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EXPOSURE DRAFT

Guidance Note on Cost Audit (Form II)

The following is the Exposure Draft of Guidance Note on Cost Audit (Form II) as prescribed under the Companies (Cost Audit Report) Rules, 2011 vide GSR 430(E) dated 3rd June 2011 read with the Companies (Cost Audit Report) Amendment Rules, 2012 dated 30th November, 2012, notified by the Ministry of Corporate Affairs.

Exposure Draft of Guidance Note on Cost Audit (Form II) is issued by the “Professional Development Committee” of the Institute of Cost Accountants of India, for comments and suggestions. The comments/ suggestions on any aspect of this Exposure Draft would be most helpful if they indicate the specific paragraph or group of paragraphs including page number to which they relate, also contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

The proposed Guidance Note may be modified in light of comments/ suggestions received before the same being issued as Guidance Note on Cost Audit (Form II).

*Please submit your views/ comments/ suggestions preferably by email at pd.budhiraja@icwai.org latest by **December 26, 2012.***

Comments should be addressed to:

*CMA J.K. Budhiraja
Director (Professional Development) and
Secretary to Professional Development Committee
The Institute of Cost Accountants of India,
CMA Bhawan, 3rd Floor,
3, Lodhi Road, Institutional Area,
New Delhi- 110003
Email: pd.budhiraja@icwai.org*

Exposure Draft Guidance Note

On

Cost Audit (Form II)

LAST DATE FOR COMMENTS: DECEMBER 26, 2012



PROFESSIONAL DEVELOPMENT COMMITTEE



The Institute of Cost Accountants of India

(Statutory body under an Act of Parliament)

HQ: CMA Bhawan, 12, Sudder Street, Kolkata-700 016
Delhi Office: CMA Bhawan, 3, Institutional Area, Lodhi Road, New Delhi-110003

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CHAPTER 1

Historical Background & Relevance of Cost Audit

1.1 History of Cost Audit

In India methods and techniques of Cost Accounting and audit of Cost Accounts can be traced back as early as 1925 when a large number of firms were given contracts by the Government of India on "cost plus" basis and the Government started verifying and investigating the cost structure of such firms.

The Institute of Cost and Works Accountants of India was set up in 1944 and its statutory recognition under the Cost and Works Accountants Act, 1959 marked beginning of the profession of cost accounting in the country. The name of the Institute has changed to "The Institute of Cost Accountants of India" by an Act of Parliament namely The Cost and Works Accountants (Amendment) Act, 2011 (10 of 2012) dated 12th January 2012. The Central Government vide S.O. 191(E) dated 30th January 2012 made the name change effected from 1st February 2012.

Immediately after our country became independent, large scale industrialization took place. Lots of concessions and facilities were given to entrepreneurs to establish industrial undertakings for production of common goods and essential services. Power was made available at concessional rates. Liberal finances were provided by the banks and financial institutions. Land was made available with all infrastructures. Transport facilities were provided. The government in turn had a right to ensure that ultimately the consumers are benefited in that they are able to obtain their requirements at a fair price and do not pay for the inefficiency of manufacturers.

In order to assess the productivity of some important industries which had direct bearing on the supply management system for the growth of Indian economy and as a service to the society, provision relating to maintenance of Cost Accounting Records under section 209 (1) (d) of the Companies Act, 1956 was introduced. The information on input cost of products, machine utilization, unit selling prices and profitability of individual products etc. was required to be maintained.

The real beginning of the Cost Audit in the country, however, started in 1965 when the Companies Act, 1956 was amended to incorporate the provisions relating to the maintenance of Cost Accounting Records and Cost Audit. Such amendments were made on the basis of **recommendations received from Vivian Bose Commission, Dutta Commission and Shastri Committee.**



Cost Accounting and Cost Records under Section 209 (1) (d): Particulars as to materials, labour and other items of cost – this clause was inserted by Section 20 of the Companies (Amendment) Act, 1965.

Cost Audit under Section 233B: the Section was inserted by Section 23 of the Companies (Amendment) Act, 1965.

The justification for mandatory Cost Accounting and Cost Audit has been well documented in the Parliamentary debate that led to adoption of Companies Amendment Bill, 1965 incorporating the above mentioned amendments. For instance, during the relevant Rajya Sabha Debate Smt. Tara Ramchandra Sathe (MP for Maharashtra) stated as under:

"What is Cost Audit? The Cost Audit is quite different from the Financial Audit. It is to see whether the labour is efficient or not, whether the industry has provided efficient labour or the labour which is required by that industry is less than what is required, whether every material and every part of the machinery is used to the optimum, whether any material is wasted, etc.

We all know, we are short of material, there is so much material is imported, when we are short of foreign exchange. In these circumstances, it is very essential that there should be cost audit. **In fact, it should be introduced in almost all the industries**, but the Government is trying this in certain cases only. So by this we will know whether there is a proper utilisation of the material or not. It is very essential, no doubt, and in factories and industries, everywhere, this cost audit should be emphasized."

In his reply, the **then Hon'ble Finance minister, Shri T.T. Krishnamachari** while high lighting the **absolute necessity of Cost Accounting and Cost Audit** stated that "while we have made it obligatory or rather semi-obligatory to employ Cost Accountant, it is our intention to ask certain industries to have a cost accountant's report."

The Erstwhile "The Institute of Cost and Works Accountants of India" was incorporated by the Act of Parliament only in 1959. Sufficient numbers of Cost Accountants were not available at that time. Even then Shri T.T. Krishnamachari, the then Finance Minister indicated the **future vision of the Government** as under:

"When we can have sufficient number of Cost Accountants so as **to make it obligatory for every company, every producing concern every manufacturing concern, to have a cost accountant's report**" (ibid. Column 3974). He also added "we are really making it possible for the Institution of Cost Accountants to grow so as to enable the Government some time later to make every manufacturing



company employ a Cost Accountant and have a Cost Accountant's Report in this regard to the cost of product that it produces" (ibid. Column 3974/5).

According to Chartered Institute of Management Accountants, London (CIMA), cost audit is "the verification of the correctness of cost accounts and of the adherence to the cost accounting plan"

According to the Institute of Cost Accountants of India, cost audit is "a system of audit introduced by the Government of India for the review, examination and appraisal of the cost accounting records and attendant information, required to be maintained by specified industries."

Cost Audit is an innovation introduced for the first time in the world and in India with a view to regulate vital Industries on healthy and sound lines. Cost Audit is for cost-effective products and services to be available to customers; proper revenue to the Government's Treasury and returns to other stake holders like vendors, workers, distributors etc.

Thus the concept and scope of cost audit in India is much wider as the definition lays much emphasis on the evaluation of the efficiency of operations and the propriety of management actions and decisions, and executive programs and policies. In this sense, cost audit appears to be synonymous with efficiency audit.

1.2 Necessity of cost accounting and cost audit:

Cost Accounting and Cost Audit are absolutely necessary for efficient resource utilisation as well as monitoring and improving the efficiency of organisations leading to overall productivity and profitability improvement in the best interest of consumers, investors, workers and industry, and of the general public.

Cost audit is based on the economic principle that resources should flow into the most remunerative channels. It ensures that every rupee invested in capital gives the optimum returns and the planning of investment between different functions and aspects is designed to give the optimum results.

Cost Audit measures the parameters indicating the effective **efficiency in the utilization of financial, physical, human resources etc.**

'Cost Audit' is **not a routine exercise** on verification or attestation of Cost Records and related documents. 'Cost Audit' brings out the weaknesses in the internal working of a Company and surfaces it out for the benefit of the Top Management and other Agencies for necessary action.



Cost audit provides more accurate data as regards the cost of various items and quantity of materials consumed thus helps in proper computation of variance and hence the productivity.

Cost audit mechanism under the Companies Act, which is a measure of efficiency and performance and Corporate Social Responsibility can serve as an important tool for effective enterprise governance. Clause 49 of SEBI Guidelines on Listing Agreements speaks about performance monitoring.

While Financial Audit, 'Internal Audit' and 'Secretarial Compliance' are all basically 'Attestation Functions', the 'Cost Audit' is a "Dynamic Force" which is mobile and effective covering areas of a wider spectrum like productivity, waste management, product mix, resource allocation, power utilization and several other areas in which Management has to be constantly vigil to sustain competition, in global market. In **Nutshell 'Cost Audit' covers 'Efficiency, Performance and Propriety.**

1.3 Relevance of Cost Audit

In the initial years after the enactment, Cost Audit was taken to be a tool for **price mechanism** for important industries in India. The main objective of Cost Audit when introduced was mainly to meet Government requirements for regulating the price mechanism in such industries which were core industries like Cement, Sugar and Textiles and consumer industries like Vanaspati, Formulations and Automobiles. The objective was **to provide the Government an authenticate data** to regulate the demand and supply in the country by a price mechanism.

The liberalization of the economy has not changed the utility of Cost Audit. Rather, the **necessity for and utility of properly documented cost data** is keenly felt now greater than ever before. In most parts of the world, **free competition co-exists with relevant rules and regulations** to ensure free trade and absence of unfair practices. Therefore, in the present competitive scenario of globalization, the Cost Audit Reports have assumed greater importance and significance as the only source of reliable and authentic feedback to the government and its various departments and agencies.

In an environment of increasing foreign trade under WTO regime, Anti-dumping measures have become a serious issue to check the unethical trade, from the Importers on account of **dumping**. This threat, to be challenged in the International Forum, requires structured cost information, in line with International Practices, which is provided by the Cost Records maintained as per the existing provisions.

Under **Competition Law**, which has come into force as legislation, the provisions selling below cost to ward off Competition is penalized. This requires authentication of the cost data of the products marketed by industry and business houses to determine normative pricing. In fact, Competition Law to



be effective against any anti-competition activity presupposes the availability of reliable and authentic cost data.

The Transfer pricing issue has gained considerable momentum in International scenario. The Companies (Cost Audit Report) Rules, 2011 have considered this aspect and sought information for Transfer Price under Related Party transaction. The transfer pricing methods are based on “cost” throughout the world.

The formulation of **Audit Committee** under section 292A of the Companies Act, 1956 and clause 49 of the Listing Agreement of SEBI is a big leap in ensuring better corporate governance among the Indian Companies. Cost Auditor is permanent invitee to these meetings.

The Cost Audit report serves as an effective tool of information in the hands of external Directors on the Board ensuring good corporate governance.

An independently verified audited Cost records and the resultant Cost Audit Report becomes a major source of information which can be effectively used by **both Indirect and Direct Tax Authorities**.

The **Central Excise** Authorities also use Cost Audit Reports for verifying claim of the companies relating to ex-factory prices of the excisable goods especially in the cases of inter-unit transfers and captive consumption cases.

The **Shareholders** value has to be improved by highlighting deficiencies in performance and management for a meaningful understanding under corporate governance.

The Cost Audit Reports are also used by the **Income Tax** Authorities in the assessment of Corporate Tax. The Cost Audit Reports takes care of the **Investors** through its emphasis on the efficient and proper utilisation of funds deployed by the public in corporates. **Other stakeholders** such as **banks and financial** institutions find the reports very useful and purposeful to make continuous assessment of the financial health of an organization.

The Cost Audit Reports have been regularly used as evidence by the Directorate General of Investigation (DGI) in its pursuit of cases Competition Commission of India (CCI) relating to unwarranted increase in prices resorted to by companies by forming cartels.

The **Tariff Commission** relies on authenticity of the cost audit reports and makes use of these reports extensively in its studies related to fixation of tariffs.



The Cost Audit Reports are also used by the respective administrative Ministries for the purpose of fixation of administrative prices, working out subsidy, etc. Fertilizer Industry Coordination Committee (FICC) under the Department of Fertilizers and the Directorate of Sugar under Ministry of Food are other users of Cost Audit Reports in regulating the Industries under their purview. The Cost Audit Reports relating to Bulk Drugs and Formulations are used by the National Pharmaceutical Pricing Authority (NPPA) for fixation of prices of various drugs and formulations covered under the Drug Price Control Order, 1995.

1.4 Conclusion:

The Indian economy is passing through the critical phase of reforms, wherein the **administered pricing mechanisms are being dismantled in most of the places and the regulatory authority mechanism is taking its place**. Liberalization does not eliminate the need to regulate prices and profits to bring about economic balance. The regulatory authority mechanism is considered to be more transparent and efficient.

In many countries, policy makers and financial administrators struggle to develop an appropriate regulatory framework with the objective to stimulate innovations and market penetration on the one side and ensure sound business practices or good corporate governance on the other side.

Further regulatory mechanism should be applied in a manner, which would usher in investment and efficiency. **Regulation itself is imperfect when the right regulatory mechanisms are not clearly defined**. It is all the more imperfect when it is implemented without an adequate information base and sophistication.

These regulatory authorities, therefore, need proper and professional Information Management Systems, which are designed to dispense usable data in an efficient manner. This involves integration of heterogeneous information. **Prescription of cost audit under Cost Audit Report Rules is therefore the 'Just and Perfect' solution promulgated by the Regulatory Authorities.**



CHAPTER 2

EXPERT GROUP RECOMMENDATIONS

Section 209(1)(d) of the Companies Act, 1956 provides for maintenance of cost accounting records for certain classes of companies and section 233B provides for audit of cost accounts of such companies as ordered by the Central Government. In this regard, Cost Accounting Records Rules and Cost Audit Report Rules were prescribed by the Central Government from time to time.

It is imperative that in context of an economic environment, determined by increasing competition both domestically and internationally, efficiency and economy be brought about in the operations of the manufacturing sector to catalyze and facilitate the cost competitiveness of the manufacturing sector in India. It is equally necessary to enable the industry to address issues arising from unfair trade practices such as dumping, subsidies & cartels, etc. in the International Trade.

Cost accounting, through the determination and allocation of costs to various products, provides a valuable service to the managements of companies in cost analysis and management control. In this way, it can help to improve efficiency in the use of materials, labour and plant, maximize production and realize greater profits. At the same time, cost analysis furnishes useful information in respect of such important matters as gross margin, differential costs, replacement costs, etc. Cost analysis can be useful to the Regulators of public utilities and provide a basis for comparing claims and assessing the validity of issues arising out of international trade.

To enable development of relevant cost accounting methodologies and standards to increase the competitiveness of the Indian manufacturing sector, and to advise the Government on suitable measures for the same, the Ministry of Corporate Affairs, Government of India had constituted an Expert Group on 21st January 2008.

The Expert Group had reviewed the Cost Accounting Record Rules and their continued relevance in the contemporary competitive business environment and has recommended the modifications and / or alternative structures. Existing Cost Audit Report Rules and formats prescribed therein had been reviewed and modifications to make them more relevant to the needs of different stakeholders had been recommended. Further, the existing system has also been reviewed and suggestions for addressing the concerns of the industry with regard to confidentiality of company cost data and cost of compliance was made. The Expert Group had also recommended to restructure all the existing Cost Accounting Standards. Main recommendations of the Expert Group are given below:



1. Phased introduction of cost accounting and cost audit framework in all companies to achieve the highest levels of competitiveness.
2. Individual Cost Accounting Records Rules (CARR) prescribing product wise formats for maintenance of cost records are not required. As such, necessary cost data should logically emanate from the same set of primary books of account and other accounting data/records.
3. To enhance the competitiveness of the company, the term “class of companies” under the existing section 209(1)(d) of the Companies Act, 1956, should be considered at the company level rather than at the product level. This will facilitate focus shift to the enterprise governance. This would also remove the present anomaly of maintaining a separate set of cost records only for a particular “product” (as prescribed under the extant rules) of a multi-product company and not doing so for the rest of the products/activities.
4. All companies (excluding the exempted categories), should maintain cost accounting records in respect of utilisation of materials, labour or other items of cost, as an integral part of books of account. However, in order to promote uniformity and consistency in the preparation and presentation of cost statements under different statutes and under WTO, it is also recommended that such cost accounting records should adhere to the cost accounting standards issued by ICWAI (now ICAI) that have integrated, harmonized and standardized the generally accepted cost accounting principles and practices. The above should be introduced in a phased manner as recommended in a later paragraph.
5. It should be the management’s prerogative to choose appropriate cost management framework. The Government, professional bodies and industry associations should play a pro-active role in promoting such competitiveness of India Inc. by undertaking sector-based competitiveness and benchmarking studies. ICWAI (now ICAI) should undertake an exercise to suggest sector specific standard costs on priority basis.
6. Based on the wide-spread opinion expressed by all categories of stakeholders to provide due flexibility to the companies to have a sound cost accounting framework, as also to reduce their compliance cost, the Expert Group recommended as under:
 - (i) Maintenance of cost accounting records by the corporate sector should be shifted from the existing rule/format-based mechanism to a principle-based mechanism having universal application.



- (ii) Maintenance of cost accounting records by the corporate sector should be based on generally accepted cost accounting principles that have to be integrated, harmonized and standardized in the Cost Accounting Standards (CAS) to be issued by ICWAI (now ICAI) in consultation with all stakeholders and in harmony with the Indian GAAP and Accounting Standards. The Group has already made detailed recommendations in the relevant chapter on CAS.
7. The existing practice of notifying industry/product wise CARR and ordering product-wise cost audit orders only on selective companies, seeking unit-wise cost details and other data/information, should be dispensed with.
8. There is a need to continue the cost audit mechanism. However, to save costs, to ensure complete confidentiality of company's sensitive cost data and to avoid any possible misuse, present structure of cost audit report need to be modified and the formats prescribed therein needs to be simplified.
9. As at present, periodicity of cost audit should remain on annual basis. In addition, the Expert Group recommended quarterly internal audit of cost records. The possibility of introducing quarterly limited review of cost details, in case of listed companies, may be examined in consultation with SEBI.
10. After evaluating the pros & cons, it recommended that circulation of selected information to the shareholders of the company, containing cost trends, key performance indicators, risk assessment or key risk indicators, CSR details, trends or factors like external economic conditions and internal efficiency, etc., as part of the management analysis section of the annual report to meet with the overall objectives of good corporate governance, should be left to the discretion of the management. ICWAI (now ICAI) should work out a model format in consultation with SEBI. This would align with the findings of IFAC survey on external financial reporting. The Expert Group endorses this. The Expert Group also recommended that in line with the earlier issue of appointment of cost auditors in the AGM, this issue may also be re-examined separately.

The Government of India has already implemented many recommendations of the Expert Group. Accordingly, the Ministry of Corporate Affairs made the following changes in the system of appointment of cost auditor, cost audit, maintenance of cost accounting records and compliance report:

- (i) Vide General Circular number 15/2011 dated April 11, 2011 the Ministry of Corporate Affairs has amended the revised procedure of appointment of Cost Auditor. Now the Audit Committee of a



Company is the first point of reference for appointment of cost auditor to be made by the Board of Directors. Detail in this regard is given in the separate chapter of this Guidance Note.

- (ii) Vide G.S.R. 429(E) dated 3rd June 2011 the Ministry of Corporate Affairs issued the Companies (Cost Accounting Records) Rules 2011 applicable to those companies meeting threshold limits as per this notification and are not covered under Industry Specific Cost Accounting Records Rules. Vide G.S.R. 869(E) to 874(E) dated 7th December 2011 the Ministry of Corporate Affairs issued Industry Specific Cost Accounting Records Rules 2011 for six regulated industries namely Telecommunication, Petroleum, Electricity, Sugar, Fertilizer and Pharmaceutical industries. These cost accounting records rules permit maintenance of principle based Cost Accounting Records by the companies covered under these rules.
- (iii) Vide G.S.R. 430 (E) dated 3rd June 2011 the Ministry of Corporate Affairs issued the Companies (Cost Audit Report) Rules 2011 replacing the Companies (Cost Audit Report) Rules 2001.
- (iv) Industry Specific Cost Audit Orders vide F. No. 52/26/CAB-2010 dated 2nd May 2011, 3rd May 2011 (superseded by 30th June 2011), 30th June 2011 and 24th January 2012 were issued by MCA replacing company/ product specific cost audit orders. The Ministry of Corporate Affairs vide F. No. 52/26/CAB-2010 dated 6th November 2012 issued a fresh Cost Audit Order linking cost audit for the companies through Central Excise Tariff Act 1985 (CETA) Headings. This cost audit order is in supersession of the Cost Audit Orders dated 2nd May 2011, 30th June 2011 and 24th January 2012. This Cost Audit Order dated 6th November 2012 will be applicable for the Companies covered under this order for each of its financial year commencing on or after the 1st day of January 2013.



CHAPTER 3

COST ACCOUNTING RECORDS RULES

3.1 Cost Accounting Record Rules

Cost audit is applicable only to those companies whose products/ activities or services are covered by the relevant Cost Accounting Records Rules i.e. the Companies (Cost Accounting Records) Rules and Cost Accounting Records (Industry specific) Rules applicable to regulated industries as notified by the Central Government from time to time.

3.2 Legal Provisions - Basic sections of the Companies Act dealing with maintenance of Books of Records

3.2.1 **Section 209** - Section 209 of the Companies Act 1956 deals with books of account to be kept by company.

The main features of the Section 209 of the Companies Act 1956 are as follows:

3.2.2 **Section 209(1)(d)** - Section 209 deals with books of account to be kept by company. Sub-section (1) (d) prescribes “in the case of a company pertaining to any class of companies engaged in production, processing, manufacturing or mining activities, such particulars relating to utilization of material or labor or to other items of cost as may be prescribed, if such class of companies is required by the Central Government to include such particular in the books of account.”

Proviso to sub-section (1) & sub-section (2):

3.2.3 **Where to maintain Cost accounting records:**

Section 209 deals with the books of accounts to be maintained by the company. Section 209(1) requires that the books of accounts are to be kept at the registered office of the company in respect of the matters covered under (a) to (d) of that section. It may be noted that clause (d) of that sub-section deals with cost records.

Provided that all or any of the books of account aforesaid may be kept at such other place in India as the Board of directors may decide and when the Board of directors so decides, the company shall, within seven days of the decision, file with the Registrar a notice in writing giving the full address of that other place.



Sub-section (2) mentions that where a company has a branch office, whether in or outside India, the company shall be deemed to have complied with the provisions of sub-section (1), if proper books of account relating to the transactions effected at the branch office are kept at that office and proper summarized returns, made up to dates at intervals of not more than three months, are sent by the branch office to the company at its registered office or the other place referred to in sub section (1).

Sub-section (3) requires the books of account to give a true and fair view of the state of affairs of the company and to explain its transactions. Books are to be kept on 'accrual' basis and according to double entry system of accounting.

Sub-section (4) - Books of account can be inspected by any director during business hours.

Sub-section (4) (A) - Books of account are to be preserved for a period of eight years.

Rule 4 (6) of the relevant Cost Accounting Records Rules 2011 mentions that 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.

Rule 4(4) of the Companies (Cost Audit Report) Rules, 2011 mentions that the cost details, statements, schedules, etc. of every company, as specified in sub-rule (3), relating to a period of not less than eight financial years immediately preceding a financial year, 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:

Sub-section (5) provides for punishment for non-compliance of the requirements of this section which is imprisonment for a term extendable to six months, or with fine extendable to ten thousand rupees, or with both.

However, a person cannot be sentenced to imprisonment for any such offence unless it was committed willfully by him.

Rule 4 (7) of the relevant Cost Accounting Records Rules 2011 mentions that 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.

Sub-section (6) provides for the persons liable for punishment under sub-section (5). These persons are:

- 1) Where the company has a Managing Director or Manager, such managing director or manager and all officers and other employees of the company; and
- 2) Where there is no Managing Director or manager, every director of the company

Sub-section (7) makes any other person liable for punishments if he is entrusted with the duty of complying with requirements of this section but makes a default. The punishment is imprisonment for a term extendable to six months, or with fine extendable to ten thousand rupees, or with both.

3.3 Framing of Cost Accounting Records Rules:

The draft rules relating to cost accounting records are made by Cost Audit Branch, Ministry of Corporate Affairs after discussion in a meeting of the Informal Advisory Committee, which includes all the three professional Institutes The Institute of Cost Accountants of India (ICAI), The Institute of Company Secretaries of India (ICSI), and The Institute of Chartered Accountants of India (ICAI), Tariff Commission and Ministry of Finance, Industry Associations, etc. for finalization of new Rules and amendments in the existing Rules.

After discussion and receipt of comments and suggestions the draft rules are reviewed and revised, if necessary. The rules, after such revision, are published in the Official Gazette, in exercise of rule-making powers of the Central Government under section 642 of the Companies Act, 1956. The Rules come into force on the date specified in the Rules.

The Central Government, Ministry of Corporate Affairs vide GSR 429(E) dated 3rd June, 2011 have issued Companies (Cost Accounting Records) Rules, 2011 applicable to all companies engaged in production, processing manufacturing and mining activities if these companies meet the eligibility criteria prescribed in these rules except to eight regulated industries (Telecommunication, Petroleum, Electricity, Sugar, Industrial Alcohol, Fertilizers, Bulk Drugs, and Formation). It may be noted that the Cost Accounting Records relating to Sugar and Industrial Alcohol have been merged into Cost Accounting Records (Sugar Industry) Rules, 2011 and Cost Accounting Records Rules relating Bulk Drugs and Formation have been merged into the Cost Accounting Records (Pharmaceutical Industry) Rules, 2011. Accordingly, after the above merger, the Central Government, Ministry of Corporate



Affairs has notified the Cost Accounting Records Rules for six regulated industries (earlier eight as referred above) on 7th December, 2011 as tabulated below:

Sl. No.	Name of Cost Accounting Records Rules	Notification No. & Date
1.	The Cost Accounting Records (Telecommunication Industry) Rules, 2011	G.S.R. 869(E) dated 07.12.2011
2.	The Cost Accounting Records (Petroleum Industry) Rules, 2011	G.S.R. 870(E) dated 07.12.2011
3.	The Cost Accounting Records (Electricity Industry) Rules, 2011	G.S.R. 871(E) dated 07.12.2011
4.	The Cost Accounting Records (Sugar Industry) Rules, 2011	G.S.R. 872(E) dated 07.12.2011
5.	The Cost Accounting Records (Fertilizer Industry) Rules, 2011	G.S.R. 873(E) dated 07.12.2011
6.	The Cost Accounting Records (Pharmaceutical Industry) Rules, 2011	G.S.R. 874(E) dated 07.12.2011

The Companies (Cost Accounting Records) Rules, 2011 notified on 3rd June, 2011 are common cost accounting record rules in place of product-wise/industry-wise cost records rules prescribed earlier.

Further, prior to notification dated 3rd June, 2011 and notifications related to six regulated industries on 7th December 2011 there were 44 Cost Accounting Records Rules in force.

The Companies (Cost Accounting Records) Rules, 2011 superseded 36 cost accounting record rules, retaining the 8 specific Cost Accounting Records Rules as mentioned above. The salient and important features of new the Companies (Cost Accounting Records) Rules, 2011 is as follows:

The Common Cost Accounting Records Rules, 2011 (Common-CARR) will now be applicable to all companies including foreign company as defined under section 591 of the Companies Act, 1956, which is engaged in production, processing, manufacturing, or mining activities provided these meet the eligibility criteria except to the following companies:

- (i) a company which is a body corporate governed by a Special Act.



(ii) the Companies engaged in 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*

However, in case a company is engaged in other activities, in addition to the activities covered by the above (a) to (h), such activities shall be covered under the Companies (Cost Accounting Records) Rules 2011.

The above Cost Accounting Records Rules have been superseded by the new six Industry Specific Cost Accounting Records Rule, 2011 (IS-CARR). As per Rule- 3 of the respective IS-CARR, the 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 activities as mentioned in the respective CARR (e.g. Telecommunication, Petroleum, Electricity, Sugar, Fertilizer and Pharmaceutical) and wherein any one or more of the conditions given hereinafter are met.

(iii) These Common-CARR and IS-CARR will be applicable to all companies engaged in production, processing, manufacturing and mining activities and also meet the following criteria:

- (a) the aggregate value of net worth as on the last date of the immediately preceding financial year exceeds five crores of rupees; or
- (b) the aggregate value of the turnover made by the company from sale or supply of all products or activities during the immediately preceding financial year exceeds twenty crores of rupees; or
- (c) 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.



The above conditions are mutually exclusive and a company meeting with any of the condition shall be covered under the respective cost accounting records rules.

The Common- CARR or IS-CARR shall not apply to a body corporate governed by any special Act. Further, Common CARR are not applicable on the companies/ industries covered under the IS-CARR.

3.4 Submission of Compliance Report under Common-CARR & IS-CARR

Every company to which common-CARR apply and meeting the above criteria would be required to maintain cost accounting records and file a Compliance Report in the prescribed format from financial year commencing on or after 1st April 2011, duly certified by a cost accountant, along with the Annexure to the Central Government, in the prescribed form. every company to which IS-CARR apply shall submit a compliance report, in respect of each of its financial year commencing on or after the date of this notification (i.e. 7th December 2011 onwards), duly certified by a Cost Accountant, along with the Annexure to the Central Government, in the specified form. However, as clarified by the Institute of Cost Accountants of India through its FAQ, that

- (a) If one or more product(s)/activity(s) of a company is covered under cost audit and there are other products that are not covered under Cost Audit as per company-wise cost audit orders issued in the past or industry specific cost audit orders dated 2nd May, 2011, 30th June, 2011 or thereafter, the Company will be required to file a Compliance Report (Company as a whole) covering products under cost audit and products not under cost audit.
- (b) If one or more product(s)/activity(s) of a company are covered under Cost Audit and the other product(s)/activity(s) belong to the exempted category, then the company will not be required to file a Compliance Report.

Ministry of Corporate Affairs vide General Circular No. 67/2011 dated 30th November, 2011 exempted some of the companies in specific sectors from submission of Compliance Report. Ministry of Corporate Affairs, Cost Audit Branch vide its letter no. F. No. 52/1/CAB-2012 dated 25th May 2012 clarified that there is no exemption from filing of Compliance Report by the Construction Industry. This letter further clarifies that 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 are not required to file the compliance report.



3.5 Authentication of Compliance Report

The compliance Report in the prescribed format is to be authenticated and signed by cost accountant.

Cost Accountant for the purpose of compliance report means a person who is a member of the Institute of Cost Accountants of India.

However, a “Cost Accountant” for the purpose of authentication of the compliance report does not include:

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

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

A Cost Auditor appointed by the Company for cost audit of the products covered under cost audits, can authenticate the Compliance Report for company as a whole, i.e. covering the products covered under cost audit and not covered under cost audit.

It is mandatory to prepare unit-wise and product/activity-wise cost statements as per the Companies (Cost Accounting Records) Rules 2011 and Cost Accounting Records notified for six regulated industries for the purpose of records. However, cost statements are not required to be attached with Compliance Report.

The Compliance Report and annexure thereto is required to be certified by a “cost accountant” and the annexure to the Compliance Report is to be duly approved by the Board of Directors before it is submitted online to MCA.



Note: For more details on Compliance Reports, the readers may refer to “Guidance Note on Issuance of Compliance Report” issued by the Institute of Cost Accountants of India”.

3.6 Regular & Continuous maintenance of Cost Records:

As indicated in the relevant Cost Accounting Records Rules, 2011, every company to which these rules apply, including all units and branches thereof are required to keep cost records on regular basis in such manner so as to make it possible to calculate per unit cost of production or cost of operations, cost of sales and margin for each of its products and activities for every financial year on monthly/quarterly/half yearly/annual basis.

The cost records are required to be maintained in accordance with the Generally Accepted Cost Accounting Principles (GACAP) and Cost Accounting Standards (CAS) issued by the Institute of Cost Accountants of India.

Further, the cost records are required to be maintained in such manner to enable the company to exercise, as far as possible, control over the various operations and cost with a view to achieve optimum economies in utilization of resources. It is to be ensured that these records must provide necessary data required to be furnished under Companies (Cost Accounting Records) Rules, 2011 and six Cost Accounting Records Rules, 2011 applicable to six regulated industries *ibid*.

All such cost records and cost statements, maintained under the relevant Cost Accounting Records Rules, 2011 must be reconciled with the audited financial statements for the financial year specifically indicating expenses or incomes not considered in the cost records or statements in order to ensure accuracy and to reconcile the profit of all product groups with the overall profit of the company. All such cost records, cost statements and reconciliation statements, are required to be kept for 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 year, then for all the preceding years.

The General Circular No. 68/2011 dated 30th November, 2011 issued by the Ministry of Corporate Affairs, clarified that for companies coming under the purview of the Companies (Cost Accounting Records) Rules, 2011 and the Companies (Cost Audit Report) Rules, 2011, cost records and cost details, statements, schedules, etc. shall be kept in good order for the next eight financial years beginning with first year of application of the said Rules.

3.7 Penalties for non-compliance of relevant Cost Accounting Records Rules, 2011

The Cost Accounting Records Rules (Common & IS-CARR) vide Rule 8 provides the following 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).*

*For more details on maintenance of cost records, the readers may refer to “**Guidance Note on Maintenance of Cost Accounting Records**” and “**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. These Guidance Notes can be downloaded from the following links:*

<http://members.icwai.org/members/CAR/gn-resources.asp> and <http://casbicwai.org/CASB/gncas-con-regform.asp>



CHAPTER 4

INTRODUCTION TO COST AUDIT

4.1 Audit, Audit Risk and Cost Audit

As defined by Cost Audit and Assurance Standard (CAAS 101) on “**Planning an Audit of Cost Statements**”:

4.1.1 Audit: *“an audit is an independent examination of financial, cost and other related information of an entity whether profit oriented or not, irrespective of its size or legal form, when such an examination is conducted with a view to expressing an opinion thereon”.*

4.1.2 Features of Auditing:

Auditing may be briefly described as an objective and critical review of facts; systems and procedures in an organisation. The essential features of auditing are:

- (a) It is an independent appraisal of functions established within the organization to examine and evaluate its activities and therefore the auditor should not have any interest in the area under audit, which may be regarded as impairing his objectivity and is incompatible with his integrity.
- (b) It is to be conducted by those who have the necessary professional qualifications and satisfy the specific legal requirements, if any.
- (c) It involves making such tests and enquiry into the area covered by audit as the auditor may find necessary to form an opinion, while exercising due professional care and diligence.
- (d) The opinion of the auditor should cover those aspects which are required to be covered under professional norms as well as the law which governs the audit.
- (e) The opinion should indicate whether the statements, which are covered by audit, disclose all material matters relevant for the purpose of proper presentation and the specific requirements of law, which may be applicable to that presentation.



4.2 Audit Risk:

Cost Audit and Assurance Standard (CAAS 101) on “**Planning an Audit of Cost Statements**” defines, **Audit risk** is the risk that the cost auditor expresses an inappropriate audit opinion on the cost statements that are materially misstated. Audit risk is a function of the risk of material misstatement and detection risk. The risk of material misstatement has two components viz. Inherent Risk and Control risk.

- a. **Inherent risk** – the susceptibility of an assertion about the measurement, assignment or disclosure of cost to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.
- b. **Control risk** – the risk that a misstatement that could occur in an assertion about the measurement, assignment or disclosure of cost and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity’s internal, operational and management control.
- c. **Detection risk** – the risk that the procedures followed by the cost auditor to reduce audit risk to an acceptable low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements.

4.3 Cost Audit:

Cost Audit and Assurance Standard (CAAS 101) on “**Planning an Audit of Cost Statements**” defines: **Cost audit** is an independent examination of cost records and other related information of an entity including a non-profit entity, when such an examination is conducted with a view to expressing an opinion thereon.

4.4 Features of Cost Audit:

Cost Audit in these guidelines refers to the cost audit ordered under Section 233B of the Companies Act, 1956. Such audit, in addition to the features mentioned above, has the following additional features:

- (i) Assessing compliance by the company with the cost accounting records rules, as notified by the Central Government from time to time.



- (ii) Assessing that the books and records maintained by the Company are in conformity with the Cost Accounting Standards (CAS) & Generally Accepted Cost Accounting Standards (GACAPS) issued by the Institute of Cost Accountants of India.
- (iii) Assessing that the system of internal audit of cost records exists in the Company is adequate and commensurate to its nature and size of its business.
- (iv) Assessing that the Company keeps detailed unit-wise and product/ activity-wise cost statements and schedules thereto in respect of the product groups/ activities audited and certified by him.
- (v) Study of the cost accounting policy and costing system to assess whether it is adequate to calculate per unit cost of production or cost of operations, cost of sales and margin for each of its products and activities groups under review.
- (vi) Evaluation of the operating and other efficiencies of the organisation under audit with special reference to the product group under review.
- (vii) Submission of Cost Audit Report and annexures in the format prescribed.
- (viii) Submission of performance appraisal report to the management in the prescribed form.

The basic structure of the cost audit was laid down by the Cost Audit (Report) Rules, 1968, prescribed under the Companies Act, 1956. They have been superseded by the Cost Audit (Report) Rules, 1996 which were published vide GSR 511 (E) dated 5.11.1996, which was also superseded by Cost Audit Report Rules, 2001 vide notification GSR 294(E) dated 27.12.2001.

Further, the Cost Audit (Report) Rules, 2001 have been superseded by the Companies (Cost Audit Report) Rules, 2011 notified vide GSR 430(E) dated 3rd June, 2011.

Cost Audit Reports submitted on or after 1st day of April, 2012, irrespective of the financial year for which the cost audit report is submitted, are governed by these Rules. Cost Audit Reports submitted till 31.3.2012 will be governed by the Cost Audit Report Rules, 2001.

Under the new rules, the cost auditor, who submits a cost audit report, is also required to furnish "Performance Appraisal Report", duly authenticated by him, to the Board/ Audit Committee of the company in the prescribed format (Form III). The frequency of this report viz. half yearly/annual (or even quarterly) is to be decided by the Company Management. Since the Performance Appraisal Report is to be submitted to the Board of Directors of the Company, the performance measures which will be appraised should be discussed with the Company Management and then finalized for analysis



and reporting thereof. ***According to the rule 4 (5) of the Companies (Cost Audit Report) Rules 2011, the Performance Appraisal Report should be submitted to the Board or Audit Committee of the Board of the company.*** The Form III is NOT to be submitted to anyone else. In that sense, this report is a confidential and not public document.

Since audit is the part of the Companies Act, 1956, a thorough and comprehensive knowledge of that Act, including various rules prescribed thereunder and the circulars issued by the Ministry of Corporate Affairs is essential for conducting an effective cost audit.

4.5 Cost Audit under Section 233B

Cost Audit is ordered by the Central Government under Section 233B of the Companies Act, 1956, which was considerably amended by the Companies (Amendment) Act, 1988. The Cost Auditor before conducting the audit should understand the provisions of Section 233B and the Companies (Cost Audit Report) Rules 2011. That section refers to “Audit of Cost Accounts”, which is being referred to in this book as Cost Audit.

The main features of the Section 233B read with General Circular dated 11th April, 2011 relating to appointment of cost auditor by companies, are summarized below:

- (1) Cost audit is to be conducted only when the Central Government directs such an audit. [Section 233B(1)]
- (2) The cost auditor for this purpose is to be appointed by the Board of Directors, with the previous approval of the Central Government. [Sec. 233B (2)]. Now this has been changed vide the above General Circular dated 11th April, 2011. Accordingly, the first point of reference for appointment of cost auditor by the company will be the “Audit Committee” which is required to ensure that the cost auditor is free from any disqualification as specified under section 233B (5) read with section 224 and sub-section (3) or sub-section (4) of section 226 of the Companies Act, 1956. The Audit Committee should also ensure that the cost auditor is independent and is at arm's length relationship with the company. After ascertaining the eligibility, the Audit Committee will recommend to the Board of Directors for appointment of the Cost Auditor.

However, in those companies where constitution of an Audit Committee is not required by law, the functions of the "Audit Committee" as per the procedure will be discharged by the "Board of Directors".



- (3) Cost audit is in addition to financial audit, which is conducted by an auditor (financial auditor) under Section 224. [Section 233B (3)]
- (4) The cost auditor has same powers as financial auditor has, under Section 227 (1). The cost auditor is to submit his report to the Central Government, in the form and within the time prescribed, with a copy to the company. [Section 233B (4)].

Rule 5 of the Companies (Cost Audit Report) Rules 2011 provides:

Time limit for submission of Report – *Every cost auditor shall forward his report referred to in sub-rule (1) of rule 4 to the Central Government and to the concerned company within one hundred and eighty days from the close of the company's financial year to which the report relates.*

- (5) Persons referred to in sub-section (3) or subsection (4) of section 226 shall not be appointed or re-appointed as cost auditor of the company. Similarly a person appointed under section 224 (Financial auditor) also cannot be appointed as the cost auditor of the company. [Section 233B(5)].
- (6) It is the duty of the company to give all facilities and assistance to the cost auditor. [Section 233B (6)].
- (7) The company shall within thirty days from the date of receipt of a copy of the report, furnish to the Central Government with full information and explanation on every reservation or qualification contained in the report. [Section 233B (7)].

Rule 4(6) of the Companies (Cost Audit Report) Rules 2011 provides: Every cost auditor, who submits a report under sub-rule (1), shall also give clarifications, if any, required by the Central Government on the cost audit report submitted by him, within thirty days of the receipt of the communication addressed to him calling for such clarifications.

- (8) The Central Government may call from the company further details which shall be provided within the specified time. [Section 233B(8)]
- (9) The Central Government may take appropriate action on the report as it may consider necessary. [Section 233B (9)].
- (10) The Central Government may direct the company to circulate to its members the whole or part of the report with the notice of AGM to be held for the first time after the submission of the report. [Section 233B (10)].



- (11) Penal action is for default in complying with the provisions of this section. The company is liable to fine extending to Rs.5000/- and every officer is liable to be punished with imprisonment for a term extending to 3 years or with a fine extending to Rs. 50000/- or with both.

The Companies (Cost Audit Report) Rules, 2011 provides:

Penalties – (1) *If default is made by the cost auditor in complying with the provisions of rule 4 or rule 5, he/she 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 and sub-section (11) of section 233B of Companies Act, 1956 (1 of 1956).*

4.6 Significance of Section 233B:

The financial audit and cost audit differ with each other. The financial audit is applicable to all companies on year to year basis whereas the cost audit is applicable only when it is ordered by the Central Government for products/industries. However, the law contemplates to treat both the Cost Audit & Financial Audit at par. Therefore the Cost Auditor is given the same power as the Financial Auditor. For example Section 217(3) requires the Board to give the fullest information and explanation on every reservation and qualification contained in the financial auditor's report and Section 233B (7) referred above, extends the same principle to cost audit. It may be noted that for various reasons, it was though not advisable to circulate the cost audit report to the shareholders' the main reasons are the confidential nature of the report and the volume of the report. It was in this background, the Act has thought it fit to provide that the Government should approve the appointment of cost auditor, as the shareholders do not receive copy of his report. Section 233B (10) however confers necessary powers on the Government to direct the company to circulate the Cost Audit Report in full or part. It may be noted that this directive may be given even when the Cost Audit Report has no reservation or qualification as Section 233B(10) does not specify the circumstances in which these powers can be exercised by the Government.

The powers of the Central Government are exercised by the Cost Audit Branch of the Ministry of Corporate Affairs, New Delhi. The Cost Audit Branch (CAB) under the Ministry of Corporate Affairs performs the following functions:



1. Matters falling under section 209 (1) (d) of the Companies Act, 1956:

- Prescription of Cost Accounting Records Rules in respect of various industries / products.
- Rationalization of existing Cost Accounting Record Rules to reflect the changes in technology, manufacturing processes and accounting standards.
- Holding of meeting of the Informal Advisory Committee, which includes all the three professional Institutes (ICAI-CMA, ICSI, and ICAI), Tariff Commission and Ministry of Finance, Industry Associations, etc. for finalization of new Rules and amendments in the existing Rules.

2. Matters falling under section 233B of the Companies Act, 1956:

- Prescription of Cost Audit Report Rules, including review and rationalisation of the existing ones.
- Issue of Cost Audit Orders on eligible companies.
- Processing of applications (Form 23C) for approval of appointment of Cost Auditors.
- Processing of applications (Form 23D) of information by cost auditor regarding his appointment
- Processing of requests for exemption/withdrawal of Cost Audit Orders.
- Receipt and review of Cost Audit Reports.
- Providing Cost Audit Reports and other information/analytical data to other Government departments/ organizations/ agencies, as and when required.
- Monitoring of compliance with the provisions of Section 209 (1) (d) and Section 233B of the Companies Act, 1956 and issue of show cause notices to defaulting companies.
- Initiating prosecution proceedings against the errant companies for defaults/violations by referring the matter to the concerned Registrar of Companies.
- Initiating action against the errant Cost Auditors under Section 224 and Section 233B of the Companies Act, 1956.

3. Inspection of companies under Section 209A (1) of the Companies Act.



4.7 Issuance of Cost Audit Orders:

Previously for appointment of Cost Auditor, the starting point for the cost audit exercise was receipt of an order by the company, specifying the year and the product for which such cost audit is to be conducted. Till 1987, even if the government desired an audit continuously in a company for a few years, it used to issue a separate order for each of those years.

From the year 1988 to 1992, there was a change in the procedure. The order, for illustration, read: " the Company Law Board hereby directs that an audit of the Cost accounts maintained by the Company in respect of Cement for the year ending 31st March, ____ and also for every alternate financial year thereafter continuously until further orders."

Issuance of such Cost Audit Orders are to be in the nature of 'standing orders', i.e. once ordered, effective indefinitely, till 'further orders' of the Central Government., bringing continuity to Cost Audit year after year.

From the year 1993 to 2011, the Cost Audit Branch has issued to all the companies covered, the order of Cost Audit on a regular basis (i.e. every financial year thereafter continuously until further orders). 47 industries were covered under Industry/ product specific Cost Accounting Record Rules. Subsequently out of 47 industries, 3 industries viz., Caustic Soda, Soda Ash & Sulphuric Acid got merged with Chemical Record Rules, thus leaving 44 industries under the Industry/ product specific Cost Accounting Record Rules.

As mentioned above, the Companies (Cost Accounting Records) Rules, 2011 and Cost Accounting Records Rules 2011 in respect of six regulated industries have been issued by the Ministry of Corporate Affairs vide Notifications dated 3rd June 2011 and 7th December, 2011 respectively. Accordingly, old cost accounting records rules issued prior to these notifications are not relevant for the cost audit under these rules.

All companies wherein cost audit orders had been issued so far in respect of products/activities covered by any or all of the erstwhile Cost Accounting Records Rules as they existed before their supersession by Cost Audit Orders issued on 2nd May, 2011, 3rd May 2011 (superseded by 30th June 2011), 30th June 2011, 24th January 2012, are required to comply with the said cost audit orders until these are superseded by fresh orders. The Ministry of Corporate Affairs has issued Industry Specific Cost Audit Orders vide No. F. No. 52/26/CAB-2010 dated 2nd May 2011, 3rd May 2011 (superseded by 30th June 2011), 30th June 2011 and 24th January 2012 replacing company/ product specific cost audit orders.



The Ministry of Corporate Affairs vide **F. No. 52/26/CAB-2010 dated 6th November 2012** issued a fresh Cost Audit Order linking cost audit for the companies through CETA Headings. This notification is made consequent upon notification of the “*Product or Activity Group classification published vide S.O. 1747(E) dated 7th August, 2012*” and in supersession of the earlier Orders issued vide even number dated 2nd May 2011, 3rd May 2011, 30th June 2011 and 24th January 2012. This Cost Audit Order dated 6th November 2012 will be applicable for Companies covered under this order for each of its financial year commencing on or after the 1st day of January 2013.

This Cost Audit is in two parts: Part-I contains Table 1 for the cost audit of regulated industries as per the Cost Accounting Records Rules notified by the Ministry of Corporate Affairs on 7th December 2011, namely:

- (a) *Cost Accounting Records (Telecommunication Industry) Rules 2011;*
- (b) *Cost Accounting Records (Petroleum Industry) Rules 2011;*
- (c) *Cost Accounting Records (Electricity Industry) Rules; 2011;*
- (d) *Cost Accounting Records (Sugar Industry) Rules; 2011;*
- (e) *Cost Accounting Records (Fertilizer Industry) Rules 2011;*
- (f) *Cost Accounting Records (Pharmaceutical Industry) Rules 2011;*

It is applicable for the above regulated companies which are engaged in the production, processing, manufacturing or mining of the products/activities included in the said Rules or covered in the product or activity groups as given in **Table-I** and wherein:

- (i) the aggregate value of the net worth of the company as on the last date of the immediately preceding financial year exceeds five crore of rupees; or
- (ii) 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 crore of rupees; or
- (iii) 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.

Such companies shall get its cost accounting records, in respect of each of its financial year commencing on or after the 1st day of January, 2013, audited by a cost auditor who shall be, either a cost accountant or a firm of cost accountants, holding valid certificate of practice under the provisions of Cost and Works Accountants Act, 1959 (23 of 1959).



Part-II contains Table-2 cost audit requirement by all companies to which the Companies (Cost Accounting Records) Rules, 2011 apply, and which are engaged in the production, processing, manufacturing or mining of the products/ activities included in the product or activity groups as indicated in **Table-II**, and wherein

- (i) the aggregate value of the turnover made by the company from sale or supply of all its products or activities during the immediately preceding financial year exceeds hundred crore of rupees; or
- (ii) 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,

Such companies shall get its cost accounting records, in respect of each of its financial year commencing on or after the 1st day of January, 2013, audited by a cost auditor who shall be, either a cost accountant or a firm of cost accountants, holding valid certificate of practice under the provisions of Cost and Works Accountants Act, 1959 (23 of 1959).

The following points may be noted:

- (i) The companies covered under the cost audit orders dated 2nd May 2011, 30th June 2011 and 24th January 2012, should complete their cost audit under these orders. For example, if a company is covered under any of the above cost audit orders and have financial year from 1st April to 31st March, should get the cost audit completed for the financial year April 2012 to 31st March 2013, under the above cost audit order(s). This company will be covered under the cost audit order from the financial year April 2013 and should submit cost audit report for the financial year 2013-14 under cost audit order dated 6th November 2012.
- (ii) Every company to which these orders applicable is required to get its cost accounting records audited in respect of each of its financial year commencing on or after the 1st day of January 2013, irrespective of whether the same was covered or not, either under the company specific cost audit orders issued prior to 31st March 2011 or under the industry specific cost audit orders issued after 1st April 2011 till date.

Copy of Cost Audit Order is provided in Appendices Section of this Guidance Note and can be downloaded from the Institute website from the following link:

http://members.icwai.org/members/CAR/docs/CAB_Order_06112012.pdf

4.8 Audit Strategy: Audit Strategy sets the scope, timing and direction of the audit, and guides the development of the detailed audit plan.



4.8.1 Formulating the audit strategy the Cost Auditor shall consider all relevant factors.

These include:

- a. the results of preliminary activities
- b. the knowledge from previous audits and other engagements with the client
- c. the nature and scope of the audit
- d. the statutory deadlines and the reporting format
- e. relevant factors determining the direction of the audit efforts
- f. the resources in terms of manpower, equipment and others required for the audit.

4.8.2 Matters that are relevant in formulating audit strategy and drawing up the audit plan include in addition to above, the following:

- (i) The cost reporting framework generally prescribed by the Cost Audit Report Rules on which the cost information to be audited has been prepared, including need for reconciliation with financial reporting framework.
- (ii) The specific requirements of industry specific cost accounting record rules.
- (iii) Industry regulators' requirement as to how costs will be handled.
- (iv) Unique features of an industry that influence audit requirements e.g. definition of product in the newspaper industry.
- (v) Reliance that can be placed on the work of financial auditors, other cost auditors appointed by the entity and internal auditors for example their attendance in annual stocktaking
- (vi) State of IT implementation, whether the entity is using an ERP system or internally developed systems and the reliance that can be placed on them.
- (vii) Statutory timelines for cost reporting which can be modified by managements for early completion.
- (viii) Timelines for Board/ audit committee meetings which can set the time limits for completion of audit work.
- (ix) Resources required and available in terms of manpower, equipment and others and the assignment of these to specific parts of the work.
- (x) Cost Accounting Policy and Cost Accounting System of the Company



- (xi) Cost behaviour in the past two years
- (xii) Product(s) or Activity/Productions Group or Services Group
- (xiii) Compliance Report and annexure thereto duly authenticated by Cost Accountant and Board of Directors in respect of maintenance of proper cost accounting records
- (xiv) Related Party Transactions, applying arm's length principle
- (xv) Monthly statements and reports generated by the organisation
- (xvi) Organisation chart with details of responsibilities of different persons connected with each area of audit
- (xvii) Budgetary & other Controls in existence, including efficiency parameters
- (xviii) Reconciliation of Indirect Taxes (Excise Duty, Service Tax, Cess & Others)
- (xix) Follow up based on earlier cost audit reports.

4.8.3 Planning would include:

- (a) Acquiring knowledge of the client's activities, business process, financial and cost accounting policies & systems;
- (b) Establishing the expected degree of reliance to be placed on internal control;
- (c) Determining and programming the nature, timing and extent of the audit procedures to be performed;
- (d) Coordinating with the client with regard to the work to be performed;
- (e) Deciding Audit Team of persons having adequate training, experience and competence in conducting audit. The nature, extent and timing of the direction and supervision of audit team members and review of their work vary depending on, among others, the size and complexity of the entity, risk assessment results and the capabilities and competence of the individual team members performing the audit work.
- (f) For a first year audit, the planning activities may expand to cover consultations with the previous auditor, review of previous year's audit working papers if made available and previous years' transactions having an impact on current year's cost.
- (g) Briefing the personnel on the requirements, coverage and documentation of audit evidence
- (h) Deciding on areas of audit, quantum to be covered, types of checks and techniques to be used, methodology of collection of facts and on recording the progress of audit;



- (i) Ascertaining the nature, timing and extend of manpower required to conduct the audit.
- (j) Laying down time targets for completion of different segments of audit converting them into audit milestones.

4.8.4 Contents of Audit Plan:

The audit plan may include the following contents:

- a. The purpose and objectives of the audit;
- b. Legal framework under which the audit is being conducted;
- c. Significant areas and issues involved;
- d. Process and technique to be adopted;
- e. Audit Check points, audit activities;
- f. Allocation of work contents amongst the audit staff;
- g. Time schedules for completion of various tasks/ phases of audit;
- h. Determining time lines for submission of Draft Report, discussion thereon with the auditee and submission of final report;
- i. Areas to be classified on “Risk” criteria to allocate suitable resources;
- j. Determining the extent of detailed examination and coverage in terms of volume;
- k. Evaluation of internal controls and professional work carried out by other agencies / experts/ auditors and placing reliance thereon;
- l. Materiality considerations and determining the threshold thereof
- m. Structure, contents of the report

Note: For details, the readers may refer *Cost Audit and Assurance Standard (CAAS 101) on “Planning an Audit of Cost Statements”* issued by the Institute of Cost Accountants of India, which can be downloaded from the Institute website from the following link

<http://www.icwai.org/icwainew/CAASB/index.asp>



4.8.5 Knowledge of the Client's Business:

The auditor needs to obtain a level of knowledge of the client's business particularly relating to the following areas that will enable him to identify the events, transactions and practices that, in his judgment, may have a significant effect on the financial / cost information;

- i) Brief history of the Company and its business activities
- ii) Corporate Structure, subsidiaries and other affiliates
- iii) Details of key personnel
- iv) Details of related parties
- v) Details of any foreign collaboration and agreement
- vi) Annual reports and accounts for the last three years
- vii) Cost Audit Report of previous three years
- viii) Internal control systems and Internal audit reports
- ix) Budget of the relevant financial year
- x) Inter unit and inter-company transactions policy
- xi) Pricing policies – domestic and exports
- xii) Export policy and exporting countries
- xiii) Product / activity wise market share in domestic and export markets
- xiv) Products and services – main product lines, by-product and joint products
- xv) Manufacturing / production process with flow charts
- xvi) Plant wise Licensed, Installed and Normal capacity and changes made during last three years
- xvii) Identification of production cost centres, utilities and service cost centres
- xviii) Cost accounting policy
- xix) Details of cost accounting and related records
- xx) Cost accounting manual
- xxi) Cost Accounting Standards, Generally Accepted Cost Accounting Principles, Cost Audit and Assurance Standards and other relevant publications of the Institute of Cost Accountants of India
- xxii) Relevant publications of other professional bodies, Industry Associations, trade journals



- xxiii) Visits to the client's premises and plant facilities
- xxiv) Current Government legislation with respect to Cost Accounting Records and Cost Audit
- xxv) Government rules, regulations and directives affecting the client's business
- xxvi) Current business developments affecting the client
- xxvii) Existence of parties in whom directors or persons who are substantial owners of the entity are interested and with whom transactions are likely
- xxviii) Recent or impending changes in technology
- xxix) Product selling and distribution methods
- xxx) Scope and timing of the examination
- xxxi) Assistance of client personnel in data preparation.

4.9 Documentation:

It is essential that the auditor should document matters, which constitute evidence that audit has been carried out with professional care, that requisite data have been collected and verified, that explanations have been sought and obtained from the officers of the company and that his opinion is fair and reasonable. Documentation would also help in better planning of next year's audit and also help him in planning other similar assignments.

Cost Audit and Assurance Standard (CAAS 102) on "**Cost Audit Documentation**" defines the following terms:

4.9.1 Audit documentation: *Audit Documentation means the material including working papers prepared by and for, or obtained and retained by the Cost auditor in connection with the performance of the audit.*

4.9.2 Audit file: *Audit file means one or more folders or other storage media, in physical or electronic form, containing the records that comprise the audit documentation for a specific Assignment or audit.*

4.9.3 Audit working papers: *Audit working papers are the documents which record all audit evidence obtained during audit. Such documents are used to support the audit work done in order to provide assurance that the audit was performed in accordance with the relevant Cost Audit and Assurance Standards.*



Cost Audit and Assurance Standard (CAAS 102) on “Cost Audit Documentation” mentions that the cost auditor as part of the audit documentation shall record audit procedures performed, relevant audit evidence obtained, and conclusions reached. In documenting the nature and extent of audit procedures performed, the Cost Auditor should record the characteristics of the specific items or matters tested, the responsibility for performing and reviewing such procedures and the relevant dates.

The Cost Auditor shall prepare audit documentation that is sufficient to enable another Cost Auditor undertaking a peer review to understand:

- (i) Conformance of audit procedures performed with legal and regulatory requirements;
- (ii) Conformance to cost audit and assurance standards;
- (iii) The results of audit procedures performed;
- (iv) The audit evidence obtained;
- (v) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

The Cost Auditor should prepare audit documentation on a timely basis, record any departure from the standard requirement in a Cost Audit Assurance Standard, record the discussions with client personnel and outsiders and audit procedures performed in exceptional circumstances after the Cost Audit Report or new conclusions reached after that date.

4.9.4 Contents or Form of Documentation:

1. The content and form of audit documentation will depend on a number of factors, such as:
 - (a) the size and complexity of the operations,
 - (b) the extent of computerization of cost records,
 - (c) The assessed risks of misstatement of cost, the cost audit methodology and tools used. e.g. whether automated queries were used to get audit evidence from cost records.

4.9.5 Records & Other Materials:

Another area which would in the long run improve the audit productivity is the working paper management. The essential aspect of such management is quick retrieval of information from his files.



Such retrieval is possible only with a sound filing system. This would depend on the style of each individual but the following remarks may be helpful.

Normally auditors organise their papers into:

- (i) Permanent file
- (ii) Working file
- (iii) Correspondence and administrative file.

(2) Permanent file :

Permanent file refers to papers relating to matters which do not normally change every year. Thus write-up on manufacturing process, departmentalization etc. form part of permanent file. At the beginning of every audit, such file may be reviewed to update it based on any changes since the previous audit.

The files for audit documentation may be in paper form or electronic form. Where it is in electronic form, special care may be required to protect against accidental deletion, or tampering.

Below are some of the documents and records auditors should keep in their permanent file:

(a) Statutory material

- i) Relevant provisions of the Companies Act, 1956
- ii) Copy of the relevant Cost Accounting Records Rules or the Companies (Cost Accounting Records) Rules, 2011, as applicable
- iii) Companies (Cost Audit Report) Rules, 2011
- iv) Cost Audit Orders issued by the Ministry of Corporate Affairs
- v) Notifications/ Circulars/S.Os. issued by the Ministry of Corporate Affairs relevant to Cost Audit and clarifications etc.
- vi) Cost Accounting Standards(CAS) issued by the Institute of Cost Accountants of India
- vii) Generally Accepted Cost Accounting Principles (GACAP) issued by the Institute of Cost Accountants of India

(b) The rules and regulations of the company

- i) Memorandum of Association



- ii) Articles of Association
- iii) Certificate of Incorporation / Commencement of Business
- iv) Registration documents under various statutory bodies including Tax authorities

(c) Copies of documents of continuing importance and relevance to the auditor

- i) Letter of engagement and Board Resolution for appointment of the auditor including letter confirming filing of e-Form 23C by the Company
- ii) Record of communication with the retiring auditor
- iii) Royalty Agreement / Technical collaboration
- iv) Copies of important legal documents/contracts
- v) Installed Capacity duly certified by Competent Authority
- vi) ISO Certification, if any

(d) Addresses of the registered office and business - The Company's registered office address and all other units/premises, with a short description of the work carried on at such places.

(e) An organization chart - Details of all departments and sub-divisions thereof showing hierarchy of management.

(f) List of books and records with location - List of books and records maintained by the company and place of their location. Names, positions, specimens of signatures and initials of persons responsible for books and document should also be included.

(g) An outline history of the organization

(h) Analysis of significant ratios and trends

(i) List of accounting matters of importance - Notes regarding significant cost accounting/ accounting policies; significant audit observations of earlier years.

(j) Internal Controls - Notes on internal control with Details of study & evaluation of internal controls in the form of narrative record, questionnaires or flow charts etc.

(k) The business structure within a group and associated companies - List of all holding, subsidiary and associate companies.



- (I) **Company's advisors** - A list of the company's advisors such as bankers, merchant bankers, stockbrokers, solicitors, Valuers, insurance brokers etc.

(3) Current File

Information included in the current file should be information for the period under audit. The indicative list of current file can be as follows:

- 1) Appointment letter for the Current Year
- 2) Copy of intimation for filing of Form 23C with the Ministry of Corporate Affairs
- 3) Copy of filing of Form 23D towards information towards acceptance of cost audit assignment to Central Government
- 4) Signed appointment letter from the client containing in particular the terms of coverage for the Performance appraisal in a cost audit
- 5) Extracts of important board/management meetings
- 6) List of responsible persons with their designation and contact details
- 7) Cost Audit Report/Financial Audit Report for Current year as well as previous year
- 8) Actions initiated by company towards Cost Auditor's observations and suggestions on the basis of previous years reports
- 9) Adequately documented Audit Plan/Audit Program
- 10) Note on Cost Accounting System followed by the Company and process flow chart
- 11) Current years Cost Records – Statements with Annexure
- 12) Communications with the company/management team
- 13) Letters of representations, confirmations received from company
- 14) Minutes of discussion with client personnel with names of members of audit team present particularly of the audit partner when he is present
- 15) Minutes of team discussions with names of members of audit team present particularly of the audit partner when he is present.
- 16) Audit review points and highlights of analysis
- 17) Draft Cost Audit Report
- 18) Signed copy of Cost Audit Report.



(4) Working file :

Working paper file refers to details relating to the year of audit. Usually every year there would be a separate file. The file may have to be prepared in convenient segments and properly indexed. There should be cross reference also. For illustration, it may be necessary to give a cross reference in the segment relating to materials, to certain changes in product mix, details of which may be available in production segment.

Working papers ordinarily include the following:

- (i) Process Flow Chart
- (ii) Machine Down Time Analysis
- (iii) Root Cause analysis of Down Time
- (iv) Utilities Consumption Analysis & trends, relationship with technology used
- (v) Spare Parts Consumption Analysis
- (vi) Details of Process modifications carried out and their impact on cost of production
- (vii) Capital Expenditure incurred during the year and its impact on installed capacity & operational cost implications
- (viii) Cost Centre-wise allocation of expenses and system there on, Reconciliation with Financial Accounts
- (ix) Non-moving Stocks, Group-wise consumption and stocking patterns
- (x) Raw Material-wise, Source-wise landed cost analysis
- (xi) Major consumables consumption analysis
- (xii) Handling Losses of major raw materials & Coal both during receipt and also in storage etc.

(5) Correspondence and administrative file:

In addition to permanent and working file, the auditor should separately maintain a file relating to correspondence made by him with the company viz. appointment as cost auditor, day to day correspondence relating to audit on hand.

