Suggestions and Justifications

On

The Companies (Cost Records and Audit) Rules, 2014

4th September 2014

The Institute of Cost Accountants of India

(Statutory body under an Act of Parliament)

Index

Executive Summary of

Suggestions and Justifications on the

Companies (Cost Records and Audit) Rules, 2014

Ministry of Corporate Affairs (MCA) notified the Companies (Cost Records and Audit) Rules, 2014 on June 30, 2014. Till date, these rules could not be made operational owing to large number of drafting and conceptual errors. The suggestions of the Institute of Cost Accountants of India appended below are based on the basic premise of maintenance of principle based cost accounting records as distinct from a rule based approach. Major areas of inherent operational defects and deficiencies listed below have been addressed in our suggestions.

Errors relating to Principles

- The rules named sector descriptions taken from the Central Excise Tariff Code without mentioning the corresponding codes and in many places the descriptions were restricted by additional provisions. **All manufacturing sectors have now been linked to the respective Central Excise Tariff Code for easy and certain identification.**

- Normally, the turnover is 5 times the net worth and not vice versa as has been put forth in the Rules. The prescription of high net worth and low turnover is not equitable. For example, providing for net worth of the company as rupees one hundred and fifty crore or more with a corresponding turnover of rupees twenty five crore or more is not principally correct. Further, different permutation and combination of threshold limits made the Rules extremely confusing and complicated.

  We have suggested a rationalised approach of uniform separate threshold limits for maintenance of cost accounting records and applicability of cost audit.

  The threshold limits suggested for maintenance of cost accounting records are:

  ✓ **Companies engaged in production of goods**: net worth of ten crores of rupees or turnover of twenty five crores of rupees, or wherein the company's equity or preference or debt securities are listed or are in the process of listing on any stock exchange.

  ✓ **Companies engaged in specified services**: net worth of five crores of rupees or turnover of ten crores of rupees, or wherein the company's equity or preference or debt securities are listed or are in the process of listing on any stock exchange.

  ✓ **Exemption:** case of a multi-product or multi-service Company products or services covered under these Rules to be at least 5% of the total turnover of the company or rupees twenty five crore in respect of products or rupees ten crore in case of services, as the case may be, whichever is less.

  The threshold limits suggested for cost audit are:

  ✓ Strategic and Other Industries: turnover of rupees one hundred crore.

  ✓ Regulated Sector Industries: turnover of rupees twenty five crore.

  ✓ Companies engaged in medical products or devices: turnover of rupees ten crore.

- The 2014 rules have re-introduced the old mechanism for maintenance of cost accounting records and have incorporated cost element-wise instructions and fixed format in CRA-1 that cannot be universally made applicable to all classes of companies; least the services sector companies.

  It has been suggested that the cost accounting records be made applicable for a company on the basis of cost accounting standards and generally accepted cost accounting principles thereby enabling the company to maintain the required books and records depending on its nature and size if business.

- It is not clear whether the exemption to special economic zone includes EOU's as well. EOU's are allowed to sell up to 50% in domestic market. Hence the logic behind providing such an exemption is not clear. **It has been suggested to delete these clauses.**

Errors relating to Coverage

- Coverage has no logic and has not been properly specified.

- The rules failed to cover all the regulated industries and the mandate of regulatory bodies referred to in the rules is highly restricted within the same sector. Though the rules intend to cover companies engaged in an industry regulated by a Sectorial Regulator or a Ministry or Department of Central Government, it is silent about the sectors covered under different Ministries of the Government.

- Product or service specific turnover criteria as prescribed in the rules would lead to exclusion of every company otherwise intended to be covered under these clauses. **It has been suggested to delete the product specific turnover limits.**

- Having an individual product turnover limit of Rs. 50 crore in multi-product cases and Rs. 25 crore for single product company is not equitable and contradictory. **It has been suggested to delete the product specific turnover limits.**

Errors relating to Drafting

- Since inception of cost audit, cost accounting records rules and cost audit report rules have been kept separate. **Though we have provided our suggestions on the basis of such combined rules, it is suggested that separating the two should be considered.**

- The word "such as" has been used in the context of Strategic Industry and Public Interest while specifying industry/sectors under these categories. Use of words "such as" is always illustrative and not exhaustive. Such a clause would mean that the sectors are only illustrative and any other sector falling under these categories can be included within the purview of the Rules. This may not be the intention of the rules.

- Product description is very vague without proper definition. Under the erstwhile product specific cost accounting records rules, each rule contained an application clause defining the products. However, with the introduction of common records rules, it is imperative that the products are linked to the

Central Excise Tariff Codes for proper and exact identification without any ambiguity. **The suggestions below have linked all the sectors to the respective Central Excise Tariff Codes.**

- Rules do not specify for which year the prescribed threshold limits of net worth and turnover are to be considered for deciding the applicability to a company. **The suggested threshold limits have been now defined with respect to the audited accounts of the immediately preceding financial year.**

- Following terms are not defined in the rules. **We have included the following definitions**:

  - ✓ Cost Accountant
  - ✓ Cost Accounting Standards
  - ✓ Cost Record Report
  - ✓ Generally Accepted Cost Accounting Principles
  - ✓ Providing services
  - ✓ Product
  - ✓ Product Group
  - ✓ Production of Goods
  - ✓ Service

<u>Errors relating to Forms and Formats</u>

- The rules do not contain clear provisions relating to cost auditors' appointment, remuneration, rotation, resignation, removal, re-appointment, period of holding of office etc. Nor they specify the compliance & monitoring mechanism with the Central Government. **New clauses have been suggested for these.**

- The reporting format of the rules is not XBRL compliant. **We have suggested reporting format which is XBRL compliant and avoids duplication of financial information as a part of cost audit report that was existing earlier**.

