net Sales	
				(Qty.)	(Value in Rupees)
A	Produced or Manufactured Product Groups				
	1.				
	2.				
	3. etc.				
B	Services Groups				
	1.				
	2.				
	3. etc.				
C	Trading Activities (Product Group-wise)				
	1.				
	2.				
	3. etc.				
D	Other Income				
Total Income as per Financial Accounts					

3. RECONCILIATION STATEMENT:

Net Margin (Profit or Loss) as per Cost Accounts	(In Rupees)
A. From Produced or Manufactured Product Groups	
B. From Services Groups	
C. From Trading Activities	
Total as per Cost Accounts	
Add: Incomes not considered in Cost Accounts (if any)	
Less: Expenses not considered in Cost Accounts (if any)	
Add/Less: Difference in Stock Valuation	
Profit or (Loss) as per Financial Accounts	

NOTES:

- (i) For produced or manufactured product groups, use the nomenclature as used in the Central Excise Act or Rules, as applicable.
- (ii) For services groups, use the nomenclature as used in the Finance Act or Central Service Tax Rules, as applicable.

SIGNATURE
NAME
COST ACCOUNTANT (S)
MEMBERSHIP NUMBER (S)
SEAL
DATE



Annexure II

F. No. 52/1/CAB-2012
Government of India
Ministry of Corporate Affairs
Cost Audit Branch

B-1 Wing, 2nd Floor,
Paryavaran Bhavan,
CGO Complex,
New Delhi-110003

Dated the 25th May, 2012

To,
The Secretary General,
Construction Federation of India,
1103, Antriksh Bhawan,
22, K.G. Marg,
New Delhi – 110 001

Subject: Exemption from applicability of Cost Accounting Records Rules to the Construction Industry.

Sir,

Please refer your letter dated 23rd March, 2012 on the subject cited. CFI had earlier made a similar reference on 19th December, 2011 and the matter was discussed in MCA on 11th January, 2012 with the representatives of CFI and of few leading construction/development companies wherein it was observed that all such companies are already maintaining cost accounting records for their internal requirements. Cost Accounting Records Rules 2011 do not visualize companies to change their cost accounting system if already in-place; but they are required to comply with the Generally Accepted Cost Accounting Principles and Cost Accounting Standards issued by the Institute of Cost Accountants of India, to the extent these are found to be relevant and applicable and also file compliance report with the Central Government. It was also observed that existence of structured & verified cost accounting records would enable the companies to fulfill regulatory requirements; comply with the Tax Accounting Standards; and assist in their tax assessments.

2. Based on the discussions held, detailed clarifications were issued on 16th January, 2012 that were duly acknowledged by the CFI vide their letter dated 27th January, 2012 and also conveyed to all their member companies for implementation.

3. However, the matter has been once again examined in the Ministry and it has been decided that there appear no reasons for granting any special exemption to the construction (incl. development or real estate) industry from the applicability of the Companies (Cost Accounting Records) Rules 2011. Hence the decisions already conveyed earlier vide letter dated 16th January, 2012 are being reiterated as under:



- a) All companies engaged in the construction and/or development (real estate) businesses who meet with the threshold limits laid down in Rule 3 of the Companies (Cost Accounting Records) Rules, 2011 shall be required to maintain cost accounting records and file compliance report with the Central Government in accordance with the provisions of these Rules. This includes companies undertaking construction jobs with the use of own materials [whether self manufactured/produced or procured from outside] and/or development of residential, commercial or industrial estates i.e. development of township, residential units, commercial complex, office blocks, industrial parks [including SEZ], etc. or construction of highways, rails, roads, bridges, industrial & non-industrial structures, or other infrastructure facilities etc or 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.
- b) As per MCA's General Circular No. 67/2011 dated 30th November 2011, companies engaged in construction business as contractors or sub-contractors wherein they are paid only the conversion charges are exempted from the applicability of Companies (Cost Accounting Records) Rules, 2011.
- c) Companies (Cost Accounting Records) Rules, 2011 do not apply to such Joint Ventures that are non-corporate entities [i.e. not companies registered under the Companies Act] or to unlisted companies that are below the specified threshold limits or to a body corporate governed by any special Act.
- d) As on date, no cost audit is applicable on the companies engaged in the construction and/or development (real estate) business. Hence, these companies are only required to maintain cost accounting records and file compliance report with the Central Government that can be signed by their employee cost accountant as defined in Rule 2(c) of the Companies (Cost Accounting Records) Rules, 2011.