A) Report Writing:

The report writing is essential skill which a cost auditor should systematically develop. The Report should clearly bring out the auditor's observations and professional in its presentation. Further, the



report should be written by using the professional care and language should be simple and unambiguous. Certification of figures is only a part of the report. Other aspects are the analysis, critical review of the systems in vogue in the company, identification of areas where improvement could be made by the Company and give suggestions for improvement for the identified areas.

A Good Audit Report should satisfy the following criteria:

- a. It should meet the objectives of the audit.
- b. The language should be lucid, clear and unambiguous.
- c. The length of report should be just which will keep the interest of the reader alive neither too lengthy nor too concise.
- d. Audit Report should contain all material and relevant facts in a summary format.
- e. All audit observations, findings and conclusions should have backing of adequate and reliable audit evidence in the form of audit working papers.
- f. The view point of the auditee enterprise should also be included, analyzed and discussed in the report.
- g. Audit evidence, data and/or view-points expressed by the auditee enterprise even if conflicting or contradictory to the findings incorporate in the audit report should be included and explanation should be offered as to the reasons for not accepting the same by the auditors.
- h. The audit report should be completed in the stipulated/ accepted/ agreed time limit.
- i. Audit report should be balanced and constructive. It may also mention the strong and positive features.
- j. Audit report should also offer audit findings on inefficiencies, lapses, irregularities, frauds.
- k. The language of the audit opinion is influenced by the legal framework for the audit but it should clearly indicate whether the contents of the opinion are qualified or unqualified.
- l. The auditor may express his opinion as “Qualified Opinion” in a situation when there is limitation on the scope of the auditors’ examination or if the auditor disagrees with the treatment or disclosure of one or more items in the cost/financial statements which are material but not fundamental in understanding the cost/financial statements.
- m. The auditor may express his opinion as “Adverse Opinion” in a situation when the auditor is unable to form an unqualified opinion on the cost/financial statements as a whole due to disagreement that is material and fundamental, rendering the cost/financial statements seriously misleading.



- n. The auditor may express his opinion as “*Disclaimer of Opinion*” in a situation when the auditor has not been able to obtain sufficient evidence to support and express an opinion on the cost/financial statements as a whole due to uncertainty or scope restriction that is material and fundamental.
- o. The cost audit report which is also regarded as efficiency and performance audit report should also include suggestions and recommendations for further improvements. In this sense cost audit has a much a larger and wider role than that of merely compliance audit.

Note: For more details, the readers may refer “Cost Audit and Assurance Standard (CAAS 102) on “Cost Audit Documentation” issued by the Institute of Cost Accountants of India, which can be downloaded from the following link: <http://www.icwai.org/icwainew/CAASB/index.asp>

4.10 Authentication of Cost Audit Report

As per The Companies (Cost Audit Report) Rules, 2011, Rule 2 (h), the “Report” means cost audit report duly audited and signed by the cost auditor in the prescribed form of cost audit report.

The Annexure prescribed with the cost audit report shall be approved by the Board of Directors before submitting the same to the Central Government by the cost auditor. The Annexure, duly audited by the cost auditor, shall also be signed by the Company Secretary and at least one Director on behalf of the company. In the absence of Company Secretary in the company, the same shall be signed by at least two Directors.

Though, there is no specific provision regarding initialing each page of Cost Audit Report in the Companies (Cost Audit Report) Rules, 2011, but it is advisable that the cost auditor authenticates each page.

Supplementary Report:

If the cost accounts are finalized based on provisional/ unaudited financial statements, it is necessary that a supplementary report must be submitted by the Cost Auditor to the Central Government.

The company should prepare Reconciliation Statement showing clearly the items having variations between the provisional accounts and final accounts. The company should also work out the impact of the variations on Cost Statements and submit the same to Cost Auditor for his perusal. The Cost Auditor should submit the supplementary report alongwith reconciliation statement, and his comments on the impact on cost statements and any other relevant observations that he would like to make in his supplementary report.



4.11 Filing of Cost Audit Report under Companies (Cost Audit Report) Rules, 2011

The Companies (Cost Audit Report) Rules, 2011 prescribes filing of Cost Audit Report, Company as a whole for the products manufactured by it by classifying these products under “Product Group(s)”. *The Ministry of Corporate Affairs vide S.O. 1747(E) dated 7th August 2012*, notified Product or Activity Groups which are to be used in respect of filing of cost audit report and compliance report under the Companies (Cost Audit Report) Rules, 2011, Cost Accounting Records Rules, 2011 and Industry Specific Cost Accounting Records Rules 2011 and any other document required to be filed either with the Registrar or with the Central Government in compliance with any provisions of the Companies Act, 1956.

The Company having multi units/factories manufacturing more than one product may have appointed more than one cost auditor for audit of cost records of these units/ factories. The question arises who shall file the cost audit report for company as a whole. This has been clarified by the General Circular No. 68/2011 dated 30th November, 2011 issued by the Ministry of Corporate Affairs as follows:

- (i) If only one product of a company is subject to cost audit and the company appoints more than one cost auditor, only a consolidated cost audit report [containing inter alia the qualifications, reservations or suggestions if any given by all the cost auditors] should be prepared as per the Companies (Cost Audit Report) Rules, 2011 and signed by all the cost auditors.

For this purpose, company may designate/appoint any one of them as the principal/ lead cost auditors who would be responsible for the consolidation and filing the same with the Central Government.

- (ii) If more than one products of a company are under cost audit for which it has appointed either same or separate cost auditors, then they may either submit separate cost audit report for each product group or submit only one consolidated report containing details of each product group under audit separately as per the procedure provided above.

The Ministry of Corporate Affairs vide General Circular No. 8/2012 dated 10th May, 2012 mandated the cost auditors and the companies to file Cost Audit Reports (Form-I) and Compliance Reports (Form-A) for the year 2011-12 onwards (including the overdue reports relating to any previous year) by using the XBRL taxonomy.

The MCA General Circular No. 68/2011 dated 30/11/2011 as referred above had allowed submission of multiple reports in case there are multiple auditors for different products of a company. However, with the issue of Costing Taxonomy and requirements mentioned therein, it may be noted that a Company will be now able to file only a single report even in cases where it has appointed multiple cost auditors for different products. In other words, only the designated Lead Auditor is required to file the cost audit report for the company as a whole.



CHAPTER 5

APPOINTMENT OF COST AUDITOR

5.1 Cost Audit and Assurance Standard (CAAS-101) on “Planning an Audit of Cost Statements” defines:

5.1.1 Cost Auditor: “Cost Auditor” means an auditor appointed to conduct an audit of cost records, under sub-section (2) of section 233B of the Companies Act and shall be a cost accountant within the meaning of The Cost and Works Accountants Act 1959. “Cost Accountant” is a cost accountant as defined in clause (b) of sub-section (1) of section 2 of The Cost and Works Accountants Act, 1959 (23 of 1959) and who holds a valid certificate of practice under subsection (1) of section 6 and who is deemed to be in practice under subsection (2) of section 2 of that Act and includes a firm of cost accountants.

Cost Auditor includes audit partner.

5.1.2 Audit Partner: Audit partner means the partner or other person in the firm who is a member of the Institute of Cost Accountants of India and is in full time practice and is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.

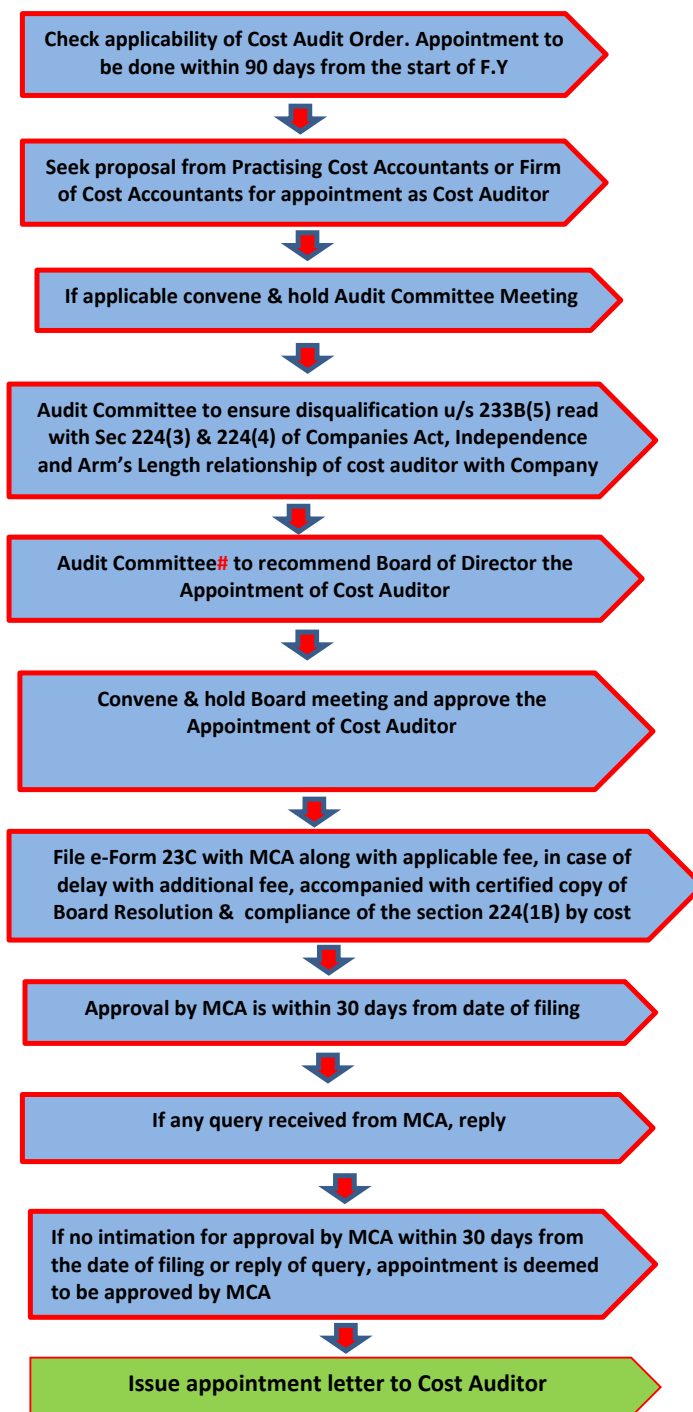
5.1.3 Audit Team: Audit team means all personnel performing an engagement, including any experts contracted by the firm in connection with that engagement.

5.1.4 Firm: Firm means a sole practitioner, partnership including LLP or any other entity of professional cost accountants as may be permitted by law and constituted under The Cost and Works Accountants Act & Regulations.

5.2 Flow Chart for Procedure for appointment of Cost Auditor



Procedure for Appointment of Cost Auditor



Where constitution of Audit Committee is not required by law, the functions of the "Audit Committee" will be discharged by the "Board of Directors".





5.3 Procedure for appointment of Cost Auditor by the Company

The procedure for appointment of cost auditor has been modified by the Ministry of Corporate Affairs vide General Circular No. 15/2011 dated 11th April 2011. The revised procedure has been made effective from the financial year commencing on or after the 1st day of April, 2011.

Under the revised procedure, the first point of reference will be the Audit Committee to ensure that the cost auditor is free from any disqualification as specified under section 233B (5) read with section 224 and sub-section (3) or sub-section (4) of section 226 of the Companies Act, 1956. The Audit Committee should also ensure that the cost auditor is independent and is at arm's length relationship with the company. After ascertaining the eligibility, the Audit Committee will recommend to the Board of Directors for appointment of the Cost Auditor.

However, in those companies where constitution of an Audit Committee is not required by law, the functions of the "Audit Committee" as per the procedure will be discharged by the "Board of Directors".

The proposed cost auditor is required to give a separate certificate to the audit committee in respect to his/its independence and arm's length relationship with the company.

The dictionary meaning of 'arm's length relationship' is -an agreement made by two parties freely and independently of each other, and without some special relationship, such as being a relative, having another deal on the side or one party having complete control of the other. It becomes important to determine if an agreement was freely entered into to show that the price, requirements, and other conditions were fair and real. Example: if a man sells property to his son the value set may not be the true value since it may not have been an "arm's length" transaction.

Therefore, an arm's length relationship is a term used to describe a type of business relationship a company should have with an auditor to avoid a conflict of interest. For example, when we negotiate with a banker or a supplier, any agreement which results will likely to reflect market value and commercially reasonable terms and conditions. When we give a loan to our son or daughter, we may be inclined to provide much more favorable terms and conditions. The first example would be considered to be an arm's length relationship, while the second example would not.

5.4 Application for Appointment of Cost Auditor, to be filed by the Company

The Company should check the applicability of cost audit order to the products or activities manufactured/ services rendered by it. If the Company is covered under any of the Cost Audit Order, then it should take necessary action for appointment of cost auditor as per the revised procedure of



Appointment of cost auditor. The Company is required to e-file its application with the Central Government on www.mca.gov.in portal, in the prescribed Form 23C within ninety (90) days from the date of commencement of each financial year, along with the prescribed fee as per the Companies (Fees on Application) Rules, 1999 as amended from time to time and other documents as per existing practice i.e.

- (i) certified copy of the Board resolution of the company sanctioning the proposal for which the government approval has been sought is a mandatory attachment.
- (ii) Copy of the certificate obtained from cost auditor regarding compliance of the section 224(1B) of the Companies Act, 1956 is a mandatory attachment.
- (iii) Any other information can be provided as an optional attachment. For example:
 - (a) In case of change in cost auditor, letter to the previous auditor informing him about the change.
 - (b) In case there is extension of financial year, approval letter for such extension.
 - (c) Copy of board or members' resolution approving the allotment of shares.

It may be noted that if same cost auditor is being appointed by a company for its multiple products/ units, the company may file a single e-Form 23C for all its products/units. As soon as the company enters the details regarding number of industries or products for which the form is filed, e-form 23C pop up as many number of rows as the number of industries/ products are. For example, if company enters number of industries for which the form is being filed- 5, then five rows with the following description will open:

- (ii) Number of the Central Government's order directing cost audit (out of cost audit number 52/26/CAB/2010 dated 2nd May 2011, 52/26/CAB/2010 dated 30th June 2011, 52/26/CAB/2010 dated 24th January 2012). Date of the Central Government's order directing cost audit
- (iii) Name of Industry to which cost audit order relates

However, it may be noted that separate e-Form needs to be filed for seeking approval for appointment of every cost auditor.

5.5 Delays in Filing Applications- Fee Payable

The Central Government vide G.S.R. 617(E) dated 7th August 2012 has amended G.S.R 501(E) dated 6th July 1999 and inserted the following:



“(4) In case of delays in filing applications with the Central Government under sub-section (2) of section 233B of the said Act, the fee as specified in the Table- IV below shall be applicable:

Table - IV

<i>Period of Delay</i>	<i>Fee Payable with the Application</i>
<i>Upto 30 days</i>	<i>Two times of normal fee</i>
<i>More than 30 days and upto 60 days</i>	<i>Four times of normal fee</i>
<i>More than 60 days and upto 90 days</i>	<i>Six times of normal fee</i>
<i>More than 90 days</i>	<i>Nine times of normal fee</i>
Note: Normal fee means the fee as given in the Table-I above.”	

5.6 Information to be submitted by the Cost Auditors to Company for Form 23C

1. Consent Letter to be given by Cost Accountants Firm u/s 224 (1-B)
2. Income Tax PAN of Cost Auditor or Cost Auditors Firm
3. Institute of Cost Accountants of India Membership No. for the Cost Auditor or Cost Auditors Firm
4. Email– ID of Cost Auditor or Cost Auditors’ Firm
5. Whether the previous Cost Auditor has been informed of the change (Applicable in case of change of Cost Auditor)

Instructions for e-filing of Form 23C may please be referred to.

5.7 Step by Step Procedure for e-filing of Form 23 C.

I. General Instructions for system setting before any type of filing on MCA portal.

- You should have Windows 2000 / Windows XP / Windows Vista / Windows 7 – Operating System in your computer
- Your system should have PDF-Acrobat Reader version 9.4 to version 7.5 installed on your system.
- “WINZIP” software should be installed on your system.
- Use Internet Explorer version v6.0 and above only for the filing work, and no other browser.
- Java Runtime Environment (JRE – latest version freely downloadable from www.sun.com)



- Turn off the Pop-Up Blocker of your Browser, before starting the filing work.
- Please ensure that the “security setting” of your internet browser is set at “Medium” level.

In order to carry out e-filing on MCA21 you should have facility to download the eform and fill it in an offline mode. Every form has the facility to pre-fill the data available in MCA21 system. Once the e-form is filled you would need to validate the e-form using Pre-scrutiny button. You would then have to affix the relevant digital signatures and save the form. You would need to be connected to the internet to carry out the pre-fill and pre-scrutiny functions. The step by step process is given below. The filled up e-form as per relevant instruction kit needs to be uploaded on the MCA21 portal. On successful upload, the Service request number would be generated and you would be directed to make payment of the statutory fees. The step by step process is given below. Once the payment has been made the status of your payment and filing status can be tracked on the MCA21 portal by using the ‘Track Your Payment Status’ and ‘Track Your Transaction Status’ link respectively.

II. Form 23 C – To be e-filed by the Company:

1. Visit the site <www.mca.gov.in>,
2. Click on the option “MCA 21 SERVICE TRANSFORMATION”
3. A new window will be opened and the option “Forms Download” is to be clicked which appears on the right hand side of the screen.
4. The list of Forms which are downloadable appears.
5. Please click on the right hand side of the list the Form for download. Subsequently it will ask to save the file, which should be done.
6. After unzipping the file, the company should fill up its CIN, the required details in Form 23C will appear. Please click on “Pre-fill” option. After doing this the Company name and address will appear automatically. This should be done while connected to internet. Fill the required details and attach the pdf copies of Board Resolution and consent letter from cost auditor. .
7. Enter the relevant cost audit order and click on the “Pre-fill” button, the required with respect to cost audit order will get filled.
8. Click on the “Check Form” to ensure that all the requisite details are filled in. If any information or detail is missing, an error message will pop up. The digital signature box will be enabled only after “Check Form” is passed.
9. Sign the Form digitally by the appropriate person and save the file.
10. Close the file and open it again and click “Pre-scrutiny” button.
11. To upload the Form, the company should re-login to MCA website. Form Login click on “MCA 21 SERVICE TRANSFORMATION” and enter the user ID and password



12. On login, a screen with three options will appear. Select “eForms” option.
13. Go to the next screen, there are four options of which “eForms upload” option has to be selected. Further screen will also show similar options and again “eForms upload” has to be selected.
14. A Java install screen may appear. Click “RUN” and allow it to be installed.
15. Finally on running the same a screen titled as “eForm upload applet” will appear, where the option “Select Files” has to be clicked.
16. Click “Select Files” and select the filled-up and digitally signed Form 23C from the directory where it has been saved.
17. The system will calculate the fee, including late payment fees based on the due date of filing.
18. Payments is to be made through appropriate mechanisms - electronic (credit card, Internet banking). Challan System is being discontinued by MCA. The payment made through electronic mode will be confirmed by system.
19. Acceptance or rejection of any transaction is being communicated to the applicant (including facility to print a receipt for successful transactions).
20. After successful uploading it will generate the SRN automatically which may be got printed and preserved for future reference and record.
21. In case the SRN is not generated automatically, please select option no.2 appearing on the extreme left corner viz., “Track you Transaction Status”, where by putting the date of submission the SRN no. will be generated.
22. Filing will be complete only when the necessary payments are made.

5.8 Approval of Cost Auditor by Central Government

After filing the online application by the Company, the same shall be deemed to be approved by the Central Government, unless contrary is heard within thirty (30) days from the date of filing such application.

However, if within thirty (30) days from the date of filing such application, the Central Government directs the Company to re-submit the said application with such additional information or explanation, as may be specified in that direction, the period of thirty days for deemed approval of the Central Government will be counted from the date of re-submission of Form 23C by the Company.

5.9 Written Certificate by the Cost Auditor

Section 224 (1-B) is a restrictive section. A Cost Accountant who is in full time employment or in part time practice cannot be appointed as the cost auditor. Similarly, a Cost Accountant or a firm of Cost



Accountant holding appointment as auditors exceeding the specified number of companies also cannot be appointed as cost auditor.

Before acceptance of appointment as cost auditor of a company, a Cost Accountant has to give certificate declaring that he or firm of cost accountants is free from any disqualifications as specified under Section 233B (5) read with Section 224 and sub-section (3) or sub-section (4) of Section 226 of the Companies Act, 1956.

While a cost auditor have a prime responsibility to ensure that he does not violate the limits specified under section 224 (1-B) of the Companies Act, 1956, the Audit Committee is also responsible for such compliance by the cost auditor.

5.9.1 Draft Certificate by the Cost Auditor proposed to be appointed for his independence and having arm's length relationship with the company

DRAFT CERTIFICATE

Certificate in writing from the Cost Auditor proposed to be appointed to Audit Committee for his independence and having arm's length relationship with the company

Ref. No. _____

Date: _____

To

The Chairman

Audit Committee of Board of Directors

_____ Limited,

Dear Sir,

Sub: Certificate of Independence – Cost Audit of your Company for the year ending 31st March 201_ reg.

With reference to para (e) of the General Circular No. 15/2011 dated 11.04.2011 issued by the Cost Audit Branch of the Ministry of Corporate Affairs, Government of India, we hereby certify that we are an independent firm of Cost Accountants and are at arm's length relationship with your Company.

Thanking you,



Yours faithfully,

For ----- & Co.,
Cost Accountants

Sd/-----
Proprietor/ Partner
M.No: ()

The draft consent letter is given below:

DRAFT CERTIFICATE

**Certificate in writing from the Cost Auditor proposed to be appointed to the effect
that the appointment if made, will be in accordance with the provisions
of Sub-section (IB) of Section 224 of The Companies Act 1956.**

Ref. No. _____

Date: _____

To

The Chairman
Audit Committee of Board of Directors
_____ Limited,

Dear Sir,

Sub: Cost Audit of XXX Limited for the year ending 31st March 201_ .

This has reference to my/our proposed appointment/reappointment as Cost Auditor of your company for the financial year ending on 31st March 201_. I/We shall be happy to accept the appointment/ re-appointment as Cost Auditor of your Company, if so made by your Board of Directors.

We would like to inform you that we are free from any disqualifications as specified under Section 233B (5) read with Section 224 and sub-section (3) or sub-section (4) of Section 226 of the Companies Act, 1956.



We would like to further inform you that the appointment, if made, will be within the limits prescribed under Section 224(1B) read with sub-section (2) of Section 233B of the Companies Act, 1956.

We would also like to inform you that the Partners are holding Certificate of Practice issued by the Institute of Cost and Works Accountants of India and are in whole time practice. Our PAN No. is _____.

We request you to please send us the formal appointment letter as per clause (i) of General Circular No. 15/2011 [52/5/CAB-2011] dated April 11, 2011 issued by the Ministry of Corporate Affairs, Cost Audit Branch to enable us to do the needful at our end.

We would like draw your attention towards clause (k) of the above circular, wherein it is obligatory on the part of the Company to disclose full particulars of cost auditor, alongwith the due date and actual date of filing of the Cost Audit Report by the cost auditor, in your Annual Report for each relevant financial year.

Thanking you,

Yours faithfully,

For ----- & Co.,

Cost Accountants

Sd/-----

Proprietor/ Partner

M.No: (_____)

5.10 Board Resolution for appointment of Cost Auditor

As per provisions of section 233B (2), the Board of Directors of a Company can appoint a cost auditor after obtaining prior approval of the Central Government.

As per the revised procedure as mentioned above, the Audit Committee will recommend to the Board of Directors for appointment of the Cost Auditor. In those companies where constitution of an Audit Committee is not required by law, the functions of the "Audit Committee" as per the procedure will be discharged by the "Board of Directors itself.



5.10.1 The Draft Agenda Paper is given below:

Part of Agenda Paper

The Board may note that earlier the Company was covered under the cost audit for the product- (mention the name of product(s) and from the Financial Year 2012-13, by virtue of Cost Audit Order No. F. No. 52/26/CAB-2010 dated 24th January, 2012 issued by the Ministry of Corporate Affairs the Company is required to conduct the Cost Audit for Products viz. (Mention the name the products) vide Central Excise Traffic Heading no. _____. The Companies (Cost Audit Report) Rules, 2011 notified by the Ministry of Corporate Affairs vide GSR 430 (E) dated 3rd June, 2011 introduced a concept of “Product Group”, accordingly all the Products of the Company will be grouped under “(Name the Product or Activity Group)”. Accordingly, it proposed to appoint a single cost auditor to conduct the audit for all Product Group- “(Mention the name of the Products)”.

It is proposed to appoint M/s _____ & Co, Cost Accountants (Address.....) to conduct the Cost Audit for Product Group “(mention the name of the Products)” for the year 2012-13. M/s _____ & Co. have given their consent and certificate for their independence and Arm’s Length relationship with the company and laid on the table for perusal of the Board.

The Board is requested to pass the following resolution:

“RESOLVED that, pursuant to section 233B of The Companies Act, 1956 and subject to the approval of the Central Government [M/s _____ & Co., Cost Accountants, be and hereby appointed as the cost auditor of the company to conduct audit of cost accounting records maintained by the Company for product(s)- _____ grouped under “ (Mention the name of the Product or Activity Group” covered under MCA Cost Audit Order(s) No. F. No. 52/26/CAB-2010 dated 24th January, 2012 vide Central Excise Tariff Heading no. _____ for the year 2012-13 ending on March, 2013 at a remuneration of Rs. ----- plus service tax and out-of-pocket expenses.

FURTHER RESOLVED that the Secretary/Director of the company be and is hereby directed to submit the necessary application in Form 23 C to the Central Government and to do all such acts as may be necessary.”

5.10.2 Attach certified Board Resolution :



CERTIFIED COPY OF BOARD RESOLUTION - FOR APPOINTMENT OF COST AUDITOR

Extract from the minutes of the Board Meeting of (name of the Company) held at the office of the Company on -----

Secretary tabled the MCA order No. _____ Dt. _____ ordering the Cost Audit of _____ Product(s) for the year

The Chairman informed the Board that [name of the cost auditor(s)] have given his/their consent to act as cost auditor(s) and certificate for his/their independence and Arm's Length relationship with the company and laid on the table the certificates received from (name of the cost auditors).

It was accordingly

RESOLVED such acts as may be necessary. (as per specimen of draft Resolution provided above).

5.11 Disqualifications for Appointments as Cost Auditor

None of the following persons are qualified for appointment as Cost Auditors:

- a) a body corporate;
- b) an officer or employee of the company;
- c) a person who is a partner, or who is in the employment, of an officer or employee of the company;
- d) a person who is indebted to the company for an amount exceeding one thousand rupees or who has given any guarantee or provided any security in connection with the indebtedness of any third person to the company for an amount exceeding one thousand rupees.
- e) a person holding any security of that company after a period of one year from the date of commencement of the Companies (Amendment) Act, 2000.

If a person is disqualified under the above clauses from being appointed as a cost auditor of any company or body corporate he cannot be appointed as auditor of its holding company, subsidiary or 'co-subsiary'. If a cost auditor becomes disqualified after his appointment, under any of the above provisions he shall be deemed to have vacated his office.

5.12 Formal Letter of Appointment of Cost Auditor by Company

After obtaining approval of the Central Government (deemed or otherwise), the Company will be required to issue a formal letter of appointment to the cost auditor.



5.13 Information of appointment as Cost Auditor to Central Government

The Cost Auditor is required to inform the Central Government within thirty days of receipt of formal letter of appointment from the Company. Such intimation is required to be done in prescribed e-Form 23D alongwith a copy of such appointment letter.

In case the relevant Form 23C is filed on or after 01.05.2011, MCA21 system will automatically display the details such as the category, Income-tax PAN, Name, Membership number, address and email ID of the cost auditor. In case of any change in address or email ID, the cost auditor should enter the latest valid address or email ID as the case may be.

In case of Individual, details will be validated from the records of Institute of Cost Accountant of India (Institute). The cost auditor filing the information should ensure that the details being entered are updated as per Institute's records. Further, the cost auditor should ensure that the email ID of the cost auditor or cost auditor's firm is correct as all the future correspondence with the cost auditor will be sent by Cost Audit Branch to this email id only.

5.14 Instructions for filing e-form 23D may please be referred to.

Step-wise Procedure for e-filing of Form 23D – To be e-filed by the Cost Auditor:

1. As per the provisions of MCA the company will get approval of Form 23 C within 30 days of filing of Form 23C (in case no query is received from MCA, if any query received, from the date of satisfactory reply by the Company to MCA). If no communication is received from MCA during the said period the approval is deemed to granted, and the company will issue appointment letter to the Cost Auditor.
2. On receipt of the Appointment letter, copy of submitted Form 23C, and its SRN, the Cost auditor should visit the site www.mca.gov.in.
3. Click on the option "MCA 21 SERVICE TRANSFORMATION"
4. A new window will be opened and the option "Forms Download" is to be clicked which appears on the right hand side of the screen.
5. The list of Forms which are downloadable appears. Download Form 23 D and save it on your computer system.
6. After unzipping the file the cost auditor should fill up Form 23 D while connecting the internet. On filing up CIN of the Company concerned, click "Pre-fill" button and the company name and address will be filled up by the system automatically.
7. After entering relevant cost audit order and SRN number of 23C, click the "Pre-fill" button and balance information will be filled up by system automatically.



8. Fill up the other un-filled details and attach “PDF” copy of the appointment letter issued by the company.
9. Click on the “Check Form” to ensure that all details have been filled up. If any detail is missing, an error message will pop up.
10. The digital signature box will be enabled only after “Check Form” is passed.
11. Open the file again and click on “Pre-scrutiny”. After “pre-scrutiny” save the file again.
12. To upload visit the website again and click “MCA 21 SERVICE TRANSFORMATION”. Subsequently one should login using the login password and ID option as appearing on the right hand side corner.
13. On login a screen with three options will appear. We have to select “eForms” options.
14. The next screen will show four options of which “e-Forms upload” option has to be selected. Further screen will also show similar options and again “e-Forms upload” has to be selected.
15. A Java install screen may appear. Click “Run” and allow it to be installed.
16. Finally on running the same, a screen titled as “e-Form upload applet” will appear, where the option “Select Files” has to be clicked.
17. It will show the file manager of the system, and one has to go and pick up or select digitally signed Form 23 C from the directory where it has been saved.
18. After successful uploading it will generate the SRN automatically. Save the file for future reference and record.
19. In case the SRN is not generated automatically, please select option no.2 appearing on the extreme left corner viz. “Track your Transaction Status”, where by putting the date of submission, the SRN no. may be generated.

5.15 Limits on number of audits:

Companies amendment Act 1988 has introduced two important limits on number of cost audits.¹ The first relates to the maximum number of audits and the second relates to the distinction between part time practitioners and full time practitioners.

The proviso to section 233B(2), introduced by the Amendment Act 1988, apparently puts financial auditors and cost auditors on par as it requires a certificate from the proposed cost auditor, in terms of Sec. 224(1 B), which was previously required only from financial auditors. Sec. 224 limits number of audits per auditor, at any point of time to twenty companies. It further stipulates that no one can be an auditor of more than ten companies having paid up capital of Rupees twenty-five lakhs or more.



5.16 Firm of Cost Accountants

The first proviso to Sec.224 (1 B) reads:

"Provided that in the case of a firm of auditors, 'specified number of companies' shall be construed as the number of companies specified for every partner of the firm, who is not in full time employment elsewhere".

The second proviso states:

"Provided further that where any partner of the firm is also a partner of any other firm or firms of auditors, the number of companies which may be taken into account, by all the firms together, in relation to such partner shall not exceed the specified number in aggregate".

Provided also that where any partner of a firm of auditors is also holding office, in his individual capacity, as the auditor of one or more companies, the number of companies which may be taken into account in his case shall not exceed the specified number, in the aggregate.

Therefore, if in a firm of Cost Accountants, all the partners hold full time employment elsewhere, such firm cannot be appointed as Cost Auditors of any company. If one out of three partners of such a firm is in full time employment elsewhere then such partner will be ignored for the purposes of the limit. That is, the maximum number of cost audits that the firm can hold at any point of time will be only twenty companies having paid up capital of Rupees twenty five lakhs or more.

It should however be noted that the Companies (Amendment) Act, 2000 has inserted a provision whereby the provisions of sub section 1-B shall not apply to a Private Company.

It means that for computing the limit on number of companies for audit, Private Companies should not be counted.

Similarly, if that company appoints different cost auditors for different products, each auditor should count the company as one company for counting their individual quota for number of audits.

5.17 Number of audits at a point of time & Tenure of Cost Auditor:

As the law provides that maximum number of companies for which a person can be the auditor at a point of time cannot be more than twenty, it becomes important to understand when the holding of appointment as cost auditor begins and when it ends.



As per the revised procedure, the appointment of cost auditor is by the company through Audit Committee and finally by the Board of Directors, subject to the approval of the Central Government. The question arises whether appointment begins from the date of the resolution of the Board or only after the approval of the Government.

As clarified by Master Circular No. 2/2011 dated 11th November, 2011, the specified number of companies for the purpose of section 233B (2) read with section 224 (1B) of the Companies Act, 1956 is to be computed for a given financial year with reference to the number of companies wherein he has been appointed as the cost auditor, including those wherein he is proposed to be appointed for which he has given his consent. The number of companies in respect of which cost audit reports have been submitted and have become overdue shall also be taken into account for the purposes of ceiling under section 224 (1B).

It is further clarified by the said Master Circular that a cost auditor shall be deemed to have concluded his appointment for the relevant financial year as soon as he renders a report to the Central Government in accordance with the Cost Audit Report Rules, as applicable, with a copy to the Company. His obligation to answer queries from the Ministry of Corporate Affairs arising out of review of cost audit reports should not rebar him from accepting another appointment as cost auditor of a company provided the specified number of companies contemplated in section 224 (1B) is not exceeded.

5.18 Communication to Previous Cost Auditor

The Cost and Works Accountants Act, 1959, the first schedule Part I, deals with Professional misconduct in relation to cost accountants in practice.

A cost accountant in practice shall be deemed to be guilty of professional misconduct vide clause (8) of Part I of the First Schedule to The Cost and Works Accountants Act, 1959 if he - accepts a position as a cost accountant previously held by another cost accountant in practice without first communicating him in writing.

5.18.1 Draft Communication letter with Previous Cost Auditor

DRAFT OF COMMUNICATION TO THE PREVIOUS COST AUDITOR

Date

To,

Dear Sir,



I/We have been approached by M/S (name of the Company) to conduct the cost audit relating to its product(s) covered under Cost Audit of the Company/unit(s) located at ----- for the year ending on----- I/We understand that you were the cost auditor of the Company immediately prior to this offer. Accordingly, I hereby communicate to you before I/We accept the said appointment. May I request you to provide your feedback on this matter. This communication is being addressed to you in view of the provisions of clause (8) of Part I of the First Schedule to The Cost and Works Accountants Act, 1959.

I also hereby confirm that, based on the information provided by the Company, the audit fees that will be received by me/us for this assignment will not be lower than the fees received by you for the conduct of cost audit.

Thanking You,

Yours faithfully,

For M/s.

Cost Accountant

M.No.

Note: The communication must be addressed by Registered/ Speed Post.

5.19 Full time employment:

The Companies Amendment Act 1988 has barred members of all the three institutes in full time employment from taking up review assignments under the Companies Act, 1956. Under Section 161 (1), the annual return of a listed company has to be signed by a Secretary in whole time practice. Section 2(45A) defines that a 'Secretary in whole time practice' is 'one who is a practising secretary' and 'who is not in full time employment'. Section 224(1B) prohibits appointment of a Chartered Accountant as Financial Auditor under Section 224, if he is in full time employment elsewhere'. By proviso to Section 233B (2), this prohibition is made applicable to Cost Accountants as well. The result is that anyone of such practising professionals, if in full time employment besides his practice, could provide other services, like issuing certificates for excise duty purposes, import entitlement etc., but cannot provide review or audit services under Section 166, 224 or 233B.



The Companies Act has not defined 'full time employment' and therefore normal tests have to be applied. Any person should be in a position to ascertain whether he is in full time employment or not. However the following guidelines could be found helpful:

1. The Cost auditor should not be a whole time director of any company under Section 269 or Secretary under Section 383A of the Companies Act, 1956. Since both these sections refer to such director or Secretary being in whole time employment, obviously no one holding such position can claim to be in part time employment.
2. Anyone receiving a salary claiming provident fund contribution from his employer or getting such benefits or perquisites is obviously an employee.
3. Under the Income Tax Act, there is a separate head of income titled 'Salaries', which allows special deductions. Anyone who has income under that source is certainly 'in employment'.

Cost accountants, in their own interest and in the interest of their clients, would do well to ensure that they observe these rules in letter and spirit, otherwise it is not unlikely that they may be deemed guilty of professional misconduct.

5.20 Cost Auditor cannot be Internal Auditor of the same Company

Master Circular No. 2/2011 dated 11th November 2011 issued by the Ministry of Corporate Affairs clarified that as per provisions of the Cost Audit Report Rules that are in force from time to time, a cost auditor is required to comment on the scope and performance of internal audit of cost records. Hence, it would tend to mitigate against the proper and dispassionate discharge of his duties if he was also the internal auditor of the company for the same period for which he is conducting the cost audit. In view of this, the cost auditor cannot also be the internal auditor of a company for the period for which he is conducting the cost audit, irrespective of the fact whether he is conducting cost audit for one or all of the company's product/ activities.

5.21 To maintain Arm's Length Relationship with Company, Cost Auditor should also not provide any other service

General Circular no. 68/2011 dated 30th November, 2011 clarified that in the General Circular no. 15/2011 dated 11th April 2011 regarding appointment of cost auditors by companies, it was provided that the Audit Committee shall obtain a certificate from the cost auditor certifying his/its independence and 'arm's length relationship' with the company. In order that 'arm's length relationship' is in fact ensured, it may be noted that cost auditor(s) appointed under section 233B(2) of the Companies Act, 1956 [whether for one or all of the company's products covered under cost audit], shall not provide any



other services to the company relating to (i) design and implementation of cost accounting system; or (ii) the maintenance of cost accounting records, or (iii) act as internal auditor, whether acting individually, or through the same firm or through other group firms where he or any partner has any common interest. It is however clarified that the cost auditors are allowed to certify the compliance report or provide any other services as may be assigned by the company, but which shall not include any of the services mentioned above.

5.22 Companies to disclose full particulars of cost auditor

The Company is required to disclose full particulars of the cost auditor along with the due date and actual date of filing of the Cost Audit Report by the cost auditor, in its Annual Report for each relevant financial year. Since the notification has made effective from April 1, 2011, companies under cost audit are required to furnish the details in its Annual Report from the financial year 2010-11.

Since the cost audit report of a particular financial year may not have been submitted before publication of the Annual Report, relevant details of due and actual date of filing for the last financial year and the due date of filing for the current year may be published in the Annual Report.

5.23 Certain Clarification on Appointment of Cost Auditor by MCA

General Circular No. 36/2012 dated 6th November clarified inter-alia the following issues:

- (i) The company is required to issue formal letter of appointment to the cost auditor, as approved by the Board, within thirty days from the date of approval by MCA of the application made to the Central Government in the prescribed Form 23C seeking its prior approval for the appointment of cost auditor.
- (ii) The cost auditor is required to inform the Central Government in the prescribed form 23D, within thirty days of the date of formal letter of appointment issued by the company, along with a copy of such appointment.
- (iii) In case of change of cost auditor caused by the death of existing cost auditor, companies are allowed to file fresh e-form 23C, without any additional fee, within 90 days of the date of death. The additional fee payable as per the Companies (Fees on Applications) Rules, 1999 [as amended] shall become applicable after expiry of the said 90 days.
- (iv) In case of change of cost auditor for reasons other than death of the existing cost auditor, companies are required to file fresh eform 23C with applicable fee & additional fee, clearly specifying the reasons of change.



In case of change due to resignation of the existing cost auditor, e-form 23C should be accompanied by the resignation letter of the existing cost auditor.

In case of change due to the management policy of periodical rotation, then the company should attach a copy of the Board which approved rotational policy with the e-form 23C.

In any other case, the change should be duly justified and supported with the relevant documents.

- (v) In order to ensure compliance of section 224(1-B) of the Companies Act 1956, it is to be ensured that in case of a sole proprietor, he has completed the audit and submitted the cost audit report. In case of a partnership firm, the partner so appointed or any other partner of the same firm is allowed to complete the audit & submit cost audit report subject to his total numbers not exceeding the limit specified in section 224(1-B).
- (vi) There may be cases of minor typographical errors or other mistakes such as incorrect financial year, incorrect name of the cost auditor or the cost audit firm, incorrect PAN number, incorrect scope of audit, etc. in MCA21 system, no changes are permitted in the approved e-forms. Therefore, companies and cost auditors should be carefully verify all particulars before uploading e-forms 23C or 23D on the MCA21 portal. In any rare case, if still any error/mistake is observed, it should be brought to the notice of MCA well before its approval enabling it to return the said e-form for re-submission after making the required corrections. Else, the companies and cost auditors are required to file fresh e-forms 23C & 23D containing correct particulars, alongwith the applicable fee and additional fee.

5.24 Suggested minimum Professional Fees as approved by the Council at its 268th Meeting held on May 28, 2011:

Turnover in Rupees Crore	Fee for Cost Audit	Fee for Compliance Report (Rupees)
Below 5	20,000	
5-10	40,000	
10-20	50,000	
20 - 50	75,000	25,000
50-75	1,00,000	35,000
75 -100	1,25,000	50,000
100 – 150	1,75,000	75,000
150 – 250	2,50,000	1,00,000
250 – 500	4,00,000	1,50,000



5.24.1 Costing Assignments:

1.2 Casual Visit: Rs.5,000 – 10,000 per day (Partner having less than 10 years of practice) : Rs. 10,000 – 25,000 per day (Partner having more than 10 years of practice)

1.3 Chamber Consultation: – Rs.2,500 per hour at the minimum.

1.4 Certificate Work:

- (a) Minimum Rs.2500 per certificate – for Small Scale Units.
- (b) Minimum Rs.5000 for others.
- (c) For certification involving in-depth scrutiny and study Rs.2000 per hour of work involved.

5.24.2 Designing Systems of Cost and Management Accounting (Minimum Fees)

(a) Upto Turnover of Rs. 2 Crores	Rs. 50,000
(b) Rs.2 Crores to Rs.10 Crores	Rs. 1,00,000
(c) Rs. 10 Crores to Rs. 100 Crores	Rs. 2,50,000
(d) Above Rs. 100 Crores	Rs. 5,00,000

5.24.3 Finance Applications and Feasibility Reports:

Scrutiny of technical and market feasibility reports, preparing financial feasibility reports and drawing projection of profitability, financial position, capital plan and cash flow –Based on Project Cost.

5.24.4 Charges for providing Services of Juniors

- a) Cost Accountant (Qualified Assistant) Rs. 1,000 per hour



b) Cost Assistant (Intermediate)	Rs. 750 per hour
c) Cost Assistant – Trainee	Rs. 500 per hour

Note: Service Tax and other applicable Taxes, Travelling and out-of-pocket expenses will be charged extra.

The above is suggested fee; the cost accountant in practice may charge the fee based on criteria like net-worth vis-a-vis turnover of the company, nature and quality of cost records maintained by the company, number of days and man hours involved etc. However the minimum fee should ordinarily not be less than the suggested fee as above.



CHAPTER 6

Comparison between CAR 2011 and CAR 2001

PART A

6.1 Changes in Provisions as per Notification

6.1.1 Rule 2 CAR 2011- Definition- clause (b) “cost auditor” amended to refer to audit under subsection (2) in place of Sub section(1) of section 233B of the Companies Act, 1956.

6.1.2 Rule 2 CAR 2011- Definition- clause (c), (d) and (e) added to define “Form-I”, “Form-II” and “Form-III” respectively in place of clause (c) under CAR 2001 defining “Form”

6.1.3 Rule 2 CAR 2011- Definition- clause (f) “Product” has been widened to cover within its scope the intangibles and services while still leaving the definition inclusive. The definition begins with the word “means” but contains the word “etc.” and limits the coverage by specifying the activity involved and the intended usage.

6.1.4 Rule 2 CAR 2011- Definition- clause (g) “Product Group”, a new definition has been added which was not there in CAR 2001.

6.1.5 Rule 3 CAR 2011- Application

Following additions has been made:

- Sub-Rule (2) mandates the filing of application with the Central Government seeking prior approval, by the company to which this Rule applies, within ninety days of commencement of every financial year through electronic mode.
- Sub-Rule (3) mandates the cost auditor to inform the Central Government within thirty days of receipt of letter of appointment through electronic mode.
- Sub-Rule (4) provides for the procedure prescribed for appointment of cost auditor vide Ministry of Corporate Affairs’ General Circular No. 15/2011 [File No. 52/5/CAB-2011] dated April 11, 2011 to be followed by the company and the cost auditor.

6.1.6 Rule 4 CAR 2011- Form of Report



Sub-Rule (1) the words “a hard copy and a soft copy” which was mentioned in the CARR 2001 have been deleted thereby removing the obligatory condition of submitting the Report both in soft and hard form.

Following additions have been made:

- Sub-Rule (2) provides for the cost audit reports submitted on or after 1st day of April, 2012 to be in the form prescribed under CAR 2011 irrespective of the financial year to which it relates.
- Sub-Rule (3) and (4) provides for every company to keep and maintain cost details, statements, schedules etc. for each unit and each product or activity in each product group duly authenticated by atleast two Directors of the company and the cost auditor.
- Sub-Rule (5) introduced for the first time, the performance appraisal report to be submitted by the cost auditor.

6.1.7 Rule 6 CARR 2011- Cost Auditor to be furnished with the cost accounting records, cost statements, other books and documents, and Annexure to the Report, duly completed, to enable cost auditor to complete the cost audit and submit report within one hundred and eight days from the close of the Company’s financial year to which the report relates. As prescribed under CAR 2001, the time period of 135 days from the close of financial year for making available to cost auditor, the requisite record has been omitted.

6.1.8 Rule 8 CARR 2011 Penalties

Unlike CARR 2001 which specified the amount of penalty in case a company contravenes any provision, CARR 2011 refers to the provisions of the Companies Act which will stand effected and dealt accordingly.

[General: Proforma wherever it found the mention in CARR 2011 has been omitted]

PART B

6.2 Forms/ Cost Audit Report

6.2.1 CAR 2011 – Following new Forms have been introduced:

- Form-I: Form for filing Cost Audit Report and other documents with the Central Government



- Form-II: Form of the Cost Audit Report
- Form-III: Form of the Performance Appraisal Report

CAR 2001 – No Form No. specifically assigned to Cost Audit Report

6.2.2 CAR 2011- The Cost Audit Report is to be submitted for Product Group(s)

CAR 2001- The Cost Audit Report is to be submitted unit-wise

PART C

6.3 Annexure to the Cost Audit Report

	CAR 2011	CAR 2001	Remarks
General Information	1	1	Modified
Cost Accounting Policy	2	-	In CARR 2011, apart from Central Excise, other indirect taxes like Service Tax, VAT etc included. In CAR 2001, Cost Accounting System details were called for
Product Group Details	3	-	CAR 2011 prescribes submission of Abridged Cost Statement for each Product Group. There was no such provision in CAR 2001. Concept of Product Group newly introduced
Quantitative Information	4	4	Modified
Abridged Cost Statement	5	-	In CAR 2001, separate schedules for different elements of cost were to be submitted.
Operating Ratio Analysis	6	-	CAR 2011 prescribes submission of operating Ratio Analysis for Product Group separately. There was no such provision in CAR 2001.
Profit Reconciliation	7	28	Modified
Value Addition and Distribution	8	-	Modified



of Earnings			
Financial Position and Ratio Analysis	9	24	Modified
Related Party Transactions	10	26	Modified
Reconciliation of indirect Taxes	11	-	In CARR 2001, Central Excise Reconciliation was included

PART D

6.4 Performance Appraisal Report

CAR 2011-Performance Appraisal Report in Form-III is to be submitted by the Cost Auditor duly authenticated by him to Board of Directors. Indicative list of areas as given under Form III to Cost Audit Report Rules, 2011 are as follows:

1. Capacity Utilization Analysis
2. Productivity/Efficiency Analysis
3. Utilities/Energy Efficiency Analysis
4. Key-Costs & Contribution Analysis
5. Product/Service Profitability Analysis
6. Market/Customer Profitability Analysis
7. Working Capital & Inventory Management Analysis
8. Manpower Analysis
9. Impact of IFRS on the Cost Structure, Cash-Flows and Profitability
10. Application of Management Accounting Tools

CAR 2001- No such Report was mandated.



CHAPTER 7

Salient features of Notification No. GSR 430 (E) dated 3rd June 2011 issued by the Ministry of Corporate Affairs

Companies (Cost Audit Report) Rules (CAR) 2011:

Rule 1

The Cost Audit Report Rules 2011 has been issued by the Central Government in supersession of the Cost Audit Report Rules, 2001. These rules offer more freedom and flexibility to the industry.

Rule 2 Definition- Product and Product Group

The changes in the Rule 2 – definitions and interpretations are noteworthy. The definition of Product has been elaborated and now a comprehensive and wider definition has been incorporated.

Also a new concept of "Product Group" has been introduced vide definition under sub- clause (g). This addresses the concern as to the passing on confidential data to Central Government whereas the information sought earlier was granular down to each unit separate product wise.

As pointed out in the preceding para that *the Ministry of Corporate Affairs vide S.O. 1747(E) dated 7th August 2012, notified Product or Activity Group* which are to be used in respect of filing of cost audit report and compliance report under the Companies (Cost Audit Report) Rules, 2011 and Cost Accounting Records Rules, 2011 and any other documents required to be filed either with the Registrar or with the Central Government in compliance with any provisions of the Companies Act, 1956. ***After notification of the Product or Activity Group by the Ministry of Corporate Affairs as aforesaid, the definition provided in the Rules is not relevant. Therefore, the Product or Activity Groups have to be in accordance with this notification.***

Rule 3 Application of CAR 2011

The Companies mandated to get their cost records audited are required to file an application with the Central Government seeking prior approval for the appointment of cost auditor within 90 days of the start of every financial year through electronic mode. The cost auditor so appointed in turn is required to inform the Central Government of his appointment within 30 days of receipt of letter of appointment through electronic mode.



Rule 4 Form of the Report

The cost audit report is to be submitted by the cost auditor to the Central Government along with auditor's observation and suggestions and Annexures in the prescribed e-Form I.

As mentioned elsewhere above, the Ministry of Corporate Affairs vide General Circular No. 8/2012 dated 10th May, 2012 mandated the cost auditors and the companies to file Cost Audit Reports (Form-I) and Compliance Reports (Form-A) for the year 2011-12 onwards (including the overdue reports relating to any previous year) by using the XBRL taxonomy. Since, the e-Form I notified by the Companies (Cost Audit Report) Rules, 2011 dated 3rd June 2011 is being superseded by new e-Form I -XBRL and Annexure to Cost Audit Report containing various paras are also to be filed in XBRL mode, the Cost Auditors and companies should file Cost Audit Report and Annexure thereto in XBRL mode following the Cost Taxonomy as notified by the Ministry of Corporate Affairs.

The Rule is applicable for cost audit report (irrespective of Company's financial year), is submitted on or after 1st April 2011 shall be in Form I as prescribed under these Rules.

Every company who is required to submit the cost audit report with the Central Government is also required to keep and maintain the cost details, statements, schedules etc. for each unit and each product or activity comprised for each product group which is to be duly authenticated by atleast 2 directors of the company and the cost auditor.

Such cost records so maintained by the company are to be kept for a period of not less than 8 years and where the company is in existence for less than 8 years then the company should preserve the records for those many years for which it is in existence.

The General Circular No. 68/2011 dated 30th November, 2011 issued by the Ministry of Corporate Affairs, clarified that for companies coming under the purview of the Companies (Cost Accounting Records) Rules, 2011 and the Companies (Cost Audit Report) Rules, 2011, cost records and cost details, statements, schedules, etc. shall be kept in good order for the next eight financial years beginning with first year of application of the said Rules.

Every cost auditor is also required to furnish a duly authenticated performance appraisal report in Form III along with the cost audit report etc. to the Board/ Audit Committee of the company.

The Central Government has the power to call for clarification from the cost auditor on the cost audit report submitted by him. Such clarification is to be submitted within 30 days from the receipt of communication from the Central Government.



Rule 5 Time limits for submission of report

The cost audit report along with his observations, suggestions and Annexures as required under these rules should be forwarded to the Central Government and also to the concerned company within 180 days from the date of close of the company's financial year to which the report relates.

Rule 6 Cost Auditor to be furnished with the cost accounting records etc.

The company has to make available to the cost auditor Cost accounting records, cost statements, other books and documents and Annexure to the Report duly completed within such a period so that cost auditor can file his report to the Central Government within the specified period of 180 days.

The responsibility for the above compliance is on the company and every officer thereof including the persons referred to in sub-section (6) of Section 209 i.e. Managing Director, Manager, all officers and employees of the company and if there is neither a Managing Director nor manager, every Directors of the company.

The company has to render necessary assistance to the Cost Auditor in and throughout the assignment.

Rule 7 Authentication

The Annexure to the Cost Audit Report should be approved by the Board of Directors before the same is submitted to the Central Government by the Cost Auditor. The Annexure is also to be signed by the Company Secretary and at least one Director on behalf of the Company or in absence of Company Secretary by at least two directors.

The Annexure to the Cost Audit Report is required to be signed on behalf of company by:

- a) The Company Secretary and at least one Director
- b) In the absence of Company Secretary by atleast two Directors.

The Annexure to the Cost Audit Report is required to be signed by the Cost Auditor.

The corresponding provisions exist in Section 215 of the Companies Act 1956 i.e. Authentication of the Balance Sheet and Profit and Loss Account.



It should be noted that the information contained in the Annexure to the Cost Audit Report is based on the Annexure of Schedule of the Cost Accounting Record Rules. Hence the Cost Statements under Cost Accounting Records Rules should also be properly authenticated.

Rule 8 Penalties

Sl. No.	Provision	Reason for penalty	Person Liable	Nature and extent of penalty
1.	Rule 4(1)	Failure of cost auditor to submit his report to Central Government.	Cost Auditor	Fine upto Rs. 5000/-
2.	Rule 4 (3)	Failure of company to keep and maintain cost details, statements, schedules etc for each product or activity comprised in each product group.	Company	Fine upto Rs. 5000/-
3.	Rule 4(4)	Cost details, statements, schedules etc to be kept in good order for a period of eight years or less as the case may be.	Company	Fine upto Rs. 5000/-
4.	Rule 4 (5)	Failure to submit Performance Appraisal report to Board/ Audit Committee	Cost Auditor	Fine upto Rs. 5000/-
5.	Rule 4 (6)	Clarification not submitted to Central Government within 30 days	Cost Auditor	Fine upto Rs. 5000/-
6.	Rule 5	Cost Audit Report not submitted to Central Government within 180 days.	Cost Auditor	Fine upto Rs. 5000/-
7.	Rule 6	Duly completed cost accounting record, cost statements other books and documents and Annexures to the report not made available to cost auditor within the time limit prescribed.	The Company and every officer in default including the persons referred to in sub-section (6) of section 209 of the Act i.e. i) The Managing Director, Manager, all officers and employees of the company ii) where there is no Managing director or manager, every	Fine upto Rs. 5000/- and for continued contravention further fine upto Rs. 500 per day.



8.	Rule 7	Failure to obtain approval by the Board of Directors to the Annexures of cost audit report, before submitting it to the Central Government	Director of the company -do-	-do-

Rule 9 Savings

By virtue of this provision, inter alia, the proceedings, investigation, legal proceedings or remedy initiated under Cost Audit Report Rules 2001 even after such Rules are superseded by Cost Audit Report Rules 2011, shall continue.



CHAPTER 8

Product or Activity Group Classification

The Companies (Cost Audit Report) Rules, 2011 and the Common-Cost Accounting Records Rules and Industry Specific Cost Accounting Records Rules, prescribe the filing of Cost Audit Report and Compliance Report with the Central Government for their Products/ Activities based on “Product Group Classification”. Each of the above Rules contains definition of “Product Group”. *The Ministry of Corporate Affairs vide S.O. 1747(E) dated 7th August 2012*, notified the following Product or Activity Group which are to be used in respect of filing of cost audit report and compliance report under the Companies (Cost Audit Report) Rules, 2011 and Cost Accounting Records Rules, 2011 and any other document required to be filed either with the Registrar or with the Central Government in compliance with any provisions of the Companies Act, 1956. After notification of Product or Activity Group, the definition of Product Group wherever contained in Companies (Cost Audit Report) Rules, 2011 or Companies (Cost Accounting Records) Rules, 2011 and Industry Specific Cost Accounting Records Rules, 2011 shall not be relevant and superseded by the above notification.