- **The cost audit reporting format is now geared to Product Group reporting instead of unit-wise and product-wise reporting. This will avoid leakage of confidential and strategic information of the companies that would be detrimental to their competitive advantage.**

In the suggestions below, the existing provisions are given in normal type. The suggestions and modifications are provided in italics.

Suggestions and Justifications on the

Companies (Cost Records and Audit) Rules, 2014

1. Short title and commencement.-

1(1) These rules may be called the Companies (cost records and audit) Rules, 2014.

Suggestions The cost accounting records rules and cost audit report rules should be separate. **However, suggestions below are on the basis of the combined Rules as issued.**
Justifications From the inception of cost audit these two rules were kept separate since new products and services can be included or deleted without affecting the report rules. On the other hand, for changes in the report rules, the cost accounting records rules need not be amended.

Existing Clause 1(2) They shall come into force on the date of publication in the Official Gazette.	
Suggested Change	
They shall come into force on and from April 1, 2015.	

2. Definitions: In these rules, unless the context otherwise requires -

Existing Clause 2(a) "Act" means the Companies Act, 2013 (18 of 2013);
No change

Suggested Change	***Introduce new clause 2(b)***
"Cost Accountant" for the purpose of these Rules means a cost accountant as defined in Sub-Section 28 of Section 2 of the Companies Act, 2013.	
Justifications Cost Accountant is already defined in the Act. Hence, drawing reference to CWA Act is not necessary.	

Existing Clause 2(b) "Cost Accountant in practice" means a cost accountant as defined in clause (b) of subsection(1) of section

2 of the Cost and Works Accountants Act, 1959 (23 of 1959), who holds a valid certificate of practice under sub-section (1) of section 6 of that Act and who is deemed to be in practice under sub-section (2) of section 2 thereof, and includes a firm or limited liability partnership of cost accountants;	
Suggested Change	***Clause renumbered 2(c)***
"Cost Accountant in practice" means a cost accountant who holds a valid certificate of practice under sub-section (1) of section 6 of the Cost and Works Accountants Act, 1959 and who is in full time practice and includes a firm of cost accountants or limited liability partnership of cost accountants;	
Justifications Redrafted without definition of cost accountant. Clause renumbered	

Existing Clause 2(c) "cost auditor" means a Cost Accountant in practice, as defined in clause (b), who is appointed by the Board;	
No change	***Clause renumbered 2(d)***
"cost auditor" means a Cost Accountant in practice, as defined in clause (b), who is appointed by the Board;	

Existing Clause 2(d) "cost audit report" means the report duly audited and signed by the cost auditor including attachment, annexure, qualifications or observations etc. to cost audit report;	
Suggested Change	***Clause renumbered 2(e)***
"Cost Audit Report" means the Cost auditor's report and includes his observations and suggestions, and Annexure to the cost audit report duly audited and signed by Cost Auditor in accordance with proviso to sub-section (5) of section 148 of the Act and these rules;	
Justifications Definition changed to provide more clarity. Clause renumbered.	

Suggested Change	***Introduce new clause 2(f)***
"Cost Accounting Standards" means the standards of cost accounting, issued by the Institute;	
Justifications Provisions of section 143 of the Companies Act, 2013 is applicable *mutatis mutandis* to cost accountants conducting cost audit u/s 148. Sub-section (2) of section 143 requires an auditor to report to the members of the company *"after taking into account the provisions of this Act, the accounting and*	

auditing standards". Clause (e) of sub-section 3 of section 143 requires auditor to state *"whether, in his opinion, the financial statements comply with the accounting standards".*

Since the entire section 143 is applicable mutatis mutandis to cost accountants, it is imperative that the cost auditor would be required to make his report *"after taking into account the provisions of this Act, the cost accounting and cost auditing standards"* and also state in his report *"whether, in his opinion, the cost statements comply with the cost accounting standards".* Hence, defining cost accounting standards is essential. Further, principle based cost accounting requires maintenance of cost accounting records on the basis of cost accounting standards.

Existing Clause 2(e)

"cost records" means books of account relating to utilisation of materials, labour and other items of cost as applicable to the production of goods or provision of services as provided in section 148 of the Act and these rules;

Suggested Change	***Clause renumbered 2(g)***

"Cost Records" means books of account and records relating to utilisation of materials, labour and other items of cost as applicable to the production of goods or providing of services under the provisions of sub section (1) of Section 148 of the Act;

Justifications

Cost accounting records include books of account and other records of quantitative details etc. The definition is not complete without "records".

Suggested Change	***Introduce new clause 2(h)***

"Cost Record Report" means Cost Record report duly authenticated and signed by a cost accountant in form CRA-1;

Justifications

Due to different threshold limits for applicability of cost accounting records and cost audit of such records, a mechanism should be in place to ensure fulfilment of the requirement of these rules by such companies that are not covered by cost audit u/s 148(2).

A Cost Record Report should be mandated to be authenticated by a Cost Accountant in line with section 205 of the Companies Act, 2013 to ensure that the cost accounting records comply with the cost accounting standards.

The rules issued have prescribed CRA-1 for maintenance of rule based cost accounting records. Since it is proposed and suggested to maintain principle based cost accounting records, form CRA-1 is not necessary in its present structure and format. A restructured Form CRA-1 is provided below to be used as "Cost Record Report".