Yours faithfully,

(B.B.Goyal)

Adviser (Cost)

Tel: 011-24366005

Copy to:

1. The General Manager, Confederation of Real Estate Developers' Associations of India, 703, Ansal Bhavan, 16, Kasturba Gandhi Marg, New Delhi – 110 001 with reference to their letter no. 59/MCA/2012 dated 3rd April, 2012. You are requested to bring this to the notice of all your member companies & associations for due compliance.
2. The President, Institute of Cost Accountants of India, 12, Sudder Street, Kolkata – 700 016 with a request to circulate this for the information of all concerned.



Annexure III

MCA general circular No 67/2011 dated 30th November 2011

52/13/CAB-2011

Government of India

Ministry of Corporate Affairs

Cost Audit Branch

'B-1' Wing, 2nd Floor,
Paryavaran Bhavan,
CGO Complex, Lodhi Road,
New Delhi- 110 003

Dated the November 30, 2011

To,
The President,
Institute of Cost and Works Accountants of India,
12, Sudder Street,
Kolkata – 700 016

**Subject: Cost Accounting Records and Cost Audit-
Clarifications about coverage of certain sectors thereunder.**

Sir,

Ministry has examined various issues raised by the companies and / or professionals in connection with the recently issued circulars / notifications concerning cost accounting records and coverage of cost audit. To remove doubts and ambiguities, the following clarifications are issued:

- a) That the Companies (Cost Accounting Records) Rules, 2011 are not applicable to:
- I. Wholesale or retail trading activities.
 - II. Banking, Financial, leasing, investment, insurance, education, healthcare, tourism, travel, hospitality, recreation, transport services, business / professional consultancy, IT & IT enabled services, research & development, postal / courier services, etc. unless any of these have been specifically covered under any other cost accounting Records rules.
 - III. Companies engaged in rendering job work operations or contracting / sub-contracting activities, and are paid only the job work or conversion charges, such as tailoring, baking, repairing, painting, printing, constructing, servicing, etc.
 - IV. Companies engaged in the production, processing, manufacturing or mining activities till such time they commences their commercial operations.
 - V. Ancillary products / activities of companies incidental to their main operations (i.e. Products / activities that do not constitute their main line of business) and wherein the total turnover from the sale of each ancillary products / activities do not exceed 2% of the total turnover of the company or Rs. 20 crores, whichever is lower, however, required details of all such ancillary products / activities may be maintained under a miscellaneous group and disclosed appropriately.
- b) That the Cost Audit Orders (no.52/26/CAB-2010 dated 2nd May 2011 and 30th June 2011) shall not apply to the following cases:
- I. Generation of electricity for captive consumption. For this purpose, the term "Captive Generating Plant" shall have the same meaning as assigned in Rule3 of the Electricity Rules, 2005.
 - II. Own manufactured products that are consumed exclusively the company for the sole purpose of production, processing, manufacturing, or mining of its other products or activities that are subject to cost audit.
 - III. Hundred percent Export Oriented Units.
- c) That only such items falling under the relevant chapter(s) of the Central Excise Tariff Act, 1985 as constitute intermediate or final or allied products of the Industry mentioned in the Cost Audit Order dated 30th June 2011 shall



be covered under cost audit and all other items not related to the industry shall be outside the purview of said orders.

For the purpose of these order, the words "Intermediate products" mean only such products that have already undergone partial manufacturing/ production process and are used as inputs for the production, processing, manufacturing or mining of the final products of the industries listed in the said order; the words "articles or allied products thereof" refer to such articles or allied products that are produced either wholly or predominantly (not less than 50% by weight or volume) by using the listed products as their primary inputs.

To explain this aspect further, the following clarifications are given as illustrations:

- (i) for Paints & Varnish Industry, all other items such as tanning or dyeing extracts, tanning & their derivatives, dyes, pigments & other colouring matters, putty & other mastics, printing inks, etc. mentioned in Chapter 32 of the Central Excise Tariff Act, 1985 are not covered unless such items are used as intermediates for the production of Paints & Varnishes or are produced as their allied products.
 - (ii) for Tyres & Tubes industry, all other items such as natural or synthetic or reclaimed rubber, compounded rubber, hard rubber, rubber thread or cord, conveyer or transmission belts, articles of rubber, etc. mentioned in Chapter 40 of the Central Excise Tariff Act, 1985 are not covered unless such items are used as intermediates for the production of Tyres & Tubes or are produced as their allied products.
 - (iii) Examples of intermediate products include clinker for cement, pulp for paper, sponge iron & pig iron for steel, etc. Examples of articles or allied products of cement include cement bricks, sleepers, pipes; of paper include cartons, boxes, bags, registers; and of steel include ingots, blooms, billets, slabs, beams, angles, tees, channels, pilings, rails, bars, wire, nails, pates, pipes, tubes, coils, sheets, etc.
2. In case of any doubt, companies are requested to refer their cases to this office for clarification by giving complete details. The Institute if requested to circulate this General Circular for information of all concerned.