Serial Number	Product or Activity Group Code	Name of the Product or Activity Group	Central Excise Tariff Act (CETA) Chapter Headings covered in the Product or Activity Group
1	1001	Livestock	0101 to 0106
2	1002	Meat and Meat Products	0201 to 0210; 0410; 1601 to 1603
3	1003	Marine Products	0301 to 0307; 1604 to 1605
4	1004	Milk and Milk Products	0401 to 0406
5	1005	Poultry and Related Products	0407 to 0408
6	1006	Bee Products	0409
7	1007	Human Hair and Related Products	0501; 6703 to 6704
8	1008	Products of Animal Origin	0502; 0504 to 0508; 0510 to 0511
9	1009	Plants, Trees and Flowers	0601 to 0604
10	1010	Vegetables	0701 to 0714
11	1011	Fruits and Nuts	0801 to 0814
12	1012	Coffee and Coffee Products (incl. 210111)	0901
13	1013	Tea and Tea Products (incl. 210120)	0902



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Serial Number	Product or Activity Group Code	Name of the Product or Activity Group	Central Excise Tariff Act (CETA) Chapter Headings covered in the Product or Activity Group
14	1014	Spices - processed or unprocessed	0903 to 0910
15	1015	Cereals, Flour and Product of Cereals	1001 to 1008; 1101 to 1109
16	1016	Oil Seeds and Products of Oil Seeds	1201 to 1208
17	1017	Other Seeds and Plants	1209 to 1214
18	1018	Vegetable Saps or Products	1301 to 1302; 1401; 1404
19	1019	Animal or Vegetable Fats and Oils	1501 to 1518; 1520 to 1522
20	1020	Sugar and Sugar Products	1701 to 1702
21	1021	Molasses	1703
22	1022	Sugar Confectionery or Chocolates	1704; 1806
23	1023	Cocoa Products	1801 to 1805
24	1024	Prepared Food Products	1901 to 1905; 2001 to 2009; 2101 to 2106; 2501
25	1025	Mineral Water and Aerated Drinks	2201 to 2202
26	1026	Alcoholic Beverages	2203 to 2206; 2208
27	1027	Ethyl Alcohol and other Spirits	2207
28	1028	Vinegar	2209
29	1029	Food Residues or Prepared Animal Feed	2301 to 2309
30	1030	Unmanufactured and Manufactured Tobacco	2401; 2403
31	1031	Tobacco Products	2402
32	2001	Mineral Products	2502 to 2522; 2524 to 2526; 2528 to 2530; 2601 to 2621
33	2002	Cement	2523
34	2003	Mineral Fuels (other than Petroleum)	2701 to 2708
35	2004	Petroleum Oils - Crude	2709
36	2005	Petroleum Oils - Refined	2710
37	2006	Petroleum Gases and other Gaseous Hydrocarbons	2711
38	2007	Other Petroleum Products	2712 to 2715
39	2008	Electrical Energy	2716
40	2009	Chemical Elements	2801 to 2805
41	2010	Inorganic Chemicals and their Derivatives	2806 to 2837; 2839 to 2850; 2852 to 2853



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Serial Number	Product or Activity Group Code	Name of the Product or Activity Group	Central Excise Tariff Act (CETA) Chapter Headings covered in the Product or Activity Group
42	2011	Organic Chemicals and their Derivatives (excluding Bulk Drugs)	2901 to 2942
43	2012	Bulk Drugs	2901 to 2942
44	2013	Albuminoidal Substances, Starches, Glues and Enzymes	3501 to 3507
45	2014	Miscellaneous Chemical Products	3801 to 3807; 3809 to 3825
46	2015	Pharmaceutical Products	3001 to 3006
47	2016	Animal or Vegetable Fertilizers	3101
48	2017	Mineral or Chemical Fertilizers - Nitrogenous	3102
49	2018	Mineral or Chemical Fertilizers - Phosphatic	3103
50	2019	Mineral or Chemical Fertilizers - Potassic	3104
51	2020	Mineral or Chemical Fertilizers - Others	3105
52	2021	Tanning Substances	3201 to 3202
53	2022	Colours, Dyes and Pigments	3203 to 3207; 3212
54	2023	Paints and Varnishes	3208 to 3211
55	2024	Inks and Colours	3213; 3215
56	2025	Plasters and Fillers	3214
57	2026	Essential Oils	3301 to 3302
58	2027	Personal Care Products	3303 to 3307; 8212; 9615 to 9616
59	2028	Soaps, Detergents and Cleaning Agents	3401 to 3402
60	2029	Lubricating Preparations	3403
61	2030	Waxes and Wax Products	3404 to 3407
62	2031	Explosives	3601 to 3603
63	2032	Fireworks, Matches and Combustible Materials	3604 to 3606
64	2033	Photographic and Cinematographic Goods	3701 to 3707
65	2034	Insecticides	3808
66	2035	Chemicals - Plastics and Polymers	3901 to 3915
67	2036	Articles of Plastics and Polymers	3916 to 3926
68	2037	Rubber and Rubber Products	4001 to 4010; 4014 to 4017



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Serial Number	Product or Activity Group Code	Name of the Product or Activity Group	Central Excise Tariff Act (CETA) Chapter Headings covered in the Product or Activity Group
69	2038	Rubber Tyres and Tubes	4011 to 4013
70	3001	Raw Hides, Skins and Leather	4101 to 4107; 4112 to 4115
71	3002	Leather Products	4201 to 4203; 4205 to 4206
72	3003	Furskins and Fur Products	4301 to 4304
73	3004	Wood and Wood Products	4401 to 4421
74	3005	Cork and Cork Products	4501 to 4504
75	3006	Straw and Plaiting materials	4601 to 4602
76	3007	Pulp of Wood and other substances	4701 to 4707
77	3008	Newsprint	4801
78	3009	Paper and Paperboard	4802 to 4813
79	3010	Articles of Paper and Paperboard	4814; 4816 to 4823
80	3011	Printing and Publishing	4901 to 4911
81	3012	Silk	5001 to 5003
82	3013	Silk Yarn	5004 to 5006
83	3014	Silk Fabrics	5007
84	3015	Wool	5101 to 5105
85	3016	Wool Yarn	5106 to 5110
86	3017	Wool Fabrics	5111 to 5113
87	3018	Cotton	5201 to 5203
88	3019	Sewing Thread	5204; 5401
89	3020	Cotton Yarn	5205 to 5207
90	3021	Cotton Fabrics	5208 to 5212
91	3022	Other Textile Yarns or Fibers	5301 to 5303; 5305 to 5308
92	3023	Other Textile Fabrics	5309 to 5311
93	3024	Synthetic Yarns or Fibers	5402 to 5406; 5501 to 5511; 5601 to 5609
94	3025	Synthetic Fabrics	5407 to 5408; 5512 to 5516
95	3026	Carpets and textile floor coverings	5701 to 5705
96	3027	Other Textile Fabrics or Products	5801 to 5811; 5901 to 5911; 6301; 6305 to 6310
97	3028	Knitted or Crocheted Fabrics	6001 to 6006
98	3029	Apparel and Clothing	6101 to 6117; 6201 to 6217
99	3030	Furnishings	6302 to 6304
100	3031	Footwear and Parts thereof	6401 to 6406



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Serial Number	Product or Activity Group Code	Name of the Product or Activity Group	Central Excise Tariff Act (CETA) Chapter Headings covered in the Product or Activity Group
101	3032	Headgear and Parts thereof	6501 to 6502; 6504 to 6507
102	3033	Umbrellas, Sticks etc.	6601 to 6603
103	3034	Articles of Skins and other parts of birds	6701
104	3035	Artificial Flowers and Fruits	6702
105	3036	Articles of Stones, Plaster, Cement, Asbestos and Mica	6801 to 6815
106	3037	Ceramic Products	6901 to 6914
107	3038	Glass and Glass Products	7001 to 7011; 7013 to 7020
108	3039	Pearls, Diamonds, Stones and Jewellery Articles	7101 to 7118
109	4001	Primary Ferrous Materials	7201 to 7205
110	4002	Iron and Non-Alloy Steel	7206 to 7217
111	4003	Stainless Steel	7218 to 7223
112	4004	Other Alloy or Non-Alloy Steel	7224 to 7229
113	4005	Steel Products	7301 to 7326
114	4006	Copper and Copper Products	7401 to 7413; 7415; 7418 to 7419
115	4007	Nickel and Nickel Products	7501 to 7508
116	4008	Aluminium and Aluminium Products	7601 to 7616
117	4009	Lead and Lead Products	7801 to 7802; 7804; 7806
118	4010	Zinc and Zinc Products	7901 to 7905; 7907
119	4011	Tin and Tin Products	8001 to 8003; 8007
120	4012	Other Base Metals and their Products	8101 to 8113; 8301 to 8311
121	4013	Hand Tools	8201 to 8211; 8213 to 8215
122	4014	Nuclear Reactors and Accessories	8401
123	4015	Boilers and Accessories	8402 to 8404
124	4016	Engines or Motors and parts thereof	8405 to 8412
125	4017	Machinery and Mechanical appliances	8413 to 8484; 8486 to 8487
126	4018	Electric Motors, Generators, Transformers and Parts thereof	8501 to 8505
127	4019	Batteries and Accumulators	8506 to 8507
128	4020	Electrical and Electronic Equipments or Appliances	8508 to 8519; 8521 to 8523; 8525 to 8548
129	4021	Railway Rolling Stock	8601 to 8606



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Serial Number	Product or Activity Group Code	Name of the Product or Activity Group	Central Excise Tariff Act (CETA) Chapter Headings covered in the Product or Activity Group
130	4022	Parts of Railway Rolling Stock	8607
131	4023	Railway Track Fixtures and Fittings	8608
132	4024	Containers	8609
133	4025	Commercial Vehicles (3 or more wheels)	8701; 8704 to 8707; 8709; 8716
134	4026	Passenger Vehicles (4 or more wheels)	8702 to 8703
135	4027	Parts and Accessories of Vehicles	8708; 8714
136	4028	Tanks and Armoured Vehicles and parts thereof	8710
137	4029	Passenger Vehicles (2 and 3 Wheelers) - Motorised	8711; 8713
138	4030	Passenger Vehicles (2 or 3 Wheelers) - Non Motorised	8712; 8713; 8715
139	4031	Non-powered Aircraft and parts thereof	8801; 8803
140	4032	Aircraft, Spacecraft and parts thereof	8802 to 8803; 8805
141	4033	Parachutes and Rotochutes	8804
142	4034	Ships and Boats	8901 to 8904
143	4035	Floating Structures	8905 to 8908
144	4036	Optical Equipments and parts thereof	9001 to 9005; 9012 to 9013; 9033
145	4037	Photographic or Cinematographic Equipment and parts thereof	9006 to 9008; 9010 to 9011; 9033
146	4038	Measuring Instruments and parts thereof	9014 to 9017; 9023 to 9033
147	4039	Surgical or Medical Instrument and parts thereof	9018 to 9022; 9033
148	4040	Clocks or Watches and Parts thereof	9101 to 9114
149	4041	Musical Instruments and Parts thereof	9201 to 9202; 9205 to 9209
150	4042	Arms or Ammunition and Parts thereof	9301 to 9307
151	4043	Medical or Vehicular or other Furniture and Mattress and parts thereof	9401 to 9404
152	4044	Lights and Fittings	9405
153	4045	Prefabricated Buildings	9406
154	4046	Toys, games and sports Equipments	9503 to 9508



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Serial Number	Product or Activity Group Code	Name of the Product or Activity Group	Central Excise Tariff Act (CETA) Chapter Headings covered in the Product or Activity Group
155	4047	Stationery Items	9608 to 9612
156	4048	Miscellaneous manufactured articles	9601 to 9607; 9613 to 9614; 9617 to 9618
157	4100	Ancillary products or activities not elsewhere specified	As Applicable
158	5001	Construction of residential buildings	Not Applicable
159	5002	Construction of non-residential buildings	Not Applicable
160	5003	Construction of highways, roads, rails, bridges, etc.	Not Applicable
161	5004	Construction of industrial and non-industrial plants, structures and facilities	Not Applicable
162	5005	Laying of pipelines, communication and power lines	Not Applicable
163	5006	Other construction activities not elsewhere specified	Not Applicable
164	5051	Real estate development activities	Not Applicable
165	5061	Architectural and engineering services	Not Applicable
166	5071	Construction and real estate related services	Not Applicable
167	5101	Basic telephone services - wired and WLL	Not Applicable
168	5102	Cellular mobile telephone services - wireless and WLL	Not Applicable
169	5103	Internet and broadband services	Not Applicable
170	5104	National long distance services	Not Applicable
171	5105	International long distance services	Not Applicable
172	5106	Public mobile radio trunk services	Not Applicable
173	5107	Global mobile personal communication services	Not Applicable
174	5108	Passive telecom infrastructure and tower facilities	Not Applicable
175	5109	Cable landing stations	Not Applicable
176	5121	Broadcasting and related services	Not Applicable



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Serial Number	Product or Activity Group Code	Name of the Product or Activity Group	Central Excise Tariff Act (CETA) Chapter Headings covered in the Product or Activity Group
177	5131	Performing art and entertainment services	Not Applicable
178	5141	Other communication services not elsewhere specified	Not Applicable
179	5201	Publishing of newspapers, journals and periodicals	Not Applicable
180	5202	Book publishing	Not Applicable
181	5203	Advertising services	Not Applicable
182	5204	News agency activities	Not Applicable
183	5301	Transportation of passengers - by road	Not Applicable
184	5302	Transportation of passengers - by rail	Not Applicable
185	5303	Transportation of passengers - by water	Not Applicable
186	5304	Transportation of passengers - by air	Not Applicable
187	5401	Transportation or distribution of goods - by road	Not Applicable
188	5402	Transportation or distribution of goods - by rail	Not Applicable
189	5403	Transportation or distribution of goods - by water	Not Applicable
190	5404	Transportation or distribution of goods - by air	Not Applicable
191	5405	Transportation or distribution of goods - by pipeline	Not Applicable
192	5406	Transmission or distribution of electricity	Not Applicable
193	5411	Cargo and baggage handling activities	Not Applicable
194	5421	Service activities incidental to transportation	Not Applicable
195	5431	Storage and warehousing activities	Not Applicable
196	5441	Port activities	Not Applicable
197	5451	Rental services of transport vehicles	Not Applicable
198	5461	Tours and travel activities	Not Applicable
199	6001	Banking services	Not Applicable
200	6002	Non-banking financial services	Not Applicable



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Serial Number	Product or Activity Group Code	Name of the Product or Activity Group	Central Excise Tariff Act (CETA) Chapter Headings covered in the Product or Activity Group
201	6003	Investment banking services	Not Applicable
202	6004	Financial leasing services	Not Applicable
203	6005	Services auxiliary to banking and financial services	Not Applicable
204	6006	Leasing or rental of tangible assets	Not Applicable
205	6007	Leasing of non-financial intangible assets	Not Applicable
206	6101	Life insurance services	Not Applicable
207	6102	Non-life insurance services	Not Applicable
208	6103	Reinsurance services	Not Applicable
209	6104	Pension services	Not Applicable
210	6201	Brokerage and agency services	Not Applicable
211	6202	Market intermediaries' services	Not Applicable
212	6301	Postal services	Not Applicable
213	6302	Courier services	Not Applicable
214	6401	Accounting, auditing and bookkeeping services	Not Applicable
215	6402	Management consulting services	Not Applicable
216	6403	Legal services	Not Applicable
217	6404	Human Resource placement and management services	Not Applicable
218	6405	Business support services	Not Applicable
219	6406	Research and experimental development services	Not Applicable
220	6407	Other professional services	Not Applicable
221	6501	Education services	Not Applicable
222	6502	Human healthcare services	Not Applicable
223	6503	Veterinary services	Not Applicable
224	6504	Sports, amusement and recreational activities	Not Applicable
225	6505	Other personal service activities	Not Applicable
226	6506	Other social services	Not Applicable
227	6601	Accommodation, food and beverage services	Not Applicable



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Serial Number	Product or Activity Group Code	Name of the Product or Activity Group	Central Excise Tariff Act (CETA) Chapter Headings covered in the Product or Activity Group
228	6701	Collection and waste management activities	Not Applicable
229	6702	Dyeing, colouring, washing and dry-cleaning services	Not Applicable
230	6703	General cleaning services	Not Applicable
231	6704	Installation, maintenance and repair services	Not Applicable
232	6705	Investigation and security services	Not Applicable
233	6706	Market research and public opinion polling services	Not Applicable
234	6707	Packaging activities	Not Applicable
235	6708	Photographic services	Not Applicable
236	6801	Information technology (IT) and IT enabled services	Not Applicable
237	6901	General public administration services	Not Applicable
238	7001	Any other service activity not elsewhere specified	Not Applicable
239	8001	Wholesale trade of agricultural raw materials and live animals	Not Applicable
240	8002	Wholesale trade of food, beverages and tobacco [includes fruits, vegetables, dairy products, etc.]	Not Applicable
241	8003	Wholesale trade of textiles, clothing and footwear	Not Applicable
242	8004	Wholesale trade of household appliances, articles and equipments	Not Applicable
243	8005	Wholesale trade of miscellaneous consumer goods	Not Applicable
244	8006	Wholesale trade of construction materials and hardware	Not Applicable
245	8007	Wholesale trade of chemical and pharmaceutical products	Not Applicable
246	8008	Wholesale trade of personal care products	Not Applicable



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Serial Number	Product or Activity Group Code	Name of the Product or Activity Group	Central Excise Tariff Act (CETA) Chapter Headings covered in the Product or Activity Group
247	8009	Wholesale trade of machinery, equipment and supplies	Not Applicable
248	8010	Wholesale trade of solid, liquid and gaseous fuels and related products	Not Applicable
249	8011	Wholesale trade of ores, minerals, metals and articles thereof	Not Applicable
250	8012	Wholesale trade of stones, pearls and precious metals	Not Applicable
251	8013	Wholesale trade of other products not elsewhere specified	Not Applicable
252	9001	Retail trade of agricultural raw materials and live animals	Not Applicable
253	9002	Retail trade of food, beverages and tobacco [includes fruits, vegetables, dairy products, etc.]	Not Applicable
254	9003	Retail trade of textiles, clothing and footwear	Not Applicable
255	9004	Retail trade of household appliances, articles and equipments	Not Applicable
256	9005	Retail trade of miscellaneous consumer goods	Not Applicable
257	9006	Retail trade of construction materials and hardware	Not Applicable
258	9007	Retail trade of chemical and pharmaceutical products	Not Applicable
259	9008	Retail trade of personal care products	Not Applicable
260	9009	Retail trade of machinery, equipment and supplies	Not Applicable
261	9010	Retail trade of solid, liquid and gaseous fuels and related products	Not Applicable
262	9011	Retail trade of ores, minerals, metals and articles thereof	Not Applicable
263	9012	Retail trade of stones, pearls and precious metals	Not Applicable



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Serial Number	Product or Activity Group Code	Name of the Product or Activity Group	Central Excise Tariff Act (CETA) Chapter Headings covered in the Product or Activity Group
264	9013	Retail trade of vehicles	Not Applicable
265	9014	Retail trade of other products not elsewhere specified	Not Applicable
266	9015	Retail sale of any product via mail order, Internet, television, radio and telephone, etc.	Not Applicable
267	9016	Retail sale of any product not in stores, stalls or markets	Not Applicable

NOTES:

1. The Product or Activity Group classification do not have any correlation with the industry name mentioned in the Cost Audit Orders issued by the Central Government under section 233B of the Companies Act, 1956.
2. In case of any Product or Activity Group where multiple units of measurement are in use for the products or activities covered therein, then the relevant Product or Activity Group shall be repeated against each unit of measurement separately.
3. Wherever same Central Excise Tariff Act (CETA) Chapter Headings have been shown against two or more Product or Activity Groups, the actual details shall be shown against the most appropriate Product or Activity Group.

[F. No. 52/2/CAB-2012]

B.B.GOYAL
ADVISER (COST)



CHAPTER 9

FORM I-XBRL for filing the Cost Audit Report in XBRL Format

The Companies (Cost Audit Report) Rules 2011 notified by the Ministry of Corporate Affairs vide G.S.R. 430(E) dated 3rd June 2011 prescribed “Form-I” for filing cost audit report and other documents with the Central Government in the electronic mode. The Ministry of Corporate Affairs vide General Circular No. 8/2012 dated May 10, 2012 has mandated filing of Cost Audit Reports and Compliance Reports in XBRL format from the financial year 2011-12 (including the overdue reports relating to any previous year). To enable filing of Cost Audit Report in XBRL Format, the Ministry of Corporate Affairs vide G.S.R. dated 30th November 2012 amended rules to be called “The Companies (Cost Audit Report) Amendment Rules, 2012”. These rules have come into force with effect from the 2nd December, 2012.

The table below shows comparison between old and amended Rules:

Rule/ clause No.	As per the Companies (Cost Audit Report) Rules 2011 dated 3 rd June 2011	The Companies (Cost Audit Report) Amendment Rules, 2012
Rule 2 clause (c)	Form-I” means the Form prescribed in these rules for filing cost audit report and other documents with the Central Government in the electronic mode;	“Form I-XBRL” means the Form prescribed in these rules for filing cost audit report and other documents with the Central Government in the electronic mode and in the manner prescribed under rule 5 of the Companies (Filing of Documents and Forms in Extensible Business Reporting Language) Rules, 2011’
Rule 2 clause (d)	“Form-II” means the Form of the cost auditor’s report and includes auditor’s observations and suggestions, and Annexure to the cost audit report;	‘(d) “Form-II” means the Form of the cost auditor’s report and includes auditor’s observations and suggestions, and Annexure to the cost audit report and further includes the data or information required to be filed with the Central Government in the manner prescribed under rule 5 of the Companies (Filing of Documents and Forms in Extensible Business Reporting Language) Rules, 2011’
Rule 2 clause (g)	“Product Group” in relation to tangible	“Product or Activity Group” means the



	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;	product or activity groups notified vide S.O. 1747(E), dated the 7th August, 2012'

New Form I (e-form) for filing the Cost Audit Report in XBRL Format is given below:



The Institute of Cost Accountants of India

FORM I-XBRL

[Pursuant to section 233B(4), 600(3)(b) of the Companies Act, 1956 and Companies (Cost Audit Report) Rules, 2011]

Form for filing XBRL document in respect of cost audit report and other documents with the Central Government

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

1.(a) *Corporate identity number (CIN) of company or foreign company registration number (FCRN) of the company		Pre-fill
(b) Global location number (GLN) of company		
2.(a) Name of the company		
(b) Address of the registered office or of the principal place of business in India of the company		
(c) *e-mail ID of the company		
3. *Financial year covered by the cost audit report	From (DD/MM/YYYY)	
	To (DD/MM/YYYY)	

Attachments

1. *XBRL document in respect of the cost audit report	Attach	List of attachments Remove attachment
2. Optional attachment(s) - if any	Attach	

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 authorised by the Board of directors' resolution number dated (DD/MM/YYYY) to sign and submit this form.
- ☐ I am authorised to sign and submit this form.
- * ☐ It is confirmed that the attached XBRL document(s) are the XBRL converted copy(s) of the duly signed cost audit report as required under Section 233B(4) and Section 600(3)(b) of the Companies Act, 1956 and the rules made thereunder. It is further confirmed that such document(s) have been prepared using XBRL taxonomy as notified under Companies (Filing of documents and forms in eXtensible Business Reporting Language) Rules, 2011

To be digitally signed by

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

*Designation		
DIN of the director or Managing Director; or		
Income-tax PAN of the manager or authorised 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		
DIN of the director		
*Cost auditor		
* Membership number of cost auditor		
*Whether associate or fellow	☐ Associate ☐ Fellow	

Modify	Check Form	Prescrutiny	Submit

This eForm has been taken on file maintained by the Central Government through electronic mode and on the basis of statement of correctness given by the company



CHAPTER 10

Form of the Cost Audit Report [Form II]

(See Rule 2 and Rule 6)

As per the Companies (Cost Audit Report) Rules, 2011 the cost audit report is to be prepared in Form-II introduced by the Companies (Cost Audit Report) Rules, 2011.

The opening para of cost audit report in Form II reads as under:

"I/we,..... having been appointed as Cost Auditor (s) under Section 233B of the Companies Act, 1956 I1 of 1956) 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 audited the books of account prescribed under clause (d) of sub-section (1) of section 209 of the said act, and other relevant records in respect of the (mentions name/s of product group/s) for the period/year..... (mention the financial year) maintained by the company and report, in addition to my/our observations and suggestions in para 2."

Comments:

Explanations for the First Paragraph of the Cost Audit Report in Form II The opening paragraph of the new form of the cost audit report in Form II requires the auditor to state:

- The name of the "Cost Auditor"
- That he/they have been appointed as "Cost Auditor" under Section 233B of the Companies Act, 1956.
- Name of the Company
- Registered office address of the Company.
- That he/they have audited the books of account prescribed under clause (d) of sub-section (1) of Section 209 of the said Act, and other relevant records in respect of the (mentions name/s of product group/s) for the period/year..... (mention the financial year) maintained by the Company.
- That the cost auditor reports on matters required by para (i) to (viii) of the opening paragraph in addition to his observations and suggestions in para 2 of the main cost audit report.



- (i) *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 audit.*
- (ii) *In my/our opinion, proper cost records, as per Companies (Cost Audit Report) 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 the product/activity groups under reference.*
- (iii) *In my/our opinion, proper returns adequate for the purpose of the Cost Audit have/have not been received from the branches not visited by me/us.*
- (iv) *In my/our opinion and to the best of my/our information, the said books and records give/do not give the information required by the Companies Act, 1956, in the manner so required.*
- (v) *In my/our opinion, the said books and records are/are not in conformity with the Cost Accounting Standards issued by The Institute of Cost Accountants of India; to the extent these are found to be relevant and applicable.*
- (vi) *In my/our opinion, company has/has not adequate system of internal audit of cost records which to my/our opinion is commensurate to its nature and size of its business.*
- (vii) *Detailed unit-wise and product/activity-wise cost statements and schedules thereto in respect of the product groups/activities under reference of the company duly audited and certified by me/us are/are not kept in the company.*
- (viii) *As required under the provisions of The Companies (Cost Audit Report) Rules, 2011, I/we have furnished Performance Appraisal Report, to the company, on the prescribed form.*

Comments:

10.1 Notes:

The following points are important:

10.1.1 As per Note 1 below the main report in Form II, the cost auditor should delete words not applicable in “I/We”, “have/had” and in “my/our” .

10.1.2 Note 2 below the main report in Form II states as below:

“If as a result of the examination of the books of account, the Cost Auditor desires to point out any material deficiency or give a qualified report, he shall indicate the same against the relevant paras (i) to



(viii) only in the prescribed form of the Cost Audit Report giving details of discrepancies he has come across.”

Accordingly, if the cost auditor wishes to point out a material discrepancy or give a qualified report in this regard, he should clearly indicate the same against item (i) itself in Form II.

10.2 Materiality:

10.2.1 Material items may mean to include those items the knowledge and information of which could individually or collectively, influence the judgment and economic decision of the user of the Cost Statements.

Deficiency means the lack, shortage or insufficiency.

10.2.2 Materiality depends upon the relative importance or relevance of any item included in or omitted from Books of Accounts or Financial Statements or of any procedure or change in procedure that conceivably might affect such statements. The size or nature of the item, or a combination of both, could be the determining factor.

It is not possible to lay down precisely either in terms of specific items or in terms of amounts, what would be considered as material in all circumstances.

Value judgments are the usual and often the only means of determining relative importance: they are based on such factors as the relative size and general characteristic of the item and the assumed responsibilities of management to shareholders, employees, Financial Institutions, lenders and creditors, Government and the public at large.

In determining the materiality, the factors of size and recurrability are the more common determinants. Improperities noticed by the auditors during the course of audit may be dealt with differently: For example:

- an impropriety may justify a qualification in the Report and the disclosure of its quantitative effect;
- others call for discussions with the management, looking to the elimination of the impropriety, at least for the future;
- still others not being significant amounts may be ignored altogether.



10.3 Qualifications:

10.3.1 When to Qualify the Report:

- a) Where the Cost Auditor finds that items in the cost statements are misstated to such an extent does not give true and fair view, he should give an adverse opinion, i.e. he should clearly state that “In my/our opinion, the company’s cost accounting records have not been properly kept so as to give a true and fair view of the cost of production, cost of sales and margin of the product under reference as prescribed under the rules.”
- b) Where the auditor is unable to form an opinion due to non-availability of appropriate records/data for whatever reason he should make a disclaimer i.e. he should mention clearly that he is unable to state whether the cost statements etc. give a true and fair view.
- c) Where the issues involved are such they do not substantially affect the results presented in the cost statements still it is necessary that the audit report should be qualified.

10.3.2 Where to make Qualifications

- a) The Note (3) clearly indicates that the short comings, lapses etc. (material deficiencies or qualifications) that may be observed by the Cost Auditor during the course of his audit must be stated in Para 1(i) to 1(viii), Para(2): observations and suggestions, if any
- b) Annexure to the Cost Audit Report on the basis of which the Cost Auditor compiles his report are to be prepared by the company and hence no views, comments by Cost Auditor can be incorporated anywhere and under any para of the Annexure to the Cost Audit Report.
- c) Any shortcomings, discrepancies observed by the Cost Auditor relating to different Paras under Annexure to the Cost Audit Report should be clearly pointed out in ‘Para 2’: “observations and suggestions”.

10.3.3 How to qualify a report

- a) Merely making a factual statement without taking exception thereto does not tantamount to qualification.
- b) Whenever the auditor wants to qualify, he should use the words ‘subject to’ in the beginning of the remark which imply that it is a qualification.
- c) Reference may be made to Sec 227 (3) (e) of the Companies Act, 1956 which states as under:



‘the auditors shall also state – *in thick type or in italics the observations or comments* of the auditors which have any adverse effect on the functioning of the company.’

As mentioned under point no. 3 to Notes of Form II to Cost Audit Report of the Companies (Cost Audit Report) Rules, 2011 that the report, suggestions, observations and conclusions given by the Cost Auditor under this paragraph shall be based on verified data, reference to which shall be made here and shall, wherever practicable, be included after the company has been afforded an opportunity to comment on them.

The Cost Auditors is expected to follow the directions as above while furnishing the cost audit report to the central government.

10.3.4 Quantifying the effect of qualification

The auditors should specify the matters in respect of which they have reservations or qualifications and the amount/ quantum involved should be brought out clear and in unambiguous manner wherever possible. If the Auditor is unable to quantify the effect of the qualifications he may rely on the basis of estimates made by the management and should clearly indicate the fact that the figures are based on the management estimates.

10.3.5 Powers and Duties of the Cost Auditor

Section 233B(2) of the Companies Act, 1956 states that the Cost Auditor shall have the same powers as the auditor of the Company has under Section 227(1) of the Companies Act. Thus, the cost auditor has the power to require from the officers of the Company such information and explanations as he may think necessary for the performance of his duties as a cost auditor.

Further, as mentioned in Master Circular No. 2/2011 dated 11th November, 2011 issued by the Ministry of Corporate Affairs, the duties of the cost accountants appointed to conduct an audit of cost accounts of the company flow directly from the provisions contained under section 233B of the Companies Act, 1956. As such they should, in strict compliance therewith and in compliance with the Cost Audit Report Rules in force, ensure that full and complete details of cost accounts are furnished in their cost audit reports.

10.3.6 Opinions

- a) Paragraph 1(ii), (iii), (iv), (v), (vi) & (vii) and Paragraph 2 of Form of the Cost Audit Report are in the nature of opinions.



- b) While qualifying the report it is important for a Cost auditor to appreciate as to which of the various items require a qualification whether they are in the nature of “statements of facts” or in the nature of “opinion”.

10.4 Independent Opinion

The Cost Auditor has to provide an independent opinion and his opinion may be guided by:

a) Compliance Report issued by a Cost Accountant.

It may be noted that the Cost Accountant referred above means member of the Institute of Cost Accountants of India (ICAI) 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.

b) Result of test checks performed considered necessary.

Based on the above, he may form an opinion as to whether proper cost accounting records have been maintained so as to give a true and fair view of the cost of production/operation, cost of sales and margin of all the product/activities of the Company.

However, if a cost accountant issuing a compliance report, is an employee of the Company in the permanent payroll, then a question about the independence of the cost accountant may arise which has to be verified by the cost auditor himself.

Many items under this Paragraphs 1 (Form II) require, a Cost Auditor to express his opinion.

An opinion expressed by a Cost auditor may be un-qualified, qualified or adverse. A Cost auditor may also disclaim the opinion.

10.5 Un-qualified opinion

Un-qualified opinion means an opinion given by cost auditor without any reservation.

If the auditor makes a statutory affirmation without reservation he is said to have given an unqualified opinion. For example:

“The cost accounting system existing in the company is adequate in compliance to Cost Accounting Standards and Generally Accepted Cost Accounting Principles (GACAP) issued by the Institute of Cost Accountants of India to determine correctly the cost of production of the product.”



10.6 Qualified opinion

Qualified Opinion means an opinion given by cost auditor subject to reservation. For example:

“The cost accounting system existing in the company is adequate to determine correctly the cost of sales of the product subject to-

system for establishing and allocating the export expenses to various Units/ product lines____.”

10.7 Adverse or Negative Opinion

Where an auditor does not agree with the affirmations to be made, he gives an adverse opinion. An adverse opinion is appropriate where the reservations or the objections of the auditor are so material that he feels that the overall view of the cost accounts is materially distorted. In such a case he must disclose the reason thereof. For example:

“The cost accounting system existing in the company is not adequate to determine correctly the cost of production of the product. The allocation of Head Office (Corporate) Expenses is done on the basis of Gross Sales quantity which has no relevance as a basis of allocation of HO expenses to different Units.”

10.8 Disclaimer of opinion

Disclaimer of opinion means where a Cost auditor states that he is unable to express an opinion because he has not been able to obtain sufficient data and information to form his opinion. For example:

“We have been unable to verify the sales value of different Product Groups separately for Unit I located at ____ and Unit II located at ____ since the sales are effected through the regional Offices and the Branches of the company wherein bifurcation of Product Group Wise sales data of each unit is not maintained. Hence we are unable to state whether the records maintained by the Company show the bifurcation of sales values between Unit I and Unit II a true and fair view of sales.”

Hence while drafting the Paragraph a cost auditor should clearly make a distinction as to what type of opinion he wants to express.

10.9 Proper Returns from Branches

The Cost auditor has to validate whether proper returns adequate for the purpose of cost audit has been received by him from all branches of the Company not visited by him. It would be pertinent to



mention that the concept of branch auditor is not prevailing in cases of cost audit and therefore, the cost auditor himself has to visit the branches if there is any materiality of activity.

10.10 Proper Books and Records

The Cost auditor has to state that in his opinion and to best of his information, the books and records give the information in the manner so required by the Companies Act, 1956.

Section 209 (1) of the Companies Act 1956, defines the meaning as to what proper books of account constitute. Cost Auditor may refer this section for his information.

10.11 Cost Accounting Standards and GACAP Issued by the Institute of Cost Accountants of India

The cost auditor has to ensure that the cost accounting records maintained and submitted to him are in conformity with the Cost Accounting Standards (CAS) and Generally Accepted Cost Accounting Principles (GACAP) issued by the Institute of Cost Accountants of India to the extent it is found relevant and applicable. The Institute of Cost Accountants of India has issued 14 Cost Accounting Standards as on date. The Institute has also issued Generally Accepted Cost Accounting Principles on 20th October, 2011. Further, as per the Companies (Cost Accounting Records) Rules, 2011 dated 3rd June 2011 and Industry Specific Cost Accounting Records Rules 2011 issued on 7th December 2011, the Cost Accounting Records are to be maintained in accordance with Generally Accepted Cost Accounting Principles (GACAP) and Cost Accounting Standards issued by the Institute of Cost Accountants of India. Accordingly, the application of Cost Accounting Standards 1 to 13 except CAS-14 is mandatory with effect from accounting period commencing on or after 1st April 2011 for preparation and certification of General Purpose Cost Accounting Statements. Cost Accounting Standard (CAS)-14 Pollution Control Cost is applicable from the Accounting Period starting from 1st April 2012. In case the cost auditor is of the opinion that the below mentioned Cost Accounting Standards have not been complied with for the preparation of the Cost Statements, it shall be his duty to make a suitable disclosure/qualification in his audit report/ certificate.

However, it is the duty of the cost auditor not merely to strike off “not applicable” words in “are/are not in conformity.” If there is any deviation from the CASs or GACAP issued by the Institute of Cost Accountants of India, merely striking off the words “are” in paragraph 1 (vi) is not enough as it would invite professional misconduct if he fails to highlight the material departures from the CAS and GACAP as issued by the Institute of Cost Accountants of India.

The Cost Accounting Standards are formulated by the Cost Accounting Standards Board (CASB) constituted in 2001 by the Institute and these CASs are issued by the Council of the Institute.



The following Table shows the date of issue of particular Cost Accounting Standard, their objective and useful for:

CAS No. and Title	Objective	Useful for
CAS 1-Classification of Cost	For preparation of Cost Statements	Assessment of excise duty and other taxes, anti-dumping measures, transfer pricing etc.
CAS 2-Capacity Determination	For determination of capacity	Proper allocation, apportionment and absorption of cost.
CAS 3- Overheads	For Collection, Allocation, Apportionment and Absorption of overheads	Determining Cost of products, services or activities
CAS 4-Cost of Production for Captive Consumption	To determine the assessable value of excisable goods used for captive consumption.	Determining Cost of products, services or activities. This is already approved and notified by Central Board of Excise & Customs (CBEC) for department and assesseees.
CAS 5- Average (equalized) Cost of Transportation	To determine averaged/ equalized transportation cost	Calculating the amount of deduction from assessable value of excisable goods, freight subsidy, Insurance claim valuation, etc.
CAS 6- Material Cost	To bring uniformity and consistency in the principles and methods of determining the material cost with reasonable accuracy in an economically feasible manner.	Applicable to all cost statements which require measurement, assignment, classification and presentation of material costs. To be followed in all cost statements requiring assurance including attestation.
CAS 7- Employee Cost	To bring uniformity and consistency in the principles and methods of determining the Employee cost with reasonable accuracy.	Applicable to cost statements which require classification, measurement, assignment, presentation and disclosure of Employee cost including those requiring attestation.
CAS 8- Cost of Utilities	To bring uniformity and consistency in the principles and	Applicable to cost statements which require classification, measurement,



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	methods of determining the Cost of Utilities with reasonable accuracy.	assignment, presentation and disclosure of Cost of Utilities including those requiring attestation.
CAS 9- Packing Material Cost	To bring uniformity and consistency in the principles and methods of determining the Packing Material Cost with reasonable accuracy.	Applicable to cost statements which require classification, measurement, assignment, presentation and disclosure of Packing Material Cost including those requiring attestation.
CAS 10- Direct Expenses	To bring uniformity and consistency in the principles and methods of determining the Direct Expenses with reasonable accuracy.	Applicable to cost statements which require classification, measurement, assignment, presentation and disclosure of Direct Expenses including those requiring attestation.
CAS 11- Administrative Overheads	To bring uniformity and consistency in the principles and methods of determining the administrative overheads with reasonable accuracy.	Applicable to cost statements, which require classification, measurement, assignment, presentation and disclosure of administrative overheads including those requiring attestation.
CAS 12- Repair and Maintenance Cost	To bring uniformity and consistency in the principles and methods of determining the Repairs and Maintenance Cost with reasonable accuracy.	Applicable to cost statements which require classification, measurement, assignment, presentation and disclosure of Repairs and Maintenance Cost including those requiring attestation.
CAS 13- Cost of Service Cost Centre	To bring uniformity and consistency in the principles and methods of determining the Cost of Service Cost Centre with reasonable accuracy.	Applicable to Cost statements, which require classification on, measurement and assignment of Cost of Service Cost Centre including those requiring attestation.
CAS14- Pollution Control Cost*	To bring uniformity and consistency in the principles and methods of determining the Pollution Control Costs with reasonable accuracy.	Applicable to Cost statements, which require classification on, measurement and assignment of pollution Control Costs including those requiring attestation.

Note:

a) *This Standard shall be effective from the period commencing on or after 1st April, 2012.



- b) *The Cost Accounting Records as required under 209(1)(a) of Companies Act, 1956 and the relevant Cost Accounting Records Rules are to be prepared in accordance with the above referred Cost Accounting Standards (CAS) and Generally Accepted Cost Accounting Principles (GACAP).*

10.12 Internal Audit of Cost Records

The Cost Auditor has to ascertain and state in regard to the system of internal audit whether:

- System of internal audit of cost records exists in the company;
- Whether such system is adequate or not;
- Whether such system is commensurate to the size of the Company and the nature of its business.

Following factors shall be considered for determining the likely adequacy of Internal Auditor's work:

- objectivity;
- technical competence of Internal Auditor;
- due professional care likely to have been exercised in carrying out internal audit; and
- likelihood of effective communication between the cost auditor and internal auditor.

The cost auditor may review the audit assignments being carried out by external agencies or the internal staff of the enterprise. The cost auditor should get itself acquainted with the extent & scope of assignment carried out by the other auditors to determine its reliability before placing reliance on the performance of these audits. The cost auditor should invariably review the process of the internal audit of cost accounting records and reports thereon. This will be a guiding factor for the cost auditor to design its own audit plan.

10.13 Product Group Wise Reporting

The cost auditor has to certify that the detailed unit wise and product/activity wise cost statements and schedules thereto in respect of the product groups/activities under reference of the Company are duly audited and are kept in the Company. These records are to be retained with the company and are not required to be submitted to the Central Government.



10.14 Performance Appraisal Report

Performance Appraisal Report has to be furnished by the cost auditor duly authenticated by him to the Board/ Audit Committee of the company in Form-III. Please note that the contents of the performance appraisal report are indicative only and more areas may be added by the cost auditor to give the true and fair view of the affairs of the Company. The cost auditor should also provide information on key performance indicators, risk assessment, mitigation, fuel/energy efficiencies, R&D expenditure and arm's length pricing of product. ***(Please refer to “Guidance Note on Performance Appraisal Report” issued by the Institute of Cost Accountants of India)***

10.15 Professional Misconduct:

The attention of the cost auditor is drawn to The Cost and Works Accountants Act, 1959 to the Second Schedule. Part 1- Professional misconduct in relation to cost accountants in practice require action by a High Court. The relevant clauses for this purpose are given below:

“A cost accountant in practice shall be deemed to be guilty of professional misconduct, if he

- (1) fails to disclose in a cost or pricing statement a material fact known to him, which is not disclosed in a cost or pricing statement but disclosure of which is necessary to make such statement not misleading;*
- (2) fails to report a material misstatement known to him to appear in a cost or pricing statement with which he is concerned in a professional capacity.*
- (3) fails to obtain sufficient information to warrant the expression of an opinion or makes exceptions which are sufficiently material to negate the expression of an opinion.*
- (4) fails to invite attention to any material departure from the generally accepted procedure of costing and pricing applicable to the circumstances.*

As stated in the above Para, failure to report or disclose material facts or misstatements would constitute professional misconduct.

10.16 Quality Review Board of the Institute of Cost Accountants of India

The Cost and Works Accountants (CWA) Act, 1959 provides for the regulation of the profession of Cost and Management Accountant in India. The CWA Act was amended in the year 2006 and sections 29A to 29D were inserted making provision for the establishment of ***“Quality Review Board (QRB)”***.



Accordingly, the Government of India, Ministry of Corporate Affairs, vide their notification no. S.O. 1693(E) dated 3rd October 2007 constituted QRB of the Institute of Cost Accountants of India for promoting “Quality” considerations in rendering various professional (*both statutory and non-statutory*) services by the Members of the Institute. The Board has been reconstituted by the Ministry of Corporate Affairs vide notification dated February 6, 2012.

The QRB of the Institute of Cost Accountants of India has brought out “**Guidance Manual for Audit Quality**” which contains the guidelines for members to improve the quality services and adherence to the various statutory and other regulatory requirements. The Manual, ‘Quality control’ covers the policies, procedures and systems that are set in an audit firm to assure that it renders professional services consistently of high quality. Undoubtedly, this would facilitate the members of the Institute to discharge their functions efficiently and effectively.

Further, the Guidance Manual for Audit Quality deals with a firm’s responsibilities for its system of quality control for audits and reviews of cost/ financial statements, and other assurance and related services engagements. The nature and extent of quality control policies and procedures to comply with this Manual would depend on a number of factors such as the size and nature of its practice, operating characteristics, geographic dispersion, organization, appropriate cost or benefit considerations and whether it is part of a network. Accordingly, the policies and procedures adopted by individual audit firms vary, so also the extent of their documentation.

Note: Members of the Institute may please note that the Cost Audit and Assurance Standards Board in its 11th meeting held on 5th October 2012 decided that pending development of the Standards on “Quality Control” the ‘Guidance Manual for Audit Quality’ issued by the Institute shall prevail in respect of all services rendered by the Cost Accountants.

For more details readers may refer Institute publication on “Guidance Manual for Audit Quality”, which can be downloaded from the following link:

<http://www.qrbicwai.in/qrb/docs/QRB-MANUAL-FINAL.pdf>

10.17 Comments on Paragraph 2

Observation and Suggestions (Refer Paragraph 2 to Cost Audit Report Rules)

Based on my/our examination of the records of the company subject to aforesaid qualifications, if any, I/we give my/our observations and suggestions on the following-



10.18 Comments:

Explanations for the Paragraph 2, Note 3 of the Cost Audit Report in Form II

The cost auditor is required to give observations and suggestions, if any, relevant to the Cost audit. The report, suggestions, observations and conclusions given by the Cost Auditor under this paragraph should be based on verified data. These should be made here and wherever practicable be included after the Company has been given an opportunity to comment on or explain them.

This Para is 'open ended'. It expects concrete, real, tangible observations and value added suggestions from the Cost Auditor. For example the Cost Auditor may recommend increase in crushing capacity in case of a sugar mill, or installation of oxygen bottling plant in case of Vanaspati industry and so on.

Hence the Note 3 to Paragraph 2 as above contemplates the following course of action:

- a) It is necessary that the report shall state the reasons for such observations and remarks particularly for the qualifications.
- b) Such observations, remarks, qualifications shall be discussed with the company management and their views be ascertained.
- c) The views/comments of the management on Cost auditors observations, remarks and qualifications should also be incorporated by the Cost auditor in his report.



CHAPTER 11

Effect of Amendments vide G.S.R. 861(E) dated 30th November in the Companies (Cost Audit Report Rules), 2011

As mentioned in the preceding Chapter that the Ministry of Corporate Affairs has amended the Companies (Cost Audit Report) Rules 2011 dated 3rd June 2011 vide G.S.R. 861(E) dated 30th November 2012 to be called “the Companies (Cost Audit Report) Amendment Rules, 2012” to enable the filing of Cost Audit Report in XBRL Format using the Costing Taxonomy published by the Ministry of Corporate Affairs. As a result of these amendments, the sub-clauses (c), (d) and (g) of Rule 2 to the Companies (Cost Audit Report) Rules, 2011 relating to Form-I, Form-II and Product Group Classification respectively were modified to enable the said filing. The above amendments read with Cost Taxonomy as published by the Ministry of Corporate Affairs have the following effects on various Rules and Clauses to the Companies (Cost Audit Report) Rules, 2011:

Reference	The Companies (Cost Audit Report Rules) 2011 (CAR)	The Companies (Cost Audit Report) Amendment Rules, 2012
Rule 2, Clause (c)	Form-I (e-form) for filing of Cost Audit Report and other Documents with Central Government	New Form I-XBRL has been prescribed. The new e-Form is very summarized and captures minimum information relating to Company like CIN, address, email id, attachments and verification by Company Representatives and Cost Auditor, since information being asked in old Form-I have been merged with Annexure to the Cost Audit Report of Form-II of XBRL Format.
Rule 2, Clause (d)	Form-II , the Form of the cost auditor's report and it includes auditor's observations and suggestions, and Annexure to the cost audit report.	Revised “Form-II” means the Form of the cost auditor's report and includes auditor's observations and suggestions, and Annexure to the cost audit report and further includes the data or information required to be filed with the Central Government in the manner prescribed under rule 5 of the Companies (Filing of Documents and Forms in Extensible Business Reporting Language) Rules, 2011.



		As mentioned in Form-I, the information to be provided under Form-I earlier now has been merged with this revised form of XBRL. The information is to be provided in this format in accordance with costing taxonomy published by the Ministry of Corporate Affairs.
Rule 2, Clause (g)	“Product Group”. The rules give the definition of “Product Group” for the purpose of reporting under various paras to the cost audit report rules 2011.	The Ministry of Corporate Affairs, vide S.O. 1747(E) dated 7th August 2012, notified Product or Activity Group which are to be used in respect of filing of cost audit report and compliance report under the Companies (Cost Audit Report) Rules, 2011 and Cost Accounting Records Rules, 2011 and any other document required to be filed either with the Registrar or with the Central Government in compliance with any provisions of the Companies Act, 1956. The said amendments have substituted clause (g) to Rule 2, and mentioned that “Product or Activity Group” means the product or activity groups notified vide S.O. 1747(E), dated the 7th August, 2012’. The effect of this amendment is that the definition provided in old Rules is not relevant and Product or Activity Group would be as per the above notification only.
Para 2	Cost Accounting Policy: The cost accounting policy with respect to various items (a) to (i) were to be provided.	As per new format, the Cost Accounting Policy has to be formulated by the Company with respect to all items excluding “in case the Company has adopted IFRS, variations (if any) in treatment of cost accounting arising out of adoption of IFRS in Financial Accounting”. This has been excluded in view of pending adoption of IFRS by India.



		Further, cost auditor in addition to giving complete “Cost Accounting Policy” of the Company, is required to give the disclosure on each of the items of the “Cost Accounting Policy” individually in the “Text Block” provided against each disclosure. The Cost Taxonomy added two more disclosure viz.: (i) Change in cost accounting policy during the reporting period; (ii) Adequacy of budgetary control system.
Para 3	Table of “Product Group Details (For the Company as a whole)”. This tables asked for details of each “Product Group” segregating it into A. “Manufactured Product Groups”, B. Service Groups and C. “Trading Activities (Product Group-wise)”, other Income and Total Income as per Audited Annual Report.	There is structural change in the “Product Group Details (For the Company as a whole)”. Revised Para 3 does not give segregation as required in the old para 3. Consequent upon Notification dated 7th August 2012 on Product Group Classification, the details relating to Product Groups are now to be provided as in the separate columns for each of the following: 1. (a) Product Group Code (b) CETA Chapter Heading [under which the reported products of the Company are classified under Central Excise Tariff Act (CETA)] In addition to above Columns, the information under this para is to be provided in the following additional column: 2. (i) Whether Previous Year Figures reported (ii) Reason for not reporting the previous year Figures.



		3. The nomenclature of following items appearing under this para 3 have been aligned with nomenclature as per Revised Schedule VI: (a) "Net Sales (net taxes duties, etc.)" to "Net revenue from Operations" (b) "Other Income" to "Other Income of Company" (c) "Total Income as per Audited Annual Report" to "Total revenue as per financial accounts" 4. Table has a 'text block' which is optional for giving information. The Cost Auditor may enter any comments or observation relevant to this para.
Para 4	Quantitative Information (for each product group separately)	Under this para, additional information relating to following is to be provided: (a) Product Group Code (b) Unit of Measurement It may be noted that there was a separate column for indicating Unit of Measurement in the table itself. Now this information is shifted above the columns. Table has a 'text block' which is optional for giving information. The Cost Auditor may enter any comments or observation relevant to this para.



Para 5	“Abridged Cost Statement (for each product group separately)”. The detail was to be provided for each of the reported Product Groups in the table form as per the following columns: (i) Unit (ii) Quantity (iii) Rate (Rs) (iv) Amount (Rs) (v) Rate Per Unit (Rs) for Current Year and Previous Year	a) There is structural change in the format of table. The beginning of the table asks for the following information: (i) Name of Product or Activity Group (ii) Name of Product or Activity Group Code (iii) Unit of Measurement b) There was no requirement of giving the quantitative information in this para. After Providing the above information, the quantitative details for “Current Year” and “Previous Year” (if applicable) is to be provided in respect of the following: (i) Production (ii) Finished Goods Purchased (iii) Finished Goods Adjustment (iv) Captive Consumption (v) Other Adjustment (vi) Quantity Sold <i>Please note the above are not new details but are to be captured from para 4 (Quantitative Information)</i> c) The details are to be provided for Current Year and Previous Year (if applicable) in the table form in respect of “Amount, and “Per Unit Cost” only for each of the line items in the Table. d) Two new elements are added in the para to table i.e. (i) Industry Specific Operating Expenses and Finished Goods Purchased



		e) Justification for adding the above elements have been provided under the explanation to this para in the separate chapter to this Guidance Note. f) In the old format of para-5, details regarding “Material Consumed” and “Utilities” were to be specified in the main table. The details of ‘Material Consumed and Utilities’ are now to be provided in the Link Tables. g) Similarly total consolidated amount related to new element- <i>Industry Specific Operating Expenses</i> is to be provided in the main table to para 5 and expense-wise details thereof have to be provided in the link table. Each Link Tables have 10-rows to show the details. How to show the details under these link tables have been explained under this para in the separate chapter. h) The label of Add/Less: Work-in-Progress Adjustments has been changed to <i>Increase/Decrease in Work-in-Progress</i> Table has a ‘text block’ which optional for giving information. The Cost Auditor may enter any comments or observation relevant to this para. i) Table has a ‘text block’ which is optional for giving information. The Cost Auditor may enter any comments or observation relevant to this para.
Para 6	Operating Ratio Analysis (for each product group separately)	In line with Para-5, two new elements have been added in Para 6 also, viz., Industry Specific Operating Expenses and Finished Goods Purchased. Table has a ‘text block’ which is optional for giving information. The Cost Auditor may enter any comments or observation relevant to this para.



Para 7	Profit Reconciliation (for the company as a whole)	The details relating to <i>“Incomes not considered in cost accounts”</i> and <i>“Expenses not considered in cost accounts”</i> were to be provided in the main table to Para 7. Now these details are to be provided to separate link table for each. End number of rows may be added to provide the details related above line items. Table has a ‘text block’ which is optional for giving information. The Cost Auditor may enter any comments or observation relevant to this para.
Para 8	Value Addition And Distribution Of Earnings (for the company as a whole)	The element names in this para have been aligned with the nomenclature used in the Revised Schedule VI. (i) Gross Sales (excluding returns) changed to <i>“Gross Sales from Operations”</i> (ii) Net Sales changed to <i>“Net Revenue from Operations”</i> Table has a ‘text block’ which is optional for giving information. The Cost Auditor may enter any comments or observation relevant to this para.
Para 9 to CAR	Financial Position And Ratio Analysis (for the company as a whole)	The element names in this para have been aligned with the nomenclature used in the Revised Schedule VI. (i) Paid Up Capital changed to <i>“Share Capital”</i> (ii) Loans (Secured & Unsecured) changed to <i>“Long-term Borrowings”</i> (iii) Gross Fixed Assets changed to <i>“Gross Tangible Assets”</i> (iv) Net Fixed Assets changed to <i>“Net Tangible Assets”</i> (v) Total Current Assets changed to <i>“Current assets excluding current investments”</i>



		(vi) Current Liabilities and Provisions changed to “Current liabilities excluding short term borrowings” (vii) Net Sales changed to “Net Revenue from Operations” Table has a ‘text block’ which is optional for giving information. The Cost Auditor may enter any comments or observation relevant to this para.
Para 10	Related Party Transactions (for the company as a whole) The table under Para 10 had the following labels: (i) Sr. No. (ii) Name & Address of the Related Party (iii) Name of the Product / Service Group (iv) Nature of Transaction (Sale, Purchase, etc.) (v) Quantity (vi) Sr. No. (vii) Name & Address of the Related Party (viii) Name of the Product / Service Group (ix) Nature of Transaction (Sale, Purchase, etc.) (x) Quantity (xi) Transfer Price (xii) Amount (xiii) Normal Price (xiv) Basis adopted to determine the Normal Price	There is structural change in the table under Para 10. The Table under the revised Para 10 has the following labels to form the table: (i) Sr. No. (ii) Product/ Service Code (Product 8-digit CETA Code or Service Code as per NIC Service Code) (iii) Product/ Service Description (iv) Name of Related Party (v) Type of Related Party (vi) Identification of related party (vii) Nature of Transaction (viii) Aggregate Quantity (ix) Average Transfer Price (x) Aggregate Amount of Transaction (xi) Average Normal Price (xii) Difference Between Average Transfer Price & Average Normal Price (xiii) Basis Adopted to determine the Normal Price



		The changes in the labels have been indicated in <i>“Bold & Italic”</i> fonts above. The following are changes with respect to information to be provided: (i) Product 8-digit CETA Code/ Service Code as per NIC Service Code, is to be provided against each related party. Information for Sale or Purchase in respect of Products and Service rendered or received is to be provided. Please note the information is to be provided Product-wise/ Service-wise and <i>not</i> “Product Group” /Service Group-wise. (ii) In the old para “Quantity”, “Transfer Price” “Amount” and “Normal Price” were to be provided for each of the transactions which have taken place during the year against each of the parties but as per revised rules, these information are to be aggregated for each <i>“Type of Related Party”</i> separately for Products and Services and is to be provided based on 8-digit CETA Code for Product and 8 digit for Services as per NIC Service Code. (iii) As per revised para, the difference between Average Transfer Price & Average Normal Price is to be provided for each transaction. (iv) As per revised para, the basis of determining Normal Price is given. The basis prescribed under this para are: (a) <i>Comparable Uncontrolled Price Method</i> (b) <i>Resale Price Method</i> (c) <i>Cost Plus Method</i> (d) <i>Profit Split Method</i> (e) <i>Transactional Net Margin Method</i> (f) <i>Any Other method</i> Table has a ‘text block’ which is optional for giving information. The Cost Auditor may enter any comments or observation relevant to this para.



Para 11	Reconciliation Of Indirect Taxes (for the company as a whole)	As per revised para the following are changes: (i) The line item 'Total Clearances' as given in the old para 11 does not find place in the modified table. (ii) CST and Other State Taxes have been added in the costing taxonomy to show the details relating to them also. (iii) In some of the cells to respective column and row, no values are required to be filled up as values for them are not applicable. Table has a 'text block' which is optional for giving information. The Cost Auditor may enter any comments or observation relevant to this para.



CHAPTER 12

ANNEXURE TO THE COST AUDIT REPORT (Form II)

12.1 Introduction

12.1.1 The Ministry of Corporate Affairs vide General Circular No. 8/2012 dated May 10, 2012 has mandated filing of Cost Audit Reports and Compliance Reports in XBRL format from the financial year 2011-12 (including the overdue reports relating to any previous year). To enable filing of Cost Audit Report in XBRL Format, the Ministry of Corporate Affairs vide G.S.R. dated 30th November 2012 amended rules to be called “The Companies (Cost Audit Report) Amendment Rules, 2012”. These amended rules prescribe filing of Cost Audit Report (Form II) in XBRL format using costing Taxonomy notified by the Ministry of Corporate Affairs.

12.1.2 The Companies (Cost Audit Report) Rules 2011 as notified by the MCA contained the cost audit report format under Form II and Annexure to the Cost Audit Report. A number of information was contained in the e-Form of Form I. In the Costing Taxonomy, the information contained under “General Information” in Para 1 of Annexure to the Cost Audit Report and the other information contained in the Form I has been merged and the entire information has now been made a part of the information required to be filed in the cost audit report. The explanation of each of the elements is provided hereinafter.

12.1.3 As per the old Cost Audit Report Rules 2001, the cost audit report was required to be filed in PDF format as an attachment to the e-Form for filing, but under the XBRL mode, a cost auditor and the company are required to file the “data” contained in the cost audit report in XBRL mode using costing taxonomy notified by the Ministry of Corporate Affairs. This data will be filed in XBRL format with proper tagging of elements defined in the costing taxonomy. The file so created in XBRL mode called “**Instance Document**” is to be attached with the e-Form.

12.1.4 The costing taxonomy defines each and every elements contained in the cost audit report. The readers may note that there are validation checks built into the taxonomy called validation tools. These tools check the correctness of computation of additions and subtractions within the tables. The costing taxonomy allows data with three decimal places. A care must be taken to round off every figure at the time of preparation of cost audit report in any spread sheet format. Unless every data is rounded off properly, spread sheet like Excel will store data with maximum decimal places though due to the formatting of the cell, the user will see the figure in 2



or three places of decimal. This will lead to inaccurate calculation of sum total and give rise to rounding off errors and the data will not get validated.

12.1.5 For details on filing of Cost Audit Report in XBRL Format, readers may refer to ***“Architecture, Training and Guidance Manual for filing Cost Audit Reports and Compliance Reports in XBRL formats”*** issued by the Institute of the Cost Accountants of India from the following link:

http://icwai.org/icwainew/docs/updates/Architectural_Training_Guidance_Manual.pdf.

However, brief description is also provided in this Guidance Note for each Para captured in the costing taxonomy for ready reference. Please note that this Guidance Note provides the explanation for filing up the concerned paras only and for e-filing, the readers are requested to refer to the above Guidance Manual on e-filing of Cost Audit Reports.

Before giving the instructions for filling up the cost audit report in XBRL Format, para-wise, brief for some of the terms relating to costing taxonomy are given below:

12.2 XBRL (eXtensible Business Reporting Language)

XBRL (eXtensible Business Reporting Language) is a language based on XML (Extensible Markup Language) family of languages. It is an open standards-based reporting system that is built to accommodate the electronic preparation and exchange of business reports around the world using internet as a medium. It has been defined specifically to meet the requirements of business and financial information.

It enables unique identifying tags to be applied to items of accounting data. The tags provide a range of information about the item, such as whether it is a monetary item, percentage or fraction. XBRL not only allows labels in any language to be applied to items, it also allows the accounting references or other subsidiary information to be added to the tags.

12.3 Benefit of having cost related data in XBRL format

Government and Regulators require cost data of different sectors for policy making. The availability of cost data [without compromising on the confidentiality] in XBRL format enables informed decision making and for sectoral studies.

With full adoption of XBRL, companies would be able to integrate its financial and cost data across its operational areas and exercise better control on its activities.

12.4 Costing Taxonomy

Costing Taxonomy is a dictionary of all cost elements required in the cost audit report and compliance report. The costing taxonomy contains the properties and interrelationships of all these cost elements for the purposes of capturing the required reporting data in XBRL format. The Costing Taxonomy and related Business Rules including sample instance documents can be downloaded from the website of MCA (<http://mca.gov.in>).

The purpose of costing taxonomy is mapping of individual cost elements of the company to the Taxonomy. The Business Rules of the Costing Taxonomy provides details of the character of individual elements of the taxonomy and the validation checks built into the system to ensure correctness of the information.

No extensions are allowed in the Costing Taxonomy. The tagging is required to be done with the elements already defined in the Costing Taxonomy and additional elements cannot be added.

12.5 Business Rules

Business Rules are for understanding the mandatory/ non-mandatory fields in the taxonomy.

12.6 Conversion of cost audit report into the XBRL format

Any of the following methods can be adopted to create the instance document required for filing of the respective reports.

- XBRL-enabled software packages developed by different software vendors which support the creation of cost reports in XBRL format can be used to create the necessary document.
- Various elements of Cost Audit Report and Compliance Report can be mapped into XBRL tags of the costing taxonomy using specialised XBRL software tools specifically designed for this purpose.
- Different third party packages can be integrated into the existing accounting systems to generate XBRL Cost statements.
- There are various web based applications available that take input reports in various formats viz. Microsoft Excel etc. and transform them into XBRL format.



- The methodology adopted by an individual company will depend on its requirements and the cost accounting software and systems being used and other factors.

12.7 Instance document

Instance document contains the facts and related information corresponding to the concepts defined in the costing taxonomy relating to Form II and Annexure to Cost Audit Report. The file so created in XBRL format using the costing elements is called **“Instance Document”** and is to be attached with the e-Form.

12.8 Instructions for filling up Annexure to Cost Audit Report

Costing Taxonomy relating to Cost Audit Report has the following Paras:

12.8.1 A. GENERAL INFORMATION: (Para 1- Part A)

The costing taxonomy has the following elements under the General Information:

[100100] General information
<i>General information [abstract]</i>
<i>Corporate identity number or foreign company registration number</i>
<i>Name of company</i>
<i>Address of registered office or of principal place of business in India of company</i>
<i>Address of corporate office of company</i>
<i>Email address of company</i>
<i>Current financial year [abstract]</i>
<i>Date of start of reporting period</i>
<i>Date of end of reporting period</i>
<i>First previous financial year [abstract]</i>
<i>Date of start of first previous financial year</i>
<i>Date of end of first previous financial year</i>
<i>Level of rounding used in cost statements</i>
<i>Reporting currency of entity</i>
<i>Number of cost auditor(s) for reporting period</i>
<i>Date of board of directors' meeting in which annexure to cost audit report was approved</i>
<i>Whether cost auditors report has been qualified or has any reservations or contains adverse remarks</i>
<i>Consolidated qualifications, reservations or adverse remarks of all cost auditors [text block]</i>
<i>Consolidated observations or suggestions of all cost auditors [text block]</i>
<i>Whether company has related party transactions for sale or purchase of goods or services</i>



Para wise instructions to fill up Annexure to Cost Audit Report are given below. Please note some of the fields are to be filled mandatorily and cannot be left blank because there are validation checks built into the taxonomy and validation tools.

Note on Para-1(Part-A) filling

1. **Corporate identity number or foreign company registration number:** Provide valid CIN/FCRN Number of the Company which should be same as per MCA Database. This is a mandatory field.
2. **Name of company:** Enter the name of the Company which should be based on CIN or FCRN as applicable and as per MCA Database. This is a mandatory field.
3. **Address of registered office or of principal place of business in India of company:** Enter registered office address. In case of a foreign company, enter address of principal place of business as per MCA Database. This is a mandatory field.
4. **Address of corporate office of company:** Enter corporate office address. In case it is the same as registered office, enter registered office address as per MCA Database. This is a mandatory field.
5. **Email address of company:** Enter email address of the company as per MCA Database. This is a mandatory field.
6. **Date of start of reporting period:** Enter date of start of reporting period. The format would depend on the tool being used. The date should be greater than or equal to date of incorporation in case of Indian company or date of establishment of place of business in case of foreign company and should be less than or equal to system date. This is a mandatory field.
7. **Date of end of reporting period:** Enter date of end of reporting period. The format would depend on the tool being used. The date should be less than or equal to system date and greater than or equal to Start Date of Reporting Period. Difference between start date and end date should not be greater than 18 months. This is a mandatory field.
8. **Date of start of first previous financial year:** Enter beginning date of the immediately preceding financial year. The requirement of furnishing data of 2nd previous year in respect of certain paras has been dispensed with. This is a mandatory field.
9. **Date of end of first previous financial year:** Enter end date of the 1st previous year. This is a mandatory field.
10. **Level of rounding used in cost statements:** Enter level of rounding off used for the report, e.g., crores, lakhs, thousands, millions, etc. It is to be noted that the selected rounding off of figures must be adopted uniformly across the report for every para. This is a mandatory field.
11. **Reporting currency of entity:** The currency of reporting is INR. This is a mandatory field.



12. **Number of cost auditor(s) for reporting period:** Enter number of cost auditors. It is to be noted that only one cost audit report can be filed by a company irrespective of number of product-groups or cost auditors. The MCA General Circular No. 68/2011 dated 30/11/2011 had allowed submission of multiple reports in case there are multiple auditors for different products of a company. However, with the issue of Costing Taxonomy and requirements mentioned therein, it is to be noted that a **Company would be able to file only a single report even in cases where it has appointed multiple cost auditors for different products**. In other words, only the designated Lead Auditor is required to file the cost audit report for the company as a whole. This is a mandatory field.
13. **Date of board of directors meeting in which annexure to cost audit report was approved:** Enter date of meeting of Board of Directors approving the annexure to cost audit report. This is a mandatory field.
14. **Whether cost auditors report has been qualified or has any reservations or contains adverse remarks:** This element has to be seen from the perspective of the Lead auditor. The led auditor or the single auditor should mentioned “YES/NO” taking into consideration the reports of all the cost auditors. This is a mandatory field.
15. **Consolidated qualifications, reservations or adverse remarks of all cost auditors:** Enter summary of qualifications, reservations or adverse remarks of all cost auditors. In case of a single auditor, enter qualifications, reservations or adverse remarks of the single auditor. This is a mandatory field.
16. **Consolidated observations or suggestions of all cost auditors:** Enter summary of observations or suggestions of all cost auditors. In case of a single auditor, enter observations or suggestions of the single auditor. This is a mandatory field.
17. **Whether company has related party transactions for sale or purchase of goods or services:** Enter YES/NO. If Yes is entered, then at least one member is mandatory in the relevant para for Related Party Transactions. This is a mandatory field.

12.8.2 B. Cost Audit Report (Form II) (Para 1- Part B)

[100300] Cost audit report (Form-II)
<i>Details of cost auditors [abstract]</i>
<i>Details of cost auditor [table]</i>
<i>General details of cost auditor [axis]</i>
<i>Whether cost auditor is lead auditor</i>
<i>Category of cost auditor</i>



<i>Firm's registration number</i>
<i>Name of cost auditor or cost auditors firm</i>
<i>Permanent account number of cost auditor or cost auditors firm</i>
<i>Address of cost auditor or cost auditors firm</i>
<i>Email id of cost auditor or cost auditors firm</i>
<i>Membership number of member signing report</i>
<i>Name of member signing report</i>
<i>Cost audit order date</i>
<i>Cost audit order number</i>
<i>Name of product or industry</i>
<i>SRN number of form 23C</i>
<i>SRN number of form 23C-Additional 1</i>
<i>SRN number of form 23C-Additional 2</i>
<i>SRN number of form 23C-Additional 3</i>
<i>SRN number of form 23C-Additional 4</i>
<i>SRN number of form 23D</i>
<i>SRN number of form 23D-Additional 1</i>
<i>SRN number of form 23D-Additional 2</i>
<i>SRN number of form 23D-Additional 3</i>
<i>SRN number of form 23D-Additional 4</i>
<i>Number of audit committee meeting attended by cost auditor during year</i>
<i>Date of signing cost audit report and annexure by cost auditor</i>
<i>Place of signing cost audit report and annexure by cost auditor</i>
<i>Disclosure of cost auditors qualifications or adverse remarks in cost auditors report [abstract]</i>
<i>Disclosure relating to availability of information and explanation for purpose of cost audit [text block]</i>
<i>Disclosure relating to maintenance of cost records as per applicable cost accounting records rules [text block]</i>
<i>Disclosure relating to availability of cost records of branches not visited [text block]</i>
<i>Disclosure regarding availability of information as per companies act 1956 [text block]</i>
<i>Disclosure regarding conformity of books and records with Cost Accounting Standards and GACAP [text block]</i>
<i>Disclosure relating to adequacy of internal audit of cost records [text block]</i>
<i>Disclosure relating to availability of audited and certified cost statements and schedules for each unit and each product or activity [text block]</i>
<i>Disclosure relating to submission of performance appraisal report [text block]</i>
<i>Cost auditors observations or suggestions [text block]</i>



Note on Para-1(Part-B) filling

- Details of cost auditors:** Details of all the cost auditors is required to be provided here in a table. The structure of the table has to be visualized where the first column contains the narration of the requirements and the data/information is to be provided against each element for each of the auditor(s). The number of columns for entering cost auditor details would depend on the number of cost auditors entered in the relevant field in the General Information. The table is mandatory.
- Whether cost auditor is lead auditor:** Enter/select “YES” or “NO”. This field would always be YES since the cost auditor preparing the consolidated report for filing would either be the Lead Auditor or the single auditor of the company who would in any case be the only and Lead Auditor. This is a mandatory field.
- Category of cost auditor:** Enter whether the cost auditor is a firm or a sole proprietor. An individual practising in individual name is to be considered under the Sole Proprietorship category. This is a mandatory field.
- Firm's registration number:** Enter registration number of the firm allotted by the Institute. This is a mandatory field. *[Members are advised to check the Firm Registration Number allotted to them from the portal of the Institute and enter the correct number. In case of Partnership Firms the Firm Registration number starts with “0” and in case of individuals or sole proprietors the number starts with “1”. The Firm registration number is different from the Membership Number of individual members irrespective of whether the cost auditor is a Partnership Firm or a Sole Proprietor or Individual].*
- Name of cost auditor or cost auditors firm:** Enter name of the firm or trade name of the sole proprietor (including individual). This name must be same as per the Institute of Cost Accountants of India database. This is a mandatory field.
- Permanent account number of cost auditor or cost auditors firm:** Provide PAN of firm in case the cost auditor is a Firm. In case of a sole proprietor or an individual, enter the PAN of the individual member. The individual PAN of the Partner of the Firm is not to be provided here. This is a mandatory field.
- Address of cost auditor or cost auditors firm:** Enter address of the firm as registered with the Institute. This is a mandatory field.
- Email id of cost auditor or cost auditors firm:** Enter email id of the firm. This is a mandatory field.