Existing clause 2(f)	
"form" means a form annexed to these rules;	
No change	***Clause renumbered 2(i)***
"form" means a form annexed to these rules;	

Suggested Change	***Introduce new clause 2(j)***
"Generally Accepted Cost Accounting Principles" means the generally accepted principles of cost accounting issued by the Institute;	
Justifications	
Provisions of section 143 of the Companies Act, 2013 is applicable *mutatis mutandis* to cost accountants conducting cost audit u/s 148. Sub-section (2) of section 143 requires an auditor to report to the members of the company *"after taking into account the provisions of this Act, the accounting and auditing standards".* Clause (e) of sub-section 3 of section 143 requires auditor to state *"whether, in his opinion, the financial statements comply with the accounting standards".*	
Since the entire section 143 is applicable mutatis mutandis to cost accountants, it is imperative that the cost auditor would be required to make his report *"after taking into account the provisions of this Act, the cost accounting and cost auditing standards"* and also state in his report *"whether, in his opinion, the cost statements comply with the cost accounting standards".* Further, principle based cost accounting requires maintenance of cost accounting records on the basis of cost accounting standards. Generally accepted cost accounting principles are the guiding force behind the cost accounting standards and it is essential that the term is defined in the rules and made applicable to the maintenance of cost accounting records.	

Existing Clause 2(g)	
"institute" means the Institute of Cost Accountants of India constituted under the Cost and Works Accountants Act, 1959 (23 of 1959);	
No change	***Clause renumbered 2(k)***
"institute" means the Institute of Cost Accountants of India constituted under the Cost and Works Accountants Act, 1959 (23 of 1959);	

Suggested Change	***Introduce new clause 2(l)***
"Providing Services" means providing, rendering or allowing use of tangible or intangible products or services of any nature, type, kind or variety and includes all types of job work or processing operations;	
Justifications	
The Act as well as the Rules has used the words in various places. It is essential to define providing	

services and not leave it exposed to different interpretation.

Suggested Change	***Introduce new clause 2(m)***
"Product" means any tangible or intangible good, material, substance, article, 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;	
Justifications The Act as well as the Rules has used the words in various places. It is essential to define Product and not leave it exposed to different interpretation.	

Suggested Change	***Introduce new clause 2(n)***
"Product Group" in relation to tangible products means a group of homogenous and alike products, produced from same raw materials and by using similar or same production process, having similar physical or chemical characteristics and common unit of measurement, and having same or similar usage or application; and in relation to intangible products or services means a group of homogenous and alike products or services, produced/provided by using similar or same process or inputs, having similar characteristics and common unit of measurement, and having same or similar usage or application;	
Justifications The Product Group is essential to the reporting process to protect confidentiality of cost data. The main apprehension of the industry prior to 2011 was submission of vital and strategic cost information of each and every product to the Central Government which was allegedly accessible to competitors. The industry welcomed the introduction of the mechanism of maintaining cost records at "product" and "unit" level but reporting under Product Group whole heartedly. It appears that there is a great deal of misunderstanding about the concept of "Product Group". It is clarified that there is no relation between "Product Group" and maintenance of cost records. The cost accounting records requires determination of cost of individual products according to its ultimate marketable stage. In the pre-2011 situation, the cost audit report required submission of product-wise and unit-wise cost statements thereby necessitating bulky and multiple reports to be submitted by the same company and in the process the confidentiality of cost data was compromised. **It is suggested that the submission of report under Product Group is retained to protect confidentiality of sensitive cost information, which should remain within the company. This would ensure availability of the records to any authority, if required.**	

Suggested Change	***Introduce new clause 2(o)***
"Production of goods" includes any act, process, or method employed in relation to transformation of tangible (raw materials, semi-finished goods, or sub-assemblies) and intangible inputs into goods; or manufacturing or processing or mining or growing a product for use, consumption, sale, transport, delivery or disposal;	

Justifications
The Rules has used the words in various places. It is essential to define "production of goods" and not leave it exposed to different interpretation.

Suggested Change	***Introduce new clause 2(p)***
"Service" means any activity carried out by a person for another for consideration and includes a declared service, but shall not include— a) an activity which constitutes merely,— i) a transfer of title in goods or immovable property, by way of sale, gift or in any other manner; or ii) such transfer, delivery or supply of any goods which is deemed to be a sale within the meaning of clause (29A) of article 366 of the Constitution; or iii) a transaction in money or actionable claim. b) a provision of service by an employee to the employer in the course of or in relation to his employment; c) fees taken in any Court or tribunal established under any law for the time being in force.	
Justifications The Act as well as the Rules has used the words in various places. It is essential to define meaning of services and not leave it exposed to different interpretation.	

Existing Clause 2(h)	
all other words and expressions used in these rules but not defined, and defined in the Act or in the Companies (Specification of Definition Details) Rules, 2014 shall have the same meanings as assigned to them in the Act or in the said rules.	
No change	***Clause renumbered 2(q)***
all other words and expressions used in these rules but not defined, and defined in the Act or in the Companies (Specification of Definition Details) Rules, 2014 shall have the same meanings as assigned to them in the Act or in the said rules.	

Existing Clause 3	
Application of cost records.- For the purpose of sub-section (1) of section 148 of the Act, the following class of companies, including Foreign Companies defined in sub-section (42) of section 2 of the Act, shall be required to include cost records in their books of account, namely:-	
Suggested Change	

Application of cost records – *These rules shall apply to every company engaged in the production of goods and providing of services, including a foreign company defined in sub-section (42) of section 2 and section 379 of the Act, excluding small companies.*

Provided that these rules shall apply to companies engaged in production of goods wherein the net worth as on the last date of the immediately preceding financial year exceeds ten crores of rupees; or wherein the turnover made by the company during the immediately preceding financial year exceeds twenty five crores of rupees, or wherein the company's equity or preference or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India.