Yours faithfully,
(B.B. Goyal)
Advisor (Cost)

Copy to:

1. E-Governance Cell, Ministry of Corporate Affairs, Shastri Bhavan, New Delhi with a request to upload this circular on the MCA's website.
2. All Regional Directors/ Registrars of Companies.
3. PS to CAM/ PS to MOS
4. PS to Secretary/ Addl. Secretary
5. PS to Joint Secretary(a)/ Joint Secretary(R)/ Joint Secretary (M)
6. PS to DII (DR) / DII (policy)
7. PS to Economic Adviser.



Annexure IV

ANNEXURE TO THE COMPLIANCE REPORT

[See rule 2 and rule 5]

1. GENERAL:

- a) Name of the company: M/s XYZ Company Limited
b) Registered office address: 35, ABC, New Delhi
c) Financial year to which the Compliance Report relates: 2011-12

2. QUANTITATIVE INFORMATION:

Sno.	Name of the Product or Service Group	Unit	Annual Production (Qty.)	Net Sales	
				(Qty.)	(Value in Rupees in Lakhs)
A	Produced or Manufactured Product Groups				
	1. Cement (Product Group 1102)	Tonnes	5000	4500	48
	2.				
	3. etc.				
B	Services Groups				
	1. Construction of Residential Building (5001)	Number	100	98	30000
	2. Real Estate Development Activities (5051)	Number			500
	3. etc.				
C	Trading Activities (Product Group-wise)				
	1. Building Material				120
	2.				
	3. etc.				
D	Other Income				10
Total Income as per Financial Accounts					30678

3. RECONCILIATION STATEMENT:

Net Margin (Profit or Loss) as per Cost Accounts	(In lakh Rupees)
A. From Produced or Manufactured Product Groups	3
B. From Services Groups	300
C. From Trading Activities	6
Total as per Cost Accounts	309
Add: Incomes not considered in Cost Accounts (if any)	10
Less: Expenses not considered in Cost Accounts (if any)	5
Add/Less: Difference in Stock Valuation	-3
Profit or (Loss) as per Financial Accounts	311

SIGNATURE
NAME
COST ACCOUNTANT (S)
MEMBERSHIP NUMBER (S)
SEAL & DATE



Annexure V

Cost Statement for in-house manufactured / fabricated product

Name of the Manufacturer

Address of the Manufacturer :

Registration No of Manufacturer :

Description of product captively consumed:

Excise Tariff Heading :

Statement of Cost of Production of _____ during the period _____

Construction Project (as Contractor or Developer) _____

Project duration	15 (Months)
Contract Value (Rs. Crores)	100
Estimated Total Cost (Rs. Crores)	85
Estimated In-house manufacturing / fabrication cost (Rs. Crores)	20

		Quantity	
Q1	Quantity Produced (Unit of Measure)		
Q2	Quantity Despatched (Unit of Measure)		
	Particulars	Total Cost (Rs crore)	Cost/unit (Rs)
1.	Material Consumed	16.00	
2.	Direct Employee Cost	0.25	
3.	Direct Expenses	2.00	
4.	Works Overheads	1.00	
5.	Quality Control Cost	0.10	
6.	Research & Development Cost	0.00	
7.	Administrative Overheads	0.75	
8.	Total (1 to 7)	20.10	
9.	Add : Opening stock of Work - in -Progress	0.00	
10.	Less : Closing stock of Work -in- Progress	0.00	
11.	Total (8+9-10)	20.10	
12.	Less : Credit for Recoveries/Scrap/By-Products / misc income	0.10	
13.	Cost of production (11 - 12)	20.00	
14.	Add: Inputs received free of cost	0.00	
15.	Add: Amortised cost of Moulds, Tools, Dies & Patterns etc received free of cost	0.00	
16.	Cost of Production for goods produced for captive consumption (13 +14 + 15)	20.00	
17.	Adjustment for opening/ closing finished goods stock	00.00	
18.	Cost of goods transferred to site for captive consumption (16 + 17)	20.00	