9. **Membership number of member signing report:** Enter membership number of the signing Partner in case a Firm is appointed as the cost auditor. In case of Sole Proprietor or individual, enter membership number of Sole Proprietor or individual. It should be a valid membership number as per the Institute of Cost Accountants of India database. This is a mandatory field.
10. **Name of member signing report:** Enter name of the member signing the report. The name should be entered as appearing in the database of the Institute. This is a mandatory field.
11. **Cost audit order date:** Enter date of the cost audit order. In case the same cost auditor has been appointed for different products/activities of the company where different cost audit orders are applicable, the details of the same cost auditor is required to be repeated from serial 1 above and the number of cost auditors should be considered to be multiple and equal to the number of applicable cost audit orders. This is a mandatory field.
12. **Cost audit order number:** Enter cost audit order number. The format shall be 52/<Alpha numeric number>/CAB/<Calendar year in four digit format> and it must be a valid cost audit order number as per MCA database in case of company specific order. In case of industry wise general orders, should be a valid Industry wise general Cost Audit Order number. In case the same cost auditor has been appointed for different products/activities of the company where different cost audit orders are applicable, the details of the same cost auditor is required to be repeated from serial 1 above and the number of cost auditors should be considered to be multiple and equal to the number of applicable cost audit orders. This is a mandatory field.
- It may be noted that for all cost audits from financial year commencing on or after 1st April 2012, only industry specific general orders would be applicable unless the report pertains to any financial year prior to financial year commencing on or after 1st April 2012.
13. **Name of product or industry:** Enter name of the applicable product or industry in the same manner as available in the cost audit orders. This is a mandatory field.
14. **SRN number of Form 23C:** Enter SRN number of Form 23C. Total 5 Rows for Form 23C have been provided. If multiple Form 23C has been filed for different products for the same cost auditor, then each of the SRN No. has to be entered. This is a mandatory field.
15. **SRN number of Form 23D:** Enter SRN No. of Form 23D. Total 5 Rows for Form 23D have been provided. If multiple Form 23D has been filed against different SRN of Form 23C, then individual SRN Nos. of Form 23D corresponding to the SRN Nos. of Form 23C is to be entered in sequence of SRN No. of Form 23C in serial 14 above.

It may be noted that the filing of Form 23D has been made mandatory for appointments of cost auditors from the financial year commencing on or after April 1, 2011. Since earlier years' reports



(prior to 2011-12) are also required to be filed in the XBRL format for which no Form 23D was applicable, hence filing of Form 23D is not mandatory for filing such cost audit reports.

16. **Number of audit committee meeting attended by cost auditor during year:** Enter number of audit committee meetings attended during the reporting period. Number can be greater than or equal to zero. This is a mandatory field.
17. **Date of signing cost audit report and annexure by cost auditor:** Enter date of signing of the report by the cost auditor. Date cannot be before date of Board meeting at which annexures to cost audit report is approved. This is a mandatory field.
18. **Place of signing cost audit report and annexure by cost auditor:** Enter name of place where the report is signed. This is a mandatory field.
18. **Disclosure of cost auditors qualifications or adverse remarks in cost auditors report**

The disclosures in this para would be the same required to be provided by a cost auditor as per notified Form-II of the Companies (Cost Audit Report) Rules 2011. In case of multiple cost auditors where the report is being filed by the Lead cost auditor, the statements of individual cost auditors would be required to be provided here verbatim as given by the individual cost auditor. All the elements are mandatory and must be completed as per requirement of the certification portion of the cost audit report.

- (i) **Disclosure relating to availability of information and explanation for purpose of cost audit:**
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 audit.
- (ii) **Disclosure relating to maintenance of cost records as per applicable cost accounting records rules:**
In my/our opinion, proper cost records, as per the applicable 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 the product/activity groups under reference.
- (iii) **Disclosure relating to availability of cost records of branches not visited:**
In my/our opinion, proper returns adequate for the purpose of the Cost Audit have/have not been received from the branches not visited by me/us.



(iv) Disclosure regarding availability of information as per Companies Act 1956:

In my/our opinion and to the best of my/our information, the said books and records give/do not give the information required by the Companies Act, 1956, in the manner so required.

(v) Disclosure regarding conformity of books and records with Cost Accounting Standards and GACAP:

In my/our opinion, the said books and records are/are not in conformity with the Cost Accounting Standards issued by The Institute of Cost Accountants of India, to the extent these are found to be relevant and applicable.

(vi) Disclosure relating to adequacy of internal audit of cost records:

In my/our opinion, company has/has not adequate system of internal audit of cost records which to my/our opinion is commensurate to its nature and size of its business.

(vii) Disclosure relating to availability of audited and certified cost statements and schedules for each unit and each product or activity:

Detailed unit-wise and product/activity-wise cost statements and schedules thereto in respect of the product groups/activities under reference of the company duly audited and certified by me/us are/are not kept in the company.

(viii) Disclosure relating to submission of performance appraisal report:

As required under the provisions of The Companies (Cost Audit Report) Rules, 2011, I/we have furnished Performance Appraisal Report, to the company, on the prescribed form.

(ix) Cost auditors observations or suggestions: Enter any observations or suggestions of the cost auditor.

12.8.3 Cost Accounting Policy (Para 2 of Annexure to Cost Audit Report)

The following are the elements for “Cost Accounting Policy” in Costing Taxonomy:

[100310] Cost accounting policy
<i>Cost accounting policy [abstract]</i>
<i>Cost accounting policy [text block]</i>
<i>Disclosure regarding identification of cost centres, cost objects and cost drivers [text block]</i>
<i>Disclosure regarding accounting for material cost including packing materials, stores and spares, employee cost, utilities and other relevant cost components [text block]</i>
<i>Disclosure regarding accounting, allocation and absorption of overheads [text block]</i>
<i>Disclosure regarding accounting for depreciation or amortization [text block]</i>
<i>Disclosure regarding accounting for by products, joint products and scraps or wastage [text block]</i>
<i>Disclosure regarding basis of inventory valuation [text block]</i>



<i>Disclosure regarding valuation of inter unit or inter company and related party transaction [text block]</i>
<i>Disclosure regarding treatment of abnormal and non-recurring costs including classification of non-cost items [text block]</i>
<i>Disclosure regarding other relevant cost accounting policy [text block]</i>
<i>Disclosure regarding changes in cost accounting policy during reporting period [text block]</i>
<i>Disclosure regarding adequacy of budgetary control system [text block]</i>

All elements in this block are mandatory. The cost auditor is required to provide the policy of the cost accounting policy of the company in respect of each of the elements given below.

- 1. Cost accounting policy*
- 2. Disclosure regarding identification of cost centres, cost objects and cost drivers*
- 3. Disclosure regarding accounting for material cost including packing materials, stores and spares, employee cost, utilities and other relevant cost components*
- 4. Disclosure regarding accounting, allocation and absorption of overheads*
- 5. Disclosure regarding accounting for depreciation or amortization*
- 6. Disclosure regarding accounting for by products, joint products and scraps or wastage*
- 7. Disclosure regarding basis of inventory valuation*
- 8. Disclosure regarding valuation of inter unit or inter-company and related party transaction*
- 9. Disclosure regarding treatment of abnormal and non-recurring costs including classification of non-cost items*
- 10. Disclosure regarding other relevant cost accounting policy*
- 11. Disclosure regarding changes in cost accounting policy during reporting period*
- 12. Disclosure regarding adequacy of budgetary control system*

Note on Para-2 filling

The paragraph mandates the description of the Cost Accounting Policy of the Company with reference to the requirements of the relevant Cost Accounting Record Rules applicable. Cost Accounting Policy of a company should state the policy adopted by the company for treatment of individual cost components in the determination of cost. The costing taxonomy requires the disclosures of each of the elements in the above table. The cost auditor should give the disclosure in “text block” for each of the line items as per above table. The disclosures required to be mentioned may be finalized and typed in



word or excel file beforehand before filling up the relevant paras in software tool and same may be copy and pasted under the relevant items.

All elements in this block are mandatory. The cost auditor is required to provide the policy of the cost accounting policy of the company in respect of each of the elements given in the table above in his cost audit report.

Readers may refer Cost Accounting Standards, Guidance on Maintenance of Cost Accounting Records and Generally Accepted Cost Accounting Principles issued by the Institute of Cost Accountants of India. Links to download the documents are as follows:

<http://members.icwai.org/members/CAR/qn-resources.asp> and <http://casbicwai.org/CASB/casb-resources.asp>

12.8.4 Product or Activity Group (Para 3)

The costing taxonomy shows the following elements relating to PARA 3:

[100320] Product or activity group
<i>Product or activity group [abstract]</i>
<i>Details of product or activity group [abstract]</i>
<i>Product or activity group [table]</i>
<i>Identification of product or activity group [axis]</i>
<i>Whether previous year figures are reported</i>
<i>Details for not reporting previous year figures [text block]</i>
<i>General information of product or activity group [abstract]</i>
<i>Name of product or activity group</i>
<i>Product or activity group code</i>
<i>Four digit CETA chapter headings included in product or activity group</i>
<i>Net operational revenue of product or activity group</i>
<i>Whether product or activity group covered under cost audit</i>
<i>Other incomes of company</i>
<i>Total revenue as per financial accounts</i>
<i>Notes to product or activity group [text block]</i>

Based on the above elements, the rendering of the above elements with imaginary figures will be as follows:



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Table 3 (Product/ Activity Group Details - for the Company as a whole)

Product or Activity Group Name	Product or Activity Group Code	CETA Chapter Heading (4 digit) of the relevant products of the company	Whether covered under cost audit (Yes 'Y' or No 'N')	Whether Previous Year's Figures Reported (Yes 'Y' or No 'N')	Net Operational Revenue of Product or Activity Group		Reason for not providing Previous Year Figures
					Current Year	Previous Year	
Marine Products	1003	0304	N		66.36	56.00	
		0306					
Vegetables	1010	0701	N		25.31	15.85	
Fruits and Nuts	1011	0804	N		44.16	35.00	
Coffee & Coffee Products	1012	0901	N		570.05	610.00	
Spices - processed or unprocessed	1014	0910	N		69.46	59.70	
Oil Seeds and Products of Oil Seeds	1016	1201	N		772.52	760.00	
Animal / Vegetable Fats & Oils	1019	1507	N		97.41	106.00	
		1511					
Sugar & Sugar Products	1020	1701	N		24.42	15.65	
Food Residues / Prepared Animal Feed	1029	2304	N		127.08	134.00	
Unmanufactured and Manufactured Tobacco	1030	2401	N		163.03	175.00	
Tobacco Products	1031	2402	N		2248.07	1567.00	
Articles of Plastics & Polymers	1130	3900	N				
Paper & Paperboard	1303	4802	Y		2235.81		
Articles of Paper & Paperboard	1304	4820	Y		343.9		



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Product or Activity Group Name	Product or Activity Group Code	CETA Chapter Heading (4 digit) of the relevant products of the company	Whether covered under cost audit (Yes 'Y' or No 'N')	Whether Previous Year's Figures Reported (Yes 'Y' or No 'N')	Net Operational Revenue of Product or Activity Group		Reason for not providing Previous Year Figures
					Current Year	Previous Year	
Printing & Publishing	1305	4903	N				
		4910					
Apparel & Clothing	1418	6202	N		187.18		
Accommodation Food and Beverage Services	5701		N		996.3		
Wholesale trade of others products not elsewhere specified	8013		N		143.1		
Retail Trade of Agricultural raw materials & live animals	8201		N		9.85		
Retail Trade of Food, Beverages and Tobacco (includes fruits, vegetables, dairy products, etc.)	8202		N		13.92		
Retail Trade of miscellaneous consumer goods	8205		N		119.34		
Other Incomes					1200.73		
Total Revenue as per financial accounts					9458.00		
Notes to product or activity group [text block]							

Note on Para-3 filling

Details under this block are required to be provided in the form of a table. The number of columns would depend on the number of Product/Activity Groups in which the company is engaged in. The value of "Net revenue from Operations in respect of each of the Product/Activity Group is to be provided for the current year as per the Annual Audited Accounts of the Company.



- 1 ***Whether previous year figures are reported:*** State Yes or No against each of the Product/Activity Group. The “Yes” or “No” regarding providing of previous year figures in this block actually relate to data in Para 4, 5 & 6 i.e., where product group-wise data is required to be provided. It may be noted that for some product/activity group, the same may have come under both cost accounting records rules and cost audit for the first time during 2011-12. In such a case, the previous year figure for the product group will not be mandatory. However, for product/activity group which was covered under any of the erstwhile cost accounting records rules, providing previous year figure is mandatory irrespective of the fact whether the product/activity group was covered under cost audit.

In certain cases, a Product/Activity Group may consist of products covered under any of the erstwhile cost accounting records rules and some of the products/activities were not covered. Due to the classification of Product/Activity Group as notified by the MCA, both the categories have now got covered under the same Product/Activity Group. In such cases, the previous year figures would pertain to only such products that were covered under cost accounting records rules during the previous year. In such cases, the Product Group should be broken up in two groups having same Product Group Number – one group containing products that are covered under cost audit and the other containing products not covered under cost audit. A suitable note in this respect should then be provided in the respective text blocks of Para 4, 5 & 6.

- 2 ***Details for not reporting previous year figures:*** If previous year figures are not provided in Para 4, 5 & 6 reasons therefor must be provided. This is a mandatory field if the response is “No” in the previous year element. The reason is required to be provided against each product group irrespective of whether it is covered under cost audit or not as per requirement of the Business Rule. It may be noted that providing previous year figures in respect of Products covered under cost audit is mandatory if the products were covered under any of the erstwhile cost accounting records rules and is not dependent on whether the products were covered under cost audit earlier.

General information of product or activity group:

- 3 ***Name of product or activity group:*** Enter name of product/activity group as per MCA Product Group classification issued by the Ministry of Corporate Affairs vide S.O. 1747(E) dated 7th August 2012. This is a mandatory field.
- 4 ***Product or activity group code:*** Enter product/activity group code as per MCA Product Group classification. This is a mandatory field.



5 **Four digit CETA chapter headings included in product or activity group:** Enter 4 digit CETA chapter headings pertaining to the products manufactured by the company comprised in the product/activity group code. If there are more than one CETA codes, then all the relevant CETA codes are to be entered separated by comma. It may be noted that only relevant CETA codes that are applicable to the products of the company are to be entered and not all the codes as per the product group notification. This is a mandatory field.

6 **Net operational revenue of product or activity group:** Enter net operational revenue of the product/activity group as per the audited financial accounts of the company. This is a mandatory field.

The product group-wise net operational revenue of the individual Product Groups including Export Incentives, if any, net of duties and taxes is to be disclosed. In case there are any incomes under the head “Other Operational Revenues” which cannot be identified with any particular Product group, the same is to be reported under Product Group Code “**4100 – Ancillary Products or Activities not elsewhere specified**”.

7 **Whether product or activity group covered under cost audit:** Enter YES/NO against each product group code. Every YES against a product group code should have at least one each corresponding para 4, para 5 and para 6. This is a mandatory field.

8 **Other incomes of company:** Enter other incomes of the company as a whole as per audited annual accounts. It is to be noted that the Other Income shown in Para 3 should be equal to Other Income shown in Para 8.

9 **Total revenue as per financial accounts:** Sum of Net Operational Revenue and Other Incomes of the company. This figure should be equal to the Net Revenue of the company as per audited annual accounts.

Total Net revenue from Operations less Other Incomes as shown in Para 3 must be equal to Net Revenue from Operations in Para 8 [i.e., Gross Revenue from Operations less Excise Duty].

Note: Under the Revised Schedule VI, the Profit and Loss Account represents the revenue of a company under (a) Revenue from Operations; (b) Other Operating Revenues; and (c) Other Incomes. The “Other Operating Revenue” can contain certain revenue incomes that cannot be directly linked to a particular product/activity group. For example, income from scrap sale is an item that is to be disclosed under “Other Operating Revenue” and such an income would arise from the operations involving all the product groups. In cost accounts, this income may be treated as a



credit to individual material cost (if directly identifiable and conform to the CAS-6) or credited to overheads. For purposes of Para 3, this is required to be shown as a part of total Revenue of the company to reconcile with the total revenue of the company as per audited annual accounts. In such cases, “Other Operating Revenues” that cannot be directly linked to a product/activity group, such items are to be shown against Product Group Code “**4100 – Ancillary Products not elsewhere specified**”.

12.8.5 Quantitative Information of Product or Activity group (Para 4)

The elements as per Costing taxonomy of Para 4 are as follows:

[100330] Quantitative information of product or activity group
<i>Quantitative information of product or activity group [abstract]</i>
<i>Product or activity group [table]</i>
<i>Identification of product or activity group [axis]</i>
<i>Name of product or activity group</i>
<i>Product or activity group code</i>
<i>Unit of measurement for product or activity group</i>
<i>Available capacity of product or activity group [abstract]</i>
<i>Installed capacity on start of reporting period</i>
<i>Capacity enhanced during reporting period</i>
<i>Capacity available through leasing arrangements</i>
<i>Capacity available through loan license or third parties</i>
<i>Available capacity of product or activity group</i>
<i>Actual production of product or activity group [abstract]</i>
<i>Self manufactured quantity</i>
<i>Quantity produced under leasing arrangements</i>
<i>Quantity produced on loan license or by third parties on job work</i>
<i>Actual production quantity</i>
<i>Production as per excise records</i>
<i>In house capacity utilization (%)</i>
<i>Finished goods purchased of product or activity group [abstract]</i>
<i>Domestic purchase of finished goods</i>
<i>Imports of finished goods</i>
<i>Total finished goods purchased</i>



<i>Stock and other adjustments of product or activity group [abstract]</i>
<i>Change in stock of finished goods</i>
<i>Self or captive consumption including samples</i>
<i>Other quantitative adjustments</i>
<i>Total stock and other adjustments</i>
<i>Available quantity for sale of product or activity group</i>
<i>Actual sales of product or activity group [abstract]</i>
<i>Domestic sales of manufactured products</i>
<i>Domestic sales of traded products</i>
<i>Export sale of manufactured products</i>
<i>Export sale of traded products</i>
<i>Total sales of product or activity group</i>
<i>Notes to quantitative information for product or activity group [text block]</i>

The rendering or presentation of Para-4 as per costing taxonomy will be as follows:

Para 4: Quantitative Information for each Product or Activity Group
(for each Product or Activity Group Separately)

Name of the Product or Activity Group:				
Product or Activity Group Code:				
Unit of Measurement of the Product or Activity Group:				
S. No.		Particulars	Current Year	Previous Year
1		Available Capacity		
	(a)	Installed Capacity on Start of Reporting Period		
	(b)	Capacity Enhanced during Reporting Period		
	(c)	Capacity Available through Leasing arrangements		
	(d)	Capacity Available through Loan License or Third Parties		
	(e)	Total available capacity		
2		Actual Production		
	(a)	Self-Manufactured Quantity		



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	(b)	Quantity Produced under leasing arrangements		
	(c)	Quantity Produced on Loan License or by Third Parties on job work		
	(d)	Total Actual Production Quantity		
3		Production as per Excise Records		
4		In House Capacity Utilization (%)		
5		Finished Goods Purchased of Product or Activity Group		
	(a)	Domestic Purchase of Finished Goods		
	(b)	Imports of Finished Goods		
	(c)	Total Finished Goods Purchased		
6		Stock and Other Adjustments		
	(a)	Changes in stock of Finished Goods		
	(b)	Self or Captive Consumption (incl. samples)		
	(c)	Other Quantitative Adjustments, if any (wastage etc)		
	(d)	Total Stock or Other Adjustments		
7		Total Available Quantity for Sale		
8		Actual Sales		
	(a)	Domestic sales of manufactured products		
	(b)	Domestic sales of traded products		
	(c)	Export sale of manufactured products		
	(d)	Export sale of traded products		
	(e)	Total Sales		
Notes to quantitative information for product or activity group [text block]				



Note on Para-4 filling

Details under this para are required to be provided for each Product Group under cost audit. The number of tables should be at least equal to the number of product groups covered under cost audit. In case a product group consists of products having different unit of measurement, then the information is required to be provided separately for the same product group for different units of measurement.

For example, Product A is measured in Kgs. and Product B is measured in litres but both Product A and Product B belong to the same Product Group. In such a situation, quantitative details of Product A and Product B is to be provided in separate statements though both the statements will be having the same Product Group name.

1. **Name of product or activity group:** Enter name of product group as per MCA Product Group classification. This is a mandatory field.
2. **Product or activity group code:** Enter product group code as per MCA Product Group classification. This is a mandatory field.
3. **Unit of measurement for product or activity group:** Enter unit of measurement of the product group. If the same product group contains different units of measurement, separate tables to be prepared for each unit of measurement. This is a mandatory field.
4. **Installed capacity on start of reporting period:** Provide details if applicable. This is a numeric field.

For example, in a paper manufacturing company, the different types of papers/boards manufactured may fall under different 4 digits CETA Code but all of these would belong to the same Product Group. Since all the different grades of paper would be manufactured under the same manufacturing facility, the capacity may be expressed in terms of Paper Machine Production capacity.

Similarly for an automobile company, where the capacity is expressed in terms of number of cars, the same would be relevant for the Product group consisting of different types of motor vehicles.

The installed capacity would not be applicable in case of say a Tea Plantation.



Further, the Installed Capacity should reflect the capacity as at the beginning of the reporting period. Any enhancement in the installed capacity would be reflected under the relevant item. The installed capacity as at the beginning of the year plus the proportionate enhancement in capacity during the period, if any, would give the total installed capacity.

5. **Capacity enhanced during reporting period:** Provide details if applicable. The figure should be entered on annualized basis. This is a numeric field.

Example: If the capacity of a Product Group is enhanced during the year for a part of the period, then enhanced capacity should be taken proportionate to period. Example: A company is following April 1 to March 31 as its accounting period. As at April 1, 2011 (beginning of the period), it has an installed capacity of 3,65,000 MT. On January 1, 2012 the company enhanced its product group capacity by another 48,000 MT. The company should consider the enhanced capacity for the period 2011-12 of $(48000 / 12 \times 3) = 12,000$ MT.

6. **Capacity available through leasing arrangements:** Provide details if applicable. This is a numeric field.

The Company might have taken on lease the complete manufacturing facility. Under this heading capacity through leasing arrangements should be contracted capacity of that plant or machinery.

7. **Capacity available through loan license or third parties:** Provide details if applicable. This is a numeric field.

Capacity available through loan license or third parties would be considered when the company is using entire production facility of another entity, i.e., the third party is having a dedicated plant for this company. Manufacturing or conversion done by a third-party on payment of conversion charges should not be considered as capacity being available under this head.

8. **Available capacity of product or activity group:** This is a sum total of all the capacities above. This is a numeric field.

9. **Self-manufactured quantity:** Production quantity manufactured by the unit(s) for all products under this "Product Group". This is a numeric field.

Self-manufactured quantity would be the total production of all products comprised in the Product Group. If the company has different manufacturing units producing the same product or products falling under the same Product Group, the sum total of all such products would be disclosed here.



10. **Quantity produced under leasing arrangements:** Quantity manufactured through machines taken on lease by the company. This is a numeric field.
11. **Quantity produced on loan license or by third parties on job work:** The quantity manufactured through some other entity under loan license basis or production obtained through third parties on job work basis. This is a numeric field.
12. **Actual production quantity:** Sum of serials 9 to 11 above. This is a numeric field.
13. **Production as per excise records:** Self-explanatory. It may be noted that the Actual production quantity need not always be equal to Production as per Excise records.
14. **In house capacity utilization (%):** To be computed as (self-manufactured quantity) expressed as a percentage of sum of (Installed Capacity at the beginning of the year+ annualized capacity enhanced during the period).
15. **Finished goods purchased of product or activity group – Domestic and Imported:** The label has been changed from 'Stock Purchased for Trading'. Since this item is included in this para meant specifically for product groups covered under cost audit, it is to be understood that products that are manufactured by the company as well as purchased as finished goods would find a place here. In case of such finished goods, it should be combined with the finished goods manufactured and the total quantity should be considered for sales and not kept out as part of "Trading Activity".

The stock purchased for trading of a product referred to here would mean only such Products comprised in the Product Group that are manufactured by the company and also procured from outside as finished products. The Trading Activity of a company in respect of products not manufactured by the company, if any, should not be confused with this item of disclosure. It is to be kept in mind that independent Trading Activity is not covered under any of the cost accounting records rules.

Example: A paper and paperboard manufacturing company is also engaged in manufacturing coated board as a value added product. The same company is also purchasing coated board from other manufacturers. The sales of coated board by the company would then comprise of both own manufactured coated board and coated board procured from outside. In this situation, the purchased coated board would be shown as "Domestic Purchase of Finished Goods".



In the above example, if the coated board is imported, such purchase and sale of imported coated board forming part of the total coated board sales of the company would be reflected under “Imports of Finished Goods”.

The quantity of total finished goods purchased should be same as in Para 5 of the corresponding product group.

16. **Stock and other adjustments of product or activity group**

- (a) ***Change in stock of finished goods:*** Difference between net quantity of opening and closing stocks of finished goods of the product group. This quantity would be same in Para 5 “Change in Stock of Finished Goods” of the respective product groups.
- (b) ***Self or captive consumption including samples:*** Quantity of self or captive consumption of products comprised in the product group. Products belonging to the Product Group used for self-consumption in the same production unit or transferred to other units of the same company. The quantity should be same as shown in Para 5 of the respective product groups.
- (c) ***Other quantitative adjustments:*** Any other quantitative adjustments like gain from waste. Other quantitative adjustment will be those which are made to arrive at the saleable production. The quantity would be same as shown in Para 5 of the respective product groups.
- (d) ***Total stock and other adjustments:*** Total of items (a), (b) and (c) above.

17. ***Available quantity for sale of product or activity group:*** Actual Production quantity plus Finished Goods Purchased minus sum of “Change in Stock of Finished Goods”, “Self or Captive Consumption including samples” and “Other Quantitative Adjustments”. The quantity of Total Sales shown here should be the same as in Para 5 of the respective product groups. This is a numeric field.

18. **Actual sales of product or activity group**

- (a) ***Domestic sales of manufactured products:*** Quantity of sales from own manufactured product/activity group in the domestic market. This is a numeric field.
- (b) ***Domestic sales of traded products:*** Traded quantity of sales of the product/activity group in the domestic market. This sale would be from the Finished Goods Purchased. This is a numeric field.



- (c) **Export sale of manufactured products:** Quantity of sales from own manufactured product/activity group exported. This is a numeric field.
- (d) **Export sale of traded products:** Traded quantity of sales of the product/activity group exported. This sale would be from the Finished Goods Purchased. This is a numeric field.
- (e) **Total sales of product or activity group:** This is sum of items 18(a) to 18(d) above. The quantity should be equal to quantity in item 17. This is a numeric field.
19. **Notes to quantitative information for product or activity group:** Enter any comments or observation relevant to this para.
- It should be indicated whether the installed capacity is on single shift or multiple shift basis.
 - In order to have a meaningful comparison of production and installed capacity, wherever necessary these details should also be expressed in appropriate units e.g. standard hours or equipment/ plant/vessel occupancy hours, crushing hours, spindle/ loom shifts, equivalent production, production in terms of standard hours etc.

Readers may refer to “**CAS – 2 (REVISED 2012) Cost Accounting Standard on Capacity Determination**” issued by the Institute of Cost Accountants of India. This standard deals with the principles and methods of classification and determination of capacity of a plant of an entity for ascertainment of the cost of product, and the presentation and disclosure in cost statements.

12.8.6 Abridged Cost Statement Of Product Or Activity Group

The elements as per the cost audit report taxonomy are as follows:

[100340] Abridged cost statement of product or activity group
<i>Abridged cost statement of product or activity group [abstract]</i>
<i>Product or activity group [table]</i>
<i>Identification of product or activity group [axis]</i>
<i>Name of product or activity group</i>
<i>Product or activity group code</i>
<i>Quantitative details of product or activity group [abstract]</i>
<i>Unit of measurement for product or activity group</i>
<i>Actual production quantity</i>
<i>Finished goods purchased</i>
<i>Stock and other adjustments of product or activity group [abstract]</i>



<i>Change in stock of finished goods</i>
<i>Self or captive consumption including samples</i>
<i>Other quantitative adjustments</i>
<i>Total stock and other adjustments</i>
<i>Sales of product or activity group</i>
<i>Cost details of product or activity group [abstract]</i>
<i>Cost of materials consumed</i>
<i>Cost of process materials or chemicals consumed</i>
<i>Cost of utilities consumed</i>
<i>Cost of direct employees</i>
<i>Cost of direct expenses</i>
<i>Cost of stores and spares consumed</i>
<i>Cost of repairs and maintenance</i>
<i>Cost of quality control</i>
<i>Cost of research and development</i>
<i>Cost of technical knowhow fee or royalty</i>
<i>Cost of depreciation or amortization</i>
<i>Cost of other production overheads</i>
<i>Cost of industry specific operating expenses</i>
<i>Total of inputs and conversion cost</i>
<i>Cost of increase/decrease in work-in-progress</i>
<i>Credits for recoveries</i>
<i>Cost of primary packing</i>
<i>Cost of production or operations</i>
<i>Cost of finished goods purchased</i>
<i>Total cost of production and purchases</i>
<i>Cost of increase/decrease in finished goods</i>
<i>Cost of self or captive consumption</i>
<i>Cost of other adjustments</i>
<i>Cost of production or operations of goods or services sold</i>
<i>Cost of administrative overheads</i>
<i>Cost of secondary packing</i>
<i>Cost of selling and distribution overheads</i>
<i>Cost of interest and financing charges</i>



<i>Cost of sales of product or activity group</i>
<i>Net sales realization of product or activity group</i>
<i>Amount of margin as per cost accounts</i>
<i>Cost per unit details of product or activity group [abstract]</i>
<i>Cost per unit of materials consumed</i>
<i>Cost per unit of process materials or chemicals consumed</i>
<i>Cost per unit of utilities consumed</i>
<i>Cost per unit of direct employees</i>
<i>Cost per unit of direct expenses</i>
<i>Cost per unit of stores and spares consumed</i>
<i>Cost per unit of repairs and maintenance</i>
<i>Cost per unit of quality control</i>
<i>Cost per unit of research and development</i>
<i>Cost per unit of technical knowhow fee or royalty</i>
<i>Cost per unit of depreciation or amortization</i>
<i>Cost per unit of other production overheads</i>
<i>Cost per unit of industry specific operating expenses</i>
<i>Cost per unit of total inputs and conversion cost</i>
<i>Cost per unit of increase/decrease in work-in-progress</i>
<i>Cost per unit of credits for recoveries</i>
<i>Cost per unit of primary packing</i>
<i>Cost per unit of production or operations</i>
<i>Cost per unit of finished goods purchased</i>
<i>Cost per unit of production and purchases</i>
<i>Cost per unit of stock and other adjustments</i>
<i>Per unit cost of production or operations of goods or services sold</i>
<i>Cost per unit of administrative overheads</i>
<i>Cost per unit of secondary packing</i>
<i>Cost per unit of selling and distribution overheads</i>
<i>Cost per unit of interest and financing charges</i>
<i>Per unit cost of sales of product or activity group</i>
<i>Per unit net sales realization of product or activity group</i>
<i>Per unit margin as per cost accounts of product or activity group</i>
<i>Notes to abridged cost statement of product or activity group [text block]</i>



The rendering or presentation of Para-5 as per costing taxonomy will be as follows:

Para 5: ABRIDGED COST STATEMENT OF PRODUCT GROUP OR ACTIVITY GROUP

(for each Product or Activity Group Separately)

Name of product or activity group:					
Product or activity group code:					
Part-I: Quantitative Details of Product or Activity Group					
Unit of measurement for product or activity group					
Particulars		Current Year		Previous Year	
A. Actual production quantity					
B. Finished goods purchased					
C. Stock and other adjustments:		Current Year	Previous Year	Current Year	Previous Year
(i) Change in stock of finished goods					
(ii) Self or captive consumption including samples					
(iii) Other quantitative adjustments					
Total stock and other adjustments [C (i) to (iii)]					
Sales of product or activity group (A+B-C)					
Part-II Cost Details and Per Unit Cost for Product or Activity Group:		Cost Details		Cost Per Unit	
Sr. No.	Particulars	Current Year		Previous Year Amount (.....)	
		Total Amount of Cost (.....)	Per Unit Cost	Total Amount of Cost (.....)	Per Unit Cost
1.	Materials Consumed <i>(please refer link table for giving details of Material Consumed)</i>				
2.	Process Materials Or Chemicals Consumed				
3.	Utilities Consumed <i>(please refer link table for giving details of Utilities Consumed)</i>				
4.	Direct Employees Cost				
5.	Direct Expenses				
6.	Stores and Spares Consumed				



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7.	Repairs & Maintenance Cost				
8.	Quality Control Expenses				
9.	Research & Development Expenses				
10.	Technical know-how Fee or Royalty cost				
11.	Depreciation or Amortization				
12.	Other Production Overheads				
13.	Industry Specific Operating Expenses (please refer link table for giving details of Industry specific operating expenses)				
14.	Total of Inputs and Conversion Cost (1 to 13)				
15.	Increase/Decrease In Work-In-Progress (+)/(-)				
16.	Less: Credits for Recoveries				
17.	Primary Packing Cost				
18.	Cost of Production or Operations (Total of 14 to 17)				
19.	Finished Goods Purchased				
20.	Total Cost of Production and Purchases (18+19)				
21.	Increase/Decrease In Finished Goods (+)/ (-)				
22.	Less: Self or Captive Consumption				
23.	Other Adjustments (+)/ (-)				
24.	Cost of Production or Operations of Goods or Services Sold (Total 20 to 23)				
25.	Administrative Overheads				
26.	Secondary Packing Cost				
27.	Selling & Distribution Overheads				
28.	Interest & Financing Charges				
29.	Cost of Sales of Product or Activity Group (Total 24 to 28)				
30.	Net Sales Realization				
31.	Amount of Margin as per Cost Accounts (30-29)				
Notes to abridged cost statement of product or activity group [text block]					

The elements as per the cost audit report taxonomy for details of material consumed are



as follows:

[100340a] Abridged cost statement-Details of material consumed
<i>Abridged cost statement of product or activity group [abstract]</i>
<i>Details of material consumed of product group [table]</i>
<i>Identification of product or activity group [axis]</i>
<i>Details of material consumed of product group [axis]</i>
<i>Details of material consumed of product group domain</i>
<i>Material consumed 1 [member]</i>
<i>Material consumed 2 [member]</i>
<i>Material consumed 3 [member]</i>
<i>Material consumed 4 [member]</i>
<i>Material consumed 5 [member]</i>
<i>Material consumed 6 [member]</i>
<i>Material consumed 7 [member]</i>
<i>Material consumed 8 [member]</i>
<i>Material consumed 9 [member]</i>
<i>Material consumed 10 [member]</i>
<i>Name of product or activity group</i>
<i>Product or activity group code</i>
<i>Details of materials consumed of product group [abstract]</i>
<i>Description of material</i>
<i>Nature of material consumed</i>
<i>Unit of material consumed</i>
<i>Quantity of material consumed</i>
<i>Rate of material consumed</i>
<i>Cost of materials consumed</i>
<i>Notes to details of materials consumed [text block]</i>

The rendering or presentation of in a table format will be as follows:

Link Table 1 - Details of Material Consumed

(forming the part of Abridged Cost Statement of Product or Activity Group)

Name of Product or Activity Group:	
Product or Activity Group Code:	



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Previous Year						Current Year		
Quantity	Rate	Amount	Description of Material	Nature of Material consumed	UOM	Quantity	Rate	Amount
			Material 1					
			Material 2					
			Material 3					
			Material 4					
			Material 5					
			Material 6					
			Material 7					
			Material 8					
			Material 9					
			Material 10					
			Total					
Notes to details of materials consumed [text block]								

The elements as per the cost audit report taxonomy for details of Utilities consumed are as follows:

[100340b] Abridged cost statement-Details of utilities
<i>Abridged cost statement of product or activity group [abstract]</i>
<i>Details of utilities of product group [table]</i>
<i>Identification of product or activity group [axis]</i>
<i>Details of utilities of product group [axis]</i>
<i>Details of utilities of product group domain</i>
<i>Utility 1 [member]</i>
<i>Utility 2 [member]</i>
<i>Utility 3 [member]</i>
<i>Utility 4 [member]</i>



Utility 5 [member]
Utility 6 [member]
Utility 7 [member]
Utility 8 [member]
Utility 9 [member]
Utility 10 [member]
Name of product or activity group
Product or activity group code
Details of utilities for product group [abstract]
Description of utilities consumed
Unit of utilities consumed
Quantity of utilities consumed
Rate of utilities consumed
Cost of utilities consumed
Notes to utilities [text block]

Based on the above elements the presentation/ rendering of details of Utilities consumed will be as follows:

Link Table 2 - Details of Utilities Consumed

(forming the part of Abridged Cost Statement of Product or Activity Group)

Name of Product or Activity Group:								
Product or Activity Group Code:								
Previous Year			Description of Utilities	Nature of Utilities consumed	UOM	Current Year		
Quantity	Rate	Amount				Quantity	Rate	Amount
			Utility 1					
			Utility 2					
			Utility 3					



			Utility 4					
			Utility 5					
			Utility 6					
			Utility 7					
			Utility 8					
			Utility 9					
			Utility 10					
			Total					

Notes to details of utilities consumed [text block]

The elements as per the cost audit report taxonomy for details of Industry Specific Operating Expenses are as follows:

[100340c] Abridged cost statement-Details of industry specific operating expenses
<i>Abridged cost statement of product or activity group [abstract]</i>
<i>Details of industry specific elements of operating expenses [table]</i>
<i>Identification of product or activity group [axis]</i>
<i>Details of industry specific elements of operating expenses [axis]</i>
<i>Details of industry specific elements of operating expenses domain</i>
<i>Industry specific expenses 1 [member]</i>
<i>Industry specific expenses 2 [member]</i>
<i>Industry specific expenses 3 [member]</i>
<i>Industry specific expenses 4 [member]</i>
<i>Industry specific expenses 5 [member]</i>
<i>Industry specific expenses 6 [member]</i>
<i>Industry specific expenses 7 [member]</i>
<i>Industry specific expenses 8 [member]</i>
<i>Industry specific expenses 9 [member]</i>
<i>Industry specific expenses 10 [member]</i>
<i>Name of product or activity group</i>
<i>Product or activity group code</i>
<i>Details of industry specific elements of operating expenses [abstract]</i>



<i>Description of industry specific elements of operating expenses</i>
<i>Cost of industry specific operating expenses</i>
<i>Notes to details of industry specific operating expenses [text block]</i>

Based on the above elements the presentation/ rendering of details of Industry Specific Operating Elements will be as follows:

**Link Table 3- Details of Industry Specific Elements of Operating Expenses
(forming the part of Abridged Cost Statement of Product or Activity Group)**

Name of Product or Activity Group:					
Product or Activity Group Code:					
Sr. No.	Description of Industry specific Operating expense	Cost		Cost per Unit	
		Current year	Previous Year	Current year	Previous Year
1.	Industry specific operating expense 1				
2.	Industry specific operating expense 2				
3.	Industry specific operating expense 3				
4.	Industry specific operating expense 4				
5.	Industry specific operating expense 5				
6.	Industry specific operating expense 6				
7.	Industry specific operating expense 7				
8.	Industry specific operating expense 8				
9.	Industry specific operating expense 9				
10.	Industry specific operating expense 10				
	Total				
Notes to details of industry specific operating expenses [text block]					

Note on Para-5 filling

1. Certain elements have been added in the Costing Taxonomy in respect of Para 5. This has been done to cater to fulfil the need that may arise in certain companies and because no extension is



- possible in the Taxonomy. To meet this requirement two new elements have been added – (1) Industry Specific Operating Expenses and (2) Finished Goods Purchased.
2. Further, to meet the technical requirement of XBRL, the structure of Para 5 has been changed for data feeding to three separate blocks – quantitative information, cost information and cost per unit information.
 3. Additional information required to be provided is the element-wise cost information in respect of the first previous year.
 4. In the old format of para-5, details regarding “Material Consumed” were to be specified in the main table. The details of Material Consumed are now to be provided in the Link Table of Material Consumed.
 5. As explained earlier, extensions are not possible in the taxonomy. In case of “Materials Consumed” or “Utilities Consumed” or the additional element of “Industry Specific Operating Expenses”, the Cost Audit Report Rules required details of materials and utilities. The number of materials and utilities would vary from industry to industry and company to company. To meet this requirement, the Taxonomy has provided Link Tables for the details of Materials Consumed, Utilities Consumed and Industry Specific Operating Expenses and the totals are reflected in the main body of the statement. For each of these items, 10 rows have been provided in the detail link table. Only major items are required to be reflected in the link tables. In case the number of items in a particular group of Material or Utility etc. is more than 10, then item-wise details of 9 major items is to be provided in descending order of value and the balance should be shown under other Materials or Utilities as the as may be. The total of each of the link tables must be equal to the total in the main table.
 6. If these cost elements are more than 10, then the top 9 major cost elements in descending order of value may be shown and the balance amount should be shown under 10th row
 7. If an amount greater than zero is indicated in the Table to para 5: Abridged Cost Statement’ against the line items ‘Material Consumed’, Utilities Consumed’ and ‘Industry Specific Operating Expenses’, then the detail is mandatorily to be indicated giving the description of material/ Utility/ Industry Specific Operating Expense in the respective Link Tables for ‘Details of Material Consumed’, ‘Details of Utilities Consumed’ and ‘Details for Industry Specific Operating Expenses’.
 8. It is to be noted that the name of the material consumed/ Utility Consumed/ Industry Specific Operating Expense is to be indicated against the element name: Material 1, Material 2 etc. or Utility



- 1, Utility 2 etc. or Industry Specific Operating Expenses as the case may be. These are to be provided sequentially and in case the number of materials or utilities or Industry Specific Operating Expenses are less than the number of rows provided (10) for each table, then only such number of rows are required to be filled in as is necessary in the respective tables and the balance rows are to be kept blank. There cannot be a blank row between two filled in rows.
9. The element of **Industry Specific Operating Expenses** has been specifically added to meet the requirement of Regulated Industry like Telecommunication or Petroleum etc. but not limited to only the Regulated Industries, where the cost elements or overheads would not match with the cost elements provided in the notified Para 5. In this case also 10 rows have been provided in the link table. If these cost elements are more than 10, then the top 9 major cost elements in descending order of value may be shown and the balance amount should be shown under 10th row.
10. The respective quantitative details must match with the corresponding item of quantity shown in Para 4 of the Product/Activity group.
11. All the elements of Para 5 under Quantitative Information and Cost Information in the Costing Taxonomy are self-explanatory.
12. Previous year figures are to be given if previous year for that Product or Activity Group Code' against which "YES" is selected against "whether previous year figures are reported" under para 3.
13. The computation of cost per unit details is explained below:
- It may be noted that the cost per unit of a cost element is mandatory if the corresponding value of such cost element is greater than zero. However, the above validation will not be applicable to the following elements-
- (i) Cost of Increase or Decrease in Finished Goods
 - (ii) Cost of Self or Captive Consumption
 - (iii) Cost of other Adjustments
 - (iv) Cost Per Unit of Stock and Other Adjustments
- The divisor of all individual cost elements from "Cost of Materials Consumed" till "Cost of Primary Packing" is the "Quantity Produced".



- “Cost per unit of total inputs and conversion cost” to be computed as the sum total of the “cost per unit of materials consumed” till “cost per unit of industry specific operating expenses”.
- “Cost per unit of production or operations” to be computed as sum total of “Cost per unit of total inputs and conversion cost” till “Cost per unit of primary packing”.
- “Cost per unit of finished goods purchased” to be computed as “Cost of finished goods purchased” divided by “Quantity of finished goods purchased”.
- Cost per unit of production and purchases” to be computed as “Total cost of production and purchases” divided by sum of “Quantity produced” and “Quantity of finished goods purchased”.
- “Cost per unit of stock and other adjustments” to be computed as difference between “Per unit cost of production or operation of goods or services sold” and “Cost per unit of production and purchases”.
- The divisor of all individual cost elements from “Cost of production or operations of goods or services sold” till “Cost of interest and financing charges” is the “Quantity Sold”.
- “Per unit cost of sales of product or activity group” to be computed as sum of cost per unit rates of “Cost of production or operations of goods or services sold” till “Cost of interest and financing charges”.
- “Per unit net sales realization of product or activity group” to be computed as “Net sales realization of product or activity group” divided by “Quantity Sold”.
- Per unit margin as per cost accounts of product or activity group” to be computed as difference between “Per unit net sales realization of product or activity group” and “Per unit cost of sales of product or activity group”.

Note: In case of a Power Distribution and Transmission Company, the cost elements from “Cost of Materials Consumed” till “Cost of Production or Operations” would not be applicable since the company would buy Power from a Generating Company and sell the same to its consumers. Consequently, it will not have any value for “Quantity Produced”. The value of Power Purchased by the company would be shown under “Cost of Finished Goods Purchased” and the corresponding quantity of Power would be shown under “Finished Goods Purchased”. However, being a Transmission and Distribution company, it would have “Industry Specific Operating Expenses” incurred for its activities which would be shown under the corresponding head in the cost statement.



In such a situation, the divisor for computation of “cost per unit of Industry Specific Operating Expenses” would be the quantity of “Finished Goods Purchased”.

14. ***In case the company follows a predetermined or standard costing system, the above cost statement should reflect figures at actual after adjustment thereof of variances, if any.*** This is relevant more in case of working out the material cost where materials are booked based on standard consumption and the actual consumption after assessing the variances is allocated based on the standards. Variances due to normal reasons should be treated as cost, while the variances due to abnormal / reasons are treated outside the cost of production. However, requirements of Cost Accounting Standard (CAS-6) - **Material Cost and GACAP**, issued by the Institute of Cost Accountants of India should be kept in mind.

Similarly allocation of overheads where they are based on standard hours needs also to be adjusted to the actual before absorbing the overheads to the product.

12.8.7 Operating Ratio Analysis of Product or Activity Group

The elements as per the cost audit report taxonomy are as follows:

[100350] Operating ratio analysis of product or activity group
<i>Operating ratio analysis of product or activity group [abstract]</i>
<i>Product or activity group [table]</i>
<i>Identification of product or activity group [axis]</i>
<i>Name of product or activity group</i>
<i>Product or activity group code</i>
<i>Ratio of materials including process materials cost (%)</i>
<i>Ratio of utilities cost (%)</i>
<i>Ratio of direct employees cost (%)</i>
<i>Ratio of direct expenses (%)</i>
<i>Ratio of stores and spares consumed (%)</i>
<i>Ratio of repairs and maintenance cost (%)</i>
<i>Ratio of depreciation and amortization cost (%)</i>
<i>Ratio of industry specific operating cost (%)</i>
<i>Ratio of Packing cost (%)</i>
<i>Ratio of other expenses (%)</i>
<i>Ratio of stock adjustments (%)</i>
<i>Ratio of production overheads (%)</i>



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<i>Ratio of finished goods purchased (%)</i>
<i>Ratio of administrative overheads (%)</i>
<i>Ratio of selling and distribution overheads (%)</i>
<i>Ratio of Interest and financing charges (%)</i>
<i>Ratio of total operating expenses (%)</i>
<i>Notes to operating ratio analysis [text block]</i>

The rendering or presentation of Para-6 as per costing taxonomy will be as follows:

Name of Product or Activity Group:			
Product or Activity Group Code:			
S. No.	Particulars	Current Year	Previous Year
Ratio of Operating Expenses to Cost of Sales (%)			
1.	Ratio of Materials including Process Materials Cost (%)		
2.	Ratio of Utilities Cost (%)		
3.	Ratio of Direct Employees Cost (%)		
4.	Ratio of Direct Expenses (%)		
5.	Ratio of Stores & Spares Consumed (%)		
6.	Ratio of Repairs & Maintenance Cost (%)		
7.	Ratio of Depreciation and Amortization Cost (%)		
8.	Ratio of Industry Specific Operating Expenses (%)		
9.	Ratio of Packing Cost (%)		
10.	Ratio of Other Expenses (%)		
11.	Ratio of Stock Adjustments (%)		
12.	Ratio of Production Overheads (%)		
13.	Ratio of Finished Goods Purchased (%)		
14.	Ratio of Administrative Overheads (%)		
15.	Ratio of Selling & Distribution Overheads (%)		
16.	Ratio of Interest & Financing Charges (%)		
17.	Ratio of Total Operating Expenses (%)		
18.	Ratio of total operating expenses (%)		
Notes to operating ratio analysis [text block]			



Note on Para-6 filling

- (i) The operating ratios of Para 6 are required to be computed on the basis of data available in the corresponding Para 5 of the respective product groups under cost audit.
- (ii) In line with Para-5, two new elements have been added in Para 6 also, viz., Industry Specific Operating Expenses and Finished Goods Purchased.
- (iii) It is to be noted that the operating ratios are calculated as a percentage of cost of sales of the product group. In case there is any self/captive consumption, the value of the same gets reduced from the cost of sales and the resultant cost of sales is net of captive consumption whereas the cost elements starting from material consumption are gross and includes the cost of the element consumed/used for the value of captive consumption as well. Hence, computing operating ratios as a percentage of net cost of sales for gross usage of materials, labour, overheads etc. would not be a correct representation.
- (iv) In view of the above, the value of captive consumption should be added to the cost of sales to arrive at the gross value of cost of sales and the ratios computed as a percentage of this gross cost of sales (including value of captive consumption).
- (v) The total of all the operating ratios must be equal to 100.

It may be noted that Ratios from 'Ratio of Materials Including Process Materials Cost' to 'Ratio of Interest and Financing Charges' are mandatory if their corresponding amount in the Abridged cost statement of product or activity group' is greater than zero. However, this validation will not be applicable to-

- I. Ratio of Other Expenses
- II. Ratio of Stock Adjustments

The computation of individual operating ratios is explained below. In the computation Gross Cost of Sales means Cost of Sales of Product group plus Cost of Self/Captive Consumption:

1. **Ratio of materials including process materials cost:** "Cost of materials consumed + Cost of process materials/chemicals consumed" divided by "Gross Cost of Sales"
2. **Ratio of utilities cost:** "Cost of utilities consumed" divided by "Gross Cost of Sales".
3. **Ratio of direct employees cost:** "Cost of direct employees" divided by "Gross Cost of Sales".



4. **Ratio of direct expenses:** “Cost of direct expenses” divided by “Gross Cost of Sales”.
5. **Ratio of stores and spares consumed:** “Cost of stores & spares consumed” divided by “Gross Cost of Sales”.
6. **Ratio of repairs and maintenance cost:** “Cost of repairs & maintenance” divided by “Gross Cost of Sales”.
7. **Ratio of depreciation and amortization cost:** “Cost of depreciation or amortization” divided by “Gross Cost of Sales”.
8. **Ratio of industry specific operating cost:** “Cost of industry specific operating expenses” divided by “Gross Cost of Sales”.
9. **Ratio of Packing cost:** “Cost of Primary Packing” divided by “Gross Cost of Sales”.
10. **Ratio of other expenses:** “Credit for recoveries + cost of other adjustments” divided by “Gross Cost of Sales”.
11. **Ratio of stock adjustments:** “Cost of increase/decrease in work-in-progress + Cost of increase/decrease in finished goods” divided by “Gross Cost of Sales”.
12. **Ratio of production overheads:** “Cost of production overheads + Cost of quality control + Cost of research & development + Cost of Technical Know-how” divided by “Gross Cost of Sales”.
13. **Ratio of finished goods purchased:** “Cost of finished goods purchased” divided by “Gross Cost of Sales”.
14. **Ratio of administrative overheads:** “Cost of administrative overheads” divided by “Gross Cost of Sales”.
15. **Ratio of selling and distribution overheads:** “Cost of selling & distribution overheads + Cost of secondary packing” divided by “Gross Cost of Sales”.
16. **Ratio of Interest and financing charges:** “Cost of interest & financing charges” divided by “Gross Cost of Sales”.
17. **Ratio of total operating expenses:** Sum of 1 to 16 above and the total must be equal to 100.

11.12.1 Profit Reconciliation (for the company as a whole)



12.8.8 Profit Reconciliation of Company as Whole

The elements as per the cost audit report taxonomy are as follows:

[100360] Profit reconciliation
<i>Profit reconciliation of company as whole [abstract]</i>
<i>Profit (loss) as per cost accounts [abstract]</i>
<i>Profit (loss) for audited product or activity groups</i>
<i>Profit (loss) for unaudited product or activity groups</i>
<i>Amount of incomes not considered in cost accounts</i>
<i>Amount of expenses not considered in cost accounts</i>
<i>Overvaluation of closing stock in financial accounts</i>
<i>Undervaluation of opening stock in financial accounts</i>
<i>Undervaluation of closing stock in financial accounts</i>
<i>Overvaluation of opening stock in financial accounts</i>
<i>Profit (loss) as per financial accounts</i>
<i>Notes to profit reconciliation [text block]</i>

Elements for Link Table-1

[100360a] Profit reconciliation-Details of incomes not considered
<i>Profit reconciliation of company as whole [abstract]</i>
<i>Details of incomes not considered in cost accounts [table]</i>
<i>Details of incomes not considered in cost accounts [axis]</i>
<i>Name of incomes not considered in cost accounts</i>
<i>Amount of incomes not considered in cost accounts</i>

Elements for Link Table-2

[100360b] Profit reconciliation-Details of expenses not considered
<i>Profit reconciliation of company as whole [abstract]</i>
<i>Details of expenses not considered in cost accounts [table]</i>
<i>Details of expenses not considered in cost accounts [axis]</i>
<i>Name of expenses not considered in cost accounts</i>
<i>Amount of expenses not considered in cost accounts</i>



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The rendering or presentation of Para-7 as per costing taxonomy will be as follows:

Para 7: Profit Reconciliation (For the Company as a whole)

S. No.	Particulars	Current Year Amount (Rs.....)	Previous Year Amount (Rs.....)
1	Profit or Loss as per Cost Accounts		
	(a) For the audited product or activity groups		
	(b) For the un-audited product or activity groups		
2	Add: Incomes not considered in cost accounts:	<i>The amount to be specified under this head is to be provided in the link table-1. Any number of lines can be added to give the details.</i>	
3	Less: Expenses not considered in cost accounts:	<i>The amount to be specified under this head is to be provided in the link table-2. Any number of lines can be added to give the details.</i>	
4	Add: Over-valuation of closing stock in financial accounts		
5	Add: Undervaluation of opening stock in financial accounts		
6	Less: Undervaluation of closing stock in financial accounts		
7	Less: Overvaluation of opening stock in financial accounts		
8	Adjustment for others, if any (specify)		
9	Profit or Loss as per Financial Accounts		
Notes to profit reconciliation [text block]			

Link Table-1: Profit Reconciliation of Company as Whole

(Details of Incomes not Considered in Cost Accounts)

S. No.	Name of Incomes Not Considered in Cost Accounts	Current Year Amount (Rs.....)	Previous Year Amount (Rs.....)
1.			



2.			
3.			
4.			
5.			
6.			
7.	(end number of line may be added as per requirement)		
	Total of incomes not considered in cost accounts		

Link Table-2: Profit Reconciliation of Company as Whole

(Details of Expenses not Considered in Cost Accounts)

S. No.	Name of Expenses Not Considered in Cost Accounts	Current Year Amount (Rs.....)	Previous Year Amount (Rs.....)
1.			
2.			
3.			
4.			
5.			
6.			
7.	(end number of line may be added as per requirement)		
	Total of expenses not considered in cost accounts		

Note on Para-7 filling

- (a) The profit reconciliation statement is for the company as a whole. The previous year figures are also required to be provided.
- (b) **“Profit (loss) for audited product or activity groups”** must be equal to the sum total of Amount of margin as per cost accounts of all the Product Groups.

Profit (loss) for unaudited product or activity groups – This would reflect the sum total Profit/(Loss) of all Product Groups not under cost audit.



The profit/loss of product groups under cost audit should be arrived at by adding the margin of individual product groups arrived at in the Abridged Cost Statement (Para 5). The profit/loss of product groups not under cost audit should be arrived at by adding the margins of these product groups as available from the cost accounting records maintained for such products.

In case the company is engaged in certain activities for which cost accounting records rules are not applicable, in such a case the profit/loss to be considered here would be the profit/loss as available from the financial accounts. It is to be kept in mind that though no cost accounting records are required to be maintained in respect of such exempted activities, say trading, but maintenance of cost accounting records for other activities of the company under the “production, processing manufacturing and mining” activity would necessitate apportionment of overheads of the company on an equitable basis and as per the cost accounting standards.

Explanation: Assume that a company is engaged in manufacture of a product which is covered under Companies (Cost Accounting Records) Rules 2011 and the product is also covered under cost audit. Further, the company is also engaged in Trading Activity. The total Administrative Overheads of the company would be required to be apportioned between the manufacturing activity and trading activity on an equitable basis. This is not necessary for financial accounts and consequently, the profit/loss of trading activity derived from the financial accounts would be required to be adjusted with the apportioned administrative overheads before being considered for reflection under “Profit/Loss of Unaudited Product Groups”.

- (c) Profit for the purpose of this statement means “Profit before Tax, Exceptional & Extra Ordinary Items”. The amount of “Profit (Loss) as per Financial Accounts” shown in Para 7 under this item must be equal to “Profit before Tax” shown in Para 9.
- (d) Link tables have been provided for “Incomes not considered in cost accounts” and “Expenses not considered in cost accounts”.
- (e) **Income not considered in cost accounts** – Incomes which are ‘Abnormal’ in nature and ‘purely financial’ in nature is not considered in cost accounts to arrive at the costing Profit or Loss. Hence, such incomes would be required to be considered in the reconciliation statement to arrive at the profit/loss as per Financial Accounts.

The format available in the Companies (Cost Audit Report) Rules 2011 requires details of incomes not considered in cost accounts in the main body of the reconciliation statement. However, the Costing Taxonomy has provided a link table for details of incomes not considered in cost accounts and requires only the total of all such amounts to be provided in the main body of the statement.



Abnormal Income means unexpected heavy income in the nature of windfalls, abnormal gains.

Income purely financial in nature: may be of the following nature:

- (i) Interest received on investment, deposits outside the business
 - (ii) Dividends received on investment outside the business
 - (iii) Profits on sale of capital assets and investment
 - (iv) Fees received on transfer of shares
 - (v) Gains on foreign exchange fluctuation
 - (vi) Prior period income
 - (vii) Trading Profit
- (f) **Expenses not considered in cost accounts** – Expenses which are ‘Abnormal’ in nature and ‘purely financial’ are not considered in cost accounts to arrive at the costing Profit or Loss.

The format available in the Companies (Cost Audit Report) Rules 2011 requires details of expenses not considered in cost accounts in the main body of the reconciliation statement. However, the Costing Taxonomy has provided a link table for details of expenses not considered in cost accounts and requires only the total of all such amounts to be provided in the main body of the statement.

Examples of expenses not considered in cost accounts are:

Abnormal Expenses – Abnormal expenses may be:

- (i) Abnormally high rejections;
- (ii) Defective work, spoilages etc.;
- (iii) Losses due to theft, pilferage, or acts of nature like earthquake, flood fire;
- (iv) Abnormal idle time;
- (v) Abnormal under-utilisation of plant facilities;
- (vi) Losses due to abnormal situation like strikes, war, accidents etc.

Expenses Purely Financial in nature: may be of the following nature: for e.g. –

- (i) Loss on sale of capital assets and investments
- (ii) Stamp duty and expenses on issue and transfer of shares



- (iii) Discount on bonds and debentures
- (iv) Fines and Penalties
- (v) Loss on investments
- (vi) Loss on foreign exchange fluctuations
- (vii) Premium on forward contract
- (viii) Liquidated damages
- (ix) Short recovery of Excise
- (x) Bad Debts
- (xi) Donations
- (xii) Prior period expenses
- (xiii) Expenses on Buy Back of shares
- (xiv) Preliminary expenses written off
- (xv) Trading Loss
- (xvi) Reference also may be made to CAS & GACAP for specific items of this nature

The Reconciliation statement requires a complete reconciliation between the cost accounts and the financial accounts for the company as a whole. Situations may arise where the cost auditor has been appointed for cost audit of the products for which cost audit is applicable and the company may have other products/activities outside the purview of the cost audit. Since the amount of profit/loss of products not covered under cost audit also forms part of this statement, a question arises as to how the cost auditor will certify the figures forming part of this statement that does not come under the purview of his cost audit and consequently the terms of his appointment.

In such a situation, it is suggested that the cost auditor should obtain a certificate from the management regarding the correctness of items of incomes/expenses that are outside the purview of cost audit and not checked by the cost auditor. The cost auditor should also make note of this fact in his report under “Observations of cost auditor” stating therein that figures in respect of activities forming part of his report and annexures have not been audited by him and that the figures have been provided as certified by the management.



12.8.9 Value Addition and Distribution of Earnings

The elements as per the cost audit report taxonomy are as follows:

[100370] Value addition and distribution of earnings
<i>Value addition and distribution of earnings (company as whole) [abstract]</i>
<i>Earnings available for distribution [abstract]</i>
<i>Gross revenue from operations of company</i>
<i>Excise and other duties of company</i>
<i>Net revenue from operations of company for value addition</i>
<i>Export incentives of company</i>
<i>Adjustments in work-in-progress and finished stocks of company</i>
<i>Cost of bought out inputs of company [abstract]</i>
<i>Cost of materials consumed of company</i>
<i>Cost of process materials or chemicals of company</i>
<i>Cost of stores and spares consumed of company</i>
<i>Cost of utilities of company</i>
<i>Cost of other bought out inputs of company</i>
<i>Total cost of bought out inputs of company</i>
<i>Value added of company</i>
<i>Other incomes of company</i>
<i>Earnings available for distribution</i>
<i>Distribution of earnings [abstract]</i>
<i>To employees as salaries, wages, retirement benefits and others</i>
<i>To shareholders as dividend</i>
<i>Funds retained by company</i>
<i>To government as taxes</i>
<i>Other distribution of earnings</i>
<i>Total distribution of earnings</i>
<i>Notes to value addition and distribution of earnings [text block]</i>

The rendering or presentation of Para-8 as per costing taxonomy will be as follows:

Para 8: Value Addition and Distribution of Earnings (for the company as a whole)



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S.no.	Particulars	Current Year	Previous Year
	<u>Earning available for Distribution</u>		
1	Gross revenue from operations		
2	Less: Excise and other duties		
3	Net Revenue from Operations of the company for value addition		
4	Add: Export Incentives of company		
5	Add/Less: Adjustments in work-in-progress and finished stocks		
6	Less: Cost of bought out inputs of company		
	(a) Cost of Material Consumed		
	(b) Cost of Process Materials or Chemicals		
	(c) Stores & Spares Consumed		
	(d) Cost of Utilities Consumed		
	(e) Cost of other bought out inputs		
	Total Cost of bought out inputs		
7	Value Added of company		
8	Add: Other Incomes of Company		
9	Earnings as available for distribution		
	<u>Distribution of Earnings:</u>		
1	To Employees as salaries, wages, retirement benefits and others		
2	To Shareholders as dividend		
3	Funds retained by company		
4	To Government as taxes		
5	Other Distribution of Earnings		
	Total distribution of earnings		
Notes to value addition and distribution of earnings [text block]			



Note on Para-8 filling

- (a) The element names in this para have been aligned with the nomenclature used in the Revised Schedule VI.
- (b) All figures for the computation of Value Addition and Distribution of Earnings would flow from the audited Profit & Loss Account of the company.
- (c) It is advisable to prepare a statement drawing the figures from the audited Profit & Loss Account showing details of individual elements. The resultant balance in the statement after consideration of all incomes, expenses, Income Tax, Dividend and transfer of undistributed profits to reserves should be equal to zero. This would ensure correctness of the computation.
- (d) All the elements in this para are self-explanatory.
- (e) The Net Revenue from Operations plus Export Incentives plus Other Incomes should be equal to the total revenue of the company as shown in Para 3.