Provided further that these rules shall apply to companies engaged in providing the following services wherein the net worth as on the last date of the immediately preceding financial year exceeds five crores of rupees; or wherein the turnover made by the company during the immediately preceding financial year exceeds ten crores of rupees, or wherein the company's equity or preference or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India.

a) *Port Services;*
b) *Aeronautical Services;*
c) *Telecommunication Services;*
d) *Health Services;*
e) *Education Services.*

Provided further that in case of a multi-product or multi-service Company where all the activities of the Company do not fall within the activities listed above, the requirements of these Rules shall be applicable provided the turnover of all the products or services covered under these Rules in the immediately preceding financial year is 5% of the total turnover of the company or rupees twenty five crore in respect of products or rupees ten crore in case of services, as the case may be, whichever is less.;

Justifications

Providing for different threshold limits for different class of companies is very confusing. Further, same or similar classes of companies are classified under the clauses A, B and C leading to further complication. There are companies producing/manufacturing products that may fall under different categories as defined in the Rules under clauses 3(A), (B), (C) or (D) and application of different threshold limits would lead to certain products/services attracting the provision of these Rules and certain others would be excluded within the same company. Rules should be framed to give clear direction without ambiguity and confusion. Consequently, one single threshold limit for application of cost accounting records is justifiable and equitable.

Further, the present rules have mixed up products and services within the same group. It would be impractical to provide same threshold limits for both products and services. Similar treatment of providing a lower threshold limit under clause 3(D) has already been made in the rules, which is more practical.

The application to companies u/s 379 of the Act is missing which should be included.

Existing Clause 5	
Maintenance of records.-	
Suggested Change	***Clause renumbered 4***
Maintenance of records.-	

Existing Clause 5(1)	
Every company under these rules including all units and branches thereof, shall, in respect of each of its financial year commencing on or after the 1st day of April, 2014, maintain cost records in form CRA-1.	
Suggested Change	***Clause renumbered 4(1)***
Every company to which these Rules apply, including all units and branches thereof shall, in respect of each of its financial year commencing on or after the date of this notification, keep and maintain cost records.	
Justifications	
In the present day, the entire accounting community has moved away from a Rule based maintenance to a principle based maintenance. Prescribing a form for such maintenance would be a retrograde step and will not allow industry to utilise its built-in system to have integrated accounting for better control. This would also lead to the earlier situation of companies treating the entire mechanism as a form filling exercise instead of a value adding exercise. The entire objective and orientation of the companies changed with the introduction of principle based cost accounting during the last 3 years and they have been using it as a tool for better management and governance mechanism.	

Existing Clause 5(2)	
The cost records referred to in sub-rule (1) shall be maintained on regular basis in such manner as to facilitate calculation of 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 or quarterly or half-yearly or annual basis.	
Suggested Change	***Clause renumbered 4(2)***
The cost records referred to in sub-Rule (1) shall be kept on regular basis in accordance with the Generally Accepted Cost Accounting Principles and Cost Accounting Standards issued by the Institute of Cost Accountants of India in such manner so as to make it possible to calculate per unit cost of production or cost of operations or cost of rendering services, cost of sales and margin for each of its products, activities and services on monthly or quarterly or half-yearly or annual basis. The variations, if any, shall be clearly indicated and explained.	
Justifications	
A statutory cost rule is made to arrive at the true and fair view of cost and not to facilitate compilation of	

a statement of cost which may or may not be giving a true and fair view.

Provisions of section 143 of the Act are applicable *mutatis mutandis* to cost accountants conducting cost audit u/s 148 [Section 143(14)(a)].

Sub-section (2) of section 143 requires an auditor to report to the members of the company "after taking into account the provisions of this Act, the accounting and auditing standards". Clause (e) of sub-section 3 of section 143 requires auditor to state "whether, in his opinion, the financial statements comply with the accounting standards".

Since the entire section 143 is applicable *mutatis mutandis* to section 148, it is imperative that the cost auditor would be required to make his report "after taking into account the provisions of this Act, the cost accounting and cost auditing standards" and also state in his report "whether, in his opinion, the cost statements comply with the cost accounting standards". The Rules cannot override the provisions of the Act.

Existing Clause 5(3)

The cost records shall be maintained in such manner so as to enable the company to exercise, as far as possible, control over the various operations and costs to achieve optimum economies in utilisation of resources and these records shall also provide necessary data which is required to be furnished under these rules.

Suggested Change	***Clause renumbered 4(3)***

The cost records shall be maintained in such manner so as to enable the company to exercise, as far as possible, control over the various operations and costs to achieve optimum economies in utilisation of resources and these records shall also provide necessary data which is required to be furnished under these rules. These records shall also provide details required to be furnished under sub-section (2) of section 148 of the Act.

Justifications

The provision is required to avoid any confusion as to the use of cost accounting records in the cost audit report and ensures that the audit report is prepared on the basis of the cost accounting records.

Suggested Change	***Introduce new clause 4(4)***

All such cost records and cost statements, maintained under these Rules shall be reconciled with the audited financial accounts specifically indicating expenses or incomes not considered in the cost accounts or statements so as to ensure accuracy and to reconcile the profit of all products, activities and services with the overall profit of the company.

Justifications

Ensures that the cost accounting records are in conformity with the audited financial accounts and any variations are noticed and pointed out.