Export Incentives – The Government of India provides various incentives & facilities to the exporter. These export incentives and facilities are as follow.

- Duty Drawback (DBK)
 - Duty Entitlement Passbook Scheme (DEPB)
 - Focus Market Scheme (FMS)
 - Focus Product Scheme (FPS).
 - Duty Exemption Scheme
 - Vishesh Krishi and Gram Udyog Yojna (VKGUY)
 - Marketing Development Assistance (MDA)
 - Export Promotion Capital Goods Scheme
 - Served from India Scheme
 - Exchange earner Foreign Currency Account (EEFC Account)
- (f) Cost of other bought-out inputs of company would include expenses incurred for purchase of all types of bought out services like Telephone, Postage, Printing & Stationery, Rates & Taxes, Travelling Expenses, Rent, Insurance, Freight, outside conversion charges (if not included in cost of



materials and used as input for further processing), audit fees, commission charges, brokerage, discount etc. In other words, Employee Cost and Benefits, Depreciation, Borrowing Costs and other Non-Cost Items of expenses shall not be included here.

(g) Distribution of Earnings:

- (i) **Employees as salaries & wages, retirement benefits and others** – This would include all items considered under Employee Benefits Expense in the Profit & Loss Account. Items to be considered shall include salaries, wages, contribution to provident and other funds, contribution to gratuity, other retirement benefits, medical benefits, staff welfare expenses etc.
- (ii) **Shareholders as Dividend** – The proposed dividend, if any, payable to shareholders to be provided here. The dividend would include dividend payable on all types of shares.
- (iii) **Funds Retained by Company** – This would mean Depreciation and Amortization Expense charged to the Profit & Loss Account during the year and undistributed surplus in Profit & Loss Account transferred to Reserves arising out of the current year profits after payment of tax and dividend.
- (iv) **Government as Taxes** – This would include Income Tax including taxes on dividend (if borne by the company) – both current and deferred, Wealth Tax, difference between Excise Duty Paid and Excise Duty recovered.
- (v) **Other Distribution of Earnings** would include all non-cost expenses available on the face of the Profit and Loss Account, e.g., Loss on sale of capital assets and investments, Loss/gain on forex, bad debts, stores/stocks written off, Demurrage, Fines and Penalties to statutory authorities, prior period expenses etc. Exceptional Items, if any, and Financial Costs considered in Profit & Loss Account would also be included here.
- (vi) **Total Distribution of Earnings** – This is to be computed as sum total of [Employees as salaries & wages, retirement benefits etc. + Shareholders as Dividend + Government as Taxes + Other Distribution of Earnings]. This will be equal to “Earnings available for Distribution” computed above.

12.8.10 Financial Position and Ratio Analysis (Company as Whole)

The elements as per the cost audit report taxonomy are as follows:



<i>Financial position and ratio analysis (company as whole) [abstract]</i>
<i>Financial position of company [abstract]</i>
<i>Share capital</i>
<i>Reserves and surplus</i>
<i>Long-term borrowings</i>
<i>Fixed assets [abstract]</i>
<i>Gross tangible assets</i>
<i>Net tangible assets</i>
<i>Current assets [abstract]</i>
<i>Current assets excluding current investments</i>
<i>Current liabilities excluding short term borrowings</i>
<i>Net current assets</i>
<i>Capital employed</i>
<i>Net worth</i>
<i>Financial performance of company [abstract]</i>
<i>Cost of production of company</i>
<i>Cost of sales of company</i>
<i>Value added of company</i>
<i>Net revenue from operations of company</i>
<i>Profit before tax</i>
<i>Profitability ratios of company [abstract]</i>
<i>Profit before tax to capital employed (%)</i>
<i>Profit before tax to net worth (%)</i>
<i>Profit before tax to net revenue from operations of company (%)</i>
<i>Profit before tax to value added of company (%)</i>
<i>Other financial ratios of company [abstract]</i>
<i>Debt equity ratio (%)</i>
<i>Current assets to current liabilities (%)</i>
<i>Value added to net revenue from operations of company (%)</i>
<i>Working capital ratios of company [abstract]</i>
<i>Net working capital to cost of sales excluding depreciation of company (in months)</i>
<i>Raw materials stock to consumption of company (in months)</i>
<i>Stores and spares stock to consumption of company (in months)</i>
<i>Work-in-progress stock to cost of production of company (in months)</i>



Finished goods stock to cost of sales of company (in months)

Notes to financial position and ratio analysis [text block]

The rendering or presentation of Para-9 as per costing taxonomy will be as follows:

Para 9: FINANCIAL POSITION AND RATIO ANALYSIS (for the company as a whole)

S.No.	Particulars	Current Year	Previous year
A.	Financial Position of Company		
1	Share Capital		
2	Reserves & Surplus		
3	Long-term borrowings		
4	Fixed Assets		
	(a) Gross Tangible Assets		
	(b) Net Tangible Assets		
5	Current Assets		
	(a) Current Assets excluding Current Investments		
	(b) Less: Current Liabilities excluding Short Term Borrowings		
	(c) Net Current Assets		
6	Capital Employed		
7	Net Worth		
B.	Financial Performance of Company		
1	Cost of Production		
2	Cost of Sales		
3	Value Added		
4	Net Revenue from Operations of Company		
5	Profit before Tax (PBT)		
C.	Profitability Ratios of Company		
1	PBT to Capital Employed (B5/A6) (%)		
2	PBT to Net Worth (B5/A7) (%)		
3	PBT to Net Revenue from Operations (B5/B4) (%)		
4	PBT to Value Added (B5/B3) (%)		
D.	Other Financial Ratios of Company		
1	Debt- Equity Ratio (%)		
2	Current Assets to Current Liabilities (%)		
3	Value Added to Net Revenue from Operations (%)		



E.	Working Capital Ratios of Company		
1	Net Working Capital to Cost of Sales excl. depreciation (in months)		
2	Raw Material Stock to Consumption (in months)		
3	Stores & Spares to Consumption (in months)		
4	Work-in-Progress Stock to Cost of Production (in months)		
5	Finished Goods Stock to Cost of Sales (in months)		
Notes to financial position and ratio analysis [text block]			

Note on Para-9 filling

- (a) The element names in this para have been aligned with the nomenclature used in the Revised Schedule VI.
- (b) All figures for the computation of the Financial Ratios would flow from the audited Profit & Loss Account and Balance Sheet of the company except for cost of production and cost of sales.
- (c) The Profit to be considered for this para is the Profit before Tax of the company.
- (d) The elements have been aligned with the nomenclatures of Revised Schedule VI.
- (e) Capital Employed is defined as average of net fixed assets (excluding intangible assets, effect of revaluation of fixed assets and capital work-in-progress) plus net current assets existing at the beginning and close of the financial year
- (f) Net Worth is defined as Share Capital plus Reserves and Surplus (excluding Revaluation Reserves) less accumulated losses and Intangible Assets.
- (g) The computation of individual elements of the para is explained below:

A. FINANCIAL POSITION

Item No. A1: Share Capital – Subscribed and paid-up shares of any type including amount paid up on forfeited shares, if any.

Item No. A2: Reserves and Surplus – Any reserves and surplus appearing in the Balance Sheet of the company. For computation of Net Worth and Deb-Equity Ratio, only free Reserves are to be considered.



These can be Capital reserves, Capital redemption reserves, Securities premium account, Debenture redemption reserve, Revaluation reserve, Revaluation reserve fixed assets, Revaluation reserve investments, Share options outstanding account, Capital reserve consolidation, Employee stock options outstanding, Deferred employee compensation, Other reserves, Subsidy incentive reserve, Restructuring reserve, Amalgamation reserve, Bond redemption reserve, Sinking fund reserve, Contingency reserve, Special reserve, Hedging reserve, General reserve, Other reserves, Other funds, Foreign currency translation reserve

Item No. A3: Long Term Borrowings – Long-Term Borrowings, both secured and unsecured. Other items shown under Non-Current Liabilities such as, Net Deferred Tax Liabilities, Other Long-Term Liabilities and Provisions and Short Term Borrowings reflected under Current Liabilities would not be part of this item. Long Term Borrowings maturing during the period of 12 months and shown under “Current Liabilities” should not be added back to Long Term Borrowings. The Long Term Borrowings shall be as presented in the Schedule to Balance Sheet.

Item No. A4 (a) Gross Tangible Assets – As per revised schedule VI, the concept of Schedules has been scrapped and now the details about the items appearing in the Balance Sheet and Profit & Loss Accounts are to be explained by “Notes” to such items. Accordingly, the cost auditor should provide the figure with respect to Gross Tangible Assets from the “Note to Fixed Assets” under this line item of table under para 9. For the purpose of this para, Gross Tangible Assets would consist of the average Gross Block of the Tangible Assets at the beginning and end of the period under audit. Intangible Assets, Capital work-in-progress, Intangible Assets under Development etc. would not form part of the Gross Fixed Assets represented here. Intangible Assets, Capital work-in-progress and Intangible Assets under Development at their respective Net Book Value at the end of the year would not be a part of Net Fixed Assets reflected here.

Item No. A4(b) Net Tangible Assets – Net block of Tangible Assets only.

Item No. A5(a) Current Assets excluding Current Investments – As per revised Schedule VI, the Current Assets consist of Current assets (a) Current investments, (b) Inventories, (c) Trade receivables, (d) Cash and cash equivalents, (e) Short-term loans and advances and (f) Other current assets. As per old Schedule VI (pre-revised), Investments (short-term and long-term) were not forming the part of Current Assets. For the purpose this statement, Current Assets would exclude “Current investments” amount and should be provided accordingly.

Item No. A5(b) Current Liabilities excluding Short Term Borrowings – As per revised schedule VI, the Current liabilities consists of (a) Short-term borrowings, (b) Trade payables, (c) Other current liabilities,



(d) Short-term provisions. For the purpose of this statement, it would be total of Current Liabilities **excluding** Short-Term Borrowings as per Revised Schedule VI.

Item No. A5(c) Net Current Assets – The amount of Net Current Assets for filling up in this statement will be difference between Current Assets (excluding Current Investments) and Current Liabilities (excluding Short Term Borrowings) as indicated above.

Item No. A6 Capital Employed – The definition of Capital employed has been provided in the rule, which is reproduced below:

***Capital Employed** means average of net fixed assets (excluding intangible assets, effect of revaluation of fixed assets, and capital work-in-progress) plus net current assets existing at the beginning and close of the financial year.*

Item No. A7 Net Worth – The definition of Net Worth has been provided in the rule, which is reproduced below:

***Net Worth** means share capital plus reserves and surplus (excluding revaluation reserves) less accumulated losses and intangible assets.*

For computation of Net Worth only free Reserves are to be considered.

While calculating the Net Worth, the funds deployed by the company in Capital Work-in-Progress and Fixed Assets held for sale should not be included. The purpose for calculation of ratios with reference to Net Worth is to measure the operational efficiency of the funds deployed by the company in operations so it would be appropriate if the shareholders' funds deployed for Non-operational Assets, such as, Capital Work-in-Progress and Fixed Assets held for sale be excluded from the calculation of operational Net Worth.

B. FINANCIAL PERFORMANCE

- i) **Item No. B1 Cost of Production** – This will be the sum total of cost of production of all products or activities of the company irrespective of whether these are covered under cost audit or not.
- ii) **Item No. B2 Cost of Sales** – This will be the sum total of cost of sales of all products or activities of the company irrespective of whether these are covered under cost audit or not.
- iii) **Item No. B3 Value Added** – This will be as per Value Addition and Distribution of Earnings statement in para 8.



- iv) **Item No. B4 Net Revenue from Operations of Company** – Net revenue from operations of company as per statement of Value Addition in Para 8 net of any “other operating incomes” that has been credited to arrive at the “cost of production” and “cost of sales”. In other words, Net revenue from operation in this para should not include such other operating incomes that has been adjusted in the cost of production, e.g., scrap sales. **Item No. B5 Profit before Tax (PBT)** – This is to be taken from Profit & Loss Account prepared as per Revised Schedule VI and it will Profit before exceptional and extraordinary items and tax. The Profit before tax amount reflected here must be equal to the “Profit (Loss) as per Financial Accounts” in Para 7.

C. PROFITABILITY RATIOS

Item No. C1 PBT to Capital Employed (B5/A6) (%)

Profit before Tax expressed as a percentage of Capital Employed.

Item No. C2 PBT to Net Worth (B5/A7) (%)

Profit before Tax expressed as a percentage of Net Worth.

Item No. C3 PBT to Net Revenue from Operations (B5/B4) (%)

Profit before Tax expressed as a percentage of Net Revenue from Operations.

Item No. C4 PBT to Value Added (B5/B3) (%)

Profit before Tax expressed as a percentage of Value Added.

D. OTHER FINANCIAL RATIOS

(a) Item No. D1 Debt-Equity Ratio (%)

Long Term Borrowings expressed as a percentage of Shareholders’ Funds. Shareholders’ Funds is Share Capital plus free Reserves & Surplus.

(b) Item No. D2 Current Assets to Current Liabilities (%)

Current Assets excluding current investments expressed as a percentage of Current Liabilities excluding short-term borrowings.

(c) Item No. D3 Value Added to Net Revenue from Operations (%)



Valued Added expressed as a percentage of Net Revenue from Operations.

E. WORKING CAPITAL RATIOS

- (a) **Item No. E1 Net Working Capital to Cost of Sales excluding depreciation (in months)** – Net Working Capital will be (Average Current Assets minus Average Current Liabilities) as percentage of (Cost of Sales excluding Depreciation). It can be depicted as follows:

Monthly Net Working Capital= Monthly Net Working Capital/12

No. of Months = Cost of Sales excluding depreciation/ Monthly Net Working Capital

- (b) **Item No. E2 Raw Materials Stock to Consumption (in months)**

Monthly Consumption of Raw Materials= Total Raw Material Consumption/12

Number of Months= Average Raw Material Stock for the period/ Monthly Consumption of Raw Materials

- (c) **Item No. E3 Stores & Spares to Consumption (in months)**

Monthly Stores & Spares Consumption= Total Stores & Spares Consumption/12

Number of Months= Average Stores & Spares Stock for the period/ Monthly Consumption

- (d) **Item No. E4 Work-in-Progress Stock to Cost of Production (in months)**

Monthly Work-in-Progress Stock = Average Work-in-Progress Stock/12

Number of Months= Cost of Production/ Monthly Work-in-Progress Stock

- (e) **Item No. E5 Finished Goods Stock to Cost of Sales (in months)**

Monthly Finished Goods Stock = Average Finished Goods Stock/12

Number of Months = Cost of Sales/ Monthly Finished Goods Stock

General Notes:

The figures should be based on the audited financial statements for the year, i.e. Balance Sheet and Profit and Loss account prepared based on Revised Schedule VI notified by Central Government vide



S.O. 653(E) dated 30th March 2012, effective for Balance Sheet and Profit & Loss Account prepared with effect from 1.4.2011.

‘Year’ has the same meaning assigned to it in section 210(4) of the Companies Act, 1956 and refers to the period for which the accounting statements have been prepared. It may therefore be more than or less than 12 months.

In case a company’s audited Financial Accounts are not ready till the finalization of Cost Audit Report, the data may be based on provisional financial accounts of the company. A suitable note has to be given under this item. Subsequently on availability of audited annual accounts, information under this item shall be furnished to the Central Government as Supplementary Report.

12.8.11 Related party transactions

The elements as per the cost audit report taxonomy are as follows:

[100410] Related party transactions
<i>Related party transactions [abstract]</i>
<i>Description of related party transactions [table]</i>
<i>Name of related party [axis]</i>
<i>Identification details for product or activity [axis]</i>
<i>Nature of related party transactions [axis]</i>
<i>Nature of related party transactions domain</i>
<i>Sale of product [member]</i>
<i>Purchase of product [member]</i>
<i>Services received [member]</i>
<i>Services rendered [member]</i>
<i>Details of related party [abstract]</i>
<i>Name of related party</i>
<i>CIN of related party</i>
<i>Permanent account number of related party</i>
<i>Identification number of foreign related party in country of incorporation or residence</i>
<i>Nature of issuing authority in country of incorporation or residence</i>
<i>Country of related party</i>
<i>Details of related party transactions [abstract]</i>
<i>Name of product or activity</i>
<i>Product or activity eight digit code</i>



<i>Aggregate quantity of related party transaction</i>
<i>Average transfer price of related party transaction</i>
<i>Aggregate amount of transaction</i>
<i>Average normal price of related party transaction</i>
<i>Difference between average transfer price and average normal price</i>
<i>Basis adopted to determine normal price of related party transaction</i>
<i>Description of other basis adopted to determine normal price</i>
<i>Notes to related party transaction [text block]</i>

The rendering or presentation of Para-10 as per costing taxonomy will be as follows:



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Para 10: Related Party Transactions (For the Company as a whole)

Sr. No.	Product/ Service Code	Product/ Service Description	Name of Related Party	Type of Related Party	Identification of related party	Nature of Transaction	Aggregate Quantity	Average Transfer Price	Aggregate Amount of Transaction	Average Normal Price	Difference Between Average Transfer Price & Average Normal Price	Basis Adopted to determine the Normal Price
							(A)	(B)	(A*B)	C	(B-C)	
	Product 8-digit CETA Code or Service Code as per NIC Service Code			Separately for (i) Indian Company (ii) Indian Firm/ Individual (iii) Foreign Company	CIN if Indian Company // PAN if Indian Individual or Firm // Country Location, if Foreign Company or Individual	i. Sale of Product ii. Purchase of Product iii. Services Received iv. Services Rendered						Comparable Uncontrolled Price Method ii. Resale Price Method iii. Cost Plus Method iv. Profit Split Method v. Transactional Net Margin Method vi. Any Other method



- (a) The information for this para is to be provided for the company as a whole.
- (b) The information of related party transactions is to be given only for the period under cost audit. Previous year figures are not required to be provided.
- (c) The Companies (Cost Audit Report) Rules 2011 stipulated that related party transactions of every transaction are to be provided. The Costing Taxonomy has now stipulated that only the aggregate quantity and value of product or services is required to be provided when such product or service involve transaction with a related party.
- (d) There is no definition of Related Party provided in the Companies (Cost Audit Report) Rules 2011. In the Cost Audit Report Rules 2001, Related Party was defined in accordance with the definition provided in the Accounting Standard (AS)-18. Related Party for this para would have to be considered according to the definition as provided in Accounting Standard 18 as notified by the Ministry of Corporate Affairs.
- (e) Related party disclosure for the Cost Audit Report Rules is restricted to Sale & Purchase of Goods and Receipt & Rendering of Services only.
- (f) The disclosure requires basis for determination of Normal Price for transactions to be stated. Any of the basis as per section 92C of the Income Tax Act, 1961, viz., (i) Comparable Uncontrolled Price Method, (ii) Resale Price Method, (iii) Cost Plus Method, (iv) Profit Split Method, and (v) Transactional Net Margin Method may be adopted. In case any other method is adopted, the same has to be explained as a part of disclosure requirement.
- (g) The information in respect of related party transactions is to be aggregated for the Products/ Services and not Product or Activity Group basis. In case of product 8-digit ITC-HS Codes and for Services 8-digit as per NPCS Codes is to be indicated. The lists of 8-digit codes for ITC-HS and National Product Classification for Services (NPCS) have been hosted by the Ministry of Corporate Affairs at its website.
- (h) The Corporate Identity Number/Permanent Account Number/Country of origin is required to be disclosed depending on whether the related party is an Indian Company or an Individual or a Foreign Company respectively.
- (i) Each product transacted will have to be identified with the 8-digit CETA Code.



Note on Para-10 filling

- (i) The information for this para is to be provided for the company as a whole.
- (ii) The information of related party transactions is to be given only for the period under cost audit. Previous year figures are not required to be provided.
- (iii) The Companies (Cost Audit Report) Rules 2011 stipulated that related party transactions of every transaction are to be provided. The Costing Taxonomy has now stipulated that only the aggregate quantity and value of product or services is required to be provided when such product or service involve transaction with a related party.
- (iv) There is no definition of Related Party provided in the Companies (Cost Audit Report) Rules 2011. In the Cost Audit Report Rules 2001, Related Party was defined in accordance with the definition provided in the Accounting Standard (AS)-18. Related Party for this para would have to be considered according to the definition as provided in Accounting Standard 18 as notified by the Ministry of Corporate Affairs.
- (v) Related party disclosure for the Cost Audit Report Rules is restricted to Sale & Purchase of Goods and Receipt & Rendering of Services only.
- (vi) The disclosure requires basis for determination of Normal Price for transactions to be stated. Any of the basis as per section 92C of the Income Tax Act, 1961, viz., (i) Comparable Uncontrolled Price Method, (ii) Resale Price Method, (iii) Cost Plus Method, (iv) Profit Split Method, and (v) Transactional Net Margin Method may be adopted. In case any other method is adopted, the same has to be explained as a part of disclosure requirement.
- (vii) The information in respect of related party transactions is to be aggregated for the Products/ Services and not Product or Activity Group basis. In case of product 8-digit ITC-HS Codes and for Services 8-digit as per NPCS Codes is to be indicated. The lists of 8-digit codes for ITC-HS and National Product Classification for Services (NPCS) have been hosted by the Ministry of Corporate Affairs at its website.
- (viii) The Corporate Identity Number/Permanent Account Number/Country of origin is required to be disclosed depending on whether the related party is an Indian Company or an Individual or a Foreign Company respectively.



- (ix) Each product transacted will have to be identified with the 8-digit CETA Code.

Explanation for Six Methods referred in the table

- (1) **Comparable Uncontrolled Price Method:** This is a third party price for identical goods or services under the identical conditions, called comparable uncontrolled price for determining the Arm's Length. This method is considered most appropriate for all transactions provided the information is available. This method is appropriate when goods or services are identical but if the sale terms or other limited items are different, this method may not be appropriate.
- (2) **Resale Price Method:** Under this method the goods or services are sold to related parties at the 'Standard List Price' less a fixed discount. For Example, if price of 'A' Product as per 'Standard List Price' is Rs. 100/- and discount allow to related party @ 25%, then 'Arm's Length' or Normal Price will be Rs. 75/- (Rs. 100-25).
- (3) **Cost Plus Method:** This method is useful where goods or services to related parties are consistently priced at actual cost plus a fixed margin. Under this method, the cost of production of the product is the base and the gross profit marked used for comparable entities in similar transactions with independent entities is added to determine the price to be charged from the related parties.
- (4) **Profit Split Method:** Under this method the operating profit split is calculated based on combined operating profit of uncontrolled parties whose transactions of goods or services are comparable to the transactions of goods or services with the related parties.
- (5) **Transactional Net Margin Method:** This method is generally applied where transfer of goods is semi-finished and Retail price Method cannot be suitably applied. In this method transfer pricing compares the net profit margin from a non-arm's length transaction with the net profit margins realized by arm's length parties from similar transactions and then net margin is applied as percentage of certain base viz. cost, turnover etc. to the related party transactions.
- (6) **Any other Method:** If Company has adopted any other method for determination of Normal Price or Arm's Length Price, then the cost auditor filing the cost audit report is required to specify the basis chosen by the company.

12.8.12 Reconciliation of Indirect Taxes

The elements as per the cost audit report taxonomy are as follows:



[100420] Reconciliation of indirect taxes
<i>Reconciliation of indirect taxes [abstract]</i>
<i>Types of indirect taxes of company [table]</i>
<i>Types of indirect taxes of company [axis]</i>
<i>Types of indirect taxes of company domain</i>
<i>Assessable value [member]</i>
<i>Excise duty [member]</i>
<i>Service tax [member]</i>
<i>Cess and others [member]</i>
<i>Value added tax [member]</i>
<i>Duties taxes payable of company [abstract]</i>
<i>Excise duty payable of company [abstract]</i>
<i>Excise duty payable for domestic clearances</i>
<i>Excise duty payable for export clearances</i>
<i>Excise duty payable on stock transfers</i>
<i>Excise duty payable on other clearances</i>
<i>Total excise duty payable by company</i>
<i>Service tax payable by company</i>
<i>Value added tax and central sales tax payable by company</i>
<i>Other state taxes payable by company</i>
<i>Total duties taxes payable by company</i>
<i>Duties taxes paid by company [abstract]</i>
<i>Cenvat utilised [abstract]</i>
<i>Input credits utilised</i>
<i>Capital goods credits utilised</i>
<i>Input services credits utilised</i>
<i>Other credits utilised</i>
<i>Total credits utilised by company</i>
<i>Indirect taxes paid through PLA or cash</i>
<i>Duties taxes paid by company</i>
<i>Duties taxes recovered by company</i>
<i>Difference between duties taxes paid and recovered</i>
<i>Interest penalty fines paid by company</i>
<i>Notes to reconciliation of indirect taxes [text block]</i>



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The rendering or presentation of Para-11 as per costing taxonomy will be as follows:

Reconciliation of Indirect Taxes (for the company as a whole)						
Sl. No.	Particulars	Assessable Value	Excise Duty	Service Tax	Cess & Others	VAT
		Rs.	Rs.	Rs.	Rs.	Rs.
Duties/Taxes Payable						
	Excise Duty Payable of Company					
1.	Excise duty on domestic clearances	X	X		X	
2.	Excise duty on Export clearances	X	X		X	
3.	Excise duty on Stock Transfers	X	X		X	
4.	Excise duty on other clearances	X	X		X	
5.	Total Excise Duty payable by company (1 to 4)	X	X		X	
6.	Service Tax payable by company	X		X	X	
7.	Value Added Tax and Central Sales Tax payable by company					X
8.	Other State Taxes payable by company					X
9.	Total Duties / Taxes Payable by company (5 to 8)	X	X	X	X	X
Duties/Taxes Paid by company						
	CENVAT Utilized					
10.	Input credits utilized		X	X	X	X
11.	Capital Goods credit utilized		X		X	
12.	Input services credits utilized		X	X	X	
13.	Other credit utilized		X	X	X	X
14.	Total Credits utilized by company (10 to 13)		X	X	X	X
15.	Indirect taxes paid through PLA or Cash		X	X	X	X
16.	Total Duties/Taxes Paid by company (14 + 15)		X	X	X	X



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17.	Duties/Taxes Recovered by company		X	X	X	X
18.	Difference between Duties/Taxes Paid and Recovered		X	X	X	X
19.	Interest/Penalty/Fines Paid by company		X	X	X	X
Notes to reconciliation of indirect taxes [text block]						

Note to above table:

- (iv) This Para is to be prepared for the company as a whole and not factory-wise, product-wise, Chapter heading-wise, etc. Therefore, it covers excise duty, service tax and VAT for all types of products whether or not covered under cost audit.
- (v) The information of indirect taxes (Excise duty, VAT, CST, Service Tax and other indirect taxes) is to be given for current year and previous year's figures are not required.
- (vi) The format under para 11 is slightly modified to suit the requirement of taxonomy and furnish the details correctly.
- (vii) 'X' indicates that the amount of the respective taxes and cess/others are to be filled up. **Yellow Boxes** indicate that no values are required to be filled up as values for them are not applicable.
- (viii) The line item 'Total Clearances' as given in the old para 11 does not find place in the modified table.
- (ix) CST and Other State Taxes have been added in the costing taxonomy to show the details relating to them also.
- (x) Assessable Value relating to all types of taxes should be taken from the respective Returns submitted with the tax authorities. For example, assessable value for excise duty should be taken from RT 12 (now ER-1), the gross amount (assessable value) for service tax should be taken as gross value of services as mentioned in ST-3 (under section 70 of Finance Act 1994).
- (xi) The duties and taxes Payable is based on clearances of goods and services against the respective heads.
- (xii) Duties / Taxes Paid include CENVAT/ VAT Credit utilized on inputs, capital goods, input services and other utilization, if any.



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- (xiii) Taxes paid through PLA or Cash refer to the payment of Excise Duty, Service Tax, Cess & Others and VAT through debit in PLA account or deposit in to the PLA account or payment in to the bank account by way of cheque or cash through the GAR-7 Challan or the Challan for making the payment of VAT.
- (xiv) Duties /Taxes Recovered should be taken from Books of Account of the company. It is necessary that the gross turnover or the gross billings should be duly accounted under various heads such as net sales, excise duty, sales tax, service tax, etc.
- (xv) Difference between duties / taxes paid and recovered refer to the amount of total duties/ taxes paid and recovered. This may not match due to the following reasons –
- Excise duty element in stock of excise duty paid goods at depots, branches, and warehouse or with C & F agents.
 - The goods lying at depots, etc. are duty paid goods which have not been sold to the customer. Hence, the duty has not been recovered from the customers.
 - Excise duty/ sales tax paid on free issues, samples, where the taxes are not recovered from customers.
 - Excise Duty paid on inter factory transfers.
 - Excise Duty paid on the goods captively consumed.
 - Excise duty / sales tax / service tax /cess and other payments arising out of Order-in-Original or Order-in-Appeal, etc.

Where the department has issued demands but the same has not reached finality will not appear in this statement e.g. Show Cause Notices, pending adjudication or the order against which appeals are filed and an application for stay has been made etc. where no provision is made in the books of accounts.

But where the duty so demanded has been paid under protest or otherwise, it will reflect in this statement as a difference, since such demands are not to be considered in this statement as Excise Duty payable on clearances. Such payments are in the nature of deposits and to be shown under Current Assets.

The amount of difference should be stated item wise viz. Excise Duty, Service Tax, Cess & Others and VAT.



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(xvi) Interest /Penalty/ Fines Paid: The fines, penalties, interest etc. are not a payment of Excise Duty, Service Tax, Cess & Others and VAT. However, sometimes it is paid through PLA or Cash (deposit in to the bank account by way of cheque or cash through Challan) under the separate code as specified in the Challan. In these circumstances, the amount should be identified and shown separately. This amount can be tallied from Monthly ER-1 Return (Excise), Annual Financial Information Statement in ER-4 (Excise), Half Yearly ST-3 Return (Service Tax) and Monthly / Annual VAT return.



CHAPTER 13

FILING OF COST AUDIT REPORT IN XBRL FORMAT

13.1 Introduction

The explanation and note for filling up the various Paras as per Cost Audit Report in XBRL Format as mandated by General Circular No. 8/2012 dated May 10, 2012 and enabling provision issued by the Ministry of Corporate Affairs vide G.S.R. dated 30th November 2012 amending rules to be called “The Companies (Cost Audit Report) Amendment Rules, 2012” are given in the preceding chapter. As pointed out above that these amended rules prescribe filing of Cost Audit Report (Form II) in XBRL format using costing Taxonomy notified by the Ministry of Corporate Affairs. After filling up the paras, the company and cost auditor may file the Cost Audit Report so prepared and approved by the Board of Directors in compliance to provisions contained in the Companies (Cost Audit Report) Rules 2011 dated 3rd June 2011 read with the Companies (Cost Audit Report) Amendment Rules, 2012.

13.2 Points to be remembered for filing of Cost Audit Report in XBRL Format

The following points may be remembered for filing the Cost Audit Report in the XBRL Format:

1. The Cost Audit Report approved by the Board should be used as source for creation of the XBRL instances.
2. It has to be ensured that the XBRL Cost Audit Report Instance Document generated is as per the costing taxonomy defined by MCA. Please ensure the following in the instance document:
 - a. **Completeness:** All the required information is reported. Please refer to Business Rules to ensure that all mandatory items are reported.
 - b. **Mapping:** The elements tagged should be consistent with the meaning of the associated cost concepts in the Cost Audit Report and Compliance Report.
 - c. **Accuracy:** The amounts, dates, other attributes (for example, Monetary units), and relationships (order and calculations) in the instance document should be consistent with the Cost Audit Report and Compliance Report.
 - d. **Structure:** XBRL instances are structured in accordance with the costing taxonomy.
3. The instance document prepared should conform to the business rules framed by MCA for preparation and filing of the Cost Audit Report.



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4. If a company manufacture multiple product groups and has multiple units across the country and they have appointed multiple cost auditors, the Cost Audit Reports prepared by each individual cost auditor needs to be consolidated and only one XBRL instance document of the Cost Audit Report per company needs to be prepared. This is then filed with the Central Government
5. The XBRL Instance Document of Cost Audit Report is prepared on the basis of audited/certified cost data and other statements of the company. The Instance Document is to be prepared on the basis of the notified Costing Taxonomy following the Business Rules. The process of conversion of audited/ certified cost data and other statements into XBRL Instance Documents require correct mapping to the appropriate tags given in the costing taxonomy notified by the Ministry of Corporate Affairs. Certain additional information is also required in the Costing Taxonomy and these are not exact replica of the formats given in the earlier notified Companies (Cost Audit Report) Rules 2011. To fulfil the requirements of filing the cost data and other information as per the notified costing taxonomy, the MCA has issued necessary amendments for the cost audit report rules as above.

It may be noted that no separate approval from the Board is required for the Instance document of the Cost Audit Report since the data/information contained in the Instance document would already have been approved by the Board of Directors. However, if the data and other information as given in the Instance document differ from that approved by the Board, then it is advisable to get fresh approval of the revised Cost Audit Report unless the Board while according approval had authorized any officer of the company to make modifications as required in the XBRL document.

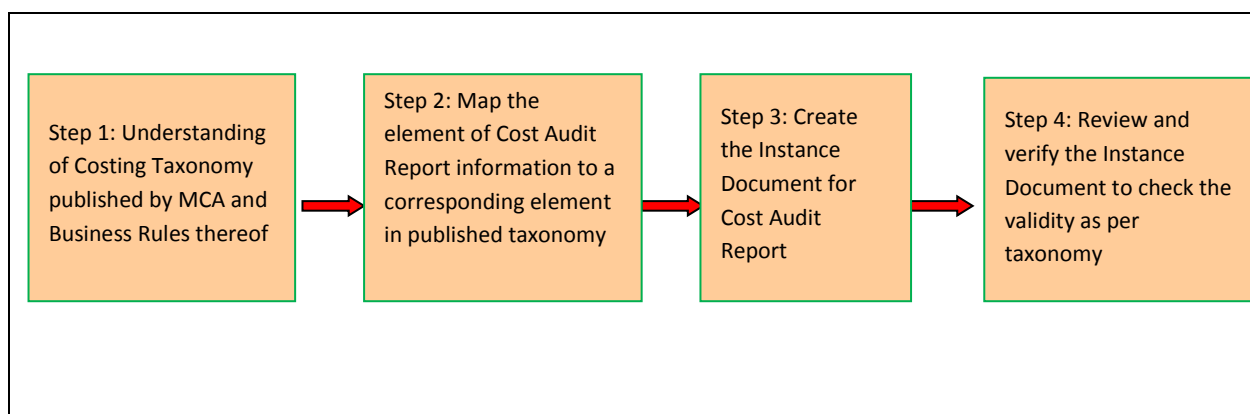
6. As of now the costing taxonomy does not permit any extensions. All the facts need to be reported with the help of elements defined in the taxonomy.
7. “Product or Activity Group classification” in the instance document should be strictly in accordance with the *notification issued by the Ministry of Corporate Affairs vide S.O. No. 1747(E) dated 7th August 2012.*
8. The amounts reported in instance document should have the appropriate sign based on the nature of the value in the Cost Audit Report, balance attribute, etc. of the element.
9. The instance document prepared must conform to all the calculations included in the calculation linkbase.



10. The level of rounding off used in cost statements is to be defined at one place and it is applicable to all the Paras of the Cost Audit Report.
11. The reporting currency is also defined at one place and is uniformly applicable to all the Paras of Cost Audit Report.
12. The financial year is required to be defined giving the start date and end date of the financial year.
13. The first previous year is also required to be defined by giving the start date and end date of the financial year. In case first previous year figures are not being given in the instance document, a valid reason for not providing the data needs to be specified.
14. The period information (for both instant and duration i.e. start Date/end Date) should follow the XBRL 2.1 Specification and should be expressed as YYYY-MM-DD. However, this would depend on the tool being used and the way the tool has been configured to capture the data.
15. Every fact where some detailed information or bifurcation needs to be given; a footnote can be attached to it. Every footnote element must be linked to at least one fact.
16. The valid CIN No (Corporate Identity Number) of the company issued by MCA needs to be provided as identifier for the company whose Cost Audit Report / Compliance Report XBRL instances are being created.
17. Only two financial years' data (Current Year & Previous Year) is to be provided in the Cost Audit Report.

13.3 Creation of Instance Document

As mentioned above, after filling up the paras relating to Cost Audit Report, the next step is to create Instance Document. Steps involved in creating the Instance Document are shown in the Flow Chart below:



Step 1: A user who wants to create XBRL documents need to understand the costing taxonomy and the tags available in the costing taxonomy. This understanding of costing taxonomy makes mapping process easy and efficient. The easiest way to learn about the structure and content of the costing taxonomy is to navigate the costing taxonomy.

Step 2: Mapping of organization's Cost Audit Report and Compliance Report to corresponding elements in the taxonomy. The process of mapping includes matching of information given in report to elements included in the taxonomy. Prepares should only consider taxonomy ELRs, relationships and concepts that are relevant to their specific reports.

Step 3: Once the elements of the report are mapped with the taxonomy elements or tags, the next step is to create the instance document. An instance document is a XML file that contains the actual facts, values and information pertaining to the organization along with the contextual details like period, unit of measurement; footnotes etc. generated using tags from the XBRL costing taxonomy.

Step 4: Once the instance document has been prepared, it needs to be ensured that the instance document is a valid instance document and all the required information has been correctly captured in the instance document. The instance document needs to be validated against the taxonomy as well as the specified business rules for the taxonomy using the validation tool available on the website of MCA.

13.4 Use of Software Tool for creation of Instance Document

XBRL software is required for creating instance documents. The way of working and sequence of entering data in the software may be different, but the output, i.e. the XBRL instance document has to be same irrespective of the software used. For creation of XBRL instance document software is required to be purchased from the software vendors in the market. This software is used to create



XBRL instance documents for uploading on the MCA portal. MCA21 system provides facility for validation of the instance document and filing of the same.

13.5 Procedure to file of the cost audit report in XBRL Format MCA website

Please visit the Ministry of Corporate Affairs website and download the Filing Manual from the following link:

http://www.mca.gov.in/Ministry/pdf/XBRL_Filing%20manual_Costing%201.0.pdf

The following steps have to be followed in sequence for uploading the file:

- Mapping the individual cost elements of the company to the elements of the costing taxonomy.
- Populating the relevant data in the software/filing tool.
- Creating an XBRL instance document.
- Download XBRL validation tool.
- Validating the instance document with the validation tool of MCA.
- Pre-scrutiny of the instance document.
- Use available tool to convert the instance document to a human readable pdf format and check correctness of data.

Attaching the instance document to the e-Form and filing on MCA portal.

13.6 Important Points related to Instance Document

Please note that:

- (i) The PDF format of Cost Audit Report is not required to be attached. Only the XBRL instance document of Cost Audit Report to be attached with the Form I-XBRL.
- (ii) The instance document attached with the e-Form is not required to be digitally signed. Only the e-Form I-XBRL for filing the Cost Audit Report to be digitally signed by the Cost Auditor [or by the lead Cost Auditor as the case may be as well as by one director and another director/manager/company secretary of the company.
- (iii) Only one consolidated Cost Audit Report for the company as a whole is required to be filed in the XBRL format.



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- (iv) The process for uploading the filled Form I-XBRL is same as the process of filing of any other e-form, for example, Form 23C or Form 23D or earlier e-form for filing cost audit report with pdf attachment. For further assistance, refer the Filing Manual available on the following link:

http://www.mca.gov.in/Ministry/pdf/XBRL_Filing%20manual_Costing%201.0.pdf

- (v) Creation of the Cost Audit Report in XBRL format, as approved by the Board and certified by the Cost Auditor, is the responsibility of the company. However, filing the Cost Audit Report in XBRL format with the Central Government is the responsibility of the Cost Auditor, who has to ensure the correctness of data and other information contained in the XBRL Instance Document.

13.7 Quality Tagging by Professionals

Ministry of Corporate Affairs vide General Circular No. 33/2012 dated 16th October 2012 advised professionals for “**Quality of XBRL filing**”. The circular mentioned that based on their random scrutiny of XBRL filing of financial statements by few companies to MCA for FY 2010-11 which reveals significant variations in disclosures in published results and the XBRL filings due to ‘incorrect’ mapping of disclosures. It said that few disclosures were ‘mapped/tagged’ with incorrect accounting concept despite availability of appropriate element in taxonomy. Few instances of “incorrect” tagging of XBRL documents were provided along with the circular.

Such filing are inaccurate and do not adequately represent true and fair view of the reports filed. Such XBRL filings, apart from being misleading, also dilute the effectiveness of XBRL. The circular mentioned that incorrect filing would be liable to be penalized. The copy of said General Circular is given in Appendices to this Guidance Note.

Readers may further refer to the documents on XBRL filing of Cost Audit Report:

1. “**Architecture, Training and Guidance Manual for filing Cost Audit Reports and Compliance Reports in XBRL formats**” may be referred for further details. Download from the following link:

http://icwai.org/icwainew/docs/updates/Architectural_Training_Guidance_Manual.pdf.

2. **Costing Taxonomy –**

http://www.mca.gov.in/Ministry/pdf/Costing_Taxonomy_2012-11-22_v1.0.zip

3. **Business Rules –**

http://www.mca.gov.in/Ministry/pdf/Revised_Business_Rules_Updated_XBRL_Costing_29.11.2012.zip



CHAPTER 14

PERFORMANCE APPRAISAL REPORT

[Refer Form III to the Companies (Cost Audit Report) Rules, 2011]

The Institute has issued a Guidance Note on Performance Appraisal Report (Form-III). Readers may refer this Guidance Note for compiling and giving the Performance Appraisal Report to Board of Directors in terms of Companies (Cost Audit Report) Rules, 2011. *The Guidance Note on Performance Report may be downloaded from the following link:*

<http://icwai.org/icwainew/docs/updates/Guidance-Note-on-Performance-Appraisal-Report.pdf>



CHAPTER 15

Representations by Management

15.1 Preamble

The International Standard on Auditing 580 (revised and redrafted) on “Written Representations”, issued by the International Auditing and Assurance Standards Boards (IAASB) of the International Federation of Accountants (IFAC) on the use of management representations as audit evidence, the procedures to be applied in evaluating and documenting management representation, and the actions to be taken if management refuses to provide appropriate representations. It further prescribes that the auditor should obtain evidence that management acknowledges its responsibility for the appropriate preparation and presentation of financial information and that management has approved the financial information.

15.2 Need for such practice in Cost Audit

The Cost Audit is also a statutory audit under the Companies Act 1956 and the CMAs carrying out Cost Audit are having same powers and duties as prescribed for financial auditor u/s 227 (1) of the said Act. During the course of Cost Audit, the Cost Auditor is also expected to follow certain methodologies as to Audit Evidence, Working Papers, Audit Planning, Materiality Concept, Analytical Procedure, Going Concern Assumption, Subsequent Events, Knowledge of Business etc. As such it is felt appropriate to suggest such methodologies for Cost Audit also.

15.3 What is a Written Representation?

Written Representations defines as a written statement provided by the management to the cost auditor (in the form of a representation letter addressed to the auditor) to confirm certain matters to support other audit evidence. It is known that written evidence are important source of cost audit evidence.

15.4 Who will provide the written representation?

Written representations are requested from those responsible for the preparation and presentation of the financial statements/ cost statements. Those individuals may vary depending on the governance structure of the entity, and relevant law or rules and regulations.



However, management is responsible for such authorization and written representation is therefore requested from the chief executive officer and chief financial officer and the concerned officer of the entity who is responsible for the preparation and presentation of the financial statements/ cost statements.

15.5 What is the purpose of the statement?

- How the management representation can be used as audit evidence.
- Procedure to be applied in evaluating the management representation
- Documentation of Management representation.
- Action to be taken if management refuses to provide appropriate representation

15.6 How it serves as audit evidence?

The representation must be in writing and the cost auditor should seek corroborative audit evidence supporting representation by the management. The cost auditor must also ensure that the key person who is looking after the matters is giving the representation. The cost auditor must supplement representation of management as support to the main audit performance. The intention of the management is to be estimated together with the evidence.

15.7 What are the documentation of representation by management?

- The written representation of management together with cost auditor's understanding of management representation duly acknowledged by the management.
- The authenticated copy of the relevant minutes of meeting of the board of directors or similar body.

15.8 What is the reliability of such written representation?

If the management modifies the requested written representation or does not provide the same, the auditor is alerted to the possibility that one or more significant issues may exist. Further, where a written representation is requested the management may consider the matters more rigorously when compared to oral representation. In this way the quality of the representations will improve. The written representation itself do not serve the purpose but when it is backed by the extent of fulfillment of management responsibilities or in regard to specific assertions which enables justified



evidence to the auditor from where he can infer the deviations.

15.9 What is the timeliness of the representation of the management?

The date of representation of the management is important in deciding whether it would be featured as audit evidence. Representations upto the date of audit report is considered to be proper and updated to be considered as audit evidence.

15.10 Representations by Management as Audit Evidence

The auditor should exercise his professional judgment in determining the matters on which he wishes to obtain representations from management either orally or in writing depending upon the materiality concept. Representations by management cannot be a substitute for other audit evidence that the auditor could reasonably expect to be available. For example, representation by management as to the allocation and apportionment of expenses is no substitute for adopting normal audit procedures regarding verification of bases followed for such allocation and apportionment.

In certain instances such as where knowledge of the facts is confined to management or where the matter is principally one of intention, a representation by management may be the only audit evidence which can reasonably be expected to be available; for example, intention of management to hold a specific investment for long term appreciation.

If a representation by management is contradicted by other evidence, the auditor should examine the circumstances and, when necessary, reconsider the reliability of other representations made by management.

15.11 Documentation of Representation by Management

The auditor should obtain either a letter from the management or duly authenticated copy or relevant minutes of meetings of the Board of Directors or similar body and maintain such documents as evidence of management's representations. If management refuses to provide such letter, then the auditor may himself prepare suitable letter mentioning the auditor's understanding of management's representations and get duly acknowledged and confirmed by the management. If the management refuses to acknowledge or confirm the letter sent by the auditor, this will constitute a limitation on the scope of his examination. In such circumstances, the auditor should evaluate any reliance on those representations and consider if the refusal may have any additional effect on his report.



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Matter which might be included in a representation letter from management in an audit of cost accounts are given in the example of a management representation letter as follows:

EXAMPLE OF A MANAGEMENT REPRESENTATION LETTER IN AN AUDIT OF COST ACCOUNTING RECORDS

The following letter is for use as a general guide with reference to the points mentioned in this respect. It may vary from one company to another and from one year to another. Therefore it can be adapted in view of individual requirements and circumstances.

(On Company's letter head)

Dated:

To,

M/S

Cost Accountants/ Cost Auditors

Dear Sir/Madam,

This representation letter is provided in connection with your audit of cost accounting records of **(name of Company/ factory/ Unit)**** for the year ended_____ for the purpose of expressing an opinion as to whether the company maintained cost accounting records as required under the Cost Accounting Records Rules, 2011 and the cost statements/ abridged cost statements give a true and fair view of the cost of production or cost of operation, cost of sales and margin for each of the products and activities under reference. We acknowledge the management's responsibility for the true and fair presentation of the cost accounting records, financial position and results of operations in accordance with the policies and practices, including the Generally Accepted Cost Accounting Principles (GACAP) and the Cost Accounting Standards (CAS) issued or that may be issued from time to time by the Institute of Cost Accountants of India.

We confirm, to the best of our knowledge and belief, the following representations:

ACCOUNTING POLICIES AND RECORDS:

1. All Cost Accounting records are maintained on regular basis as per the provisions of Companies (Cost Accounting Records) Rules, 2011/ Cost Accounting Records Rules, 2011 (**Name of Industry**



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Specific Rule viz. Telecommunication, Electricity, Petroleum, Sugar, Fertilizer or Pharmaceutical).

The list of cost records maintained by the company is enclosed herewith.

2. The Company adopted the cost accounting policy keeping in view the requirements of the Company, applicable Cost Accounting Records Rules 2011, the Companies (Cost Audit Report) Rules 2011, Cost Accounting Standards (CAS) and Generally Accepted Cost Accounting Principles (GACAP) issued by the Institute of Cost Accountants of India. In the opinion of the Company, the Cost Accounting Policy so adopted is adequate to determine the cost of production/ operation, cost of sales, sales realization and margin of the product/ activity group under reference.
3. There is no change*** in the Cost Accounting system for identification of cost centres/ cost objects, cost drivers, accounting for materials, allocation and absorption of overheads, basis of Inventory valuation system, and method of charging depreciation or amortization followed by the company as compared to previous year.
4. The collection, classification, allocation & apportionment of expenses to various products/ Activities/ departments/ processes are properly made on the actual and / or appropriate/ estimated basis. The basis adopted for such allocation / apportionment have been followed consistently with due modifications wherever necessary.
5. No items of fixed assets have been charged with 100% depreciation in cost accounting records. The Written Down Value (W. D. V) of such items has been carried forward to next financial year*.

OR

The 100 % depreciation on certain items of fixed assets amounting to Rs. _____ , being very small amount, is considered in cost accounting in view of the materiality concept.

6. The installed capacity of Products/ Product Groups under cost audit is _____****.
7. Company has identified Product/ Activity Group for its products/ activities in accordance with **Notification S.O. 174(E) dated 7th August 2012 issued by the Ministry of Corporate Affairs.**
8. There is no change in the manufacturing process or technology during the year as compared to previous year***.



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9. The incomes / expenses / assets /liabilities / relating to the product/ activity groups to which provisions of Cost Accounting Record Rules not applicable have been duly segregated and excluded from the Cost Accounting Records of applicable product/ activity groups.
10. The abnormal and Non-recurring items have been excluded from Cost Accounting Records for the period***.
11. The cost records containing product-wise cost details have been properly compiled and reconciled with financial accounts in totality for the year under reference.
12. The company is having a Budgetary control system according to the needs of the management and the system is being regularly applied in the decision making process.
13. The Internal Audit of financial accounts for the year under audit has/has not* been carried out.
14. The Internal Audit of cost accounting records for the year under audit has/has not* been carried out.
15. There are no persistent deficiencies in the cost accounting system pointed out in earlier cost audit reports but not rectified.
16. The company has incurred loss or there is a decline in profitability of following product/ Activity Group(s) as per cost accounting records:

Product/ Activity Group	Total Profit / loss	Profit / loss / per unit

The reasons for the loss or decline in profit are as under:

- 1.
- 2.

17. There are no defaults on the payments due to the Government, financial institutions and banks ***.

18. The company has fulfilled the export commitments to the extent of () %.



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19. To the best of our knowledge and belief all outstanding liabilities (including those of income tax, Excise duty, wealth tax, VAT/sales tax, and other taxes and duties where applicable) and outstanding income and assets have been provided for in the accounts.
20. Nothing has been done during the year under audit which would be in contravention of any of the provisions of The Companies Act 1956 ***.
21. Board resolutions, sanctioning and approving inter-company and related party transactions, loans given and taken including loans in kind, purchase and sale of investments and fixed assets, write off of bad debts/ irrecoverable advances and other relevant accounting matters, have been duly passed during the year.
22. There are no legal cases or other disputes pending against or instituted by company, which would give rise to any liabilities other than those which have been disclosed in the accounts.
23. Allocation between capital and revenue expenditure has been correctly done and that no items of capital nature have been debited to profit and loss account or vice versa.
24. Net book values of Tangible Non-Current Assets (fixed assets) shown in the Balance Sheet are after:
 - a) taking into account all capital expenditure on additions thereto, but no expenditure attributable to revenue.
 - b) eliminating the cost and accumulated depreciation relating to items sold or discarded.
 - c) providing adequate depreciation on the fixed assets during the year.
25. All capital expenses of the company are genuine and solely connected with the company's business.
26. The Company has maintained necessary records in respect of related party transactions & inter-company transfer as prescribed in the Companies (Cost Audit Report) Rules 2011. The basis followed for arriving at the rates charged in such transactions is reasonable and there is no shifting of profits between units to the detriment of ordinary investors at large.
27. No personal expenses other than those incurred under contractual obligations of accepted business practices have been incurred by the company and charged to the profit & loss account for the year ended_____.



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28. There have been no irregularities involving management or employees who have a significant role in the system of internal control that could have a material effect on the cost accounting records.
29. The company has complied with all aspects of contractual agreement that would materially affect the cost statements, in the event of non- compliance.
30. The company is not aware of any violations or possible violations of law or regulations whose effect should be considered for disclosure in the cost accounting records or as a basis for recording a loss or contingency.
31. All accounts & records have been balanced in ink after adjustments of closing entries and agree with the Cost Accounting statements, Annexures & Proforma to the Cost Audit Report. *(This will not applicable if company maintains records following SAP/ERP or any other computerized system).*

INVENTORIES

32. Following is the summary of the stock held by (Name of the company as at the____ (date):

Stores and spare parts	Rs
Loose Tools	Rs
Raw Materials	Rs
Work - in progress	Rs
Finished Goods	Rs
Any other items	Rs

(Including scrapped machinery)

Total	Rs

=====

With respect to the above stocks, we hereby certify that to the best of our knowledge and belief:

- a) Inventories recorded in the books as at _____(date of Balance Sheet) aggregating to Rs _____ are based upon the physical inventories taken as at _____ (date of



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physical stock checking)_____ by actual count, weight or measurement. The book inventories were adjusted to the physical inventory and subsequent transactions recorded in the accounts fairly reflect the changes in the inventories upto _____(date of Balance sheet) .

- b) All goods included in the books in the inventory are the property of this company and are not subject to any charge, none of the goods being held on consignment from other or as bailee and none being subject to lien of any kind except as follows: (e.g. hypothecated to the banks against cash credit facility).
- c) The inventory includes all goods of any value which are the property of this company wherever located, including goods sent on consignment account to customers.
- d) The inventory does not include:
 - ✓ Goods purchased for which invoices have not been entered as liabilities.
 - ✓ Goods returned by customers without credit to their accounts; or
 - ✓ Goods billed to customers in advance of delivery.
- e) In valuing the inventory, due consideration has been given to the sale-ability / usability of the stock and no obsolete or damaged items were included therein except at their net realizable value as follows:-
- f) The goods have been valued according to the provisions of Accounting Standard (AS 2) on the following basis:

Stores and spare parts	
Loose Tools	
Raw materials	
Work -in - progress	
Finished goods	
Any other head	



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- g) No item of stock has a value on realization, in the ordinary course of business, which is less than the amount stated in the inventory.
- h) The company has written off stock during the year under consideration as per the details given below:
- (i)
 - (ii)
 - (iii)
- i) Slow Moving Non-moving stock details are as below for which the management is taking necessary steps to reduce such stocks.
- (i)
 - (ii)
 - (iii)
- j) The basis of valuation adopted is the same as was used in the previous year, except as follows:-
- (i)
 - (ii)
 - (iii)

Yours faithfully,

For _____ Ltd.

(Name _____)

Managing Director /Company Secretary.



* Strike out the words/sentences/para not applicable.

** Separate cost statements required product-wise, unit-wise / factory-wise and also Abridged Cost Statements for Product Group/ Activity Group as the case may be. Companies (Cost Audit Report) Rules, 2011 vide GSR 430(E) dated 3rd June 2011 requires Cost Audit Report for Product/ Activity Group-wise for all the Products/ Activities covered under Cost Audit. All companies are required to prepare cost statement for each Product/ Activity under Audit/ not under Audit but are covered under the Compliance Report as per the Cost Accounting Records Rules 2011.

*** In case of change, please give details including the impact on unit cost of production/ operation and/or profit/loss position of the product/unit/factory and Product/ Activity Group wherever applicable.

**** If more than one product group, give product group-wise and also give basis of calculation of installed capacity.



APPENDICES



Important FAQs for Cost Audit

FAQ-2 dated 7.12.2011

FAQ No.7 Is it mandatory to submit Performance Appraisal Report to company management or can it be a NIL report? Can Form III relating to Performance Appraisal be modified or it has to be strictly followed as prescribed?

Vide sub-rule 5 of Rule 4 of the Companies (Cost Audit Report) Rules, 2011, every cost auditor, who submits a cost audit report shall also furnish Performance Appraisal Report, duly authenticated by the cost auditor, to the Board/Audit Committee of the company in the prescribed format (Form III). There cannot be NIL report since list of the areas to be covered in the report as per Form III are relating to company's operations being audited by the cost auditor. However, the frequency of this report viz. half yearly/annual (or even quarterly) is to be decided by the Company Management.

The contents of the Performance Appraisal Report as given in Form III are "indicative". Depending on the nature of business and activity of the company, the management and the cost auditor in consultation with each other can add or delete the indicative areas to be covered under the Performance Appraisal Report. The intention of the law appears to assign a role to the cost auditor to provide an independent view of the performance of the company to enable the management to take corrective steps wherever necessary. The Institute is also going to bring out a Guidance Note on the subject.

FAQ No.10 The Information under Para 3, 4, 5 & 6 is required to be furnished for the Company as a whole. In case of companies manufacturing the same product or rendering same service at different units, should the "product group wise cost sheets" of all units be merged into one and shown as a "cost sheet of single product group" or to be shown separately for each Unit?

The unit-wise product-wise cost statements duly certified by the cost auditor and the management are to be kept in the Company. The "product group-wise" cost statement of all the products and all units combined together will form part of the cost audit report.

FAQ No.11 What is the difference between Cost Accounting policy and Cost Accounting system?

Cost Accounting Policy of a company should state the policy adopted by the company for treatment of individual cost components in cost determination.

The Cost Accounting system of a company, on the other hand, would provide a flow of the cost accounting data/information across the activity flow culminating in arriving at the cost of final



product/activity.

FAQ No.12 Whether Value Addition is to be computed based on Cost record data or audited financial data?

Value Addition statement is to be computed based on audited financial data.

FAQ No.13 How export benefits are to be treated and shown in the Abridged Cost Statement?

Export Benefit is to be considered as a part of Sales.

FAQ-3 dated 29.11.2011

FAQ No.2 A company is engaged in execution of different turnkey contracts. The company considers different contracts as a cost unit. The site related activities (like excavation, making foundation, making rough cement concreting, plain cement concreting, making structure etc.) does not attract excise duty.

A) What shall be considered as other production overhead [Sl. 12 of Abridged Cost Statement] in view of the fact that the company is not engaged in any production/ manufacturing activities. Since the cost accounting standards do not use nomenclature related to "process" activity, what would be the proper nomenclature?

The Rules apply with respect to the product/activity of a company and is not related to whether the company has to pay excise duty or not.

The abridged cost statement should be read in conjunction with Note Nos. 2 and 3 given below the statement. The elements of cost, including the concept of "overheads", for the relevant industry/product/activity has to be used in this context. Reference may be made to definition of "Production Overhead" available in Para 4.13 of CAS-9 as also Para 4.8 of CAS-6 and use of the word Process Overheads will not be contradictory to the Cost Accounting Standards.

B) Since contracts are continuing one, what would be the proper method of valuation of WIP as per cost accounting principle?

Cost of operation of service and works contract and Valuation of WIP will be done at cost in accordance with Generally Accepted Cost Accounting Principles and Cost Accounting Standards.

C) The company also supplies parts as a part of the Service Contract. Whether supply of parts is to be considered for calculating cost of operation of service sold? Is Cost of supply of material considered in material consumed part?

If supply of parts is a trading activity then the same would not be considered for CARR.



FAQ No.3 Retail Company with service tax registration is engaged in telecommunication services. Whether it is covered under Companies (Cost Accounting Records) Rules 2011?

Whether company is registered under service tax or not, is not relevant for the applicability of CARR, 2011.

FAQ No.4 Company belongs to Electricity Industry and meets the Net worth clause. However, the company is yet to start generation of electricity. Whether the company will be required to submit cost audit report?

Cost audit is not applicable till cost accounting records become applicable.

FAQ No.5 Under Rule 6 of the Companies (Cost Audit Report) Rules 2011, no time limit has been prescribed for submission of cost accounting records to a cost auditor. How a cost auditor will submit report within 180 days if the company makes available records to cost auditor after a period of say 160/170 days from the close of the financial year?

A company is required to maintain prescribed records on a regular basis. The cost auditor has to complete the audit within the stipulated time and submit the report.

FAQ No.10 Clause 4(2) of the Companies (Cost Accounting Records) Rules 2011 prescribes maintenance of cost records on a regular basis but is silent whether the records are required to be maintained unit-wise and product-wise. Please clarify.

The certificate portion of the Compliance Report makes it clear that the records are required to be maintained unit-wise and product-wise.

FAQ No.11 A company was covered under Chemical Industries Rules which listed about 44 types of chemicals under its coverage. The company was covered under cost audit also, which was being conducted for the chemicals listed in the schedule and other chemicals not listed were kept under the purview of cost audit. What would be the status of the cost audit coverage after introduction of Companies (Cost Accounting Records) Rules 2011?

In the erstwhile Cost Accounting Records (Chemical Industries) Rules as amended, contained list of chemicals. With the introduction of Companies (Cost Accounting Records) Rules 2011, all the chemicals produced by a company would be covered in its entirety. If the company was under cost audit then all chemical products of the company would now be covered under cost audit.

FAQ No.16 Whether cost audit report has to be prepared plant-wise or for the company as whole?

Cost Audit Report is to be prepared for the company as a whole in respect of the product/activity coming under cost audit.



FAQ No.18 A company is manufacturing steel and producing power. The company is having 6 plants, 4 plants are manufacturing steel and two plants are producing power for captive consumption and power is sold from one plant only another is being used for captive consumption.

a) How many cost audit reports need to be prepared?

b) How many cost audit reports need to be filed with MCA?

Cost Audit Report is to be prepared for the company as a whole in respect of the product/activity coming under cost audit. It should contain details of Product Groups covered under cost audit.

FAQ No.19 A Company is manufacturer of automobile parts and is using paints for coloring some of such parts. Does this amount to processing of paints and is the company liable for cost audit in respect of paints also?

No. The company is using paint as a raw material. Hence Paint in this case not subjected to cost audit.

FAQ No.20 Whether all manufacturing companies having Turnover exceeding Rs.100 crores and/or listed in a stock exchange covered under Companies (Cost audit Report) Rules 2011 and get cost audit conducted?

All companies covered under cost audit orders dated 2nd May 2011, 3rd May 2011 (amended on 30th June 2011) and companies wherein cost audit orders were issued earlier in respect of products/activities covered by any or all of the Cost Accounting Records Rules as they existed before their super session by the Companies (Cost Accounting Records) Rules 2011 published vide GSR 429(E) dated 3rd June 2011 are covered under cost audit. Companies not falling under any of the above categories are not covered under cost audit.

FAQ No.21 The maximum period prescribed for presenting Compliance Report and/or Cost Audit Report is 180 days from date of close of the financial year. If Financial Accounts of a company is not ready before the stipulated time period, how cost audit report will be completed reconciled with the

Maintenance of cost accounting records is a continuous process. No time limit has been prescribed in the Rules for "submission" of records to cost auditor. The time limit of 180 days as prescribed in the Rules is for submission of Compliance report regarding maintenance of cost accounting records and cost audit report in case cost audit is also applicable to the company.

In case financial accounts are not ready or are yet to be adopted in the AGM, the same was clarified by the Cost Audit Branch earlier. In such cases the cost auditor can submit the report based on provisional accounts and submit a supplementary report of reconciliation in case there are materials differences in the final adopted accounts.