Suggested Change	**Introduce new clause 4(5)**
It shall be the duty of every person, referred to in sub-section (6) of section 128 of the Act, to take all reasonable steps to secure compliance by the company with the provisions of sub-section (1) of Section 148 of the said Act in the same manner as he is liable to maintain accounts required under section 128 of the said Act.	
Justifications The Act provides same duties and responsibilities for a cost auditor and financial auditor. Same penalties for default have also been provided. It is only equitable and natural to have certain persons responsible within the company for complying with the provisions.	

Suggested Change	**Introduce new clause 4(6)**
Cost Record Report – *Every company to which these Rules apply shall place a Cost Record Report, in respect of each of its financial year commencing on or after the 1st day of April, 2015, duly certified by a cost accountant, along with the Annexure before the Board of Directors in form CRA-1.* *Provided that the Board shall state due compliance with the rules in its statement under clause (c) of sub-section 3 of section 134 of the Act.* *Provided further that the company shall not be required to place the Cost Record Report if all the products or activities of the company that are covered under these Rules are also covered for cost audit under sub-section (2) of section 148 of the Act.*	

Existing Clause 4 **Applicability for cost audit.-**	
No Change	***Clause renumbered 5***
Applicability for cost audit.-	

Existing Clause 4(1) Every company engaged in a strategic industry and covered under sub-clause (b) of clause (A) of rule 3 shall be required to get its cost records audited in accordance with these rules.	
Suggested Change	***Clause renumbered 5(1)***
Every company engaged in an activity covered under clause (A) or clause (C) of rule 5 shall be required to get its cost records audited in accordance with these rules wherein the turnover made by the company during the immediately preceding financial year exceeds rupees one hundred crore.	

Suggested Change	***Introduce new clause 5(2)***
Every company engaged in an activity covered under clause (B) of rule 5 shall be required to get its cost records audited in accordance with these rules wherein the turnover made by the company during the immediately preceding financial year exceeds rupees twenty five crore.	

Suggested Change	***Introduce new clause 5(3)***
Every company engaged in an activity covered under clause (D) of rule 5 shall be required to get its cost records audited in accordance with these rules wherein the turnover made by the company during the immediately preceding financial year exceeds rupees ten crore.	

Existing Clause 4(2)

In the case of a multi-product or a multi services company specified in sub-clause (b) of clause (B) and sub-clause (b) of clause (C) of rule 3, the requirement for cost audit shall apply to a product or a service for which the individual turnover (from such specific product or such specific service) is rupees one hundred crore or more;

Suggested Change	***Clause to be deleted***

Justifications

The reference to the turnover of a product is misleading. This would imply that a chemical company producing multiple chemicals, each of its products must satisfy the qualifying turnover. Similarly for any of the industries listed above which would be manufacturing different marketable products within the same category of product. This logic can be extended to the same product having different SKUs. The turnover criteria as prescribed would lead to exclusion of every item and company covered under this clause.

It would be better to test the applicability against the turnover of the company and the percentage of the product under reference to the total turnover of the company.

Further, having an individual turnover limit of Rs. 50 crores in multi-product cases and Rs.25 crores for single product company is contradictory.

Existing Clause 4(3)

In the case of a company producing any one specific product or service specified in sub-clause (b) of clause (B) and sub-clause (b) of clause (C) of rule 3, the requirement for cost audit shall apply if the net worth of the company is rupees five hundred crore or more or the turnover from such product or such service is rupees one hundred crore or more.

Suggested Change	***Clause to be deleted***

Justifications

Normally, the turnover is 5 times the net worth and not vice versa as has been put forth in the Rules. The prescription of net worth and turnover is not equitable.

In any case, the conditions of this clause are combined with clause (1) and (2) above.

Existing Clause 4(4) In the case of a company engaged in medical products or devices referred to in sub-clause (b) of clause (D) of rule 3, -	
Suggested Change	***Clause to be deleted***

Existing Clause 4(4)(i) which has multiple products or devices (i.e. a company producing, importing and supplying or trading in more than one medical device or product), the requirement for cost audit shall apply to a medical device or product for which the individual turnover (from such specific medical device or product) is rupees ten crore or more, or one third of the turnover, whichever is less;	
Suggested Change	***Clause to be deleted***

Existing Clause 4(4)(ii) which has only one product or device (i.e. a company producing, importing and supplying or trading one medical device or product), the requirement for cost audit shall apply if the net worth of the company is rupees one hundred fifty crores or more or the turnover is rupees twenty five crores or more.	
Suggested Change	***Clause to be deleted***

Existing Clause 3(A) Companies engaged in the production of following goods in strategic sectors, such as:	
Suggested Change	***Clause renumbered 5(A)***
Companies engaged in the production of following goods in strategic sectors:	
Comments The Central Government has indicated 17 different industrial sectors under four categories-sectors of strategic importance – sectors of basic inputs, sectors of depth and value addition and sectors of employment generation. Some of the sectors have been left out from coverage for maintenance of cost records and cost audit. Such sectors should also be covered. This includes sectors such as Ship-Building and Ship Repair, Capital Goods and Engineering-Machine Tools Industry, Heavy Electrical and Power Plant Equipment, Earth Moving and Mining Equipment Sector, Electronics Systems Design and Manufacturing, Automotive, Paper, Textiles, Food Processing Industries, Leather and Leather Goods, Gems and Jewellery etc. All these sectors are in the nature of Strategic Importance and therefore should be covered in the	

scope of Cost Audit.

Subject to the above comments, the following suggestions are made in modification of the existing Rules removing the ambiguities in the classification of the sectors and combining sectors which are appearing more than once under different classifications.

Existing Clause 3(A)(a)(i)

Machinery and mechanical appliances used in defence, space and atomic energy sectors excluding any ancillary item or items;

Explanation: For the purposes of this sub-clause, any company which is engaged in any item or items supplied exclusively for use under this clause, shall be deemed to be covered under these rules.