FAQ No.22 Company X Ltd. has Five Units:

Unit 1 & 2 manufacturing Steel.

Unit 3 manufacturing Steel and Generating Electricity.

Unit 4 manufacturing Aluminum.

Unit 5 manufacturing Textile Machinery.

Unit 1 to 4 are covered by Orders Sec 233B and have separate Cost Auditors, whose appointment are deemed to be approved by MCA (separate approval) as per the revised procedure for appointment of Cost Auditors.

Unit 5 is not covered by Sec 233B and hence does not have a Cost Auditor. The management proposes to get the authentication done by its own full time Cost Accountant, who is qualified to do so under the Companies (Cost Accounting Record) Rules 2011.

Based on the above facts, will the Cost Audit Report be also part of Compliance Report (Form A of the Rules)? If so, whose name will appear against Point 4 of the Form and whose digital signature will be affixed in the Form?

Cost audit report is not a part of the compliance report. In the instant example, Compliance Report of the company will contain details of all the 5 units, i.e., units under audit and unit not under audit.

The query states that the company is getting compliance report of Unit 5 authenticated by an employee of the company, which the company can do at its discretion. However, the company will also be required to designate either an employee or any of the cost auditors or some other cost accountant to file the Compliance Report of the company containing details of all 5 units, i.e., for the company as a whole.

4.1 What does turnover mean under these Rules? Is gross turnover inclusive of excise duty?

Earlier Clarification

As per Rule 2(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.

Revised Clarification

As per Rule 2(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.



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From a reading of the Rules, it appears that the word “Gross” denotes “total”. Hence, the “Turnover” under these Rules would exclude duties and taxes.

The term “Turnover” defined in the Companies (Cost Accounting Records) Rules, 2011 shall exclude taxes & duties. It shall have the same meaning, wherever it appears, in all other orders/rules issued in connection with the cost accounting records and cost audit.

4.2 Will the companies subject to cost audit be also required to file Compliance Report under these Rules?

Earlier Clarification

Every company covered under Companies (Cost Accounting Records) Rules 2011 is required to file a Compliance Report irrespective of whether all or any of its products are covered under cost audit. Thus the Compliance Report shall include product groups covered under cost audit as well as product groups not covered under cost audit.

Revised Clarification

(a) If all the products/activities of a company, excluding the exempted categories, are covered under cost audit, then the company will not be required to separately file the compliance report.

(b) If one or more product(s)/activity(s) of a company is covered under Cost Audit and there are other products covered under Companies (Cost Accounting Records) Rules 2011 but not covered under Cost Audit as per comp anywise or industry specific Cost Audit Orders dated 2nd May, 2011 and 3rd May, 2011 (amended by 30th June, 2011), the Company will be required to file a Compliance Report (Company as a whole) covering products under cost audit and products not under cost audit.

(c) If one or more product(s)/activity(s) of a company is covered under Cost Audit and there are other products not covered under Companies (Cost Accounting Records) Rules 2011, then the company will not be required to file a Compliance Report since the product(s)/activity(s) other than product(s)/ activity(s) under Cost Audit are in the exempted category.



4.3 A company with multiple product range is having cost audit for some of its products. What would be the applicability of cost audit on other products now covered under Companies (Cost Accounting Records) Rules 2011?

Earlier Clarification

The status of the company so far as applicability of cost audit is concerned will remain unchanged until cost audit orders are issued for its other products/activities now covered under Companies (Cost Accounting Records) Rules 2011. The company Report is required to be submitted for the 'company as a whole' under different product groups. If the all the products/activities irrespective of whether company's remaining products belong to the these are under cost audit or not and also file a Compliance Report.

Revised Clarification

The cost audit on other products now covered under will not be applicable until cost audit orders are issued for its other products/activities. However, Compliance (Cost Accounting Records) Rules 2011 will not be applicable on such exempted category products. The requirement of the Compliance Report will be guided by clarification provided under 4.2(b) and 4.2(c) above.

FAQ-5 dated 03.02.2011

5.1 Whether a cost auditor can be appointed as Internal Auditor of the company. Whether there is any restriction on the cost auditor to accept assignments from a company where he is the cost auditor.

Refer to MCA General Circular No. 68/2011 dated 30th November 2011.

A cost auditor cannot render any services to the company whether acting individually, or through the same firm or through other group firms where he or any partner has any common interest, relating to:

- (i) design and implementation of cost accounting system; or
- (ii) the maintenance of cost accounting records, or
- (iii) act as internal auditor,

However, a cost auditor can certify the compliance report or provide any other services as may be assigned by the company, excluding the services mentioned above.

5.2 How total number of companies for which a cost auditor can accept appointment is to be computed keeping in mind restrictions imposed under Section 224(1B) of the Companies Act 1956.



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Refer to MCA Master Circular No. 2/2011 dated 11th November 2011.

The specified number of companies for the purpose of section 233B (2) read with section 224 (1B) of the Companies Act, 1956 for a given financial year would be the total of:

- (a) Companies wherein he has been appointed as the cost auditor,
- (b) Companies wherein he is proposed to be appointed for which he has given his consent.
- (c) Companies in respect of which cost audit reports have not been submitted and have become overdue.

A cost auditor would be deemed to have concluded his appointment as cost auditor and eligible to accept appointment of another company within the limits of Section 224 (1B) as soon as he renders his report to the Central Government in accordance with the Cost Audit Report Rules, as applicable, with a copy to the Company. His obligation to answer queries from the Ministry of Corporate Affairs arising out of review of cost audit reports would not debar him from accepting another appointment as cost auditor of a company provided the specified number of companies contemplated in section 224 (1B) is not exceeded.

5.3 What is the period for which a cost auditor holds office as cost auditor of a company?

Refer to MCA Master Circular No. 2/2011 dated 11th November 2011.

A cost auditor shall be deemed to be holding office as cost auditor from the time he accepts the appointment and files Form 23D with the Central Government and shall be deemed to have concluded his appointment for the relevant financial year as soon as he renders a report to the Central Government in accordance with the Cost Audit Report Rules, as applicable, with a copy to the Company.

5.4 How and in what manner a cost auditor is required to sign a cost audit report?

Refer to MCA Master Circular No. 2/2011 dated 11th November 2011.

In case where a firm of cost accountants is appointed as cost auditors, the Cost Audit Report shall be signed by any one of the partners of the firm responsible for the conduct of cost audit in his own hand along with his membership number, for and on behalf of the firm.

In case where an individual is appointed as cost auditor, the Cost Audit Report shall be signed by the individual cost auditor in his own hand along with his membership number.

5.5 What is the role of Audit Committee, where applicable, in dealing with the Cost Audit Report? Can the Annexure to a Cost Audit Report be approved by the Audit Committee and/or the Board of



Directors by circular resolution?

Refer to MCA Master Circular No. 2/2011 dated 11th November 2011.

Sub-section (6) of section 292A of the Companies Act, 1956 states that the Audit Committee should have discussions with the auditors periodically about internal control systems, the scope of audit including the observations of the auditors and review the half yearly and annual financial statements before submission to the Board and also ensure compliance on internal control systems. Departmental Circular No. 6/2001 dated 20.08.2001 has already clarified that the term “auditors” includes cost auditor and hence “scope of audit including observations of the auditors” occurring in the above sub-section includes the scope of cost audit including observations of the cost auditors as well. The presence of the cost auditor in such committees will ensure overall cost management, efficiency in resource utilization, business vertical-wise performance evaluation, proper pricing of inter-unit/inter-company transfers and valuation of inventories. Hence, the company must place the cost audit report before the Audit Committee first, which in its duty to ensure compliance of internal control system shall also discuss the suggestions made in the cost audit report for implementation, wherever cost audit has been directed under section 233B of the Companies Act, 1956.

The Audit Committee, after due consideration of the Cost Audit Report is required to submit the same for approval of the Board. Since the Board of Directors is required to approve the Annexure to the Cost Audit Report and authorize one of the Directors and the Company Secretary (two Directors in the absence of a Company Secretary) to sign the same, the Board should also consider the Cost Audit Report in a duly convened meeting and it would not be advisable to approve the same by circular resolution.

5.7 What is the applicability of Cost Audit Order no. 52/26/CAB-2010 dated 2nd May 2011 on cost audit of Captive Power Generating Plants?

It has been clarified, vide MCA General Circular No. 67/2011 dated 30th November 2011, that Generation of electricity for captive consumption is not covered under the above order. For this purpose, the term “Captive Generating Plant” has been defined to have the same meaning as assigned in Rule 3 of the Electricity Rules, 2005 which is reproduced below. It may, however, be noted that cost records as required under Cost Accounting Records (Electricity Industry) Rules 2011 are required to be maintained and Compliance Report would be applicable for the Captive Generating Plant, if the final products of the company are not covered under cost audit.



Requirements of Captive Generating Plant.-

(1) No power plant shall qualify as a 'captive generating plant' under section 9 read with clause (8) of section 2 of the Act unless-

(a) in case of a power plant -

(i) not less than twenty six percent of the ownership is held by the captive user(s), and

(ii) not less than fifty one percent of the aggregate electricity generated in such plant, determined on an annual basis, is consumed for the captive use:

Provided that in case of power plant set up by registered cooperative society, the conditions mentioned under paragraphs at (i) and (ii) above shall be satisfied collectively by the members of the co-operative society;

Provided further that in case of association of persons, the captive user(s) shall hold not less than twenty six percent of the ownership of the plant in aggregate and such captive user(s) shall consume not less than fifty one percent of the electricity generated, determined on an annual basis, in proportion to their shares in ownership of the power plant within a variation not exceeding ten percent;

(b) in case of a generating station owned by a company formed as special purpose vehicle for such generating station, a unit or units of such generating station identified for captive use and not the entire generating station satisfy (s) the conditions contained in paragraphs (i) and (ii) of sub-clause (a) above including -

Explanation:-

(1) The electricity required to be consumed by captive users shall be determined with reference to such generating unit or units in aggregate identified for captive use and not with reference to generating station as a whole; and

(2) the equity shares to be held by the captive user(s) in the generating station shall not be less than twenty six per cent of the proportionate of the equity of the company related to the generating unit or units identified as the captive generating plant.

5.10 The manufacturing process of a company generates Steel Scrap during production of its main products which may or may not be covered under cost audit. Such scrap is cleared under Chapter 72 of the Central Excise Tariff and sold in the market. Will the company be covered under cost audit for generation of scrap?

The company is engaged in manufacture of products and coverage of its main products under cost



audit would depend on whether or not such products are covered under company specific cost audit orders issued in the past or industry specific cost audit orders dated 2nd May 2011 or 30th June 2011.

The generation of steel scrap is not a production or processing or manufacturing but is incidental to manufacture of its main products. Even though steel scrap, when sold, is liable for payment of excise duty under Chapter 72, still, generation of scrap will not be covered under cost audit.

5.11 A Cost Accountant is in full time employment in a company. He is also holding part time certificate of practice. Whether he can certify the Compliance Report of group companies and/or any other company?

A Cost Accountant and a member of the Institute can certify the Compliance Report of the company where he is a permanent employee.

In his capacity as a part-time COP holder, he is neither authorized to certify the Compliance Report of other group companies nor any other company.

5.12 Whether Laminates made from Kraft paper covered under Chapter 48 of Central Excise Tariff Act is covered under Cost Audit?

Since Laminates made from Kraft Paper are paper based products covered under Chapter 48 of Central Excise Tariff Act, the same is covered under Cost Audit as per cost audit order dated 30th June 2011 read with MCA General Circular No. 67/2011 dated 30th November 2011.

5.13 "Paints and Varnishes" under Chapter 32 of Central Excise Tariff are covered under Cost Audit vide order no. F.No.52/26/CAB-2010 dated 30th June, 2011. Paints, Coatings and Printing Ink etc. sold under various trade names are produced by using Varnish as primary raw material to which different Pigments are added in different qualities. These products also belong to Chapter 32 of Central Excise Tariff. Whether such products would be considered as "Allied Products" of Varnish and be covered under cost audit?

As per cost audit order dated 30th June, 2011, Paints & Varnish along with their "Intermediate" and "Articles and Allied Products" thereof are covered under cost audit. In the MCA General Circular No. 67/2011 dated 30th November 2011, the terms "Intermediate" and "Articles and Allied Products" have been defined. In view of this clarification, the items produced from Varnish are covered under cost audit irrespective of trade name under which it is sold, provided they meet the criteria laid down in the said circular.

5.14 Para 9 of the Companies (Cost Audit Report) Rules 2011 requires disclosure of "Cost of Production" and "Cost of Sales" at a company level. How the same would be available when all the



products/ activities are not covered under cost audit?

The Companies (Cost Accounting Records) Rules 2011 [CARR] is now applicable to all companies engaged in production, processing, manufacturing & mining. Hence, product-wise/ activity-wise cost of production and cost of sales would be available from the Cost Accounting Records of all the products/ activities, irrespective of whether these are covered under cost audit or not.

It may further be noted that in such a situation, the company would also be required to file a compliance report and for this purpose, product-wise/ activity-wise cost of production and cost of sales would be determined to prepare the reconciliation statement as required in the compliance report.

5.17 A Company having turnover above Rs. 100 crore undertakes works contracts for pipe line execution for Drinking, Sewerage and Irrigation purpose. The required pipes for the projects, falling under Chapter 68 of CETA, are manufactured by the Company itself. A part of the production is also sold outside. Whether Cost Audit is applicable for Pipe manufacture?

Applicability of cost audit is based on turnover of the total company. Any activity of a company, irrespective of the turnover of the particular activity, would be covered under cost audit if that particular activity is one of the activities listed in the cost audit order Nos. 52/26/CAB-2010 dated 2nd May 2011 or 30th June 2011.

Whether the company under reference will attract cost audit for its pipe manufacturing activity will now depend on whether the captive consumption is made for a product which is under cost audit. In this case it is not so and the pipe manufacturing will attract cost audit under this test.

However, if the production of pipes is an ancillary activity as defined in MCA General Circular No. 67/2011 dated 30th November 2011, then pipe manufacturing would be outside purview of cost audit.

5.18 A company is engaged in construction of Roads, Bridges, Marine facilities etc. having sites in India and abroad. The company also has Joint venture projects in India and abroad. Whether Companies (Cost Accounting Records) Rules 2011 would be applicable to the company?

Earlier Clarification

Revised Clarification

As per MCA General Circular No. 67/2011 dated 30th November 2011 The Institute had earlier issued a clarification under November 2011, if a company is engaged in FAQ 5 [Query 5.18]. Subsequently, the Ministry of construction business as a contractor or a sub- Corporate Affairs, Cost Audit Branch has clarified the



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contractor, then the company will not be covered under Companies (Cost Accounting Records) Rules 2011.

However, construction undertaken by a company on its own, say development of a commercial complex, office blocks, residential flats, roads, bridges and other infra-structural facilities etc. with the ultimate object of either selling the same to customers or permitting their use on chargeable basis (say, Toll Charges for roads/bridges, renting of office complex) would be covered under Companies (Cost Accounting Records) Rules 2011. This would also include above activities under BOT/BOOT mode.

following in relation to Construction Industry:

As per the provisions of MCA General Circular No. 67/2011 dated 30th November 2011, all companies engaged in the construction business either as contractors or as sub-contractors, who meet with the threshold limits laid down in Rule 3 of the Companies (Cost Accounting Records) Rules, 2011 and undertake jobs with the use of own materials [whether self manufactured/ produced or procured from outside] shall be required to maintain cost records and file a compliance report with the Central Government in accordance with the provisions of the Companies (Cost Accounting Records) Rules, 2011. This includes companies engaged in the construction 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.

The provisions of Companies (Cost Accounting Records) Rules, 2011 would also apply for 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.

However, if a company is engaged in the contracting or sub-contracting activities and is paid only the job work or conversion charges, then the company will not be covered under Companies (Cost Accounting Records) Rules, 2011. Such contractors or subcontractors who are doing construction jobs without using own materials and are thus paid either the job work charges or the conversion charges only will not be covered under the Companies (Cost Accounting Records) Rules, 2011.

These Rules also do not apply to such Joint Ventures that are non-corporate entities [i.e. not companies



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registered under the Companies Act] or to unlisted companies having net worth less than Rs.5 crore & turnover less than Rs.20 crore or to a body corporate governed by any special Act.

5.19 A company has 2 wind mills. Turnover from the two wind mills is Rs. 2 crores. The company's total turnover is more than Rs. 100 crores. None of the products of the company is covered under cost audit at present. Whether, the company will need to get cost audit done of electricity generation activities under Cost Audit Order 52/26/CAB-2010 dated 02.05.2011.

Earlier Clarification

Applicability of cost audit is based on turnover of the total company. Hence, any activity of a company, irrespective of the turnover of the particular activity, would be covered under cost audit if that particular activity is one of the activities listed in the cost audit order Nos. 52/26/CAB-2010 dated 2nd May 2011 or 52/26/CAB-2010 dated 3rd May 2011 (modified vide Order dated 30th June 2011).

If the power generated by the 2 wind mills is sold outside but the total turnover from the sale does not exceed 2% of the total turnover of the company or Rs.20 crores, whichever is lower, then the power generation would be considered as an ancillary activity of the company incidental to its main operations (i.e. products/activities that do not constitute their main line of business) and the Cost Accounting Records (Electricity Industry) Rules 2001 will not be applicable. Consequently, the company will not be required to get cost audit conducted for the electricity activity in this case.

If the power generated by the 2 wind mills is captively consumed by the company, then Cost Audit Order No. 52/26/CAB-2010 dated 2nd May 2011 will not apply. **[Please refer General Circular No. 67/2011 dated 30th November 2011].** For this purpose, the term "Captive Generating Plant" shall have the same

Revised Clarification

Applicability of cost audit is based on turnover of the total company. Hence, any activity of a company, irrespective of the turnover of the particular activity, would be covered under cost audit if that particular activity is one of the activities listed in the cost audit order Nos. 52/26/CAB-2010 dated 2nd May 2011 or 30th June 2011 or 24th January 2012.

To determine whether an electricity generating plant used for captive consumption as well as selling surplus power outside is covered under cost audit or not, the following tests may be applied:

- a) The generating plant meets the criteria of being defined as a "captive generating plant" as defined under Electricity Rules 2005 [vide MCA General Circular No. 67/2011 dated 30th November 2011], the unit will be outside the purview of cost audit.
- b) The generating plant does not meet the criteria of being defined as a "captive generating plant" but generation of electricity is an ancillary activity of the company incidental to its main operations (i.e. products/activities that do not constitute their main line of business) as defined in MCA General Circular No. 67/2011 dated 30th November 2011. In such case also the company will not be required to get cost audit



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meaning as assigned in Rule 3 of the Electricity Rules, 2005, which is annexed hereto.

conducted for Electricity under the cost audit order dated 2nd May, 2011.

c) In all other cases, the generating plant will be covered under cost audit. It may, however, be noted that the Cost Accounting Records (Electricity Industry) Rules 2011 would be applicable under any circumstances and Compliance Report would be required to be filed with the Central Government.

FAQ-6 dated 09.03.12

6.2 Cost Audit has been prescribed for an Industry corresponding to the relevant Chapter Heading of the Central Excise Tariff Act, 1985 (CETA). The same Chapter Heading has been notified under different Industry. How to decide under which Industry the product of the company is to be categorized?

The categorization of a product under a particular industry will follow the General Rules for the Interpretation of the First Schedule of CETA 1985.

6.5 Whether packaged food manufacturing companies as recently covered under Cost Audit also include packaged food products like rice, flour, salt, haldi, mirch, spices, tomato sauce, butter, desi ghee, tea, coffee, cold drinks, juice, mineral water, namkeens, biscuits, bread, rusks, and other various packaged food products like chips, chocolates etc.?

If the above products are covered under the relevant excise chapters of Central Excise Tariff Act, 1985, then the cost audit will be applicable under the packaged food products provided the company meets the threshold limit prescribed in the cost audit order. However, Tea/Coffee (packet and blended including instant tea) are considered to be Plantations Products.

6.6 Whether sugar manufacturing companies using the word 'cooperative' and Ltd. in the last of their names are also covered under cost audit report rules?

Cost Audit is applicable to companies registered under the Companies Act 1956. The word "Cooperative" may be a part of the name of a company registered under the Companies Act 1956 in which case the company would be covered under CARR and cost audit depending on its product/activity. However, organizations not registered under the Companies Act 1956 would be outside the purview of CARR and cost audit.

6.8 Cost Audit Order dated 24th January 2012 says that all company specific orders issued prior to



31st March 2011 have been withdrawn from the financial year commencing on or after 1st April 2012. Whether cost audit is applicable wherever industry specific orders are issued or for all the company specific orders issued earlier? What would be the status of cost audit in respect of company specific orders issued earlier on companies engaged in Soaps, Detergents or Toiletries or Footwear's?

- (1) All company specific cost audit orders issued to individual companies prior to 31st March, 2011 stand withdrawn with effect from the financial year commencing on or after the 1st day of April, 2012.
- (2) All companies who were earlier issued company specific orders prior to 31st March, 2011 but are later covered either by any of the industry specific orders dated 2nd May 2011 or 30th June 2011 or 24th January 2012 [subject to their meeting with the qualifying criteria mentioned therein] shall now comply with the industry specific orders, as applicable, replacing the earlier company specific order.
- (3) Companies engaged in product/activity not listed in any of the orders dated 2nd May 2011 or 30th June 2011 or 24th January 2012 will be outside the purview of cost audit after 1st April 2012 even if the company was earlier under company specific cost audit.

The list of industries/activities for which cost audit is now applicable after 24th January 2012 is given in Annexure-1 (Page-1) and Annexure-1 (Page-2).

6.9 Whether Ready Made Garments and textile articles like sewing thread are covered under Cost Audit?

All products including intermediate products and articles or allied products of the industries covered under cost audit orders dated 2nd May 2011, 30th June 2011 and 24th January 2012 are covered under cost audit. Products falling under Chapter references mentioned in the orders are to be considered against the respective industry as applicable.

6.10 Whether automotive parts used in 4 wheeled Motor Vehicles are covered or all automotive components including automotive parts for 2/3 wheelers are also covered under the cost audit?

Motor Vehicle is a mechanically propelled vehicle adapted for use upon roads and includes a chassis to which a body has not been attached and a trailer. Therefore, motor vehicles includes 2 or more wheelers and components for all such motor vehicles are covered under cost audit. Automotive Components falling under Chapters 84, 85 & 87 used for motor vehicles are covered



under cost audit.

6.11 Whether film industry like film producing companies/studios registered under Indian Companies Act covered under Companies (Cost Accounting Records) Rules, 2011?

Companies (Cost Accounting Records) Rules, 2011 is applicable to developing, fixing, and washing exposed photographic or cinematographic film or paper to produce either a negative image or a positive image. In case a film producing company is also engaged in these activities, the same would be covered.

6.12 Whether readymade garment manufacturing companies exporting garments to overseas countries are covered under CARR and cost audit.

Readymade garment manufacturing company meeting the threshold limit will be covered under the Companies (Cost Accounting Records) Rules 2011 and are required to maintain cost accounting records. The company would also be covered under cost audit as per cost audit order dated 24th January 2012 provided it is not a 100% EOU that have been exempted from cost audit only as per MCA General Circular No. 67/2011 dated 30th November 2011. In case the company is exempted from cost audit, the company will be required to file a Compliance Report.

6.14 A Company is manufacturing Asbestos sheets and using less than 50% of cement as an input. The product is covered under Chapter 25 of the Central Excise Tariff Act, 1985. Is Cost Audit applicable to Asbestos sheets?

As per MCA General Circular No. 67/2011 dated 30th November 2011 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. In this case, Cement is the product under cost audit which is used as an input. Since Asbestos contains less than 50% of Cement, it will not be covered under cost audit as an allied product of Cement.

6.15 A Company is manufacturing Cast Iron Casting and SG Iron Castings in foundry unit which are cleared under Chapter 73 of Central Excise Tariff Act 1985. The products are treated as Iron articles and not steel articles. The predominant input for the manufacture of the same is MS Scrap, Pig Iron. Whether covered for Cost Audit under order dated 30/06/2011?

Steel Industry referred to in cost audit order dated 30th June 2011 includes iron, pig iron, sponge iron etc. Since Cast Iron and SG Castings are iron/steel products and is cleared under Chapter 73 of Central Excise Tariff Act 1985, the same would be covered under cost audit.



6.16 An Automotive Industry is manufacturing multiple products like rear-view mirror, aluminum panels etc. for motor vehicles. The finished products of the Company are covered under Chapters 70, 72, 76, 84, 85 and 87 of Central Excise Tariff Act 1985 (CETA). The inputs are glass, steel, aluminum etc. which are covered under cost audit. Whether the automotive components manufactured by the Company would be treated as products of glass, steel or aluminum, as the case may be or will the components be treated as Automotive Components and covered under cost audit order dated 24th January 2012.

As per the cost audit order dated 24th January 2012, all automotive components, irrespective of the input material and/or the CETA Chapter under which it is cleared, are classified as automotive components and covered under cost audit from the financial year commencing on or after 1st April 2012.

6.17 MCA General Circular No. 67/2011 dated 30th November 2011 mentions that the Cost Audit Orders No. 52/26/CAB-2010 dated 2nd May, 2011 and 30th June, 2011 will not be applicable to 100% Export Oriented Unit. The Unit is clearing its goods in the domestic market after taking necessary approval from the Excise Authorities. In this case, whether cost audit is applicable, since the unit is clearing goods for domestic market. Since Cost Audit to 100% EOU is not applicable in terms of said General Circular, is there any exemption from maintenance of Cost Accounting Records?

A company having multiple industrial units, out of which one or more are approved as 100% EOU, is required to have distinct identities of domestic units and 100% EOUs with separate accounts (Policy given in Chapter-6 Foreign Trade Policy). As per the Policy, 100% EOUs are allowed to sell a fixed percentage of sales in the Domestic Tariff Area (DTA) within permissible approved limits.

If the 100% EOU is functioning within the permissible approved limits, the Unit will be exempted from cost audit as per MCA General Circular No. 67/2011 dated 30.11.2011 but not exempted under Companies (Cost Accounting Records) Rules, 2011 and hence would be required to file a Compliance Report.

The unit not qualifying as 100% EOU will be covered under cost audit subject to the Company meeting the threshold criteria mentioned in the applicable cost audit order.

6.18 The MCA General Circular No. 67/2011 dated 30th November 2011 is applicable to Companies (Cost Accounting Records) Rules, 2011 as well as industry specific Cost Accounting Records Rules for Telecommunication, Petroleum, Electricity, Sugar, Fertilizer and Pharmaceutical



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industries. As per the Circular, cost accounting records rules are not applicable to

(a) wholesale or retail trading activities; and

(b) job work operations wherein the company is paid only the job work or conversion charges.

What is the applicability of the Rules for the principal manufacturer vis-a-vis a job worker?

The MCA General Circular No. 67/2011 dated 30th November 2011 is clarified under different scenarios as follows:

Scenario 1:

Company 'A' supplies materials (self-manufactured or procured) to Company 'B' for conversion and pays conversion/job work charges for job work operations.

OR

Company 'B' procures materials on behalf of Company 'A' and does the job work operation. Company 'A' pays conversion/job work charges and also reimburses Company 'B' for materials procured.

The production may be cleared by Company 'B' by paying Excise Duty on behalf of Company 'A' which is reimbursed by Company 'A'. The production is recorded in the books of Company 'A'. Company 'B' may or may not be distributing the final product directly to the consumer on behalf of Company 'A'.

Company 'A' will be covered under the cost accounting records rules. Company 'B' engaged in job work operations without the use of own materials and receiving only job work or conversion charges is not covered under the cost accounting records rules.

Scenario 2:

Company B manufactures the product with the use of own materials (self-manufactured or procured) and sells to Company A. Company A sells it to the consumers under its own Brand name. In the process, Company A incurs brand building expenses, selling and distribution expenses and other overheads. Company B may or may not be distributing the final product directly to the consumer on behalf of Company A.

Company B, being the manufacturer, will be covered under the cost accounting records rules. Company A will also be covered under cost accounting records rules since the company is undertaking brand building operations and is doing value addition to the product while selling to the ultimate consumer as a unique product.



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Scenario 3:

Company B manufactures the product with the use of own materials (self-manufactured or procured) and sells to Company A. Company A sells it to the consumers as it is, i.e., without any further value addition.

Company B, being the manufacturer, will be covered under the cost accounting records rules. Company A being a pure trader will not be covered under cost accounting records rules.

Notes:

- a) In all the above cases, "cost accounting records rules" means Companies (Cost Accounting Records) Rules 2011 or any of the cost accounting records rules notified for 6 Regulated Industries.
- b) The applicability will depend on the companies meeting the threshold limits prescribed in the Rules.

6.19 It has been clarified that a captive generating plant as defined under Electricity Rules 2005 is not covered under cost audit. What would be the different situations in a mulch-product company having its own generating plant regarding applicability of Compliance Report and Cost Audit?

<u>Situation</u>	<u>Applicability of Cost Audit</u>
Company engaged in: Product A: Under Cost Audit Product B: Under Cost Audit Own Generation of Electricity: 100% consumed for production of Products A and B	Cost audit report to be filed for Product A and Product B. No Compliance Report to be filed.
Company engaged in: Product A: Under Cost Audit Product B: Not under Cost Audit Own Generation of Electricity: 100% consumed for production of Products A and B	Cost Audit Report to be filed for Product A. Compliance Report to be filed for the company as a whole.
Company engaged in: Product A: Not under Cost Audit Product B: Not under Cost Audit Own Generation of Electricity: 100% consumed for production of Products A and B	Compliance Report to be filed for the company as a whole



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Company engaged in: Product A: Under Cost Audit Product B: Under Cost Audit Own Generation of Electricity: Generating Plant deemed to be captive generating plant as per Electricity Rules and part of generation is sold outside.	Cost audit report to be filed for Products A and B. Compliance Report to be filed for the company as a whole
Company engaged in: Product A: Under Cost Audit Product B: Cost Audit is applicable but consumed exclusively for production of Product A Own Generation of Electricity: 100% consumed for production of Products A and B	Cost Audit Report to be filed for Product A. No separate cost audit report to be filed for Product B. No Compliance Report to be filed.
Company engaged in: Product A: Not under Cost Audit Product B: Under Cost Audit but the product is consumed exclusively for production of Product A Own Generation of Electricity: 100% consumed for production of Products A and B	Cost Audit Report to be filed for Product B. Compliance Report to be filed for the company as a whole.
Company engaged in: Product A: Under Cost Audit Product B: Cost Audit is applicable but consumed exclusively for production of Product A Own Generation of Electricity: Generating Plant deemed to be captive generating plant as per Electricity Rules and part of generation is sold outside.	Cost Audit Report to be filed for Product A. No separate cost audit report to be filed for Product B. Compliance Report to be filed for the company as a whole.
Company engaged in: Product A: Under Cost Audit Product B: Under Cost Audit Own Generation of Electricity: Generating Plant is not a captive generating plant as per Electricity Rules.	Cost audit report to be filed for Product A, Product B and Electricity Generation Activity. No Compliance Report to be filed.
Company engaged in:	Cost audit report to be filed for Product A and



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Product A: Under Cost Audit Product B: Not under Cost Audit Own Generation of Electricity: Generating Plant is not a captive generating plant as per Electricity Rules.	Electricity Generation Activity. Compliance Report to be filed for the company as a whole.
Company engaged in: Product A: Not under Cost Audit Product B: Not under Cost Audit Own Generation of Electricity: Generating Plant is not a captive generating plant as per Electricity Rules and part of electricity is sold outside. The revenue from sale of electricity is less than 2% of the total turnover of the company, which is also less than Rs. 20 crores.	No Cost audit report for Product A, Product B and Electricity Generation Activity. Compliance Report to be filed for the company as a whole. Electricity Generation Activity is deemed to be an ancillary activity and would be reported in Compliance Report as a part of miscellaneous group.
Company engaged in: Product A: Not under Cost Audit Product B: Not under Cost Audit Own Generation of Electricity: Generating Plant is not a captive generating plant as per Electricity Rules and part of electricity is sold outside. The revenue from sale of electricity is more than 2% of the total turnover of the company or the revenue is more than Rs. 20 crores.	No Cost audit report for Product A and Product B. Cost Audit report to be filed for Electricity Generation activity. Compliance Report to be filed for the company as a whole.



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Annexure-1 (Page-1)

List of Industry/Activity under Cost Audit as on date

Effective on all Companies having turnover of Rs. 20 crores or more or having net worth of Rs. 5 crore or listed or getting listed in any Stock Exchange

S. No.	Name of the Industry	Description of Activity and Relevant Chapter Heading of the Central Excise Tariff Act, 1985	Effective from Financial Year commencing
1.	Telecommunication Industry	Act, process, procedure, function, operation, technique, treatment or method employed in relation to telecasting, broadcasting, telecommunicating voice, text, picture, information, data or knowledge through any mode or medium	1st April 2011
2.	Petroleum Industry	Chapter 27 of CETA 1985 or Production, processing, manufacturing or mining of crude oil, gases [including Natural Gas, Compressed Natural Gas, Liquefied Petroleum Gas and regasified gases, etc. as defined in the Petroleum and Natural Gas Regulatory Board Act, 2006 (19 of 2006)] or Bio gas or any other petroleum products	1st April 2011
3.	Electricity Industry	Generation of electricity from any source of energy, and includes transformation, transmission, distribution, and/or supply of electricity by any mode, or medium	1st April 2011
4.	Sugar Industry	Chapters 17 and 22 of CETA 1985 or Production, processing, or manufacturing of any form or grade of sugar, molasses, or alcohol (including ethyl alcohol, rectified spirit, absolute alcohol, denatured alcohol, power alcohol, or solvent blends etc. but excluding potable alcohol) by using any raw materials	1st April 2011
5.	Fertilizer Industry	Chapter 31 of CETA 1985 or Fertilizers as defined in clause (h) of Section 2 of the Fertilizer (Control) Order, 1985 made under Section 3 of the Essential Commodities Act, 1955 (10 of 1955)	1st April 2011
6.	Pharmaceutical Industry	Chapters 29 and 30 of CETA 1985 or Production, processing, or manufacturing of bulk drugs or formulations and includes the meaning assigned to them under the Drugs (Prices Control) Order 1995	1st April 2011



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Annexure-1 (Page-2)

**List of Industry/Activity under Cost Audit as on date
Effective on all Companies having turnover of Rs. 100 crores or more or listed or getting listed in any
Stock Exchange**

S. No.	Name of the Industry	Description of Activity and Relevant Chapter Heading of the Central Excise Tariff Act, 1985	Effective from Financial Year commencing
7.	Cement	Chapter 25, 38 and 68 of CETA 1985	1st April 2011
8.	Insecticides	Chapter 38 (includes all classes of Insecticides as defined under clause (e) of section 3 of the Insecticides Act, 1986 (46 of 1968) and included in the schedule annexed to the said Act and as amended from time to time.	1st April 2011
9.	Tyres & Tubes	Chapter 40 of CETA 1985	1st April 2011
10.	Steel	Chapter 72 and 73 of CETA 1985	1st April 2011
11.	Paper	Chapter 47 and 48 of CETA 1985	1st April 2011
12.	Glass	Chapter 70 of CETA 1985	1st April 2011
13.	Paints & Varnishes	Chapter 32 of CETA 1985	1st April 2011
14.	Aluminum	Chapter 76 of CETA 1985	1st April 2011
15.	Jute, Cotton, Silk, Woolen or Blended Fibers/Textiles	Chapters 50 to 63 of CETA 1985	1st April 2012
16.	Edible Oil Seeds and Oils (including vanaspati)	Chapters 12 and 15 of CETA 1985	1st April 2012
17.	Packaged Food Products	Chapters 2 to 25 (except Chapters 5, 6, 14, 23 and 24) of CETA 1985	1st April 2012
18.	Organic & Inorganic Chemicals	Chapters 28, 29, 32, 38 and 39 of CETA 1985	1st April 2012
19.	Coal & Lignite	Chapter 27 of CETA 1985	1st April 2012
20.	Mining & Metallurgy of Ferrous & Non-Ferrous Metals	Chapters 26 and 74 to 83 (except Chapters 76 and 77) of CETA 1985	1st April 2012
21.	Tractors & other Motor Vehicles (incl. automotive components)	Chapters 84, 85 and 87 of CETA 1985	1st April 2012
22.	Plantation Products	Chapters 8, 9, 21 and 40 of CETA 1985	1st April 2012
23.	Engineering Machinery (incl. Electrical & Electronic products)	Chapters 84 and 85 of CETA 1985	1st April 2012



[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. 430(E) - In exercise of the powers conferred by clause (b) of sub-section (1) of section 642 read with sub-section (4) of section 233B, and sub-section (1) of section 227 of the Companies Act, 1956 (1 of 1956), and in supersession of the Cost Audit Report Rules, 2001, 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 Audit Report) 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) "Cost Auditor" means an auditor appointed to conduct an audit of cost records, under sub-section (2) of section 233B of the Act;
 - (c) "Form-I" means the Form prescribed in these rules for filing cost audit report and other documents with the Central Government in the electronic mode;
 - (d) "Form-II" means the Form of the cost auditor's report and includes auditor's observations and suggestions, and Annexure to the cost audit report;
 - (e) "Form-III" means the Form of the performance appraisal report;
 - (f) "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.
 - (g) "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;
 - (h) "Report" means cost audit report duly audited and signed by the cost auditor in the prescribed form of



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cost audit report;

- (i) 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 and sub-section (4) of section 233B 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 in respect of which an audit of the cost records has been ordered by the Central Government under sub-section (1) of section 233B of the Act.

- 2) Every company as specified in sub-rule (1) shall, within ninety days of the commencement of every financial year, file an application with the Central Government seeking prior approval for appointment of the cost auditor, through electronic mode, in the prescribed form, alongwith the prescribed fee as per the Companies (Fees on Applications) Rules, 1999, and requisite enclosures.
- 3) Every cost auditor appointed under sub-rule (2) shall, within thirty days of receipt of letter of appointment, inform his appointment to the Central Government through electronic mode, in the prescribed form, alongwith the requisite enclosures.
- 4) Notwithstanding anything contained in sub-rule (2) and (3) above, every company and every cost auditor shall follow the procedure prescribed vide Ministry of Corporate Affairs' General Circular No. 15/2011 [File No. 52/5/CAB-2011] dated April 11, 2011.

4. **Form of the Report** - 1) Every cost auditor, who conducts an audit of the cost records of the company, shall submit the report along with auditor's observations and suggestions, and Annexure to the Central Government in the prescribed form and at the same time forward a copy of such report to the company.

- 2) The cost audit report submitted on or after 1st day of April, 2012, irrespective of the financial year of the company to which it relates, shall be in the form prescribed under these rules.
- 3) Every company as specified in sub-rule (1) of rule 3 shall, keep and maintain cost details, statements, schedules, etc. for each unit and each product or activity comprised in each product group, duly authenticated by atleast two Directors of the company and the cost auditor.
- 4) The cost details, statements, schedules, etc. of every company, as specified in sub-rule (3), relating to a period of not less than eight financial years immediately preceding a financial year, 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:
- 5) Every cost auditor, who submits a report under sub-rule (1), shall also furnish performance appraisal report, duly authenticated by the cost auditor, to the Board/Audit Committee of the company in the prescribed form.
- 6) Every cost auditor, who submits a report under sub-rule (1), shall also give clarifications, if any, required by the Central Government on the cost audit report submitted by him, within thirty days of the receipt of the communication addressed to him calling for such clarifications.

5. **Time limit for submission of Report** – Every cost auditor shall forward his report referred to in sub-rule (1)



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of rule 4 to the Central Government and to the concerned company within one hundred and eighty days from the close of the company's financial year to which the report relates.

6. **Cost Auditor to be furnished with the cost accounting records etc.** – Without prejudice to the powers and duties the Cost Auditor shall have under sub-section (4) of section 233B of the Act, the company and every officer thereof, including the persons referred to in sub-section (6) of section 209 of the Act, shall make available to the cost auditor, such cost accounting records, cost statements, other books and documents, and Annexure to the Report, duly completed, as would be required for conducting the cost audit, and shall render necessary assistance to the cost auditor so as to enable him to complete the cost audit and submit his report within the time limit specified in rule 5.
7. **Authentication of Annexure to the Cost Audit Report** – The Annexure prescribed with the cost audit report shall be approved by the Board of Directors before submitting the same to the Central Government by the cost auditor. The Annexure, duly audited by the cost auditor, shall also be signed by the Company Secretary and at least one Director on behalf of the company. In the absence of Company Secretary in the company, the same shall be signed by at least two Directors.
8. **Penalties** – (1) If default is made by the cost auditor in complying with the provisions of rule 4 or rule 5, he/she 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 and sub-section (11) of section 233B of Companies Act, 1956 (1 of 1956).
9. **Savings-** The supersession of the Cost Audit Report Rules, 2001, 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)



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FORM-I

Form for filing Cost Audit Report and other documents with the Central Government

[Pursuant to section 233B(4), 600(3)(b) of the Companies Act, 1956 and rule 2 of the Companies (Cost Audit Report) 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		Pre-Fill				
	(b) Global location number (GLN) of company						
2	(a) *Name of the company						
	(b) *Address of the registered office or of the principal place of business in India of the company						
	(c) *E-mail Address of the company						
3	(a) *Financial year	From					
		To					
	(b) *Date of Board of directors' meeting in which annexure to the Cost Audit Report was approved						
4	(a) *State number of Product Groups for which the Cost Audit Report is being submitted						
	(b) *Details of such Product Groups of the company (Number of rows depending on 4(a) above)						
	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%;">Name of the Product Group</th> <th style="width: 50%;">Major Products/Activities covered</th> </tr> </thead> <tbody> <tr> <td> </td> <td> </td> </tr> </tbody> </table>			Name of the Product Group	Major Products/Activities covered		
Name of the Product Group	Major Products/Activities covered						
5	(a) *State number of Product Groups/Activities not covered in the Cost Audit Report						
	(b) *Details of such Product Groups/Activities of the company (Number of rows depending on 5(a) above)						
	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%;">Name of the Product Group</th> <th style="width: 50%;">Major Products/Activities covered</th> </tr> </thead> <tbody> <tr> <td> </td> <td> </td> </tr> </tbody> </table>			Name of the Product Group	Major Products/Activities covered		
Name of the Product Group	Major Products/Activities covered						
6.	Details of the cost auditor						
	(a) *Category of the cost auditor	☐ Individual ☐ Cost Accountant's firm					
	(b) *Name of the cost auditor or the cost auditor's						



☐ Yes ☐ No

☐ Yes ☐ No

Attachments:

Attach

Attach

Verification:

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☐ I have been authorised by the Board of directors' resolution number to sign and submit this form. dated (DD/MM/YYYY)

☐ I am authorised 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 authorised 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 authorised 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

* Cost Auditor

Digital Signature

Whether Associate or Fellow

Associate

Fellow

Membership Number

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



The Institute of Cost Accountants of India

FORM-II

FORM OF THE COST AUDIT REPORT

[See rule 2 and rule 6]

I/We,..... having been appointed as Cost Auditor(s) under Section 233B of the Companies Act, 1956 (1 of 1956) 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 audited the books of account prescribed under clause (d) of sub-section (1) of section 209 of the said Act, and other relevant records in respect of the (mentions name/s of product group/s) for the period/year (mention the financial year) maintained by the company and report, in addition to my/our observations and suggestions in para 2.

- (i) 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 audit.
- (ii) In my/our opinion, proper cost records, as per Companies (Cost Audit Report) 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 the product/activity groups under reference.
- (iii) In my/our opinion, proper returns adequate for the purpose of the Cost Audit have/have not been received from the branches not visited by me/us.
- (iv) In my/our opinion and to the best of my/our information, the said books and records give/do not give the information required by the Companies Act, 1956, in the manner so required.
- (v) In my/our opinion, the said books and records are/are not in conformity with the 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.
- (vi) In my/our opinion, company has/has not adequate system of internal audit of cost records which to my/our opinion is commensurate to its nature and size of its business.
- (vii) Detailed unit-wise and product/activity-wise cost statements and schedules thereto in respect of the product groups/activities under reference of the company duly audited and certified by me/us are/are not kept in the company.
- (viii) As required under the provisions of The Companies (Cost Audit Report) Rules, 2011, I/we have furnished Performance Appraisal Report, to the company, on the prescribed form.

2 Observations and suggestions, if any, of the Cost Auditor, relevant to the cost audit.

Dated: this ____ day of _____ 20__

at _____ (mention name of place of signing
this report)

SIGNATURE & SEAL OF THE COST AUDITOR (S)

MEMBERSHIP NUMBER (S)

NOTES:

(1) Delete words not applicable.

(2) If as a result of the examination of the books of account, the Cost Auditor desires to point out any material deficiency or give a qualified report, he shall indicate the same against the relevant para (i) to (viii) only in the prescribed form of the Cost



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Audit Report giving details of discrepancies he has come across.

(3) The report, suggestions, observations and conclusions given by the Cost Auditor under this paragraph shall be based on verified data, reference to which shall be made here and shall, wherever practicable, be included after the company has been afforded an opportunity to comment on them.



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ANNEXURE TO THE COST AUDIT REPORT

[See rule 2 and rule 6]

1. GENERAL INFORMATION:

1. CIN or GLN of the company:
2. Name of the company:
3. Registered office address:
4. Corporate office address:
5. E-mail address of the company:
6. Company's financial year to which the Cost Audit Report relates:
7. Name, address, membership number and e-mail of the Cost Auditor(s):
8. SRN Number and date of Filing of Form 23C with the Central Government:
9. Date of Board of Directors' meeting wherein the Annexure to the cost audit report were approved:
10. No. of Audit Committee meetings held by the company, and attended by the Cost Auditor during the year:

2. COST ACCOUNTING POLICY:

(1) Briefly describe the cost accounting policy adopted by the Company keeping in view the requirements of the Companies (cost Accounting Records) Rules, 2011, the Companies (Cost Audit Report) Rules, 2011, cost accounting standards and its adequacy or otherwise to determine correctly the cost of production/operation, cost of sales, sales realization and margin of the product/activity groups under reference separately for each product/activity group. The policy should cover, inter alia, the following areas:

- a) Identification of cost centres/cost objects and cost drivers.
- b) Accounting for material cost including packing materials, stores and spares etc., employee cost, utilities and other relevant cost components.
- c) Accounting, allocation and absorption of overheads
- d) Accounting for Depreciation/Amortization
- e) Accounting for by-products/joint-products, 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.
- i) In case the Company has adopted IFRS, variations (if any) in treatment of cost accounting arising out of adoption of IFRS in Financial Accounting.
- j) Other relevant cost accounting policy adopted by the Company

(2) Briefly specify the changes, if any, made in the cost accounting policy for the product/activity group(s) under audit during the current financial year as compared to the previous financial year.

Observations of the Cost Auditor regarding adequacy or otherwise of the Budgetary Control System, if any, followed by the company.



3. PRODUCT GROUP DETAILS (for the company as a whole)

Sno .	Name of each Product Group	Names of Products/ Activities included in the Product Group	Net Sales (net of taxes, duties, etc.) (Rs. Lakh)	Covered under Cost Audit
				(Yes/No)
A	Manufactured Product Groups			
	1.			
	2.			
	3.			
	4. etc.			
	Sub-Total (A)			
B	Services Groups			
	1.			
	2.			
	3.			
	4. etc.			
	Sub-Total (B)			
C	Trading Activities (Product Group-wise)			
	1.			
	2.			
	3.			
	4. etc.			
	Sub-Total (C)			
D	Other Incomes			
E	Total Income as per Audited Annual Report (A+B+C+D)			

NOTES:

- (1) For manufactured product groups, use the nomenclature as used in the Central Excise Act and Rules, as applicable.
- (2) For service groups, use the nomenclature as used in the Finance Act / Central Service Tax Rules, as applicable.



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4. QUANTITATIVE INFORMATION (for each product group separately)

Name of the Company

Name of the Product Group

Name of the Products covered in the Product Group

Financial Year	From _____ To _____		
Particulars	Unit	Current Year	Previous Year
1. Available Capacity			
(a) Installed Capacity			
(b) Capacity enhanced during the year, if any			
(c) Capacity available through leasing arrangements, if any			
(d) Capacity available through loan license / third parties			
(e) Total available Capacity			
2. Actual Production			
(a) Self manufactured			
(b) Produced under leasing arrangements			
(c) Produced on loan license / by third parties on job work			
(d) Total Production			
4. Production as per Excise Records			
4. Capacity Utilization (in-house)			
5. Stock Purchased for Trading			
(a) Domestic Purchase			
(b) Imports			
(c) Total Purchases			
6. Stock & Other Adjustments			
(a) Change in Stock of Finished Goods			
(b) Self / Captive Consumption (incl. samples etc.)			
(c) Other Quantitative Adjustments, if any (wastage etc.)			
(d) Total Adjustments			
7. Total Available Quantity for Sale [2(e) + 5(c) - 6(d)]			
8. Actual Sales			
(a) Domestic Sales (manufacturing)			
(b) Domestic Sales (trading)			
(c) Export Sale (manufacturing)			
(d) Export Sale (trading)			
(e) Total Quantity Sold			



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5. ABRIDGED COST STATEMENT (for each product group separately)							
Sno.	Particulars	Units	Quantity	Rate (Rs.)	Amount (Rs.)	Rate per Unit (Rs.)	
						Current Year	Previous Year
1	Materials Consumed (specify details)						
	a) Indigenous Purchased						
	b) Imported						
	c) Self Manufactured / Produced						
2	Process Materials/Chemicals (specify)						
3	Utilities (specify details)						
4	Direct Employees Cost						
5	Direct Expenses						
6	Consumable Stores & Spares						
7	Repairs & Maintenance						
8	Quality Control Expenses						
9	Research & Development Expenses						
10	Technical know-how Fee / Royalty, if any						
11	Depreciation/Amortization						
12	Other Production Overheads						
13	Total (1 to 12)						
14	Add/Less: Work-in-Progress Adjustments						
15	Less: Credits for Recoveries, if any						
16	Primary Packing Cost						
17	Cost of Production/Operations (12 + 13 to 17)						
18	Increase/Decrease in Stock of Finished Goods						
19	Less: Self/Captive Consumption (incl. Samples, etc.)						
20	Other Adjustments (if any)						
21	Cost of Production/Operation of Goods/Services Sold (17 + 18 to 20)						
22	Administrative Overheads						
23	Secondary Packing Cost						
24	Selling & Distribution Overheads						
25	Interest & Financing Charges						
26	Cost of Sales (21 + 22 to 25)						
27	Net Sales Realization (Net of Taxes and Duties)						
28	Margin [Profit/(Loss) as per Cost Accounts] (27 - 26)						
NOTES: 1. Separate cost statement shall be prepared for each product/activity group 2. The items of cost shown in the Proforma are indicative and the same should be reflected keeping in mind the materiality of the item of cost in the product/activity group. 3. The Proforma may be suitably modified to meet the requirement of the industry/product/activity group. 4. In case the company follows a pre-determined or standard costing system, the above cost statement should reflect figures at actuals after adjustment of variances, if any.							



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6. OPERATING RATIO ANALYSIS (for each product group separately)

Sno.	Particulars	Units	Current Year	Previous Year-1	Previous Year-2
<u>Ratio of Operating Expenses to Cost of Sales</u>					
1	Materials (incl. Process Materials) Cost	%			
2	Utilities Cost	%			
3	Direct Employees Cost	%			
4	Direct Expenses	%			
5	Consumable Stores & Spares	%			
6	Repairs & Maintenance Cost	%			
7	Depreciation / Amortization Cost	%			
8	Packing Cost	%			
9	Other Expenses	%			
10	Stock Adjustments	%			
11	Production Overheads	%			
12	Administrative Overheads	%			
13	Selling & Distribution Overheads	%			
14	Interest & Financing Charges	%			
15	Total	%			



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7. PROFIT RECONCILIATION (for the company as a whole)				
Sno.	Particulars	Current Year	1st Previous Year	2nd Previous Year
1	Profit or Loss as per Cost Accounting Records			
	(a) For the audited product groups			
	(b) For the un-audited product groups			
2	Add: Incomes not considered in cost accounts:			
	(a) (specify)			
	(b)			
	(c)			
	(d)			
	(e)			
3	Less: Expenses not considered in cost accounts:			
	(a) (specify)			
	(b)			
	(c)			
	(d)			
	(e)			
4	Add: Overvaluation of closing stock in financial accounts			
5	Add: Undervaluation of opening stock in financial accounts			
6	Less: Undervaluation of closing stock in financial accounts			
7	Less: Overvaluation of opening stock in financial accounts			
8	Adjustments for others, if any (specify)			
9	Profit or Loss as per Financial Accounts			



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8. VALUE ADDITION AND DISTRIBUTION OF EARNINGS (for the company as a whole)

(Rupees in Lakh)

Sno.	Particulars	Current Year	Previous Year-1	Previous Year-2
	<u>Value Addition:</u>			
1	Gross Sales (excluding returns)			
2	Less: Excise duty, etc.			
3	Net Sales			
4	Add: Export Incentives			
5	Add/Less: Adjustment in Finished Stocks			
6	Less: Cost of bought out inputs			
	(a) Cost of Materials Consumed			
	(b) Process Materials / Chemicals			
	(c) Consumption of Stores & Spares			
	(d) Utilities (e.g. power & fuel)			
	(e) Others, if any			
	Total Cost of bought out inputs			
7	Value Added			
8	Add: Income from any other sources			
9	Earnings available for distribution			
	<u>Distribution of Earnings to:</u>			
1	Employees as salaries & wages, retirement benefits, etc.			
2	Shareholders as Dividend			
3	Company as retained funds			
4	Government as taxes (specify)			
5	Others, if any (specify)			
	Total Distribution of Earnings			



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9. FINANCIAL POSITION AND RATIO ANALYSIS (for the company as a whole)

Sno.	Particulars	Units	Current Year	Previous Year-1	Previous Year-2
A. Financial Position					
1	Paid-up Capital	Rs/Lakh			
2	Reserves & Surplus	Rs/Lakh			
3	Loans (secured & unsecured)	Rs/Lakh			
4	(a) Gross Fixed Assets	Rs/Lakh			
	(b) Net Fixed Assets	Rs/Lakh			
5	(a) Total Current Assets	Rs/Lakh			
	(b) Less: Current Liabilities & Provisions	Rs/Lakh			
	(c) Net Current Assets	Rs/Lakh			
6	Capital Employed	Rs/Lakh			
7	Net Worth	Rs/Lakh			
B. Financial Performance					
1	Cost of Production	Rs/Lakh			
2	Cost of Sales	Rs/Lakh			
3	Net Sales	Rs/Lakh			
4	Value Added	Rs/Lakh			
5	Profit before Tax (PBT)	Rs/Lakh			
C. Profitability Ratios					
1	PBT to Capital Employed (B5/A6)	%			
2	PBT to Net Worth (B5/A7)	%			
3	PBT to Net Sales (B5/B3)	%			
4	PBT to Value Added (B5/B4)	%			
D. Other Financial Ratios					
1	Debt-Equity Ratio	%			
2	Current Assets to Current Liabilities	%			
3	Value Added to Net Sales	%			
E. Working Capital Ratios					
1	Net Working Capital to Cost of Sales excl. depreciation	Months			
2	Raw Materials Stock to Consumption	Months			
3	Stores & Spares to Consumption	Months			
4	Work-in-Progress Stock to Cost of Production	Months			
5	Finished Goods Stock to Cost of Sales	Months			

Notes:



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- (1) **Capital Employed** means average of net fixed assets (excluding intangible assets, effect of revaluation of fixed assets, and capital work-in-progress) plus net current assets existing at the beginning and close of the financial year.
- (2) **Net Worth** means share capital plus reserves and surplus (excluding revaluation reserves) less accumulated losses and intangible assets.



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10. RELATED PARTY TRANSACTIONS (for the company as a whole)

Sno.	Name & Address of the Related Party	Name of the Product / Service Group	Nature of Transaction (Sale, Purchase, etc.)	Quantity	Transfer Price	Amount	Normal Price	Basis adopted to determine the Normal Price
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								
11								
12								
13								
14								
15								
16								
17								
18								
19								
20								

NOTES:

- (1) Details should be furnished for each sale / purchase separately.
- (2) Details of Related Party transactions without indicating the Normal Price and the basis thereof shall be considered as incomplete information.



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11. RECONCILIATION OF INDIRECT TAXES (for the company as a whole)

Particulars	Assessable Value	Excise Duty	Service Tax	Cess & Others	VAT
<u>Total Clearances</u>					
Domestic					
Export					
Stock Transfers (Net)					
Others, if any					
Total					
Duties/Taxes Payable					
Duties/Taxes Paid					
Cenvat/VAT Credit Utilised - Inputs					
Cenvat/VAT Credit Utilised - Capital Goods					
Cenvat/VAT Credit Utilised - Input Services					
Cenvat/VAT Credit Utilised - Others					
Total					
Paid through PLA/Cash					
Total Duties/Taxes Paid					
Duties/Taxes Recovered					
Difference between Duties/Taxes Paid and Recovered					
Interest/Penalty/Fines Paid					

SIGNATURE
NAME
COST AUDITOR(S)
MEMBERSHIP NUMBER
SEAL
DATE

SIGNATURE
NAME
COMPANY SECRETARY/DIRECTOR
MEMBERSHIP/DIN NUMBER
STAMP
DATE

SIGNATURE
NAME
DIRECTOR
DIN NUMBER
STAMP
DATE



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Notes:

- (1) Wherever, there is any significant variation in the current year's figure over the previous year's figure for any item shown under each para of the Annexure to the Cost Audit Report, reasons thereof shall be given by the Cost Auditor.
- (2) Wherever, duration of the current year or the previous year is not 12 (twelve) months, same shall be clearly indicated in the Report.



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FORM-III

FORM OF THE PERFORMANCE APPRAISAL REPORT

Name of Company: _____ Period of Report: _____

(indicative list of areas to be covered in the report)

1. Capacity Utilization Analysis
2. Productivity/Efficiency Analysis
3. Utilities/Energy Efficiency Analysis
4. Key-Costs & Contribution Analysis
5. Product/Service Profitability Analysis
6. Market/Customer Profitability Analysis
7. Working Capital & Inventory Management Analysis
8. Manpower Analysis
9. Impact of IFRS on the Cost Structure, Cash-Flows and Profitability
10. Application of Management Accounting Tools

Date: _____

Signature of the Cost Auditor(s)

Place: _____

Membership Number(s)

Notes:

1. Areas included in this form are indicative; these are to be included/excluded depending upon the size/scale and type of operations, nature of the industry, management requirements, etc.
2. Frequency of this report viz. half yearly/annual to be decided by the Company Management.



[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 30th November, 2012

G.S.R. 861(E) - In exercise of the powers conferred by clause (b) of sub-section (1) of section 642 read with sub-section (4) of section 233B, and sub-section (1) of section 227 of the Companies Act, 1956 (1 of 1956), the Central Government hereby makes the following rules to amend the Companies (Cost Audit Report) Rules, 2011, namely:-

2. (1) These rules may be called the Companies (Cost Audit Report) Amendment Rules, 2012.
- (2) They shall come into force with effect from the 2nd December, 2012.
3. In the Companies (Cost Audit Report) Rules, 2011, -
 - (a) In rule 2,
 - (i) for clause (c), the following clause shall be substituted, namely:-

‘(c) “Form I-XBRL” means the Form prescribed in these rules for filing cost audit report and other documents with the Central Government in the electronic mode and in the manner prescribed under rule 5 of the Companies (Filing of Documents and Forms in Extensible Business Reporting Language) Rules, 2011’;
 - (ii) for clause (d), the following clause shall be substituted, namely:-

‘(d) “Form-II” means the Form of the cost auditor’s report and includes auditor's observations and suggestions, and Annexure to the cost audit report and further includes the data or information required to be filed with the Central Government in the manner prescribed under rule 5 of the Companies (Filing of Documents and Forms in Extensible Business Reporting Language) Rules, 2011’;



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(iii) for clause (g), the following clause shall be substituted, namely:-

‘(g) “Product or Activity Group” means the product or activity groups notified vide S.O. 1747(E), dated the 7th August, 2012’;

(b) For Form-I, the following Form shall be substituted, namely:-



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FORM I-XBRL

[Pursuant to section 233B(4), 600(3)(b) of the Companies Act, 1956 and Companies (Cost Audit Report) Rules, 2011]

Form for filing XBRL document in respect of cost audit report and other documents with the Central Government

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

1.(a) *Corporate identity number (CIN) of company or foreign company registration number (FCRN) of the company		Pre-fill
(b) Global location number (GLN) of company		
2.(a) Name of the company		
(b) Address of the registered office or of the principal place of business in India of the company		
(c) *e-mail ID of the company		
3. *Financial year covered by the cost audit report	From (DD/MM/YYYY)	To (DD/MM/YYYY)

Attachments

1. *XBRL document in respect of the cost audit report	Attach	List of attachments Remove attachment
2. Optional attachment(s) - if any	Attach	

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 authorised by the Board of directors' resolution number dated (DD/MM/YYYY) to sign and submit this form.
- ☐ I am authorised to sign and submit this form.
- * ☐ It is confirmed that the attached XBRL document(s) are the XBRL converted copy(s) of the duly signed cost audit report as required under Section 233B(4) and Section 600(3)(b) of the Companies Act, 1956 and the rules made thereunder. It is further confirmed that such document(s) have been prepared using XBRL taxonomy as notified under Companies (Filing of documents and forms in eXtensible Business Reporting Language) Rules, 2011

To be digitally signed by

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

*Designation		
DIN of the director or Managing Director; or Income-tax PAN of the manager or authorised 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		
DIN of the director		
*Cost auditor		
* Membership number of cost auditor		
*Whether associate or fellow	☐ Associate ☐ Fellow	

Modify	Check Form	Prescrutiny	Submit

This eForm has been taken on file maintained by the Central Government through electronic mode and on the basis of statement of correctness given by the company

Page 1 of 1



The Institute of Cost Accountants of India

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

B.B.GOYAL
ADVISER (COST)

Note:- The principal notification was published in the Gazette of India, Extraordinary Part II, section 3, sub-section (i), vide G.S.R. 430(E), dated the 3rd June, 2011



The Institute of Cost Accountants of India

APPENDIX IV

General Circular No. 15/2011

52/5/CAB-2011
Government of India
Ministry of Corporate Affairs
Cost Audit Branch

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

Dated the April 11, 2011

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

Subject: Appointment of Cost Auditor by Companies

Sir,

Ministry has reviewed the existing procedure followed by the companies for seeking prior approval of the Central Government for appointment of cost auditor under section 233B (2) of the Companies Act, 1956. In supersession of any earlier order/circular issued in this regard, the revised procedure to be followed by the companies and cost auditor shall be as under:

- (a) The company required to get its cost records audited under section 233B (1) of the Companies Act, 1956 shall appoint a cost auditor who is a cost accountant as defined in clause (b) of sub-section (1) of section 2 of the Cost and Works Accountants Act, 1959 (23 of 1959) and who holds a valid certificate of practice under sub-section (1) of section 6 of that Act and includes a firm of cost accountants.
- (b) The Audit Committee of the Board shall be the first point of reference regarding the appointment of cost auditors.
- (c) The Audit Committee shall ensure that the cost auditor is free from any disqualifications as specified under section 233B (5) read with section 224 and sub-section (3) or sub-section (4) of section 226 of the Companies Act, 1956.
- (d) While a cost auditor shall have prime responsibility to ensure that he does not violate the limits specified under section 224 (1-B) of the Companies Act 1956, the Audit Committee shall also be



responsible for such compliance by the cost auditor.