Suggested Change	***Clause renumbered 5(A)(a)(i)***

Machinery and Mechanical Appliances; Electrical Equipment; Parts thereof included under Chapter 84 and 85 of the Central Excise Tariff Act, 1985.

Justifications

The clause is too restrictive and coverage is not clear. Machinery and mechanical appliances cannot be specific to any industry or activity. For example, bearings, power transformers, control panel or other electrical/mechanical equipment can be used in any sector and they fall under the same category. If the company under question supplied even one item to a sector other than to “supply to defence, space and atomic energy”, then the company would not fulfil the test of “exclusive supply” and will be out of the ambit of application.

Chapter 84 lists items “Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof;

Chapter 85 lists items under “Electrical machinery and equipment and parts thereof; sound recorders and re-producers, television image and sound recorders and reproducers, and parts and accessories of such articles.

Existing Clause 3(A)(a)(ii)

Turbo jets and turbo propellers;

Suggested Change	***Clause renumbered 5(A)(a)(ii)***

Turbo jets and turbo propellers included under chapter 84 of the Central Excise Tariff Act 1985;

Justifications

The CETA heading added for clarity of identification of the items. However, this sector will get covered under clause (i) above.

Existing Clause 3(A)(a)(iii)	
Arms and ammunitions;	
Suggested Change	***Clause renumbered 5(A)(a)(iii)***
Arms and ammunitions; parts and accessories thereof included under Chapter 93 of the Central Excise Tariff Act 1985;	
Justifications	
The CETA heading added for clarity of identification of the items.	

Existing Clause 3(A)(a)(iv)	
Propellant powders; prepared explosives, (other than propellant powders); safety fuses; detonating fuses; percussion or detonating caps; igniters; electric detonators;	
Suggested Change	***Clause renumbered 5(A)(a)(iv)***
Propellant powders, prepared Explosives, pyrotechnic products, safety fuses; detonating fuses; percussion or detonating caps; igniters; electric detonators and combustible preparations included under Chapter 36 of Central Excise Tariff Act 1985;	
Justifications	
The CETA heading added for clarity of identification of the items.	

Existing Clause 3(A)(a)(v)	
Radar apparatus, radio navigational aid apparatus and radio remote control apparatus;	
Suggested Change	***Clause renumbered 5(A)(a)(v)***
Radar apparatus, radio navigational aid apparatus and radio remote control apparatus are included under Chapter 85 of Central Excise Tariff Act 1985;	
Justifications	
The CETA heading added for clarity of identification of the items. However, this sector will get covered under clause (i) above.	

Existing Clause 3(A)(a)(vi)	
Tanks and other armoured fighting vehicles, motorised, whether or not fitted with weapons and parts of such vehicles, that are funded (investment made in the company) to the extent of ninety per cent. or more by the Government or Government Agencies;	
Suggested Change	***Clause renumbered 5(A)(a)(vi)***

Tanks and other armoured fighting vehicles, motorised, whether or not fitted with weapons and parts of such vehicles.
Justifications
The intention cannot be to deliberately exclude the private sector and include only government companies. There is no company manufacturing these items.

Existing Clause 3(A)(b)	
Provisions of clause (A) shall be applicable, if the net worth of the company is rupees five hundred crore or more or the turnover is rupees five hundred crore or more.	
Suggested Change	***To be deleted***
Justifications	
Combined threshold limit provided under clause 3 above.	
Note: It is highly unlikely for a company to have net worth of rupees five hundred crore and having a turnover of rupees five hundred crore. This is not equitable. Turnover limit of rupee five hundred crore is too high and no company operating in these sectors read with the exclusive supply clause, would be covered under this category at this threshold limits.	

Existing Clause 3(B)	
Companies engaged in an industry regulated by a Sectoral Regulator or a Ministry or Department of Central Government:	
Suggested Change	***Clause renumbered 5(B)***
Companies engaged in an industry regulated by a Sectoral Regulator or a Ministry or Department of Central Government:	
Justifications	
The coverage suggests that all Industries that have a specific Ministry should get included under this clause, viz. Ministry of Agriculture, Ministry of Chemicals and Fertilizers, Ministry of Civil Aviation, Ministry of Coal, Ministry of Commerce and Industry, Ministry of Communications and Information Technology, Ministry of Consumer Affairs, Food and Public Distribution, Ministry of Defence, Ministry of Health and Family Welfare, Ministry of Heavy Industries and Public Enterprises, Ministry of Housing and Urban Poverty Alleviation, Ministry of Information and Broadcasting, Ministry of Micro, Small and Medium Enterprises, Ministry of Mines, Ministry of New and Renewable Energy, Ministry of Petroleum and Natural Gas, Ministry of Power, Ministry of Railways, Ministry of Science and Technology, Ministry of Shipping, Ministry of Steel, Ministry of Textiles, Ministry of Urban Development, Ministry of Water Resources.	

Existing Clause 3(B)(a)(i)	
Port services of stevedoring, pilotage, hauling, mooring, re-mooring, hooking, measuring, loading and unloading services rendered by a Port in relation to a vessel or goods regulated by the Tariff Authority for Major Ports under section 111 of the Major Port Trusts Act, 1963 (38 of 1963);	
Suggested Change	***Clause renumbered 5(B)(a)(i)***
Port services of stevedoring, pilotage, hauling, mooring, re-mooring, hooking, measuring, loading and unloading services rendered by a Port in relation to a vessel or goods;	
Justifications	
The intention is to include Port Services. Hence, qualifying the application with the "Tariff Authority for Major Ports under section 111 of the Major Port Trusts Act, 1963 (38 of 1963)" would exclude ports not covered under this Act. The minor ports are getting grants and concessions from the Government of India or other agencies and therefore to be included under this provision. It is also recommended to suggest to the Port Trust Authorities to include this for all those Ports who are not covered under Companies Act to be covered through appropriate mechanism. Nearly more than 95% of India's foreign trade in terms of volume and more than 65% in terms of value are through sea route. The cost of logistics services is critical for industrial growth in the competitive environment.	

Existing Clause 3(B)(a)(ii)	
Aeronautical services of air traffic management, aircraft operations, ground safety services, ground handling, cargo facilities and supplying fuel rendered by airports and regulated by the Airports Economic Regulatory Authority under the Airports Economic Regulatory Authority of India Act, 2008 (27 of 2008);	
Suggested Change	***Clause renumbered 5(B)(a)(ii)***
Aeronautical services of air traffic management, aircraft operations, ground safety services, ground handling, cargo facilities and supplying fuel, construction of airports etc. rendered by and or at airports and regulated by the Government;	
Justifications	
Air Travel, a key enabler for economic growth and increasing passenger traffic year after year, has underlined the importance of air travel attached by the public for the time saved for alternate productive use. Airport Authority of India is responsible for creating, upgrading, maintaining and managing civil aviation infrastructure in India for all the airports other than those in PPP mode. Cost management will help in reducing the CAPEX and also operating costs of aviation industry by bringing in efficiency in resource utilisation Airport charges are key component in the air fare. Aviation is a strategic sector from national and public interest point of view.	

Existing Clause 3(B)(a)(iii)	
Telecommunication services made available to users by means of any transmission or reception of signs, signals, writing, images and sounds or intelligence of any nature (other than broadcasting services) and regulated by the Telecom Regulatory Authority of India under the Telecom Regulatory Authority of India Act, 1997 (24 of 1997);	
Suggested Change	***Clause renumbered 5(B)(a)(iii)***
“Telecommunication activities” means any 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 and includes intermediate and allied activities thereof and these activities would, inter alia, include such services that require license or registration , Government of India;	
Justifications	
The telecom services are important facilitator for socio-economic development of the nation the sector is growing rapidly. Department of Telecommunications is responsible for policy, licencing, framing of rules and co-ordination matters. Telecommunication services help in improving India’s competitiveness in global market and promoting exports, attracting FDI insuring India’s emergence as major manufacturing/ export base. Effective cost management will lead to efficient utilisation of resources and make the telecommunication services more affordable for people of the country thus stimulating progressive and sustainable economic development. Further, due to fast changing technology, investments in the sector are very large requiring proper monitoring mechanism. In the present form, the clause is not contemporary to the changed technology and is also confusing. Change in definition will afford clarity. **The applicability should not be restricted to companies under TRAI.**	

Existing Clause 3(B)(a)(iv)	
Generation, transmission, distribution and supply of electricity regulated by the relevant regulatory body or authority under the Electricity Act, 2003 (36 of 2003), other than for captive generation (as defined under the Electricity Rules 2005);	
Suggested Change	***Clause renumbered 5(B)(a)(iv)***
“Electricity activities” including any activity, process, procedure, function, operation, technique, treatment or method employed in relation to generation of electricity from any source of energy, and includes transformation, transmission, distribution, or supply of electricity by any mode, or medium, and further includes intermediate and allied activities thereof regulated by the relevant regulatory body or authority under the Electricity Act, 2003 (36 of 2003), other than for captive generation (as defined under the Electricity Rules 2005);	
Justifications	

It is one of the most important sectors, which is vital to the public as well as for industrial growth. Effective cost management in this sector will lead to improvement in operational efficiency in the entire value chain and make electricity more affordable for the people of the country.

Further Electricity activities should be defined properly for clarity.

Existing Clause 3(B)(a)(v)

Steel;

Suggested Change	***Clause renumbered 5(B)(a)(v)***
Steel and steel products including intermediate products included under Chapters 72 and 73 of the Central Excise Tariff Act, 1985;	

Justifications

May be removed from here and included under Base Metals under category (C). Same category of products should be classified under the same clause. Further, only naming the product as steel without clarifying the products actually covered under the category is confusing. For example, it is not clear whether pig iron or sponge iron is included under "steel". It is also not clear whether the clause includes value added products of steel and unless the entire value chain is covered, the cost accounting mechanism cannot derive its desired benefit. In an integrated steel plant having iron ore and coal mines, and production units for coke plant, steel tubes, steel processing etc. the cost accounting mechanism is required to be implemented for the entire value chain. Unless transfer from one activity to the other is made at cost, the efficiency parameters would be skewed. The same logic holds true for the entire value chain of Base Metals, Mineral & Mineral Products etc.

Existing Clause 3(B)(a)(vi)

Roads and other infrastructure projects;

Suggested Change	***Clause renumbered 5(B)(a)(vi)***
Infrastructural Projects and Infrastructural Facilities as defined under Schedule VI of the Act;	

Justifications

Mentioning the words "Roads and other infrastructure projects" in isolation in the Rules creates confusion and contrary to the definition provided in the Act under Schedule VI where Infrastructural Projects has been clearly defined. Investment to the tune of USD 1 trillion has been projected by the Government during the plan period.

For ready reference the Schedule VI of the Companies Act, 2013 is reproduced below:

The term "infrastructural projects" or "infrastructural facilities" includes the following projects or activities:—

(*1*) Transportation (including inter modal transportation), includes the following:—

(*a*) roads, national highways, state highways, major district roads, other district roads and village roads, including toll roads, bridges, highways, road transport providers and other road-related services;

(*b*) rail system, rail transport providers, metro rail roads and other railway related services;

(*c*) ports (including minor ports and harbours), inland waterways, coastal shipping including shipping lines and other port related services;
(*d*) aviation, including airports, heliports, airlines and other airport related services;
(*e*) logistics services.