- (e) The Audit Committee shall obtain a certificate from the cost auditor certifying his/its independence and arm's length relationship with the company.
 - (f) The company shall e-file its application with the Central Government on www.mca.gov.in portal, in the prescribed form 23C within ninety days from the date of commencement of each financial year, along with the prescribed fee as per the Companies (Fees on Applications) Rules, 1999 as amended from time-to-time and other documents as per existing practice i.e. (i) certified copy of the Board Resolution proposing appointment of the cost auditor; and (ii) copy of the certificate obtained from the cost auditor regarding compliance of section 224 (1-B) of the Companies Act, 1956.
 - (g) On filing the application, the same shall be deemed to be approved by the Central Government, unless contrary is heard within thirty days from the date of filing such application.
 - (h) If within thirty days from the date of filing such application, the Central Government directs the company to re-submit the said application with such additional information or explanation, as may be specified in that direction, the period of thirty days for deemed approval of the Central Government shall be counted from the date of re-submission by the company.
 - (i) After expiry of thirty days, as the case may be, the company shall issue formal letter of appointment to the cost auditor, as approved by the Board.
 - (j) Within thirty days of receipt of formal letter of appointment from the company, the cost auditor shall inform the Central Government in the prescribed form, alongwith a copy of such appointment. An e-form for the same is being developed and will be notified shortly.
 - (k) The company shall disclose full particulars of the cost auditor, along with the due date and actual date of filing of the cost audit report by the cost auditor, in its Annual Report for each relevant financial year.
 - (l) In those companies where constitution of an Audit Committee of the Board is not required by law, the words "Audit Committee" shall stand substituted by the words "Board of Directors".
2. If a company contravenes any provisions of this circular, 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 and sub-section (11) of section 233B of Companies Act, 1956.
3. If default is made by the cost auditor in complying with the aforesaid provisions, he shall be punishable with fine, which may extend to five thousand rupees.



The Institute of Cost Accountants of India

4. The modified procedure contained in this circular shall be effective from the financial year commencing on or after the 1st day of April, 2011.
5. The Institute is requested to bring this to the general information of all Members in practice, and of the corporate sector.

Yours faithfully,

(B.B.Goyal)
Adviser (Cost)

Copy to:

1. Director (NK), E-Governance Cell, Ministry of Corporate Affairs, Shastri Bhavan, New Delhi with a request to upload this circular on the MCA's website <http://www.mca.gov.in/Ministry/circulars.html>
2. All the Regional Directors and Registrars of Companies (via e-mail)



The Institute of Cost Accountants of India

APPENDIX V

General Circular No. 36/2012

52/5/CAB-2011
Government of India
Ministry of Corporate Affairs
Cost Audit Branch

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

Dated the November 6, 2012

To,

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

Subject: Appointment of Cost Auditor by Companies

Sir,

In continuation of the General Circular No. 15/2011 dated 11th April 2011, Ministry hereby makes the following changes:

- (a) The company shall, within thirty days from the date of approval by MCA of the application made to the Central Government in the prescribed Form 23C seeking its prior approval for the appointment of cost auditor, issue formal letter of appointment to the cost auditor, as approved by the Board.
- (b) The cost auditor shall, within thirty days of the date of formal letter of appointment issued by the company, inform the Central



Government in the prescribed form 23D, alongwith a copy of such appointment.

- (c) In case of change of cost auditor caused by the death of existing cost auditor, companies are allowed to file fresh e-form 23C, without any additional fee, within 90 days of the date of death. The additional fee payable as per the Companies (Fees on Applications) Rules, 1999 [as amended] shall become applicable after expiry of the said 90 days. Accordingly, e-forms 23C and 23D are being modified to capture such details.
- (d) In case of change of cost auditor for reasons other than death of the existing cost auditor, companies are required to file fresh e-form 23C with applicable fee & additional fee, clearly specifying the reasons of change. In case of change due to resignation of the existing cost auditor, e-form 23C should be accompanied by the resignation letter of the existing cost auditor. In case of change due to the management policy of periodical rotation, then attach a copy of the Board approved rotational policy with the e-form 23C. In any other case, the change should be duly justified and supported with the relevant documents.
- (e) In order to ensure compliance of section 224(1-B) of the Companies Act 1956, required changes are being made in the MCA21 system to restrict the number of cost audit approvals to the limits specified in section 224(1-B) through a counter on the membership number of the sole proprietor or partner of the firm. It will be further ensured that in case of a sole proprietor, he has completed the audit and submitted the cost audit report. In case of a partnership firm, the partner so appointed or any other partner of the same firm is allowed to complete the audit & submit cost audit report subject to his total numbers not exceeding the limit specified in section 224(1-B).

2. MCA is regularly receiving requests from the companies and cost auditors for making corrections in the e-forms 23C & 23D in respect of minor typographical errors or other mistakes such as incorrect financial year, incorrect name of the cost auditor or the cost audit firm, incorrect PAN number, incorrect scope of audit, etc. In MCA21 system, no



The Institute of Cost Accountants of India

changes are permitted in the approved e-forms. Therefore, all companies and cost auditors are hereby informed to carefully verify all particulars before uploading e-forms 23C or 23D on the MCA21 portal. In any rare case, if still any error/mistake is observed, it should be brought to the notice of MCA well before its approval enabling it to return the said e-form for re-submission after making the required corrections. Else, the companies and cost auditors shall be required to file fresh e-forms 23C & 23D containing correct particulars, alongwith the applicable fee and additional fee.

3. If a company or the cost auditor contravenes any provisions of this circular, the company and every officer thereof who is found to be in default, and the cost auditor in case he is in default, shall be punishable as per applicable provisions of the Companies Act, 1956.

4. The modifications contained in this circular shall be effective from the financial year commencing on or after the 1st day of January, 2013.

5. The Institute is requested to bring this to the general information of all Members in practice, and of the corporate sector.

Yours faithfully,

(B.B.Goyal)
Adviser (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
4. PS to Secretary / Additional Secretary
5. PS to Joint Secretary (R) / Joint Secretary (M)
6. PS to DII (UCN)
7. PS to Economic Adviser



The Institute of Cost Accountants of India

APPENDIX VI

Master Circular No. 2/2011

52/14/CAB-2011
Government of India
Ministry of Corporate Affairs
Cost Audit Branch

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

Dated the November 11, 2011

To,

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

Subject: Master Circular on Cost Accounting Records and Cost Audit

Sir,

Ministry has from time-to-time issued number of circulars with regard to various matters concerning cost accounting records and cost audit in the corporate sector. All these circulars have been reviewed. In supersession of the earlier circulars as mentioned in Appendix, a Master Circular is issued as under:

- (a) As per provisions of the Cost Audit Report Rules that are in force from time-to-time, a cost auditor is required to comment on the scope and performance of internal audit of cost records. Hence it would tend to mitigate against the proper and dispassionate discharge of his duties if he was also the internal auditor of the company for the same period for which he is conducting the cost audit. In view of this, the cost auditor cannot also be the internal auditor of a company for the period for which he is conducting the cost audit, irrespective of the fact whether he is conducting cost audit for one or all of the company's



products/activities.

- (b) The specified number of companies for the purpose of section 233B (2) read with section 224 (1B) of the Companies Act, 1956 is to be computed for a given financial year with reference to the number of companies wherein he has been appointed as the cost auditor, including those wherein he is proposed to be appointed for which he has given his consent. The number of companies in respect of which cost audit reports have not been submitted and have become overdue shall also be taken into account for the purposes of ceiling under section 224 (1B).
- (c) A cost auditor shall be deemed to have concluded his appointment for the relevant financial year as soon as he renders a report to the Central Government in accordance with the Cost Audit Report Rules, as applicable, with a copy to the Company. His obligation to answer queries from the Ministry of Corporate Affairs arising out of review of cost audit reports should not debar him from accepting another appointment as cost auditor of a company provided the specified number of companies contemplated in section 224 (1B) is not exceeded.
- (d) The duties of the cost accountants appointed to conduct an audit of cost accounts of the company flow directly from the provisions contained under section 233B of the Companies Act, 1956. As such they should, in strict compliance therewith and in compliance with the Cost Audit Report Rules in force, ensure that full and complete details of cost accounts are furnished in their cost audit reports.
- (e) In case where a firm of cost accountants is approved for appointment as cost auditors under Section 233B (2) of the Act, the cost audit report shall be signed by anyone of the partners of the firm responsible for the conduct of cost audit in his own hand alongwith his membership number, for and on behalf of the firm. In any case the report should not be signed by merely affixing the firms' name.
- (f) Cost audit report for a financial year contains corresponding data for the previous year(s) also. If a company is covered under cost audit for the first time, then the cost auditor shall mention the figures for the previous year(s), certifying by means of a note that the figures so stated are on the basis of



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information furnished by the management, for which he has obtained a certificate from them.

- (g) Sub-section (6) of section 292A of the Companies Act, 1956 states that the Audit Committee should have discussions with the auditors periodically about internal control systems, the scope of audit including the observations of the auditors and review the half yearly and annual financial statements before submission to the Board and also ensure compliance on internal control systems. It has been already clarified in Departmental Circular No. 6/2001 dated 20.08.2001 that the term “auditors” includes cost auditor and hence “scope of audit including observations of the auditors” occurring in the above sub-section includes the scope of cost audit including observations of the cost auditors as well. Therefore, the Audit Committee in its duty to ensure compliance of internal control system shall also discuss the suggestions made in the cost audit report for implementation, wherever cost audit has been directed under section 233B of the Companies Act, 1956. The presence of the cost auditor in such committees will ensure overall cost management, efficiency in resource utilization, business vertical-wise performance evaluation, proper pricing of inter-unit/inter-company transfers and valuation of inventories. However, the cost auditor, wherever appointed, shall attend and participate at the meetings of the Audit Committee or the Board, as the case may be, but shall neither be a member nor have the right to vote.

2. The Institute is requested to bring this to the general information of all Members in practice, and of the corporate sector.

Yours faithfully,

(B.B.Goyal)

Adviser (Cost)

Copy to:

1. E-Governance Cell, Ministry of Corporate Affairs, Shastri Bhavan, New Delhi with a request to upload this master circular on the MCA’s website.
2. All Regional Directors / Registrars of Companies
3. PS to CAM / to MOS
4. PS to Secretary / Addl. Secretary



The Institute of Cost Accountants of India

5. PS to Joint Secretary (A) / Joint Secretary (R) / Joint Secretary (M)
6. PS to DII (DR) / DII (Policy)
7. PS to Economic Adviser



Appendix

List of old Circulars on Cost Accounting Records and Cost Audit

<u>Sno.</u>	<u>Circular No.</u>	<u>Date of Issue</u>	<u>Subject</u>
1.	52/320/80-CAB	January 20, 1982	Following of the format for submission of Cost Audit Report.
2.	52/826/81-CAB	February 15, 1982	Additional information to be furnished along with the Cost Audit Reports.
3.	1/1/1982-C.L.V / 23/44/1979-C.L.-II	January 20, 1983	Appointment of Cost Auditor as an Internal Auditor of a Company.
4.	1/1/83/-C.L.V / 52/318/80-CAB	March 18, 1983	Disclosure of full details in Cost Audit Report.
5.	54/409/80-CAB	November 19, 1983	Appointment of Cost Auditor in Firm's Name
6.	52/409/80-CAB	August 24, 1984	Authentication of Cost Audit Report in cases where a firm of Cost Auditors is approved under U/s 233B (2) of the Companies Act, 1956 for conducting Cost Audit
7.	52/354/CAB-87	August 30, 1988	Clarification relating to sub-section (1B) of Section 224 and sub-section (2) of Section 233B of the Companies Act, 1956 regarding the appointment of Cost Auditor
8.	52/430/88-CAB	January 9, 1990	Authentication of previous year figures in the Cost Audit Report
9.	35/1/90-CL.III	March 2, 1990	Clarification under Section 224 (1) of the Companies Act, 1956.
10.	3/8/89-CL.V	March 5, 1990	Clarification under section 224 (1B) of the Companies Act, 1956 read with section 233 of the Act.
11.	52/11/93-CAB	June 7, 1993	Maintenance of books of cost accounts as per Cost Accounting Records Rules.
12.	52/11/93-CAB	June 8, 1993	Revised Cost Audit Order on annual basis issued to the existing companies.
13.	5/21/2001-C.L.V / 52/03/CAB-2002	March 18, 2002	Cost Audit Report to be discussed in the Audit Committee to be constituted under section 292A of the Companies Act, 1956.
14.	52/22/CAB-2000	November 26, 2002	Submission of the soft copy of the Cost Audit Reports under section 233B of the Companies Act, 1956
15.	5/21/2001-C.L.V / 52/323/CAB-87	January 9, 2003	Participation of Cost Auditor in the meetings of Audit Committee to be constituted under Section 292A of the Companies Act, 1956 - clarification reg.



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APPENDIX VII

General Circular No. 67/2011

52/13/CAB-2011
Government of India
Ministry of Corporate Affairs
Cost Audit Branch

'B-1' Wing, 2nd Floor,
Paryavaran Bhawan,
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



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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 such 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 Rule 3 of the Electricity Rules, 2005.
 - (ii) Own manufactured products that are consumed exclusively by 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 orders, 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:



The Institute of Cost Accountants of India

- (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, plates, 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 is requested to circulate this General Circular for information of all concerned.

Yours faithfully,

(B.B.Goyal)

Adviser (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



The Institute of Cost Accountants of India

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 / Service Group	Unit	Annual Production (Qty.)	Net Sales	
				(Qty.)	(Value in Rupees)
A	Produced / 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/Loss) as per Cost Accounts	(In Rupees)
A. From Produced / Manufactured Product Groups	



The Institute of Cost Accountants of India

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/(Loss) as per Financial Accounts	

NOTES:

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

SIGNATURE

NAME

COST ACCOUNTANT (S)

MEMBERSHIP NUMBER (S)

SEAL and DATE



The Institute of Cost Accountants of India

APPENDIX VIII

General Circular No. 68/2011

52/13/CAB-2011

Government of India

Ministry of Corporate Affairs

Cost Audit Branch

'B-1' Wing, 2nd Floor,
Paryavaran Bhawan,
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
regarding applicability and compliance requirements.**

Sir,

In connection with the recently issued circulars/notifications concerning cost accounting records and cost audit, following clarifications are issued:

- (a) That the companies covered under Companies (Cost Accounting Records) Rules, 2011 shall only file a simple compliance report as per the notified Form-B (copy enclosed) and no other details of cost records are required to be filed with the Government. If all the products/activities of a company, excluding the exempted categories, are covered under cost audit, then the company will not be required to separately file the compliance report.
- (b) That for companies coming under the purview of the Companies (Cost Accounting Records) Rules, 2011 and the Companies (Cost Audit Report) Rules, 2011 for the first time, cost records and cost details, statements, schedules, etc. shall be kept in good order for the next eight financial years beginning with first year of application of the said Rules.



The Institute of Cost Accountants of India

- (c) That the term "Turnover" defined in the Companies (Cost Accounting Records) Rules, 2011 shall exclude taxes & duties. It shall have the same meaning, wherever it appears, in all other orders/rules issued in connection with the cost accounting records and cost audit.
- (d) That for filing the cost audit reports under the Companies (Cost Audit Report) Rules, 2011, following procedure may be followed:
- (i) If only one product of a company is subject to cost audit and the company appoints more than one cost auditor, only a consolidated cost audit report [containing inter alia the qualifications, reservations or suggestions if any given by all the cost auditors] should be prepared as per the Companies (Cost Audit Report) Rules, 2011 and signed by all the cost auditors.

For this purpose, company may designate/appoint any one of them as the principal/lead cost auditors who would be responsible for the consolidation and filing the same with the Central Government.
 - (ii) If more than one products of a company are under cost audit for which it has appointed either same or separate cost auditors, then they may either submit separate cost audit report for each product group or submit only one consolidated report containing details of each product group under audit separately as per the procedure provided above.
- (e) That in the General Circular no. 15/2011 dated 11th April 2011 regarding appointment of cost auditors by companies, it was provided that the Audit Committee shall obtain a certificate from the cost auditor certifying his/its independence and 'arm's length relationship' with the company. In order that 'arm's length relationship' is in fact ensured, it may be noted that cost auditor(s) appointed under section 233B(2) of the Companies Act, 1956 [whether for one or all of the company's products covered under cost audit], shall not provide any other services to the company relating to (i) design and implementation of cost accounting system; or (ii) the maintenance of cost accounting records, or (iii) act as internal auditor, whether acting individually, or through the same firm or through other group firms where he or any partner has any common interest. It is however clarified that the cost auditors are allowed to certify the compliance report or provide any other services as may be assigned by the company, but which shall not include any of the services mentioned above.

2. The Institute is requested to circulate this General Circular for information of all concerned.

Yours faithfully,

(B.B.Goyal)



The Institute of Cost Accountants of India

Adviser (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



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 & 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:

- d) Name of the company:
- e) Registered office address:
- f) Financial year to which the Compliance Report relates.

2. QUANTITATIVE INFORMATION:

Sno.	Name of the Product / Service Group	Unit	Annual Production (Qty.)	Net Sales	
				(Qty.)	(Value in Rupees)
A	Produced / 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/Loss) as per Cost Accounts	(In Rupees)
A. From Produced / Manufactured Product Groups	
B. From Services Groups	
C. From Trading Activities	
Total as per Cost Accounts	



The Institute of Cost Accountants of India

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/(Loss) as per Financial Accounts	

NOTES:

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

SIGNATURE

NAME

COST

ACCOUNTANT (S)

MEMBERSHIP NUMBER (S)

SEAL and DATE



General Circular No. 8/2012

52/17/CAB-2011
Government of India
Ministry of Corporate Affairs
Cost Audit Branch

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

Dated the May 10, 2012

To,
The President,
Institute of Cost Accountants of India,
12, Sudder Street,
Kolkata - 700 016

Subject: Filing of Cost Audit Report (Form-I) and Compliance Report (Form-A) in the eXtensible Business Reporting Language (XBRL) mode.

Sir,

It has been decided by the Ministry of Corporate Affairs to mandate the cost auditors and the companies to file Cost Audit Reports (Form-I) and Compliance Reports (Form-A) for the year 2011-12 onwards (including the overdue reports relating to any previous year) by using the XBRL taxonomy. These reports, required to be filed in the XBRL format, would be based on the Taxonomy on XBRL being developed for the formats (Form-I & Form-A) given in the following Rules:

- (i) Companies (Cost Accounting Records) Rules, 2011
- (ii) Cost Accounting Records (Telecommunication Industry) Rules 2011
- (iii) Cost Accounting Records (Petroleum Industry) Rules 2011
- (iv) Cost Accounting Records (Electricity Industry) Rules 2011



- (v) Cost Accounting Records (Sugar Industry) Rules 2011
 - (vi) Cost Accounting Records (Fertilizer Industry) Rules 2011
 - (vii) Cost Accounting Records (Pharmaceutical Industry) Rules 2011
 - (viii) Companies (Cost Audit Report) Rules, 2011
2. Hence, all cost auditors and companies, which are liable to file Cost Audit Reports (Form-I) and Compliance Reports (Form-A), are requested to file their reports with the Central Government after 30th June, 2012 in the XBRL mode by which time the relevant taxonomy together with Form-I & Form-A in XBRL format is likely to be ready and notified.
3. The Institute is requested to circulate this General Circular for the information of all concerned.

(B.B.Goyal)
Adviser (Cost)
Tel: 011-24366005

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 / Special 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



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 President,
Institute of Cost Accountants of India,
12, Sudder Street,
Kolkata - 700 016

Subject: Cost Accounting Records and Cost Audit – clarifications about coverage of certain sectors thereunder.

Sir,

In partial modification of para (b) (iii) of the General Circular No. 67/2011 dated 30th November, 2011, it has been decided to extend exemption from mandatory cost audit to all units located in the specified zones such as Special Economic Zones (SEZs), Export Processing Zones (EPZs) and Free Trade Zones (FTZs) and also to the 100% Export Oriented Units (EOUs), subject to the following:

- a) Exemption from mandatory cost audit will be available only to those units of a company that are either located in the specified Zones or qualify as 100% EOUs and not to all other units of the same company.
- b) There will be no exemption from maintenance of cost accounting records and filing of compliance report with the MCA in compliance with the applicable Cost Accounting Records Rules.



- c) In case any regulatory body seeks cost data in respect of exempted units of any industry, then all relevant units of such industry would be subject to cost audit in accordance with the provisions of applicable Rules/Orders.
 - d) The DTA (domestic tariff area) sales in all such exempted units for each year shall not exceed the permissible limits as per the policy in force. In case their DTA sales for any year exceeds the permissible limits, then the exemption from cost audit available to the unit shall stand withdrawn and the unit would be subject to cost audit in accordance with the provisions of applicable Rules/Orders starting with the year in which exemption stood withdrawn and for every subsequent year thereafter.
 - e) If any such exempted unit either relocates outside the specified Zones or lose 100% EOU status, then the mandatory cost audit would become applicable from the year in which such change has taken place and for every subsequent year thereafter.
2. The Institute is requested to circulate this General Circular for the information of all concerned.

(B.B.Goyal)

Adviser (Cost)

Tel: 011-24366005

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 / Special 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



General Circular No. 12/2012

F. No. 52/13/CAB-2011
Government of India
Ministry of Corporate Affairs
Cost Audit Branch

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

Dated the 4th June, 2012

To,

The President,
Institute of Cost Accountants of India,
12, Sudder Street,
Kolkata - 700 016

Subject: Cost Accounting Records and Cost Audit - general clarifications.

Sir,

Ministry of Corporate Affairs has so far issued following circulars in connection with the cost accounting records, cost audit, appointment of cost auditors etc:

1. General Circular No. 15/2011 dated 11th April, 2011
2. Master Circular No. 2/2011 dated 11th November, 2011
3. General Circular No. 67/2011 dated 30th November, 2011
4. General Circular No. 68/2011 dated 30th November, 2011
5. General Circular No. 8/2012 dated 10th May, 2012
6. General Circular No. 11/2012 dated 25th May, 2012

It is hereby clarified that all these circulars [including the present circular] are applicable in respect of all the Cost Accounting Records Rules notified in 2011

and the industry specific Cost Audit Orders issued so far; to the extent these are relevant and applicable.

2. Ministry of Corporate Affairs vide no. 52/26/CAB-2010 dated 2nd May, 2011 had directed that every company to which any of the following rules apply, and wherein, the aggregate value of net worth as on the last date of the immediately preceding financial year exceeds five crore 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 crore 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, shall get its cost accounting records, in respect of each of its financial year commencing on or after the 1st day of April, 2011, audited by a cost auditor who shall be, either a cost accountant or a firm of cost accountants, holding valid certificate of practice under the provisions of Cost and Works Accountants Act, 1959 (23 of 1959).

- (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

3. In supersession of the aforesaid Rules, following industry specific Cost Accounting Records Rules were notified:

- 1. Cost Accounting Records (Telecommunication Industry) Rules 2011 notified vide GSR 869(E) dated December 7, 2011.
- 2. Cost Accounting Records (Petroleum Industry) Rules 2011 notified vide GSR 870(E) dated December 7, 2011.
- 3. Cost Accounting Records (Electricity Industry) Rules 2011 notified vide GSR 871(E) dated December 7, 2011.
- 4. Cost Accounting Records (Sugar Industry) Rules 2011 notified vide GSR 872(E) dated December 7, 2011.
- 5. Cost Accounting Records (Fertilizer Industry) Rules 2011 notified vide GSR 873(E) dated December 7, 2011.
- 6. Cost Accounting Records (Pharmaceutical Industry) Rules 2011 notified vide GSR 874(E) dated December 7, 2011.



4. In view of above, it is hereby clarified that the Cost Audit Order No. 52/26/CAB-2010 dated 2nd May, 2011 shall be applicable as under:

- a) For all companies wherein their products/activities are already covered under any of the erstwhile industry specific Cost Accounting Records Rules, as mentioned in para 2 above [before their supersession] and meeting with the threshold limits mentioned in the said Cost Audit Orders - in respect of each financial year commencing on or after the 1st day of April, 2011 i.e. from the financial year 2011-12 onwards.
- b) For all companies wherein their products/activities are for the first time covered under any of the revised industry specific Cost Accounting Records Rules, as mentioned in para 3 above and meeting with the threshold limits mentioned in the said Cost Audit Orders - in respect of each financial year commencing on or after the 7th December, 2011 i.e. from the financial year 2012-13 [incl. calendar year 2012] onwards.

5. It is further clarified that in case of companies engaged in production, processing, manufacturing or mining of multiple products/activities, if any of their products/activities are not covered under the industry specific Cost Accounting Records Rules, but are covered under the Companies (Cost Accounting Records) Rules, 2011 notified vide GSR 429(E) dated June 3, 2011 and wherein such products/activities are not covered under cost audit vide cost audit orders dated June 30, 2011 and January 24, 2012; such companies shall be required to file compliance report with the Central Government in accordance with the clarifications given vide para (a) of the MCA's General Circular No. 68/2011 dated 30th November, 2011.

6. The Institute is requested to circulate this General Circular for the information of all concerned.

(B.B.Goyal)

Adviser (Cost)

Tel: 011-24366005

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 / Special Secretary



5. PS to Joint Secretary (A) / Joint Secretary (R) / Joint Secretary (M)
6. PS to DII (RC) / DII (UCN)
7. PS to Economic Adviser



52/17/CAB-2011
Government of India
Ministry of Corporate Affairs
Cost Audit Branch

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

Dated the July 26, 2012

To,
The President,
Institute of Cost Accountants of India,
12, Sudder Street,
Kolkata - 700 016

Subject: Filing of Cost Audit Report and Compliance Report in the eXtensible Business Reporting Language (XBRL) mode.

Sir,

Vide MCA's General Circular No. 8/2012 dated 10th May, 2012 [as amended on 29th June, 2012], it has already been mandated by the Ministry of Corporate Affairs that all cost auditors and the concerned companies shall file their Cost Audit Reports and Compliance Reports for the year 2011-12 onwards [including the overdue reports relating to any previous year(s)] only in the XBRL mode. For this purpose, the applicable taxonomy, business rules, validation tools, etc. and also the "Product Group" classification required for preparing the cost audit reports and compliance reports as per the notified Cost Accounting Records Rules, 2011 and Cost Audit Report Rules, 2011 are under preparation and would soon be made available by the Ministry. The actual date for enabling XBRL filing will be intimated separately.

2. It has now been decided by the Ministry that all cost auditors and the concerned companies will be allowed to file their Cost Audit Reports and



Compliance Reports for the year 2011-12 [including the overdue reports relating to any previous year(s)] with the Central Government in the XBRL mode, without any penalty, upto 31st December, 2012.

3. The Institute is requested to circulate this for the information of all concerned.

(B.B.Goyal)
Adviser (Cost)
Tel: 011-24366005

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 / Special Secretary
5. PS to Joint Secretary (A) / Joint Secretary (R) / Joint Secretary (M)
6. PS to DII (RC) / DII (UCN)
7. PS to Economic Adviser



General Circular No. 35/2012

F. No. 52/5/CAB-2011
Government of India
Ministry of Corporate Affairs
Cost Audit Branch

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

Dated the November 5, 2012

To,

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

**Subject: Default by the Cost Auditors in filing Form 23D
against the corresponding Form 23C.**

Sir,

Ministry of Corporate Affairs vide General Circular No. 15/2011 dated April 11, 2011 had prescribed a revised procedure to be followed for appointment of cost auditors. As per the revised procedure, each company is required to e-file its application with the Central Government in the prescribed Form 23C within ninety days from the date of commencement of each financial year, which shall be approved by MCA within 30 days.

2. Upon approval by MCA, the company is required to issue formal letter of appointment to the cost auditor, who shall, within 30 days of receipt of such letter of appointment, inform the Central Government in the prescribed Form 23D alongwith a copy of such appointment.

3. It is, however, observed that since April 1, 2011, though all the appointment applications made by the companies concerned in Form 23C have already been approved by the MCA, a large number of cost auditors have defaulted in filing the required Form 23D within the stipulated time.



In many cases, the default period is even more than a year. This has been viewed very seriously by the Ministry.

4. Keeping in view the initial operation of the revised procedure, all the defaulting cost auditors are requested to file their required Form 23D that have already become due till date, by December 16, 2012 positively. In case of any further default, names of such defaulting members shall be sent to the Institute on December 17, 2012 intimating the Institute to initiate Disciplinary Proceedings against them under the relevant provisions of Cost and Works Accountants Act, 1959.

5. In cases where the company concerned, after approval of Form 23C, has failed to issue the formal letter of appointment to the cost auditor, they shall do so within 15 days of the issue of this Circular enabling the cost auditor to file Form 23D within the extended time indicated above. In case of non-compliance, the company and every officer thereof who is found to be in default shall be punishable as per provisions of the Companies Act, 1956.

6. The Institute is requested to circulate this for the information of all concerned.

Yours faithfully,

(B.B.Goyal)
Adviser (Cost)
Tel: 011-24366005

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
4. PS to Secretary / Additional Secretary
5. PS to Joint Secretary (R) / Joint Secretary (M)
6. PS to DII (UCN)
7. PS to Economic Adviser



F. No. 52/26/CAB-2010
Ministry of Corporate Affairs
Cost Audit Branch

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

Dated the 2nd May, 2011

ORDER

In exercise of the powers conferred by sub-section (1) of section 233B of the Companies Act, 1956 (1 of 1956), the Central Government, being of the opinion that it is necessary to do so, hereby directs that all companies to which any of the following rules apply, 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, shall get its cost accounting records, in respect of each of its financial year commencing on or after the 1st day of April, 2011, audited by a cost auditor who shall be, either a cost accountant or a firm of cost accountants, holding valid certificate of practice under the provisions of Cost and Works Accountants Act, 1959 (23 of 1959).

- (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*

2. Every company to which these orders apply shall follow the revised procedure for appointment of cost auditor as laid down vide Ministry of Corporate Affairs' General Circular No. 15/2011 [52/5/CAB-2011] dated 11th April



2011.

3. The audit shall be conducted in such manner as will enable the cost auditor to prepare the report in accordance with the Cost Audit (Report) Rules, 2001 as amended from time to time. The report of the cost auditor shall be forwarded to the Central Government in the prescribed format within the time stipulated under the said Rules.

4. These orders do not apply to a company which is a body corporate governed by any special Act.

5. All companies covered by these orders and wherein cost audit orders have been issued so far in respect of products/activities covered by the above mentioned rules shall continue to comply with the said orders until these orders become applicable on them.

6. If a company contravenes any provisions of these orders, the company and every officer thereof who is in default, including the persons referred to in sub-section (6) of section 209 of the Companies Act, 1956, shall be punishable as provided under sub-section (2) of section 642 read with sub-section (11) of section 233B of the Companies Act, 1956 (1 of 1956).

(B.B.Goyal)
Adviser (Cost)

Copy to:

1. E-Governance Cell, Ministry of Corporate Affairs, Shastri Bhavan, New Delhi with a request to upload this order on the MCA's website.
2. The President, Institute of Cost and Works Accountants of India, 12, Sudder Street, Kolkata – 700016 with a request to bring this order to the general information of all Members in practice and of the corporate sector.



F. No. 52/26/CAB-2010
Ministry of Corporate Affairs
Cost Audit Branch

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

Dated the 3rd May, 2011

ORDER

In exercise of the powers conferred by sub-section (1) of section 233B of the Companies Act, 1956 (1 of 1956), the Central Government, being of the opinion that it is necessary to do so, hereby directs that all companies to which any of the following rules apply, and 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 hundred 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, shall get its cost accounting records, in respect of each of its financial year commencing on or after the 1st day of April, 2011, audited by a cost auditor who shall be, either a cost accountant or a firm of cost accountants, holding valid certificate of practice under the provisions of Cost and Works Accountants Act, 1959 (23 of 1959).

- (a) *Cost Accounting Records (Cement) Rules, 1997*
- (b) *Cost Accounting Records (Tyres & Tubes) Rules, 1967*
- (c) *Cost Accounting Records (Steel Plant) Rules, 1990*
- (d) *Cost Accounting Records (Steel Tubes and Pipes) Rules, 1984*
- (e) *Cost Accounting Records (Paper) Rules, 1975*
- (f) *Cost Accounting Records (Insecticides) Rules, 1993*

2. Every company to which these orders apply shall follow the revised procedure for appointment of cost auditor as laid down vide Ministry of Corporate Affairs' General Circular No. 15/2011 [52/5/CAB-2011] dated 11th April 2011.

3. The audit shall be conducted in such manner as will enable the cost auditor to prepare the report in accordance with the Cost Audit (Report) Rules, 2001 as



amended from time to time. The report of the cost auditor shall be forwarded to the Central Government in the prescribed format within the time stipulated under the said Rules.

4. These orders do not apply to a company which is a body corporate governed by any special Act.

5. All companies covered by these orders and wherein cost audit orders have been issued so far in respect of products/activities covered by the above mentioned rules shall continue to comply with the said orders until these orders become applicable on them.

6. If a company contravenes any provisions of these orders, the company and every officer thereof who is in default, including the persons referred to in sub-section (6) of section 209 of the Companies Act, 1956, shall be punishable as provided under sub-section (2) of section 642 read with sub-section (11) of section 233B of the Companies Act, 1956 (1 of 1956).

(B.B.Goyal)
Adviser (Cost)

Copy to:

1. E-Governance Cell, Ministry of Corporate Affairs, Shastri Bhavan, New Delhi with a request to upload this order on the MCA's website.
2. The President, Institute of Cost and Works Accountants of India, 12, Sudder Street, Kolkata – 700016 with a request to bring this order to the general information of all Members in practice and of the corporate sector.



F. No. 52/26/CAB-2010
Government of India
Ministry of Corporate Affairs
Cost Audit Branch

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

Dated the 30th June, 2011

ORDER

Consequent upon notification of the Companies (Cost Accounting Records) Rules, 2011 published vide G.S.R. 429(E) dated 3rd June 2011 and in modification of the earlier Order of even number dated 3rd May 2011, the Central Government hereby makes the following Order.

In exercise of the powers conferred by sub-section (1) of section 233B of the Companies Act, 1956 (1 of 1956), the Central Government, being of the opinion that it is necessary to do so, hereby directs that all companies to which the Companies (Cost Accounting Records) Rules, 2011 apply, and which are engaged in the production, processing, manufacturing or mining of the following products/activities, including intermediate products and articles or allied products thereof, and 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 hundred 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, shall get its cost accounting records, in respect of each of its financial year commencing on or after the 1st day of April, 2011, audited by a cost auditor who shall be, either a cost accountant or a firm of cost accountants, holding valid certificate of practice under the provisions of Cost and Works Accountants Act, 1959 (23 of 1959).

<u>Sno.</u>	<u>Name of the Industry</u>	<u>Relevant Chapter Heading of the Central Excise Tariff Act, 1985</u>
1.	Cement	Chapter 25, 38 and 68
2.	Tyres & Tubes	Chapter 40



<u>Sno.</u>	<u>Name of the Industry</u>	<u>Relevant Chapter Heading of the Central Excise Tariff Act, 1985</u>
3.	Steel	Chapter 72 and 73
4.	Paper	Chapter 47 and 48
5.	Insecticides*	Chapter 38
6.	Glass	Chapter 70
7.	Paints & Varnishes	Chapter 32
8.	Aluminum	Chapter 76

Note: Intermediate products and articles or allied products of above industries if included under any other Chapter of the Central Excise Tariff Act, 1985 not mentioned above shall also be covered under these orders.

**Includes all classes of Insecticides as defined under clause (e) of Section 3 of the Insecticides Act. 1968 (46 of 1968) and included in the schedule annexed to the said Act and as amended from time to time.*

2. Every company to which these orders apply shall follow the revised procedure for appointment of cost auditor as laid down vide Ministry of Corporate Affairs' General Circular No. 15/2011 [52/5/CAB-2011] dated 11th April 2011. For companies covered first time under these modified orders and wherein their financial year has already commenced between the 1st day of April, 2011 and the date of these orders, the period of ninety days for e-filing their applications with the Central Government in the prescribed form 23C for appointment of cost auditors shall be counted from the date of these orders.

3. The audit shall be conducted in such manner as will enable the cost auditor to prepare the report in accordance with the Companies (Cost Audit Report) Rules, 2011 published vide G.S.R. 430(E) dated 3rd June 2011. The report of the cost auditor shall be forwarded to the Central Government in the prescribed format within the time stipulated under the said Rules.

4. These orders do not apply to a company which is a body corporate governed by any special Act.

5. All companies covered by these orders and wherein cost audit orders have been issued so far in respect of products/activities covered by any or all of the Cost Accounting Records Rules as they existed before their supersession by the Companies (Cost Accounting Records) Rules, 2011 published vide G.S.R. 429(E) dated 3rd June 2011 shall continue to comply with the said orders until these



orders become applicable on them.

6. If a company contravenes any provisions of these orders, the company and every officer thereof who is in default, including the persons referred to in sub-section (6) of section 209 of the Companies Act, 1956, shall be punishable as provided under sub-section (2) of section 642 read with sub-section (11) of section 233B of the Companies Act, 1956 (1 of 1956).

(B.B.Goyal)
Adviser (Cost)

Copy to:

1. E-Governance Cell, Ministry of Corporate Affairs, Shastri Bhavan, New Delhi with a request to upload this order on the MCA's website.
2. The President, Institute of Cost and Works Accountants of India, 12, Sudder Street, Kolkata – 700016 with a request to bring this order to the general information of all Members in practice and of the corporate sector.



F. No. 52/26/CAB-2010
Government of India
Ministry of Corporate Affairs
Cost Audit Branch

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

Dated the 24th January, 2012

ORDER

In exercise of the powers conferred by sub-section (1) of section 233B of the Companies Act, 1956 (1 of 1956), the Central Government, being of the opinion that it is necessary to do so, hereby directs that all companies to which the Companies (Cost Accounting Records) Rules, 2011 apply, and which are engaged in the production, processing, manufacturing or mining of the following products/activities, including intermediate products and articles or allied products thereof, and wherein the aggregate value of the turnover made by the company from sale or supply of all its products/activities during the immediately preceding financial year exceeds hundred crore 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, shall get its cost accounting records, in respect of each of its financial year commencing on or after the 1st day of April, 2012, audited by a cost auditor who shall be, either a cost accountant or a firm of cost accountants, holding valid certificate of practice under the provisions of Cost and Works Accountants Act, 1959 (23 of 1959).

<u>Sno.</u>	<u>Name of the Industry</u>	<u>Relevant Chapter Heading of the Central Excise Tariff Act, 1985</u>
1.	Jute, cotton, silk, woolen or blended fibers/textiles	Chapters 50 to 63
2.	Edible oil seeds and Oils (incl. vanaspati)	Chapters 12 and 15
3.	Packaged food products	Chapters 2 to 25 (except Chapters 5, 6,



<u>Sno.</u>	<u>Name of the Industry</u>	<u>Relevant Chapter Heading of the Central Excise Tariff Act, 1985</u>
		14, 23 and 24)
4.	Organic & Inorganic Chemicals	Chapters 28, 29, 32, 38 and 39
5.	Coal & Lignite	Chapter 27
6.	Mining & Metallurgy of ferrous & non-ferrous metals	Chapters 26 and 74 to 83 (except Chapters 76 and 77)
7.	Tractors & other motor vehicles (incl. automotive components)	Chapters 84, 85 and 87
8.	Plantation Products	Chapters 8, 9, 21 and 40,
9.	Engineering machinery (incl. electrical & electronic products)	Chapters 84 and 85

Notes:

(a) Intermediate or final products and articles or allied products of above industries if included under any other Chapter of the Central Excise Tariff Act, 1985 not mentioned above shall also be covered under these orders.

(b) Items falling under above Chapter references exclude those products that have been already covered vide cost audit orders dated 2nd May 2011 and 30th June 2011.

(c) Products falling under above Chapter references are to be considered against the respective industry as applicable.

2. Every company to which these orders apply shall follow the revised procedure for appointment of cost auditor as laid down vide Ministry of Corporate Affairs' General Circular No. 15/2011 dated 11th April 2011.

3. The audit shall be conducted in such manner as will enable the cost auditor to prepare the report in accordance with the Companies (Cost Audit Report) Rules, 2011 published vide G.S.R. 430(E) dated 3rd June 2011. The report of the cost auditor shall be forwarded to the Central Government in the prescribed format within the time stipulated under the said Rules.

4. In view of issue of industry specific cost audit orders, all company specific cost audit orders issued to the individual companies prior to 31st March, 2011 directing them to get their cost records audited for the products/activities specified in such orders stand withdrawn with effect from the financial year commencing on or after the 1st day of April, 2012.



5. All companies who were earlier issued company specific orders prior to 31st March, 2011 but are later covered either by this industry specific order and/or by earlier similar orders dated 2nd May 2011 or 30th June 2011 [subject to their meeting with the qualifying criteria mentioned therein] shall now comply with the industry specific orders, as applicable, replacing the earlier company specific order.
6. All companies wherein this industry specific cost audit order and the similar orders issued on 2nd May 2011 and 30th June 2011 are not applicable but their products/activities were covered under the company specific cost audit orders issued prior to 31st March 2011 shall comply with the said company specific orders before their withdrawal becomes effective i.e. for all financial years prior to the financial year commencing on or after the 1st day of April, 2012.
7. If a company contravenes any provisions of these orders, the company and every officer thereof who is in default, including the persons referred to in sub-section (6) of section 209 of the Companies Act, 1956, shall be punishable as provided under sub-section (2) of section 642 read with sub-section (11) of section 233B of the Companies Act, 1956 (1 of 1956).
8. These orders are subject to clarifications issued vide Ministry of Corporate Affairs' General Circular Nos. 67/2011 and 68/2011, both dated November 30, 2011.

(B.B.Goyal)
Adviser (Cost)

Copy to:

1. E-Governance Cell, Ministry of Corporate Affairs, Shastri Bhavan, New Delhi with a request to upload this order on the MCA's website.
2. The President, Institute of Cost and Works Accountants of India, 12, Sudder Street, Kolkata – 700016 with a request to bring this order to the general information of all Members in practice and of the corporate sector.



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.



52/17/CAB-2011
Government of India
Ministry of Corporate Affairs
Cost Audit Branch

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

Dated the June 29, 2012

To,

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

Subject: Filing of Cost Audit Report (Form-I) and Compliance Report (Form-A) in the eXtensible Business Reporting Language (XBRL) mode.

Sir,

In continuation of MCA's General Circular No. 8/2012 dated 10th May, 2012, it has been decided that filing of Cost Audit Reports and Compliance Reports with the Central Government in the XBRL mode shall be allowed after 31st July, 2012. The Institute is requested to circulate this for the information of all concerned.

(B.B.Goyal)
Adviser (Cost)
Tel: 011-24366005

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 / Special Secretary
5. PS to Joint Secretary (A) / Joint Secretary (R) / Joint Secretary (M)
6. PS to DII (RC) / DII (UCN)
7. PS to Economic Adviser



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

GOVERNMENT OF INDIA
MINISTRY OF CORPORATE AFFAIRS

Notification

New Delhi, dated the 7th August, 2012

S.O. 1747(E) - In exercise of the powers conferred by clause (b) of sub-section (1) of section 642 read with section 610B of the Companies Act, 1956 (1 of 1956), the Central Government hereby constitutes the Product or Activity Groups as given in the Annexure enclosed.

2. Pursuant to the above, all companies shall use the Product or Activity Groups as given in the Annexure, wherever it appears, in the Cost Audit Report and in the Compliance Report to be filed with the Central Government in compliance with the following rules, namely:-

- a) The Companies (Cost Accounting Records) Rules, 2011 notified vide GSR 429(E), dated the 3rd June, 2011;
- b) The Companies (Cost Audit Report) Rules, 2011 notified vide GSR 430(E), dated the 3rd June, 2011;
- c) The Cost Accounting Records (Telecommunication Industry) Rules, 2011 notified vide GSR 869(E), dated the 7th December, 2011;
- d) The Cost Accounting Records (Petroleum Industry) Rules, 2011 notified vide GSR 870(E), dated the 7th December, 2011;
- e) The Cost Accounting Records (Electricity Industry) Rules, 2011 notified vide GSR 871(E), dated the 7th December, 2011;
- f) The Cost Accounting Records (Sugar Industry) Rules, 2011 notified vide GSR 872(E), dated the 7th December, 2011;
- g) The Cost Accounting Records (Fertilizer Industry) Rules, 2011 notified vide GSR 873(E), dated the 7th December, 2011;
- h) The Cost Accounting Records (Pharmaceutical Industry) Rules, 2011 notified vide GSR 874(E), dated the 7th December, 2011.

3. The Product or Activity Group as given in the Annexure shall also be used, wherever so desired by the Central Government, in respect of any other document required to be filed either with the Registrar or with the Central Government in compliance with any provisions of the Companies Act, 1956 (1 of 1956).



Annexure

Serial Number	Product or Activity Group Code	Name of the Product or Activity Group	Central Excise Tariff Act (CETA) Chapter Headings covered in the Product or Activity Group
1	1001	Livestock	0101 to 0106
2	1002	Meat and Meat Products	0201 to 0210; 0410; 1601 to 1603
3	1003	Marine Products	0301 to 0307; 1604 to 1605
4	1004	Milk and Milk Products	0401 to 0406
5	1005	Poultry and Related Products	0407 to 0408
6	1006	Bee Products	0409
7	1007	Human Hair and Related Products	0501; 6703 to 6704
8	1008	Products of Animal Origin	0502; 0504 to 0508; 0510 to 0511
9	1009	Plants, Trees and Flowers	0601 to 0604
10	1010	Vegetables	0701 to 0714
11	1011	Fruits and Nuts	0801 to 0814
12	1012	Coffee and Coffee Products (incl. 210111)	0901
13	1013	Tea and Tea Products (incl. 210120)	0902
14	1014	Spices - processed or unprocessed	0903 to 0910
15	1015	Cereals, Flour and Product of Cereals	1001 to 1008; 1101 to 1109
16	1016	Oil Seeds and Products of Oil Seeds	1201 to 1208
17	1017	Other Seeds and Plants	1209 to 1214
18	1018	Vegetable Saps or Products	1301 to 1302; 1401; 1404
19	1019	Animal or Vegetable Fats and Oils	1501 to 1518; 1520 to 1522
20	1020	Sugar and Sugar Products	1701 to 1702
21	1021	Molasses	1703
22	1022	Sugar Confectionery or Chocolates	1704; 1806



Serial Number	Product or Activity Group Code	Name of the Product or Activity Group	Central Excise Tariff Act (CETA) Chapter Headings covered in the Product or Activity Group
23	1023	Cocoa Products	1801 to 1805
24	1024	Prepared Food Products	1901 to 1905; 2001 to 2009; 2101 to 2106; 2501
25	1025	Mineral Water and Aerated Drinks	2201 to 2202
26	1026	Alcoholic Beverages	2203 to 2206; 2208
27	1027	Ethyl Alcohol and other Spirits	2207
28	1028	Vinegar	2209
29	1029	Food Residues or Prepared Animal Feed	2301 to 2309
30	1030	Unmanufactured and Manufactured Tobacco	2401; 2403
31	1031	Tobacco Products	2402
32	2001	Mineral Products	2502 to 2522; 2524 to 2526; 2528 to 2530; 2601 to 2621
33	2002	Cement	2523
34	2003	Mineral Fuels (other than Petroleum)	2701 to 2708
35	2004	Petroleum Oils - Crude	2709
36	2005	Petroleum Oils - Refined	2710
37	2006	Petroleum Gases and other Gaseous Hydrocarbons	2711
38	2007	Other Petroleum Products	2712 to 2715
39	2008	Electrical Energy	2716
40	2009	Chemical Elements	2801 to 2805
41	2010	Inorganic Chemicals and their Derivatives	2806 to 2837; 2839 to 2850; 2852 to 2853
42	2011	Organic Chemicals and their Derivatives (excluding Bulk Drugs)	2901 to 2942
43	2012	Bulk Drugs	2901 to 2942
44	2013	Albuminoidal Substances, Starches, Glues and Enzymes	3501 to 3507



The Institute of Cost Accountants of India

Serial Number	Product or Activity Group Code	Name of the Product or Activity Group	Central Excise Tariff Act (CETA) Chapter Headings covered in the Product or Activity Group
45	2014	Miscellaneous Chemical Products	3801 to 3807; 3809 to 3825
46	2015	Pharmaceutical Products	3001 to 3006
47	2016	Animal or Vegetable Fertilizers	3101
48	2017	Mineral or Chemical Fertilizers - Nitrogenous	3102
49	2018	Mineral or Chemical Fertilizers - Phosphatic	3103
50	2019	Mineral or Chemical Fertilizers - Potassic	3104
51	2020	Mineral or Chemical Fertilizers - Others	3105
52	2021	Tanning Substances	3201 to 3202
53	2022	Colours, Dyes and Pigments	3203 to 3207; 3212
54	2023	Paints and Varnishes	3208 to 3211
55	2024	Inks and Colours	3213; 3215
56	2025	Plasters and Fillers	3214
57	2026	Essential Oils	3301 to 3302
58	2027	Personal Care Products	3303 to 3307; 8212; 9615 to 9616
59	2028	Soaps, Detergents and Cleaning Agents	3401 to 3402
60	2029	Lubricating Preparations	3403
61	2030	Waxes and Wax Products	3404 to 3407
62	2031	Explosives	3601 to 3603
63	2032	Fireworks, Matches and Combustible Materials	3604 to 3606
64	2033	Photographic and Cinematographic Goods	3701 to 3707
65	2034	Insecticides	3808
66	2035	Chemicals - Plastics and Polymers	3901 to 3915



Serial Number	Product or Activity Group Code	Name of the Product or Activity Group	Central Excise Tariff Act (CETA) Chapter Headings covered in the Product or Activity Group
67	2036	Articles of Plastics and Polymers	3916 to 3926
68	2037	Rubber and Rubber Products	4001 to 4010; 4014 to 4017
69	2038	Rubber Tyres and Tubes	4011 to 4013
70	3001	Raw Hides, Skins and Leather	4101 to 4107; 4112 to 4115
71	3002	Leather Products	4201 to 4203; 4205 to 4206
72	3003	Furskins and Fur Products	4301 to 4304
73	3004	Wood and Wood Products	4401 to 4421
74	3005	Cork and Cork Products	4501 to 4504
75	3006	Straw and Plaiting materials	4601 to 4602
76	3007	Pulp of Wood and other substances	4701 to 4707
77	3008	Newsprint	4801
78	3009	Paper and Paperboard	4802 to 4813
79	3010	Articles of Paper and Paperboard	4814; 4816 to 4823
80	3011	Printing and Publishing	4901 to 4911
81	3012	Silk	5001 to 5003
82	3013	Silk Yarn	5004 to 5006
83	3014	Silk Fabrics	5007
84	3015	Wool	5101 to 5105
85	3016	Wool Yarn	5106 to 5110
86	3017	Wool Fabrics	5111 to 5113
87	3018	Cotton	5201 to 5203
88	3019	Sewing Thread	5204; 5401
89	3020	Cotton Yarn	5205 to 5207
90	3021	Cotton Fabrics	5208 to 5212
91	3022	Other Textile Yarns or Fibers	5301 to 5303; 5305 to 5308
92	3023	Other Textile Fabrics	5309 to 5311
93	3024	Synthetic Yarns or Fibers	5402 to 5406; 5501 to



Serial Number	Product or Activity Group Code	Name of the Product or Activity Group	Central Excise Tariff Act (CETA) Chapter Headings covered in the Product or Activity Group
			5511; 5601 to 5609
94	3025	Synthetic Fabrics	5407 to 5408; 5512 to 5516
95	3026	Carpets and textile floor coverings	5701 to 5705
96	3027	Other Textile Fabrics or Products	5801 to 5811; 5901 to 5911; 6301; 6305 to 6310
97	3028	Knitted or Crocheted Fabrics	6001 to 6006
98	3029	Apparel and Clothing	6101 to 6117; 6201 to 6217
99	3030	Furnishings	6302 to 6304
100	3031	Footwear and Parts thereof	6401 to 6406
101	3032	Headgear and Parts thereof	6501 to 6502; 6504 to 6507
102	3033	Umbrellas, Sticks etc.	6601 to 6603
103	3034	Articles of Skins and other parts of birds	6701
104	3035	Artificial Flowers and Fruits	6702
105	3036	Articles of Stones, Plaster, Cement, Asbestos and Mica	6801 to 6815
106	3037	Ceramic Products	6901 to 6914
107	3038	Glass and Glass Products	7001 to 7011; 7013 to 7020
108	3039	Pearls, Diamonds, Stones and Jewellery Articles	7101 to 7118
109	4001	Primary Ferrous Materials	7201 to 7205
110	4002	Iron and Non-Alloy Steel	7206 to 7217
111	4003	Stainless Steel	7218 to 7223
112	4004	Other Alloy or Non-Alloy Steel	7224 to 7229
113	4005	Steel Products	7301 to 7326
114	4006	Copper and Copper Products	7401 to 7413; 7415; 7418 to 7419



Serial Number	Product or Activity Group Code	Name of the Product or Activity Group	Central Excise Tariff Act (CETA) Chapter Headings covered in the Product or Activity Group
115	4007	Nickel and Nickel Products	7501 to 7508
116	4008	Aluminium and Aluminium Products	7601 to 7616
117	4009	Lead and Lead Products	7801 to 7802; 7804; 7806
118	4010	Zinc and Zinc Products	7901 to 7905; 7907
119	4011	Tin and Tin Products	8001 to 8003; 8007
120	4012	Other Base Metals and their Products	8101 to 8113; 8301 to 8311
121	4013	Hand Tools	8201 to 8211; 8213 to 8215
122	4014	Nuclear Reactors and Accessories	8401
123	4015	Boilers and Accessories	8402 to 8404
124	4016	Engines or Motors and parts thereof	8405 to 8412
125	4017	Machinery and Mechanical appliances	8413 to 8484; 8486 to 8487
126	4018	Electric Motors, Generators, Transformers and Parts thereof	8501 to 8505
127	4019	Batteries and Accumulators	8506 to 8507
128	4020	Electrical and Electronic Equipments or Appliances	8508 to 8519; 8521 to 8523; 8525 to 8548
129	4021	Railway Rolling Stock	8601 to 8606
130	4022	Parts of Railway Rolling Stock	8607
131	4023	Railway Track Fixtures and Fittings	8608
132	4024	Containers	8609
133	4025	Commercial Vehicles (3 or more wheels)	8701; 8704 to 8707; 8709; 8716
134	4026	Passenger Vehicles (4 or more wheels)	8702 to 8703
135	4027	Parts and Accessories of Vehicles	8708; 8714
136	4028	Tanks and Armoured Vehicles and parts thereof	8710
137	4029	Passenger Vehicles (2 and 3	8711; 8713



Serial Number	Product or Activity Group Code	Name of the Product or Activity Group	Central Excise Tariff Act (CETA) Chapter Headings covered in the Product or Activity Group
		Wheelers) - Motorised	
138	4030	Passenger Vehicles (2 or 3 Wheelers) - Non Motorised	8712; 8713; 8715
139	4031	Non-powered Aircraft and parts thereof	8801; 8803
140	4032	Aircraft, Spacecraft and parts thereof	8802 to 8803; 8805
141	4033	Parachutes and Rotochutes	8804
142	4034	Ships and Boats	8901 to 8904
143	4035	Floating Structures	8905 to 8908
144	4036	Optical Equipments and parts thereof	9001 to 9005; 9012 to 9013; 9033
145	4037	Photographic or Cinematographic Equipment and parts thereof	9006 to 9008; 9010 to 9011; 9033
146	4038	Measuring Instruments and parts thereof	9014 to 9017; 9023 to 9033
147	4039	Surgical or Medical Instrument and parts thereof	9018 to 9022; 9033
148	4040	Clocks or Watches and Parts thereof	9101 to 9114
149	4041	Musical Instruments and Parts thereof	9201 to 9202; 9205 to 9209
150	4042	Arms or Ammunition and Parts thereof	9301 to 9307
151	4043	Medical or Vehicular or other Furniture and Mattress and parts thereof	9401 to 9404
152	4044	Lights and Fittings	9405
153	4045	Prefabricated Buildings	9406
154	4046	Toys, games and sports Equipments	9503 to 9508
155	4047	Stationery Items	9608 to 9612
156	4048	Miscellaneous manufactured articles	9601 to 9607; 9613 to 9614; 9617 to 9618



Serial Number	Product or Activity Group Code	Name of the Product or Activity Group	Central Excise Tariff Act (CETA) Chapter Headings covered in the Product or Activity Group
157	4100	Ancillary products or activities not elsewhere specified	As Applicable
158	5001	Construction of residential buildings	Not Applicable
159	5002	Construction of non-residential buildings	Not Applicable
160	5003	Construction of highways, roads, rails, bridges, etc.	Not Applicable
161	5004	Construction of industrial and non-industrial plants, structures and facilities	Not Applicable
162	5005	Laying of pipelines, communication and power lines	Not Applicable
163	5006	Other construction activities not elsewhere specified	Not Applicable
164	5051	Real estate development activities	Not Applicable
165	5061	Architectural and engineering services	Not Applicable
166	5071	Construction and real estate related services	Not Applicable
167	5101	Basic telephone services - wired and WLL	Not Applicable
168	5102	Cellular mobile telephone services - wireless and WLL	Not Applicable
169	5103	Internet and broadband services	Not Applicable
170	5104	National long distance services	Not Applicable
171	5105	International long distance services	Not Applicable
172	5106	Public mobile radio trunk services	Not Applicable
173	5107	Global mobile personal communication services	Not Applicable
174	5108	Passive telecom infrastructure and tower facilities	Not Applicable



Serial Number	Product or Activity Group Code	Name of the Product or Activity Group	Central Excise Tariff Act (CETA) Chapter Headings covered in the Product or Activity Group
175	5109	Cable landing stations	Not Applicable
176	5121	Broadcasting and related services	Not Applicable
177	5131	Performing art and entertainment services	Not Applicable
178	5141	Other communication services not elsewhere specified	Not Applicable
179	5201	Publishing of newspapers, journals and periodicals	Not Applicable
180	5202	Book publishing	Not Applicable
181	5203	Advertising services	Not Applicable
182	5204	News agency activities	Not Applicable
183	5301	Transportation of passengers - by road	Not Applicable
184	5302	Transportation of passengers - by rail	Not Applicable
185	5303	Transportation of passengers - by water	Not Applicable
186	5304	Transportation of passengers - by air	Not Applicable
187	5401	Transportation or distribution of goods - by road	Not Applicable
188	5402	Transportation or distribution of goods - by rail	Not Applicable
189	5403	Transportation or distribution of goods - by water	Not Applicable
190	5404	Transportation or distribution of goods - by air	Not Applicable
191	5405	Transportation or distribution of goods - by pipeline	Not Applicable
192	5406	Transmission or distribution of electricity	Not Applicable
193	5411	Cargo and baggage handling activities	Not Applicable



Serial Number	Product or Activity Group Code	Name of the Product or Activity Group	Central Excise Tariff Act (CETA) Chapter Headings covered in the Product or Activity Group
194	5421	Service activities incidental to transportation	Not Applicable
195	5431	Storage and warehousing activities	Not Applicable
196	5441	Port activities	Not Applicable
197	5451	Rental services of transport vehicles	Not Applicable
198	5461	Tours and travel activities	Not Applicable
199	6001	Banking services	Not Applicable
200	6002	Non-banking financial services	Not Applicable
201	6003	Investment banking services	Not Applicable
202	6004	Financial leasing services	Not Applicable
203	6005	Services auxiliary to banking and financial services	Not Applicable
204	6006	Leasing or rental of tangible assets	Not Applicable
205	6007	Leasing of non-financial intangible assets	Not Applicable
206	6101	Life insurance services	Not Applicable
207	6102	Non-life insurance services	Not Applicable
208	6103	Reinsurance services	Not Applicable
209	6104	Pension services	Not Applicable
210	6201	Brokerage and agency services	Not Applicable
211	6202	Market intermediaries' services	Not Applicable
212	6301	Postal services	Not Applicable
213	6302	Courier services	Not Applicable
214	6401	Accounting, auditing and bookkeeping services	Not Applicable
215	6402	Management consulting services	Not Applicable
216	6403	Legal services	Not Applicable
217	6404	Human Resource placement and management services	Not Applicable
218	6405	Business support services	Not Applicable
219	6406	Research and experimental	Not Applicable



Serial Number	Product or Activity Group Code	Name of the Product or Activity Group	Central Excise Tariff Act (CETA) Chapter Headings covered in the Product or Activity Group
		development services	
220	6407	Other professional services	Not Applicable
221	6501	Education services	Not Applicable
222	6502	Human healthcare services	Not Applicable
223	6503	Veterinary services	Not Applicable
224	6504	Sports, amusement and recreational activities	Not Applicable
225	6505	Other personal service activities	Not Applicable
226	6506	Other social services	Not Applicable
227	6601	Accommodation, food and beverage services	Not Applicable
228	6701	Collection and waste management activities	Not Applicable
229	6702	Dyeing, colouring, washing and dry-cleaning services	Not Applicable
230	6703	General cleaning services	Not Applicable
231	6704	Installation, maintenance and repair services	Not Applicable
232	6705	Investigation and security services	Not Applicable
233	6706	Market research and public opinion polling services	Not Applicable
234	6707	Packaging activities	Not Applicable
235	6708	Photographic services	Not Applicable
236	6801	Information technology (IT) and IT enabled services	Not Applicable
237	6901	General public administration services	Not Applicable
238	7001	Any other service activity not elsewhere specified	Not Applicable
239	8001	Wholesale trade of agricultural raw materials and live animals	Not Applicable



Serial Number	Product or Activity Group Code	Name of the Product or Activity Group	Central Excise Tariff Act (CETA) Chapter Headings covered in the Product or Activity Group
240	8002	Wholesale trade of food, beverages and tobacco [includes fruits, vegetables, dairy products, etc.]	Not Applicable
241	8003	Wholesale trade of textiles, clothing and footwear	Not Applicable
242	8004	Wholesale trade of household appliances, articles and equipments	Not Applicable
243	8005	Wholesale trade of miscellaneous consumer goods	Not Applicable
244	8006	Wholesale trade of construction materials and hardware	Not Applicable
245	8007	Wholesale trade of chemical and pharmaceutical products	Not Applicable
246	8008	Wholesale trade of personal care products	Not Applicable
247	8009	Wholesale trade of machinery, equipment and supplies	Not Applicable
248	8010	Wholesale trade of solid, liquid and gaseous fuels and related products	Not Applicable
249	8011	Wholesale trade of ores, minerals, metals and articles thereof	Not Applicable
250	8012	Wholesale trade of stones, pearls and precious metals	Not Applicable
251	8013	Wholesale trade of other products not elsewhere specified	Not Applicable
252	9001	Retail trade of agricultural raw materials and live animals	Not Applicable
253	9002	Retail trade of food, beverages and tobacco [includes fruits, vegetables, dairy products, etc.]	Not Applicable
254	9003	Retail trade of textiles, clothing and	Not Applicable



Serial Number	Product or Activity Group Code	Name of the Product or Activity Group	Central Excise Tariff Act (CETA) Chapter Headings covered in the Product or Activity Group
		footwear	
255	9004	Retail trade of household appliances, articles and equipments	Not Applicable
256	9005	Retail trade of miscellaneous consumer goods	Not Applicable
257	9006	Retail trade of construction materials and hardware	Not Applicable
258	9007	Retail trade of chemical and pharmaceutical products	Not Applicable
259	9008	Retail trade of personal care products	Not Applicable
260	9009	Retail trade of machinery, equipment and supplies	Not Applicable
261	9010	Retail trade of solid, liquid and gaseous fuels and related products	Not Applicable
262	9011	Retail trade of ores, minerals, metals and articles thereof	Not Applicable
263	9012	Retail trade of stones, pearls and precious metals	Not Applicable
264	9013	Retail trade of vehicles	Not Applicable
265	9014	Retail trade of other products not elsewhere specified	Not Applicable
266	9015	Retail sale of any product via mail order, Internet, television, radio and telephone, etc.	Not Applicable
267	9016	Retail sale of any product not in stores, stalls or markets	Not Applicable

Notes:

(a) Intermediate or final products and articles or allied products of above industries if included under any other Chapter of the Central Excise Tariff Act, 1985 not mentioned above shall also be covered under these orders.



(b) Items falling under above Chapter references exclude those products that have been already covered vide cost audit orders dated 2nd May 2011 and 30th June 2011.

(c) Products falling under above Chapter references are to be considered against the respective industry as applicable.

2. Every company to which these orders apply shall follow the revised procedure for appointment of cost auditor as laid down vide Ministry of Corporate Affairs' General Circular No. 15/2011 dated 11th April 2011.

3. The audit shall be conducted in such manner as will enable the cost auditor to prepare the report in accordance with the Companies (Cost Audit Report) Rules, 2011 published vide G.S.R. 430(E) dated 3rd June 2011. The report of the cost auditor shall be forwarded to the Central Government in the prescribed format within the time stipulated under the said Rules.

4. In view of issue of industry specific cost audit orders, all company specific cost audit orders issued to the individual companies prior to 31st March, 2011 directing them to get their cost records audited for the products/activities specified in such orders stand withdrawn with effect from the financial year commencing on or after the 1st day of April, 2012.

5. All companies who were earlier issued company specific orders prior to 31st March, 2011 but are later covered either by this industry specific order and/or by earlier similar orders dated 2nd May 2011 or 30th June 2011 [subject to their meeting with the qualifying criteria mentioned therein] shall now comply with the industry specific orders, as applicable, replacing the earlier company specific order.

6. All companies wherein this industry specific cost audit order and the similar orders issued on 2nd May 2011 and 30th June 2011 are not applicable but their products/activities were covered under the company specific cost audit orders issued prior to 31st March 2011 shall comply with the said company specific orders before their withdrawal becomes effective i.e. for all financial years prior to the financial year commencing on or after the 1st day of April, 2012.

7. If a company contravenes any provisions of these orders, the company and every officer thereof who is in default, including the persons referred to in sub-section (6) of section 209 of the Companies Act, 1956, shall be punishable as provided under sub-section (2) of section 642 read with sub-section (11) of section 233B of the Companies Act, 1956 (1 of 1956).

8. These orders are subject to clarifications issued vide Ministry of Corporate Affairs' General Circular Nos. 67/2011 and 68/2011, both dated November 30, 2011.

(B.B.Goyal)
Adviser (Cost)

Copy to:

3. E-Governance Cell, Ministry of Corporate Affairs, Shastri Bhavan, New Delhi with a request to upload this order on the MCA's website.
4. The President, Institute of Cost and Works Accountants of India, 12, Sudder Street, Kolkata – 700016 with a request to bring this order to the general information of all Members in practice and of the corporate sector.



F. No. 52/26/CAB-2010
Government of India
Ministry of Corporate Affairs
Cost Audit Branch

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

Dated the 6th November, 2012

ORDER

Consequent upon notification of the Product or Activity Group classification published vide S.O. 1747(E) dated 7th August, 2012 and in supersession of the earlier Orders issued vide even number dated 2nd May 2011, 3rd May 2011, 30th June 2011 and 24th January 2012, the Central Government hereby makes the following Order.

2. In exercise of the powers conferred by sub-section (1) of section 233B of the Companies Act, 1956 (1 of 1956), the Central Government being of the opinion that it is necessary to do so, hereby directs that all companies to which the following Rules apply,

- (a) Cost Accounting Records (Telecommunication Industry) Rules 2011;
- (b) Cost Accounting Records (Petroleum Industry) Rules 2011;
- (c) Cost Accounting Records (Electricity Industry) Rules; 2011;
- (d) Cost Accounting Records (Sugar Industry) Rules; 2011;
- (e) Cost Accounting Records (Fertilizer Industry) Rules 2011;
- (f) Cost Accounting Records (Pharmaceutical Industry) Rules 2011;

and which are engaged in the production, processing, manufacturing or mining of the products/activities included in the said Rules or covered in the following product or activity groups [Table-I] and wherein the aggregate value of the net worth of the company as on the last date of the immediately preceding financial year exceeds five crore 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 crore 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, shall get its cost accounting records, in respect of each of its financial year commencing on or after the 1st day of January, 2013, audited by a cost



auditor who shall be, either a cost accountant or a firm of cost accountants, holding valid certificate of practice under the provisions of Cost and Works Accountants Act, 1959 (23 of 1959).

Table-I

<u>Sno.</u>	<u>Product or Activity Group Code</u>	<u>Name of the Product or Activity Group</u>	<u>Central Excise Tariff Act (CETA) Chapter Headings covered in the Product or Activity Group</u>
1	1020	Sugar and Sugar Products	1701 to 1702
2	1021	Molasses	1703
3	1027	Ethyl Alcohol and other Spirits	2207
4	2004	Petroleum Oils - Crude	2709
5	2005	Petroleum Oils - Refined	2710
6	2006	Petroleum Gases and other Gaseous Hydrocarbons	2711
7	2007	Other Petroleum Products	2712 to 2715
8	2008	Electrical Energy	2716
9	2012	Bulk Drugs	2901 to 2942
10	2015	Pharmaceutical Products	3001 to 3006
11	2016	Animal or Vegetable Fertilizers	3101
12	2017	Mineral or Chemical Fertilizers - Nitrogenous	3102
13	2018	Mineral or Chemical Fertilizers - Phosphatic	3103
14	2019	Mineral or Chemical Fertilizers - Potassic	3104
15	2020	Mineral or Chemical Fertilizers - Others	3105
16	5101	Basic telephone services - wired and WLL	Not Applicable



<u>Sno.</u>	<u>Product or Activity Group Code</u>	<u>Name of the Product or Activity Group</u>	<u>Central Excise Tariff Act (CETA) Chapter Headings covered in the Product or Activity Group</u>
17	5102	Cellular mobile telephone services - wireless and WLL	Not Applicable
18	5103	Internet and broadband services	Not Applicable
19	5104	National long distance services	Not Applicable
20	5105	International long distance services	Not Applicable
21	5106	Public mobile radio trunk services	Not Applicable
22	5107	Global mobile personal communication services	Not Applicable
23	5108	Passive telecom infrastructure and tower facilities	Not Applicable
24	5109	Cable landing stations	Not Applicable
25	5121	Broadcasting and related services	Not Applicable
26	5141	Other communication services not elsewhere specified	Not Applicable
27	5406	Transmission or distribution of electricity	Not Applicable

In exercise of the powers conferred by sub-section (1) of section 233B of the Companies Act, 1956 (1 of 1956), the Central Government being of the opinion that it is necessary to do so, hereby directs that all companies to which the Companies (Cost Accounting Records) Rules, 2011 apply, and which are engaged in the production, processing, manufacturing or mining of the products/activities included in the following product or activity groups [Table-II], and wherein the aggregate value of the turnover made by the company from sale or supply of all its products or activities during the immediately



preceding financial year exceeds hundred crore 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, shall get its cost accounting records, in respect of each of its financial year commencing on or after the 1st day of January, 2013, audited by a cost auditor who shall be, either a cost accountant or a firm of cost accountants, holding valid certificate of practice under the provisions of Cost and Works Accountants Act, 1959 (23 of 1959).

Table-II

<u>Sno.</u>	<u>Product or Activity Group Code</u>	<u>Name of the Product or Activity Group</u>	<u>Central Excise Tariff Act (CETA) Chapter Headings covered in the Product or Activity Group</u>
1	1002	Meat and Meat Products	0201 to 0210; 0410; 1601 to 1603
2	1003	Marine Products	0301 to 0307; 1604 to 1605
3	1004	Milk and Milk Products	0401 to 0406
4	1005	Poultry and Related Products	0407 to 0408
5	1006	Bee Products	0409
6	1010	Vegetables	0701 to 0714
7	1011	Fruits and Nuts	0801 to 0814
8	1012	Coffee and Coffee Products (incl. 210111)	0901
9	1013	Tea and Tea Products (incl. 210120)	0902
10	1014	Spices - processed or unprocessed	0903 to 0910
11	1015	Cereals, Flour and Product of Cereals	1001 to 1008; 1101 to 1109
12	1016	Oil Seeds and Products of Oil Seeds	1201 to 1208
13	1017	Other Seeds and Plants	1209 to 1214



<u>Sno.</u>	<u>Product or Activity Group Code</u>	<u>Name of the Product or Activity Group</u>	<u>Central Excise Tariff Act (CETA) Chapter Headings covered in the Product or Activity Group</u>
14	1018	Vegetable Saps or Products	1301 to 1302; 1401; 1404
15	1019	Animal or Vegetable Fats and Oils	1501 to 1518; 1520 to 1522
16	1022	Sugar Confectionery or Chocolates	1704; 1806
17	1023	Cocoa Products	1801 to 1805
18	1024	Prepared Food Products	1901 to 1905; 2001 to 2009; 2101 to 2106; 2501
19	1025	Mineral Water and Aerated Drinks	2201 to 2202
20	1026	Alcoholic Beverages	2203 to 2206; 2208
21	1028	Vinegar	2209
22	1029	Food Residues or Prepared Animal Feed	2301 to 2309
23	1030	Unmanufactured and Manufactured Tobacco	2401; 2403
24	1031	Tobacco Products	2402
25	2001	Mineral Products	2502 to 2522; 2524 to 2526; 2528 to 2530; 2601 to 2621
26	2002	Cement	2523
27	2003	Mineral Fuels (other than Petroleum)	2701 to 2708
28	2009	Chemical Elements	2801 to 2805
29	2010	Inorganic Chemicals and their Derivatives	2806 to 2837; 2839 to 2850; 2852 to 2853
30	2011	Organic Chemicals and their	2901 to 2942



The Institute of Cost Accountants of India

<u>Sno.</u>	<u>Product or Activity Group Code</u>	<u>Name of the Product or Activity Group</u>	<u>Central Excise Tariff Act (CETA) Chapter Headings covered in the Product or Activity Group</u>
		Derivatives (excluding Bulk Drugs)	
31	2013	Albuminoidal Substances, Starches, Glues and Enzymes	3501 to 3507
32	2014	Miscellaneous Chemical Products	3801 to 3807; 3809 to 3825
33	2021	Tanning Substances	3201 to 3202
34	2022	Colours, Dyes and Pigments	3203 to 3207; 3212
35	2023	Paints and Varnishes	3208 to 3211
36	2024	Inks and Colours	3213; 3215
37	2025	Plasters and Fillers	3214
38	2026	Essential Oils	3301 to 3302
39	2027	Personal Care Products	3303 to 3307; 8212; 9615 to 9616
40	2028	Soaps, Detergents and Cleaning Agents	3401 to 3402
41	2029	Lubricating Preparations	3403
42	2030	Waxes and Wax Products	3404 to 3407
43	2031	Explosives	3601 to 3603
44	2032	Fireworks, Matches and Combustible Materials	3604 to 3606
45	2033	Photographic and Cinematographic Goods	3701 to 3707
46	2034	Insecticides	3808
47	2035	Chemicals - Plastics and	3901 to 3915



<u>Sno.</u>	<u>Product or Activity Group Code</u>	<u>Name of the Product or Activity Group</u>	<u>Central Excise Tariff Act (CETA) Chapter Headings covered in the Product or Activity Group</u>
		Polymers	
48	2036	Articles of Plastics and Polymers	3916 to 3926
49	2037	Rubber and Rubber Products	4001 to 4010; 4014 to 4017
50	2038	Rubber Tyres and Tubes	4011 to 4013
51	3001	Raw Hides, Skins and Leather	4101 to 4107; 4112 to 4115
52	3002	Leather Products	4201 to 4203; 4205 to 4206
53	3004	Wood and Wood Products	4401 to 4421
54	3007	Pulp of Wood and other substances	4701 to 4707
55	3008	Newsprint	4801
56	3009	Paper and Paperboard	4802 to 4813
57	3010	Articles of Paper and Paperboard	4814; 4816 to 4823
58	3012	Silk	5001 to 5003
59	3013	Silk Yarn	5004 to 5006
60	3014	Silk Fabrics	5007
61	3015	Wool	5101 to 5105
62	3016	Wool Yarn	5106 to 5110
63	3017	Wool Fabrics	5111 to 5113
64	3018	Cotton	5201 to 5203
65	3019	Sewing Thread	5204; 5401
66	3020	Cotton Yarn	5205 to 5207
67	3021	Cotton Fabrics	5208 to 5212



<u>Sno.</u>	<u>Product or Activity Group Code</u>	<u>Name of the Product or Activity Group</u>	<u>Central Excise Tariff Act (CETA) Chapter Headings covered in the Product or Activity Group</u>
68	3022	Other Textile Yarns or Fibers	5301 to 5303; 5305 to 5308
69	3023	Other Textile Fabrics	5309 to 5311
70	3024	Synthetic Yarns or Fibers	5402 to 5406; 5501 to 5511; 5601 to 5609
71	3025	Synthetic Fabrics	5407 to 5408; 5512 to 5516
72	3026	Carpets and textile floor coverings	5701 to 5705
73	3027	Other Textile Fabrics or Products	5801 to 5811; 5901 to 5911; 6301; 6305 to 6310
74	3028	Knitted or Crocheted Fabrics	6001 to 6006
75	3029	Apparel and Clothing	6101 to 6117; 6201 to 6217
76	3030	Furnishings	6302 to 6304
77	3031	Footwear and Parts thereof	6401 to 6406
78	3032	Headgear and Parts thereof	6501 to 6502; 6504 to 6507
79	3036	Articles of Stones, Plaster, Cement, Asbestos and Mica	6801 to 6815
80	3037	Ceramic Products	6901 to 6914
81	3038	Glass and Glass Products	7001 to 7011; 7013 to 7020
82	3039	Pearls, Diamonds, Stones and Jewellery Articles	7101 to 7118
83	4001	Primary Ferrous Materials	7201 to 7205
84	4002	Iron and Non-Alloy Steel	7206 to 7217
85	4003	Stainless Steel	7218 to 7223
86	4004	Other Alloy or Non-Alloy Steel	7224 to 7229



<u>Sno.</u>	<u>Product or Activity Group Code</u>	<u>Name of the Product or Activity Group</u>	<u>Central Excise Tariff Act (CETA) Chapter Headings covered in the Product or Activity Group</u>
87	4005	Steel Products	7301 to 7326
88	4006	Copper and Copper Products	7401 to 7413; 7415; 7418 to 7419
89	4007	Nickel and Nickel Products	7501 to 7508
90	4008	Aluminium and Aluminium Products	7601 to 7616
91	4009	Lead and Lead Products	7801 to 7802; 7804; 7806
92	4010	Zinc and Zinc Products	7901 to 7905; 7907
93	4011	Tin and Tin Products	8001 to 8003; 8007
94	4012	Other Base Metals and their Products	8101 to 8113; 8301 to 8311
95	4013	Hand Tools	8201 to 8211; 8213 to 8215
96	4014	Nuclear Reactors and Accessories	8401
97	4015	Boilers and Accessories	8402 to 8404
98	4016	Engines or Motors and parts thereof	8405 to 8412
99	4017	Machinery and Mechanical appliances	8413 to 8484; 8486 to 8487
100	4018	Electric Motors, Generators, Transformers and Parts thereof	8501 to 8505
101	4019	Batteries and Accumulators	8506 to 8507
102	4020	Electrical and Electronic Equipments or Appliances	8508 to 8519; 8521 to 8523; 8525 to 8548
103	4021	Railway Rolling Stock	8601 to 8606



The Institute of Cost Accountants of India

<u>Sno.</u>	<u>Product or Activity Group Code</u>	<u>Name of the Product or Activity Group</u>	<u>Central Excise Tariff Act (CETA) Chapter Headings covered in the Product or Activity Group</u>
104	4022	Parts of Railway Rolling Stock	8607
105	4023	Railway Track Fixtures and Fittings	8608
106	4024	Containers	8609
107	4025	Commercial Vehicles (3 or more wheels)	8701; 8704 to 8707; 8709; 8716
108	4026	Passenger Vehicles (4 or more wheels)	8702 to 8703
109	4027	Parts and Accessories of Vehicles	8708; 8714
110	4029	Passenger Vehicles (2 and 3 Wheelers) - Motorised	8711; 8713
111	4030	Passenger Vehicles (2 or 3 Wheelers) - Non Motorised	8712; 8713; 8715
112	4031	Non-powered Aircraft and parts thereof	8801; 8803
113	4032	Aircraft, Spacecraft and parts thereof	8802 to 8803; 8805
114	4033	Parachutes and Rotochutes	8804
115	4034	Ships and Boats	8901 to 8904
116	4035	Floating Structures	8905 to 8908
117	4036	Optical Equipments and parts thereof	9001 to 9005; 9012 to 9013; 9033
118	4037	Photographic or Cinematographic Equipment and parts thereof	9006 to 9008; 9010 to 9011; 9033



<u>Sno.</u>	<u>Product or Activity Group Code</u>	<u>Name of the Product or Activity Group</u>	<u>Central Excise Tariff Act (CETA) Chapter Headings covered in the Product or Activity Group</u>
119	4038	Measuring Instruments and parts thereof	9014 to 9017; 9023 to 9033
120	4039	Surgical or Medical Instrument and parts thereof	9018 to 9022; 9033
121	4040	Clocks or Watches and Parts thereof	9101 to 9114
122	4041	Musical Instruments and Parts thereof	9201 to 9202; 9205 to 9209
123	4043	Medical or Vehicular or other Furniture and Mattress and parts thereof	9401 to 9404
124	4044	Lights and Fittings	9405
125	4045	Prefabricated Buildings	9406
126	4046	Toys, games and sports Equipments	9503 to 9508
127	4047	Stationery Items	9608 to 9612
128	4048	Miscellaneous manufactured articles	9601 to 9607; 9613 to 9614; 9617 to 9618

Notes:

- (a) The Product or Activity Groups referred to in Table-I & II above shall include all products/activities included in the corresponding CETA Chapter Headings mentioned therein irrespective of whether Central Excise Duty is levied or not.
- (b) In respect of those Product or Activity Groups mentioned in Table-I above corresponding to which no CETA Chapter Headings are applicable, the product/activity groups shall include all such activities that fall under the meaning of the respective product/activity group and are covered by the related Cost Accounting Records Rules mentioned in para 2 above.



- (c) *In case of all such activities that are covered under the Cost Accounting Records Rules mentioned in para 2 above that are also covered under cost audit but for which no Product or Activity Group has been indicated in Table-I above, companies would use the appropriate Product or Activity Group code as given in the notification issued vide S.O. 1747(E) dated 7th August, 2012.*
- (d) *Any company engaged in the production, processing or manufacturing of such inorganic or organic chemicals or any other substances that are primarily meant for pharmaceutical applications/use and are covered under the Cost Accounting Records (Pharmaceutical Industry) Rules 2011 shall be subject to cost audit as per the terms mentioned in para 2 above, irrespective of whether these are covered in the Product or Activity Groups mentioned in Table-II above.*
- (e) *Any company engaged in the storage, transportation or distribution of crude oil or gases or biogas or any or all types of petroleum products, and is covered by the Cost Accounting Records (Petroleum Industry) Rules, 2011 shall be subject to cost audit as per the terms mentioned in para 2 above.*
- (f) *Product Group No. 2008 – Electrical Energy mentioned in Table-I above would mean and be understood as generation of electrical energy or generation of electricity.*
- (g) *Product Group No. 1026 – Alcoholic Beverages mentioned in Table-II above would mean and include all products/activities covered in the Chapter Headings 2203 to 2208 of the Customs Tariff Act, 1975 (51 of 1975), excluding products of CETA Chapter Heading 2207 to the extent these are covered in the Cost Accounting Records (Sugar Industry) Rules, 2011.*
- (h) *In case of any Product or Activity Group where multiple units of measurement are in use for the products or activities covered therein, then the relevant Product or Activity Group shall be repeated against each unit of measurement separately.*
- (i) *Wherever same CETA Chapter Headings have been shown against two or more Product or Activity Groups, the actual details shall be shown against the most appropriate Product or Activity Group.*
4. Every company to which these orders apply shall get its cost accounting records audited in respect of each of its financial year commencing on or after the 1st day of January 2013, irrespective of whether the same was covered or not, either under the company specific cost audit orders issued prior to 31st March 2011 or under the industry specific cost audit orders issued after 1st April 2011 till date.
5. All companies that were earlier covered under industry specific orders dated 2nd May 2011 or 30th June 2011 or 24th January 2012 [subject to their meeting with the qualifying criteria



mentioned therein] shall continue to comply with the earlier orders upto the financial year commencing prior to the 1st day of January 2013 and in continuum, with these orders in respect of each of its financial year commencing on or after the 1st day of January 2013.

6. Every company to which these orders apply shall follow the revised procedure for appointment of cost auditor as laid down vide Ministry of Corporate Affairs' General Circular No. 15/2011 dated 11th April 2011 [as amended vide General Circular No. 36/2012 dated 6th November 2012].

7. The audit shall be conducted in such manner as will enable the cost auditor to prepare the report in accordance with the Companies (Cost Audit Report) Rules, 2011 read with the Companies (Filing of Documents and Forms in Extensible Business Reporting Language) Rules, 2011, both as amended. The report of the cost auditor shall be forwarded to the Central Government, either by himself or by the lead cost auditor, in the prescribed XBRL format within the time stipulated under the Companies (Cost Audit Report) Rules, 2011.

8. If a company contravenes any provisions of these orders, the company and every officer thereof who is found to be in default, including the persons referred to in sub-section (6) of section 209 of the Companies Act, 1956, shall be punishable as per provisions under sub-section (2) of section 642 read with sub-section (11) of section 233B of the Companies Act, 1956 (1 of 1956).

9. These orders are subject to various clarifications issued by the Ministry of Corporate Affairs on the subject of cost audit; to the extent these are relevant and applicable. Any specific exemptions granted earlier to certain class of activities shall remain in force till further orders.

(B.B.Goyal)
Adviser (Cost)

Copy to:

1. E-Governance Cell, Ministry of Corporate Affairs, Shastri Bhavan, New Delhi with a request to upload this order on the MCA's website.
2. The President, Institute of Cost Accountants of India, 12, Sudder Street, Kolkata – 700016 with a request to bring this order to the general information of all Members in practice and of the corporate sector.



General Circular No: 33/2012

No. HQ/MCA/Digitized/ARBS/2009-Pt2
Government of India
Ministry of Corporate Affairs

5th Floor, “A” Wing, Shastri Bhawan,
Dr. R.P. Road, New Delhi – 110001
Dated: 16.10.2012

To

The President
Institute of Chartered Accountants of India, Institute of Company
Secretaries of India and Institute of Cost Accountants of India

Subject: Quality of XBRL filing certified by Professional members.

Sir,

You are aware that XBRL filing of financial statements by a select class of companies for FY 2010-11 was mandated vide Ministry of Corporate Affairs Notification GSR No: 748(E) dated 05.10.2011. The e-forms were duly certified by CA/CS/CWA professionals for their completeness and correctness in representation with respect to audited financial statement of the company.

2. A random scrutiny of XBRL filing of financial statements by few companies to MCA for FY 2010-11 reveals significant variations in disclosures in published results and the XBRL filings due to ‘incorrect’ mapping of disclosures. It has been observed that few disclosures were ‘mapped/tagged’ with incorrect accounting concept despite availability of appropriate element in taxonomy. It has also been observed that provisions of “Block Text tagging” and/or “Footnote” have been inappropriately used to report disclosures, like subsidiary details, related party transactions, Director’s Report, etc., even when appropriate elements were available in the taxonomy for such disclosures. Few instances of “incorrect” tagging of XBRL documents are provided at Annexure-I.

3. Such filing are inaccurate and do not adequately represent true and fair view of the state of affairs of the company as per Section 211 of



the Companies Act, 1956. Such XBRL filings, apart from being misleading, also dilute the effectiveness of XBRL for stakeholders' usage relating to the companies. It is unfortunate that professionals have certified the authenticity of such incorrect data, for which they are liable to be penalized. Such lapses defeat the very purpose of introducing XBRL filings which are meant to elicit more detailed and refined information as to the affairs of companies. Please note that XBRL filings are being minutely scrutinized to see if similar mistakes also appear in a larger sample.

4. It is bounden duty of Institutes to direct its members to take necessary steps to improve the quality of XBRL filing for FY 2011-12 to be undertaken by its members. The Institute may conduct further trainings, issue guidelines, etc so that such quality related issues are appropriately resolved.

5. This may be accorded high priority.

Yours faithfully,

(Pankaj Srivastava)
Director

Encl: As above



GENERAL XBRL FILING ERRORS

Errors	Observation
Cash Flow Statement not tagged	The Cash Flow Statement for FY 2010-11 is available in the Audited Financial Statements (PDF file). However, the same has not been tagged in XBRL. Financial statements filed at MCA portal.
Information of all subsidiaries not provided in XBRL financial statements	Information about one Subsidiary has been tagged in XBRL financial statements whereas the Company had nine Subsidiaries.
Information of all related party transactions not provided in XBRL financial statements.	Related Party Disclosures have not been tagged in XBRL financial statement.
Parenthetical (additional disclosures) information not tagged in XBRL financial statements	Aggregate Market Value of Investments not provided by way of footnote. Additional information on Issued, Subscribed & Paid up Share Capital not explained by way of footnote.
Footnotes not tagged in XBRL financial statements.	Footnotes on Share Capital , Secured Loan , Reserve and Surplus , unsecured loan-Fixed deposits, Investment ,Fixed Assets ,Security deposit, etc have not been tagged . Footnote on “Investments” has not been given.
Different presentation in pdf and XBRL filings	The Annual Report presented before the shareholders the figures were presented in Rs. Thousands whereas in the XBRL documents the figures were provided in Rs. Lakhs.
Incorrect usage of Footnote	Director's Report provided by way of footnote whereas separate tags are available for tagging of Director's Report. Similarly, for Auditor's Report, Significant Accounting policies, Unsecured Loan, Current Liabilities, etc .Footnote has been incorrectly used.

INCORRECT USAGE OF TAGS

A. When appropriate taxonomy element is available

Line Item	Tag Used (label)	Correct Tag (label)
Secured Cash Credit from Banks	Term Loan	Working Capital Loan Banks Secured
Investment in Quoted Equity Shares	Unutilized Money	Equity Securities Long Term Quoted
Bad debts written off	Other Provisions Created	Bad debts Advances written off
Investment (Joint Venture)	Equity securities long-term unquoted non-trade	Investment joint ventures
Power and fuel expenses	Electricity expenses	Cost power fuel



Advertising and Brand marketing	Travelling conveyance	Advertising and promotional expenses
Travelling and conveyance	Legal professional charges	Travelling conveyance
Purchase/sale of Fixed Assets	Purchase other Assets, Proceed disposal other assets	Purchase tangible fixed Assets, Proceeds sale disposal tangible fixed assets

B. Incorrect tagging/inaccurate disclosures			
Line Item	Tag Used	Correct Tag	Remarks
Stock Differential (Decrease)/Increase	Not tagged separately	Increase decrease inventories	Clubbed with 'Other expenditure'.
Salaries, Wages & Bonus	Tagged as zero	Amount is 92,539,039	It is a mandatory tag. Clubbed with 'Other expenditure'
Power, Fuel, Water & Gas	Tagged as zero	Amount is 248,737,864	Clubbed with 'Other expenditure'
Manufacturing Cost	Tagged as zero		Clubbed with 'Other expenditure'. It is a manufacturing company.
RAW MATERIALS CONSUMED Opening Stock	Not tagged	Stock of Raw Materials, Opening Balance	Given as part of footnote to 'Raw Materials Consumed'
RAW MATERIALS CONSUMED Add: Purchases	Not tagged	Purchase raw materials during year	
RAW MATERIALS CONSUMED Less: Closing Stock	Not tagged	Stock of Row Materials, Closing Balance	
Deferred Tax Liability (Net)	Net Deferred Tax Assets	Deferred Tax Liability	Tagged with negative sign.
Deferred tax liabilities (Net)	Deferred tax liability depreciation	Deferred tax asset other, Deferred tax assets VRS payment, Deferred tax asset provision for doubtful debts, etc	Disaggregated disclosures all consolidated into 'Deferred tax liability depreciation'



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

GOVERNMENT OF INDIA
MINISTRY OF CORPORATE AFFAIRS
NOTIFICATION

New Delhi dated the 30th November, 2012

G.S.R. 869(E).- In exercise of the powers conferred by sub-section (1) of section 642 read with section 610B of the Companies Act, 1956 (1 of 1956), the Central Government hereby makes the following rules further to amend the Companies (Filing of Documents and Forms in Extensible Business Reporting Language) Rules, 2011, namely:-

1. (1) These rules may be called the Companies (Filing of Documents and Forms in Extensible Business Reporting Language) Second Amendment Rules, 2012.

(2) They shall come into force with effect from the, 2nd December, 2012.

2. In the Companies (Filing of Documents and Forms in Extensible Business Reporting Language) Rules, 2011, -

(a) for rule 4, the following rules shall be substituted, namely:-

“4. Filing of Balance Sheet and Profit and Loss Account with Registrar for financial year commencing on or after 1st April, 2011.- The following class of companies have to file their Balance Sheet, Profit and Loss Account and any other document as required under section 220 of the Companies Act, 1956 with the Registrar using the Extensible Business Reporting Language (XBRL) Taxonomy given in Annexure II for the financial year commencing on or after 1st April, 2011 with e-form No. 23AC-XBRL and 23ACA-XBRL specified under the Companies (Central Government) General Rules and Forms, 1956 namely:-

(i) all companies listed with any Stock Exchange(s) in India and their Indian

- subsidiaries; or
- (ii) all companies having paid up capital of rupees five crore and above; or
- (iii) all companies having turnover of rupees one hundred crore and above; or
- (iv) all companies covered under rule 3;

Provided that the companies in Banking, Insurance, Power Sectors and Non-Banking Financial companies are exempted for Extensible Business Reporting Language (XBRL) filing for the financial year commencing on or after 1st April, 2011.”

(b) after rule 4, the following rules shall be inserted, namely:-

“5. Filing of cost audit report with Central Government.- Every cost auditor or every lead cost auditor on behalf of all the cost auditors of a company, has to file its cost audit report and other documents as required under sub-section (4) of section 233B of the Act, and rules made thereunder with the Central Government using the Extensible Business Reporting Language (XBRL) Taxonomy given in Annexure III for the financial year commencing on or after the 1st day of April, 2011 (including the overdue reports relating to any previous financial year) with the Form I-XBRL specified under the Companies (Cost Audit Report) Rules, 2011.”

“6. Filing of compliance report with Central Government.- Every company has to file its compliance report and other documents as required under clause (d) of sub-section (1) of section 209 of the Act, and rules made thereunder with the Central Government using the Extensible Business Reporting Language (XBRL) Taxonomy given in Annexure III for the financial year commencing on or after the 1st day of April, 2011 with the Form A-XBRL specified under the Companies (Cost Accounting Records) Rules, 2011, Cost Accounting Records (Telecommunication Industry) Rules, 2011, Cost Accounting Records (Petroleum Industry) Rules, 2011, Cost Accounting Records (Electricity Industry) Rules, 2011, Cost Accounting Records (Sugar Industry) Rules, 2011, Cost Accounting Records (Fertilizer Industry) Rules, 2011, and Cost Accounting Records (Pharmaceutical Industry) Rules, 2011.”

(c) after Annexure II, the following Annexure shall be inserted, namely:-

“Annexure III



Extensible Business Reporting Language (XBRL) Taxonomy for Compliance Report and Cost Audit Report as required under section 209(1) (d) and 233B of the Companies Act, 1956 and rules made thereunder.”

[F No 17/161/2012-CL V]

B.B.Goyal
Adviser (Cost), Government of India

Note:- The principal notification was published in the Gazette of India, Part II, Section 3, Sub-section (i) vide number G.S.R 748 (E) dated the 5th October, 2011 and subsequently amended vide G.S.R. number 789(E) dated 12th October, 2012.



ESSENTIAL SECTIONS OF THE COMPANIES ACT, 1956

S. 209. Books of Account to be kept by company.

¹
[(1) Every company shall keep at its registered office proper books of account with respect to-

(a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure take place;

(b) all sales and purchases of goods by the company; ² [****]

(c) the assets and liabilities of the company; ³ [and]

³
[(d) in the case of a company pertaining to any class of companies engaged in production, processing, manufacturing or mining activities, such particulars relating to utilisation of material or labour or to other items of cost as may be prescribed, if such class of companies is required by the Central Government to include such particulars in the books of account:]

Provided that all or any of the books of account aforesaid may be kept at such other place in India the Board of Directors may decide and when the Board of directors so decides, the company shall, within seven days of the decision, file with the Registrar a notice in writing giving the full address of that other place.]

(2) Where a company has a branch office, whether in or outside India, the company shall be deemed to have complied with the provisions of sub-section (1), if proper books of account relating to the transactions effected at the branch office are kept at that office and proper summarised returns, made up to dates at intervals of not more than three months, are sent by the branch office to the company at its registered office or the other place referred to in sub-section (1).



⁴

[(3) For the purposes of sub-section (1) and (2), proper books of account shall not be deemed to be kept with respect to the matters specified therein,-

(a) if there are not kept such books as are necessary to give a true and fair view of the state of the affairs of the company or branch office, as the case may be, and to explain its transactions; and

(b) if such books are not kept on accrual basis and according to the double entry system of accounting.]

⁵

⁶ [(4) [****] The books of account and other books and papers shall be open to inspection by any director during business hours.

(b) to (d) ⁷ [** ** **]]

⁸

[(4A) The books of account of every company relating to a period of not less than eight years immediately preceding the current year ⁹ [together with the vouchers relevant to any entry in such books of account] shall be preserved in good order:

Provided that in the case of a company incorporated less than eight years before the current year, the books of account for the entire period preceding the current year ⁹ [together with the vouchers relevant to any entry in such books of account] shall be so preserved]

(5) If any of the persons referred to sub-section (6) fails to take all reasonable steps to secure compliance by the company with the requirements of this section, or has by his own willful act been the cause of any default by the company thereunder, he shall, in respect of each offence, be punishable with ¹⁰ [imprisonment for a term which may extend to six months, or with fine which may extend to ¹¹ [ten] thousand rupees, or with both] :

Provided that in any proceedings against a person in respect of an offence under this section consisting of a failure to take reasonable steps to secure compliance by the



company with the requirements of this section, it shall be a defence to prove ¹² [****] that a competent and reliable person was charged with the duty of seeing that those requirements were complied with and was in a position to discharge that duty :

¹³ [Provided further that no person shall be sentenced to imprisonment for any such unless it was committed willfully.]

(6) The persons referred to in sub-section (5) are the following namely ;-

¹⁴ [(a) where the company has a managing director or manager, such managing director or manager and all officers and other employees of the company; and]

¹⁵ (b) [****]

¹⁵ (c) [****]

¹⁶ (d) [where the company has neither a managing director nor manager, every director of the company.]

¹⁷ (e) [*****]

a) If any person, not being a person referred to in sub-section (6), having been charged by the ¹⁸ [****] ¹⁹ [managing director, manager] or Board of directors, as the case may be, with the duty of seeing that the requirements of this section are complied with, makes a default in doing so, he shall, in respect of each offence, be punishable with ²⁰ [imprisonment for a term which may extend to six months, or with fine which may extend to ²¹ [ten] thousand rupees or with both.]

1. Substituted for sub-section (1) by the Companies (Amendment) Act, 1960.

2. "and" omitted by the Companies (Amendment) Act ,1965, w.e.f. 15-10-1965.

3. Inserted, *ibid*.



4. Substituted by the Companies (Amendment) Act, 1988, w.e.f.15-6-1988.
5. Substituted by the Companies (Amendment) Act, 1965, w.e.f. 15-10-1965.
6. "(a)" omitted by the Companies (Amendment) Act, 1974, w.e.f. 1-2-1975.
7. Omitted, *ibid*.
8. Inserted by the Companies (Amendment) Act, 1960.
9. inserted by the Companies (Amendment) Act, 1965, w.e.f. 15-10-1965.
10. Substituted for "fine which may extend to one thousand rupees" by the Companies (Amendment) Act, 1960.
11. Substituted for "one" by the Companies (Amendment) Act, 2000, w.e.f.13-12-2000.
12. "that he had reasonable ground to believe and did believe" omitted by the Companies (Amendment) Act, 1960 .
13. Inserted *ibid*.
14. Substituted by the Companies (Amendment) Act, 2000 , w.e.f. 13-12-2000. Prior to its substitution, clause (a), was amended by the Companies (Amendment) Act, 1960 and the Companies (Amendment) Act, 1965 w.e.f. 15-10-1965.
15. Clauses (b) and (c) omitted by the Companies (Amendment) Act, 2000, w.e.f. 13.12.2000. Prior to omission, clause (b) and clause (c) were amended by the Companies (Amendment) Act, 1960.
16. Substituted by the 'Companies (Amendment) Act, 2000, w.e.f. 13- 12.2000. Prior to its substitution, clause (d), was amended by the Companies (Amendment) Act, 1960 and Companies (Amendment) Act, 1965, w.e.f. 15-10-1965.
17. Omitted by the Companies (Amendment) Act, 2000, w.e.f. 13-12- 2000. Prior to its omission,



clause (e), was inserted by the Companies (Amendment) Act, 1965 w.e.f. 15-10-1965.

18. Words "managing agent, secretaries and treasurers" omitted by the Companies(Amendment) Act, 2000, w.e.f. 13-12-2000.

19. Inserted by the Companies (Amendment) Act, 1960.

20. Substituted for "fine which may extend to one thousand rupees", *ibid*.

21. Substituted for "one"by the Companies (Amendment) Act, 2000, w.e.f. 1-2-1975.

¹
S. 209A. [Inspection of books of account, etc., of companies.-

(1) The books of account and other books and papers of every company shall be open to inspection during business hours-

(i) by the Registrar, or

²
[(ii) by such officers of the Government as may be authorised by the Central Government in this behalf;

(iii) by such officers of the Securities and Exchange Board of India as may be authorised by it:

Provided that such inspection may be made without giving any previous notice to the company or any officer thereof:

Provided further that the inspection by the Securities and Exchange Board of India shall be made in respect of matters covered under sections referred to in section 55A.]

(2) It shall be the duty of every director, other officer or employee of the company to produce to the person making inspection under sub-section (1), all such books of account and other books and papers of the company in his custody or control and to furnish him with any statement, information or explanation relating to the affairs of the



company as the said person may require of him within such time and at such place as he may specify.

(3) It shall also be the duty of every director, other officer or employee of the company to give to the person making inspection under this section all assistance in connection with the inspection which the company may be reasonably expected to give.

(4) The person making the inspection under this section may, during the course of inspection. -

(i) make or cause to be made copies of books of account and other books and papers, or

(ii) place or cause to be placed any marks of identification thereon in token of the inspection having been made.

(5) Notwithstanding anything contained in any other law for the time being in force or any contract to the contrary, any person making an inspection under this section shall have the same powers as are vested in a Civil Court under the Code of Civil Procedure, 1908(5 of 1908), while trying a suit, in respect of the following matters, namely:-

(i) the discovery and production of books of account and other documents at such place and such time as may be specified by such person;

(ii) summoning and enforcing the attendance of persons and examining them on oath;

(iii) inspection of any books, registers and other documents of the company at any place.

(6) Where an inspection of the books of account and other books and papers of the company has been made under this section, the person making the inspection shall make a report to the Central Government ³ [or the Securities and Exchange Board of India in respect of inspection made by its officers.]

(7) Any officer authorised to make an inspection under this section shall have all the powers that a Registrar has under this Act in relation to the making of inquiries.

(8) If default is made in complying with the provisions of this section, every officer of the company who is in default shall be punishable with fine which shall not be less than ⁴ [fifty] thousand rupees, and also with imprisonment for a term not exceeding one year.

(9) Where a director or any other officer of a company has been convicted of an offence under this section he shall, on and from the date on which he is so convicted, be deemed to have vacated his office as such and on such vacation of office, shall be disqualified for holding such office in any company, for a period of five years from such date.]

1. Inserted by Companies (Amendment) Act, 1974 w.e.f. 1-2-1975.

2. Substituted for the following clause (ii) and the proviso substituted by the Companies (Amendment) Act, 2000, w.e.f. 13-12-2000):

"(ii) by such officer of Government as may be authorised by the Central Government in this behalf:

Provided that such inspection may be made without giving any previous notice to the company or any officer thereof."

3. Inserted by the Companies (Amendment) Act, 2000, w.e.f. 13-12-2000.

4. Substituted for "five", *ibid*.

S. 210. Annual accounts & Balance-Sheet

(1) At every annual general meeting of a company held in pursuance of Section 166, the Board of directors of the company shall lay before the company-

(a) a balance sheet as at the end of the period specified in sub-section (3); and

(b) a profit and loss account for that period.

(2) In the case of a company not carrying on business for profit, an income and expenditure account shall be laid before the company at its annual general meeting instead of a profit and loss account, and all references to "profit and loss account",



"profit" and "loss" in this section and elsewhere in this Act, shall be construed, in relation to such a company, as references respectively to the "income and expenditure account", "the excess of income over expenditure", and "the excess of expenditure over income".

(3) The profit and loss account shall relate-

(a) in the case of the first annual general meeting of the company, to the period beginning with the incorporation of the company and ending with a day which shall not precede the day of the meeting by more than nine months; and

¹
[b] in the case of any subsequent annual general meeting of the company, to the period beginning with the day immediately after the period for which the account was last submitted and ending with a day which shall not precede the day of the meeting by more than six months, or in cases where an extension of time has been granted for holding the meeting under the second proviso to sub-section(1) of section 166, by more than six months and the extension so granted.]

(4) The period to which the account aforesaid relates is referred to in this Act as a "financial year"; and it may be less or more than a calendar year, but it shall not exceed fifteen months:

Provided that it may extend to eighteen months where special permission has been granted in that behalf by the Registrar.

(5) If any person, being a director of a company, fails to take all reasonable steps to comply with the provisions of this section, he shall, in respect of each offence, be punishable with imprisonment for a term which may extend to six months, or with fine which may extend to ² [ten] thousand rupees, or with both:

Provided that in any proceedings against a person in respect of an offence under this section, it shall be a defence to prove ³ [****] that a competent and reliable person was charged with the duty of seeing that the provisions of this section were complied with and was in a position to discharge that duty :

Provided further that no person shall be sentenced to imprisonment for any such offence unless it was committed willfully.

(6) If any person, not being a director of the company, having been charged by the Board of directors with the duty of seeing that the provisions of this section are complied with, makes default in doing so, he shall, in respect of each offence, be punishable with imprisonment for a term which may extend to six months, or with fine which may extend to ² [ten] thousand rupees, or with both:

Provided that no person shall be sentenced to imprisonment for any such offence unless it was committed wilfully.

1. Substituted by the Companies (Amendment) Act, 1960 .
 2. Substituted for "one" by the Companies (Amendment) Act, 2000, w.e.f. 13-12-2000.
 3. "that he had reasonable ground to believe, and did believe," omitted by the Companies (Amendment) Act, 1960.
-

S.224. Appointment and remuneration of auditors.

¹ [(1) Every company shall, at each annual general meeting, appoint an auditor or auditors to hold office from the conclusion of that meeting until the conclusion of the next annual general meeting and shall, within seven days of the appointment, give intimation thereof to every auditor so appointed. ² [* * * *]:

³ [**Provided** that before any appointment or re-appointment of auditor or auditors is made by any company at any annual general meeting, a written certificate shall be obtained by the company from the auditor or auditors proposed to be so appointed to the effect that the appointment or re-appointment, if made, will be in accordance with the limits specified in sub-section (1B).]

(IA)Every auditor appointed under sub-section (1) ² [* * * *] shall within thirty days of the receipt from the company of the intimation of his appointment, inform the Registrar in writing that he has accepted, or refused to accept, the appointment.]



³

[(1B) On and from the financial year next following the commencement of the Companies (Amendment) Act, 1974, no company or its Board of directors shall appoint or re-appoint any person ⁴ [who is in full-time employment elsewhere) or firm as its auditor if such person or firm is, at the date of such appointment or re-appointment, holding appointment as auditor of the specified number of companies or more than the specified number of companies:

⁵

[**Provided** that in the case of a firm of auditors, "specified number of companies" shall be construed as the number of companies specified for every partner of the firm who is not in full-time employment elsewhere]:

Provided further that where any partner of the firm is also a partner of any other firm or firms of auditors, the number of companies which may be taken into account, by all the firms together, in relation to such partner shall not exceed the specified number in the aggregate:]

Provided also that where any partner of a firm of auditors is also holding office, in his individual capacity, as the auditor of one or more companies, the number of companies which may be taken into account in his case shall not exceed the specified number, in the aggregate:

⁶

[**Provided also** that the provisions of this sub-section shall not apply, on and after the commencement of the Companies (Amendment) Act, 2000, to a private company.]

(1C) For the purposes of enabling a company to comply with the provisions of sub-section (1B), a person or firm holding, immediately before the commencement of the Companies (Amendment) Act, 1974, appointment as the auditor of a number of companies exceeding the specified number, shall, within sixty days from such commencement, intimate his or its unwillingness to be re-appointed as the auditor from the financial year next following such commencement, to the company or companies of which he or it is not willing to be re-appointed as the auditor; and shall simultaneously intimate to the Registrar the names of the companies of which he or it is willing to be re-appointed as the auditor and forward a copy of the intimation to each of the companies referred to therein.



Explanation I-For the purposes of sub-sections (1B) and (1C), "specified number" means,-

(a) in the case of a person or firm holding appointment as auditor of a number of companies each of which has a paid-up share capital of less than rupees twenty-five lakhs, twenty such companies;

(b) in any other case, twenty companies, out of which not more than ten shall be companies each of which has a paid-up share capital of rupees twenty-five lakhs or more.

Explanation II -In computing the specified number, the number of companies in respect of which or any part of which any person or firm has been appointed as an auditor, whether singly or in combination with any other person or firm, shall be taken into account.]

⁷
(2) [Subject to the provisions of sub-section (1B) and section 224A at any annual general meeting], a retiring auditor, by whatsoever authority appointed, shall be re-appointed, unless-

(a) he is not qualified for re-appointment;

(b) he has given the company notice in writing of his unwillingness to be re-appointed;

(c) a resolution has been passed at that meeting appointing somebody instead of him or providing expressly that he shall not be re-appointed; or

(d) where notice has been given of an intended resolution to appoint some person or persons in the place of a retiring auditor, and by reason of the death, incapacity or disqualification of that person or of all those persons, as the case may be, the resolution cannot be proceeded with.

(3) Where at an annual general meeting no auditors are appointed or re-appointed, the Central Government may appoint a person to fill the vacancy.

(4) The company shall, within seven days of the Central Government's power under sub-



section (3), becoming exercisable, give notice of that fact to that Government; and if a company fails to give such notice, the company, and every officer of the company who is in default, shall be punishable, with fine which may extend to ⁸ [five thousand] rupees.

(5) The first auditor or auditors of a company shall be appointed by the Board of directors within one month of the date of registration of the company; and the auditor or auditors so appointed shall hold office until the conclusion of the first annual general meeting:

Provided that-

(a) the company may, at a general meeting, remove any such auditor or all or any of such auditors and appoint in his or their places any other person or persons who have been nominated for appointment by any member of the company and of whose nomination notice has been given to the members of the company not less than fourteen days before the date of the meeting; and

(b) if the Board fails to exercise its powers under this sub-section, the company in general meeting may appoint the first auditor or auditors.

(6) (a) The Board may fill any casual vacancy in the office of an auditor, but while any such vacancy continues, the remaining auditor or auditors, if any, may act:

Provided that where such vacancy is caused by the resignation of an auditor, the vacancy shall only be filled by the company in general meeting.

(b) Any auditor appointed in a casual vacancy shall hold office until the conclusion of the next annual general meeting.

(7) Except as provided in the proviso to sub-section (5), any auditor appointed under this section may be removed from office before the expiry of his term only by the company in general meeting, after obtaining the previous approval of the Central Government in that behalf.

(8) The remuneration of the auditors of a company-



(a) in the case of an auditor appointed by the Board or the Central Government, may be fixed by the Board or the Central Government, as the case may be;

⁹
[(aa) in the case of an auditor appointed under section 619 by the Comptroller and Auditor-General of India, shall be fixed by the company in general meeting or in such manner as the company in general meeting may determine; and]

(b) subject to clause (a), shall be fixed by the company in general meeting or in such manner as the company in general meeting may determine.

For the purposes of this sub-section, any sums paid by the company in respect of the auditors' expenses shall be deemed to be included in the expression "remuneration".

1. Substituted for sub-section (1) by the Companies (Amendment) Act, 1960 .
 2. "unless he is a retiring auditor" omitted by the Companies (Amendment) Act, 1974, w.e.f.1-2-1975).
 3. Inserted, *ibid*.
 4. Inserted by the Companies (Amendment) Act 1988, w.e.f. 15-6-1988.
 5. Substituted, *ibid*.
 6. Inserted by the Companies (Amendment) Act, 2000, w.e.f.13-12-2000.
 7. Substituted for "At any annual general meeting" by the Companies (Amendment) Act, 1974, w.e.f. 1-2-1975.
 8. Substituted for "five hundred rupees" substituted by the Companies (Amendment) Act, 2000, w.e.f. 13.12.2000.
 9. Inserted by the Companies (Amendment) Act, 2000, w.e.f.13-12-2000.
-

S.226. Qualifications and Disqualifications of Auditors.



(1) A person shall not be qualified for appointment as auditor of a company unless he is a chartered accountant within the meaning of the Chartered Accountants Act, 1949 (38 of 1949):

Provided that a firm whereof all the partners practising in India are qualified for appointment as aforesaid may be appointed by its firm name to be auditor of a company, in which case any partner so practising may act in the name of the firm.

(2) (a) Notwithstanding anything contained in sub-section (1), but subject to the provisions of any rules made under clause (b), the holder of a certificate granted under a law in force in the whole or any portion of a Part B State immediately before the commencement of the Part B States (Laws) Act, 1951 (3 of 1951).¹ [or of the Jammu and Kashmir (Extension of Laws) Act, 1956 (62 of 1956), as the case may be,] entitling him to act as an auditor of companies²⁶ [in the territories which, immediately before the 1st November, 1956 were comprised] in that State or any portion thereof, shall be entitled to be appointed to act as an auditor of companies registered anywhere in³ [India].

(b) The Central Government may, by notification in the Official Gazette, make rules providing for the grant, renewal, suspension or cancellation of auditors' certificates to persons in² [the territories which, immediately before 1st November, 1956, were comprised in] Part B States for the purposes of clause (a), and prescribing conditions and restrictions for such grant, renewal, suspension or cancellation.

(3) None of the following persons shall be qualified for appointment as auditor of a company-

(a) a body corporate;

(b) an officer or employee of the company;

(c) a person who is a partner, or who is in the employment, of an officer or employee of the company;



(d) a person who is indebted to the company for an amount exceeding one thousand rupees, or who has given any guarantee or provided any security in connection with the indebtedness of any third person to the company for an amount exceeding one thousand rupees;

⁴
[(e) a person holding any security of that company after a period of one year from the date of commencement of the Companies (Amendment) Act, 2000.

Explanation: For the purposes of this section, "security" means an instrument which carries voting rights.]

Explanation: References in this sub-section to an officer or employee shall be construed as not including references to an auditor.

(4) A person shall also not be qualified for appointment as auditor of a company if he is, by virtue of sub-section (3), disqualified for appointment as auditor of any other body corporate which is that company's subsidiary or holding company or a subsidiary of that company's holding company, or would be so disqualified if the body corporate were a company.

(5) If an auditor becomes subject, after his appointment, to any of the disqualifications specified in sub-sections (3) and (4), he shall be deemed to have vacated his office as such.

1. Inserted by J & K (Extension of Laws) Act, 1956.

2. Inserted by the Adaptation of Laws (No. 3) Order, 1956.

3. Substituted for "those territories" by the Companies (Amendment) Act, 1960.

4. Subs. by the A.O. (No.3) 1956 for "Part B States".

5. Clauses (e) and (f) and proviso substituted by the Companies (Amendment) Act, 2000 . Prior to its substitution it stood as under:-



(e) a person who is a director or member of a private company, or a partner of a firm, which is the managing agent or the secretaries and treasurers of the company;

(f) a person who is a director, or the holder of share exceeding five per cent, in nominal value of the subscribed capital, of any body corporate which is the managing agent or the secretaries and treasurers, of the company:

Provided that any shares held by such person as nominee or trustee for any third person and in which the holder has no beneficial interest shall be excluded in computing the percentage of shares held by him for the purpose of this clause.

S.227. Powers and duties of auditors.

(1) Every auditor of a company shall have a right of access at all times to the books and accounts and vouchers of the company, whether kept at the head office of the company or else-where, and shall be entitled to require from the officers of the company such information and explanations as the auditor may think necessary for the performance of his duties as auditor.

¹

[(1A) Without prejudice to the provisions of sub-section (1), the auditor shall inquire-

(a) whether loans and advances made by the company on the basis of security have been properly secured and whether the terms on which they have been made are not prejudicial to the interests of the company or its members;

(b) whether transactions of the company which are represented merely by book entries are not prejudicial to the interests of the company;

(c) where the company is not an investment company within the meaning of section 372 or a banking company, whether so much of the assets of the company as consist of shares, debentures and other securities have been sold at a price less than that at which they were purchased by the company;

(d) whether loans and advances made by the company have been shown as deposits;

(e) whether personal expenses have been charged to revenue account;



(f) where it is stated in the books and papers of the company that any shares have been allotted for cash, whether cash has actually been received in respect of such allotment, and if no cash has actually been so received, whether the position as stated in the account books and the balance-sheet is correct, regular and not misleading.]

(2) The auditor shall make a report to the members of the company on the accounts examined by him, and on every balance-sheet and profit and loss account and on every other document declared by this Act to be part of or annexed to the balance-sheet or profit and loss account, which are laid before the company in general meeting during his tenure of office, and the report shall state whether, in his opinion and to the best of his information and according to the explanations given to him, the said accounts give the information required by this Act in the manner so required and give a true and fair view-

(i) in the case of the balance sheet, of the state of the company's affairs as at the end of its financial year; and

(ii) in the case of the profit and loss account, of the profit or loss for its financial year.

(3) The auditor's report shall also state-

(a) whether he has obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purposes of his audit;

(b) whether, in his opinion, proper books of account as required by law have been kept by the company so far as appears from his examination of those books, and proper returns adequate for the purposes of his audit have been received from branches not visited by him;

²
[(bb) whether the report on the accounts of any branch office audited under section 228 by a person other than the company's auditor has been forwarded to him as required by clause (c) of sub-section (3) of that section and how he has dealt with the same in preparing the auditor's report;]

(c) whether the company's balance sheet and profit and loss account dealt with by



the report are in agreement with the books of account and returns;

³
[(d) whether, in his opinion, the profit and loss account and balance-sheet comply with the accounting standards referred to in sub- section (3C) of section 211;]

⁴
[(e) in thick type or in italics the observations or comments of the auditors which have any adverse effect on the functioning of the company;

(f) whether any director is disqualified from being appointed as director under clause (g) of sub-section (1) of section 274;]

^{4a}
[(g) whether the cess payable under section 441A has been paid and if not, the details of amount of cess not so paid]

(4) Where any of the matters referred to in clauses [i] and (ii) of sub-section (2) or in clauses (a), (b), ⁵ [(bb)], ⁶ [(c) and (d)] of sub-section (3) is answered in the negative or with a qualification, the auditor's report shall state the reason for the answer.

⁷
[(4A) The Central Government may, by general or special order, direct that, in the case of such class or description of companies as may be specified in the order, the auditor's report shall also include a statement on such matters as may be specified therein:

Provided that before making any such order the Central Government may consult the Institute of Chartered Accountants of India constituted under the Chartered Accountants Act, 1949(38 of 1949), in regard to the class or description of companies and other ancillary matters proposed to be specified therein unless the Government decides that such consultation is not necessary or expedient in the circumstances of the case].

⁸
[(5)The accounts of a company shall not be deemed as not having been, and the auditor's report shall not state that those accounts have not been, properly drawn up on the ground merely that the company has not disclosed certain matters if-



(a) those matters are such as the company is not required to disclose by virtue of any provisions contained in this or any other Act, and

(b) those provisions are specified in the balance-sheet and profit and loss account of the company.]

1. Inserted by the Companies (Amendment) Act, 1965, w.e.f. 15-10-1965.

2. Inserted by the Companies (Amendment) Act, 1960 .

3. Inserted by the Companies (Amendment) Act, 1999, w.e.f. 31-10-1998.

(12) Inserted by the Companies (Amendment) Act, 2000, w.e.f 13-12- 2000.

4a. Inserted by the Companies (Second Amendment) Act, 2002, w.e.f . a date yet to be notified.

5. Inserted by the Companies (Amendment) Act, 1960.

6. Substituted for "and (c)" by the Companies (Amendment) Act, 1999, w.e.f. 31-10-1998.

7. Inserted by the Companies (Amendment) Act, 1965, w.e.f. 15-10-1965.

8. Substituted by the Companies (Amendment) Act, 1960.

¹
[S.233B. Audit of Cost accounts in certain cases.

(1) Where in the opinion of the Central Government it is necessary so to do in relation to any company required under clause (d) of sub-section (1) of Section 209 to include in its books of account the particulars referred to therein, the Central Government may, by order, direct that an audit of cost accounts of the company shall be conducted in such manner as may be specified in the order by an auditor ² [who shall be a cost accountant within the meaning of the Cost and Works Accountants Act. 1959:



Provided that if the Central Government is of opinion that sufficient number of cost accountants within the meaning of the Cost and Works Accountants Act, 1959(23 of 1959), are not available for conducting the audit of the cost accounts of companies generally, that Government may, by notification in the Official Gazette direct that, for such period as may be specified in the said notification, such chartered accountant within the meaning of the Chartered Accountants Act, 1949(38 of 1949), as possesses the prescribed qualifications, may also conduct the audit of the cost accounts of companies, and thereupon a chartered accountant possessing the prescribed qualifications may be appointed to audit the cost accounts of the company.]

³
[(2) The auditor under this section shall be appointed by the Board of directors of the company ⁴ [in accordance with the provisions of sub-section (1B) of section 224 and] with the previous approval of the Central Government:]

⁴
[**Provided** that before the appointment of any auditor is made by the Board, a written certificate shall be obtained by the Board from the auditor proposed to be so appointed to the effect that the appointment, if made, will be in accordance with the provisions of sub-section (1B) of section 224.]

(3) An audit conducted by an auditor under this section shall be in addition to an audit conducted by an auditor appointed under section 224.

(4) An auditor shall have the same powers and duties in relation to an audit conducted by him under this section as an auditor of a company has under sub-section (1) of section 227 and such auditor shall make his report to the ⁵ [Central Government] in such form and within such time as may be prescribed and shall also at the same time forward a copy of the report to the Company.]

⁶
[(5) (a) A person referred to in sub-section (3) or sub-section (4) of section 226 shall not be appointed or re-appointed for conducting the audit of the cost accounts of a company.

(b) A person appointed, under section 224, as an auditor of a company, shall not be appointed or re-appointed for conducting the audit of the cost accounts of that



company.

(c) If a person, appointed for conducting the audit of cost accounts of a company, become subject, after his appointment, to any of the disqualifications specified in clause (a) or clause (b) of this sub-section, he shall, on and from the date on which he becomes so subject, cease to conduct the audit of the cost accounts of the company.

(6) Upon receipt of an order under sub-section (1), it shall be the duty of the company to give all facilities and assistance to the person appointed for conducting the audit of the cost accounts of the company.

(7) The company shall, within thirty days from the date of receipt of a copy of the report referred to in sub-section (4), furnish the Central Government with full information and explanations on every reservation or qualification contained in such report.

(8) If, after considering the report referred to in sub-section (4) and the information and explanations furnished by the company under sub-section (7), the Central Government is of opinion that any further information or explanation is necessary, that Government may call for such further information and explanation and thereupon the company shall furnish the same within such time as may be specified by that Government.

(9) On receipt of the report referred to in sub-section (4) and the informations and explanations furnished by the company under sub-sections (7) and (8), the Central Government may take such action on the report, in accordance with the provisions of this Act or any other law of the time being in force, as it may consider necessary.

(10) The Central Government may direct the company whose cost accounts have been audited under this section to circulate to its members, along with the notice of the annual general meeting to be held for the first time after the submission of such report, the whole or such portion of the said report as may specify in this behalf.

(11) If default is made in complying with the provisions of this section, the company shall be liable to be punished with fine which may extend to five thousand rupees, and every officer of the company who is in default, shall be liable to be punished with imprisonment for a term which may extend to three years. or with fine which may



⁷
extend to [fifty] thousand rupees, or with both.]

1. Inserted by the Companies (Amendment) Act, 1965, w.e.f. 15-10-1965.
 2. Substituted by the Companies (Amendment) Act, 1974, w.e.f. 1-2-1975.
 3. Substituted by the Companies (Amendment) Act, 1974, w.e.f. 1-2-1975.
 4. Inseted by the Companies (Amendment) Act, 1988, w.e.f. 15-6-1988.
 5. Substituted for "Company Law Board" Substituted by the Companies (Amendment) Act, 1974, w.e.f. 1-2-1975.
 6. Inseted, *ibid*.
 7. Substituted for "five" by the Companies (Amendment) Act, 2000, w.e.f. 13-12-2000.
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¹
[s. 292A. Audit Committee.-

(1) Every public company hav ing paid-up capital of not less than five crores of rupees shall constitute a committee of the Board known as "Audit Committee" which shall consist of not less than three directors and such number of other directors as the Board may determine of which two-thirds of the total number of members shall be directors, other than managing or whole-time directors.

(2) Every Audit Committee constituted under sub-section (1) shall act in accordance with terms
of reference to be specified in writing by the Board.

(3) The members of the Audit Committee shall elect a chairman from amongst themselves.

(4) The Annual Report of the company shall disclose the composition of the Audit Committee.



(5) The auditors, the internal auditor, if any, and the director-in-charge of finance shall attend and participate at meetings of the Audit Committee but shall not have the right to vote.

(6) The Audit Committee should have discussions with the auditors periodically about internal control systems, the scope of audit including the observations of the auditors and review the half-yearly and annual financial statements before submission to the Board and also ensure compliance of internal control systems.

(7) The Audit Committee shall have authority to investigate into any matter in relation to the items specified in this section or referred to it by the Board and for this purpose, shall have full access to information contained in the records of the company and external professional advice, if necessary.

(8) The recommendations of the Audit Committee on any matter relating to financial management, including the audit report, shall be binding on the Board.

(9) If the Board does not accept the recommendations of the Audit Committee, it shall record the reasons therefor and communicate such reasons to the shareholders.

(10) The chairman of the Audit Committee shall attend the annual general meetings of the company to provide any clarification on matters relating to audit.

- If a default is made in complying with the provisions of this section, the company, and every officer who is in default, shall be punishable with imprisonment for a term which may extend to one year, or with fine which may extend to fifty thousand rupees, or with both.].

1. Inserted by the Companies (Amendment) Act, 2000, w.e.f. 13-12-2000.

S.642 Power of Central Government to make rules

(1) In addition to the powers conferred by section 641, the Central Government may, by notification in the Official Gazette, make rules-



(a) for all or any of the matters which by this Act are to be, or may be, prescribed by the Central Government; and

(b) generally to carry out the purposes of this Act.

¹ [(2) Any rule made under sub-section (1) may provide that a contravention thereof shall be punishable with fine which may extend to ² [five thousand] rupees and where the contravention is a continuing one, with a further fine which may extend to ³ [five hundred] rupees for every day after the first during which such contravention continues.

(3) Every rule made by the Central Government under sub-section (1) shall be laid as soon as may be after it is made before each House of Parliament while it is in session for a total period of thirty days which may be ⁹⁴ [comprised in one session or in two or more successive sessions, and if, before the expiry of the session immediately following the session or the successive sessions aforesaid,] both Houses agree in making any modification in the rule or both Houses agree that the rule should not be made. the rule shall thereafter have effect only in such modified form or be of no effect, as the case may be, so, however, that any such modification or annulment shall be without prejudice to the validity of anything previously done under that rule.]

⁵ [(4) Every regulation made by the Securities and Exchange Board of India under this Act shall be laid, as soon as may be after it is made, before each House of Parliament, while it is in session, for a total period of thirty days which may be comprised in one session or in two or more successive sessions, and if, before the expiry of the session immediately following the session or the successive sessions aforesaid, both Houses agree in making any modification in the regulation or both Houses agree that the regulation should not be made, the regulation shall thereafter have effect only in such modified form or be of no effect, as the case may be; so, however, that any such modification or annulment shall be without prejudice to the validity of anything previously done under that regulation.]

1. Substituted for sub-sections (2) and (3) by the Companies (Amendment) Act, 1960.



2. Substituted for "five hundred rupees" by the Companies (Amendment) Act, 2000, w.e.f.13-12-2000.
 3. Substituted for "fifty", *ibid*.
 4. Substituted by the Companies (Amendment) Act, 1974, w.e.f. 1-2-1975.
 5. Inserted by the Companies (Amendment) Act, 1999, w.e.f. 31-10-1998.
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