(*2*) Agriculture, including the following, namely:—
(*a*) infrastructure related to storage facilities;
(*b*) construction relating to projects involving agro-processing and supply of inputs to agriculture;
(*c*) construction for preservation and storage of processed agro-products, perishable goods such as fruits, vegetables and flowers including testing facilities for quality.

(*3*) Water management, including the following, namely:—
(*a*) water supply or distribution;
(*b*) irrigation;
(*c*) water treatment.

(*4*) Telecommunication, including the following, namely:—
(*a*) basic or cellular, including radio paging;
(*b*) domestic satellite service (*i.e.*, satellite owned and operated by an Indian company for providing telecommunication service);
(*c*) network of trunking, broadband network and internet services.

(*5*) Industrial, commercial and social development and maintenance, including the following, namely:—
(*a*) real estate development, including an industrial park or special economic zone;
(*b*) tourism, including hotels, convention centres and entertainment centres;
(*c*) public markets and buildings, trade fair, convention, exhibition, cultural centres, sports and recreation infrastructure, public gardens and parks;
(*d*) construction of educational institutions and hospitals;
(*e*) other urban development, including solid waste management systems, sanitation and sewerage systems.

(*6*) Power, including the following:—
(*a*) generation of power through thermal, hydro, nuclear, fossil fuel, wind and other renewable sources;
(*b*) transmission, distribution or trading of power by laying a network of new transmission or distribution lines.

(*7*) Petroleum and natural gas, including the following:—
(*a*) exploration and production;
(*b*) import terminals;
(*c*) liquefaction and re-gasification;
(*d*) storage terminals;
(*e*) transmission networks and distribution networks including city gas infrastructure.

(*8*) Housing, including the following:—
(*a*) urban and rural housing including public / mass housing, slum rehabilitation, etc;
(*b*) other allied activities such as drainage, lighting, laying of roads, sanitation and facilities.

(*9*) Other miscellaneous facilities/services, including the following:—
(*a*) mining and related activities;
(*b*) technology related infrastructure;
(*c*) manufacturing of components and materials or any other utilities or facilities required by the infrastructure sector like energy saving devices and metering devices;
(*d*) environment related infrastructure;
(*e*) disaster management services;
(*f*) preservation of monuments and icons;
(*g*) emergency services (including medical, police, fire and rescue).

(*10*) such other facility service as may be prescribed.

Existing Clause 3(B)(a)(vii)	
Drugs and Pharmaceuticals;	
Suggested Change	***Clause renumbered 5(B)(a)(vii)***
Pharmaceutical products, bulk drugs, intermediates or formulation products included under Chapters 29 and 30 of the Central Excise Tariff Act, 1985;	

Justifications

Market for Bulk drugs industry is around Rs. 42,000 crores giving it a share of around 50% of the total domestic market. This gives the Indian Bulk Drug industry a share of about 9% of the global bulk drug market. Indian drugs are exported to around 200 countries in the world with highly regulated markets of USA, UK etc. India manufactures 30% of the world requirement of Anti- HIV drugs.

As per the estimates of Bulk Drugs Manufacturers Association (BDMA), this high growth will continue and growing at a CAGR of 20%.

The National Pharmaceutical Pricing Authority (NPPA) since its inception has fixed / revised the prices of scheduled bulk drugs in 532 cases, which includes 342 bulk drugs and 190 derivatives of scheduled bulk drugs. There are a total number of 919 cases wherein demand notices have been issued involving total overcharged amount of Rs.2,596.69 crores including interest since inception of NPPA till January, 2013.

The Rules should include active pharmaceutical ingredients or bulk drugs and formulation included in Chapter 30 of the CETA. It may be noted that Chapter 30 deals with Pharmaceutical products whereas the active pharmaceutical ingredients for Bulk Drugs are covered under Chapter 29. The present Rules lacks clarity in this respect and the ambiguity should be removed. Change in definition will afford clarity and avoid confusion. The linkage to CETA would enable clear identification.

Clause relating to exclusion of companies having 75% exports including deemed exports would exclude the entire sector because of the business model followed in this particular sector. The threshold limit prescription should not be restrictive to exclude the entire sector, which cannot be the intention.

Existing Clause 3(B)(a)(viii)	
Fertilisers;	
Suggested Change	***Clause renumbered 5(B)(a)(viii)***
Fertilizer products including nitrogenous, phosphatic, potassic or complex (organic, inorganic or mixed) under Chapter 31 of the Central Excise Tariff Act, 1985;	

Justifications

The Indian fertiliser industry has a strategic importance in ensuring the food security in the country. Through its impact on agricultural productivity, fertiliser usage directly impacts food security of the country. Government has been consistently pursuing policies conducive to availability of adequate quantity of quality fertilisers throughout the country and their appropriate use. The annual consumption has increased by 62 per cent. In recent years, there has been a significant increase in imports of urea and

DAP because there has been hardly any investment for major capacity additions. Fertiliser consumption in India is highly skewed, with wide inter-regional, inter-state, inter-district and inter-crop variations. The average intensity of fertiliser use in India is much lower than most countries in the world.

With rising demand and no major domestic capacity addition during the last few years, the industry has been exposed to volatility of world markets. There is an urgent need to create conducive environment for new investments in the sector.

The key objective for the fertiliser sector is to ensure national food security by generating sustainable rapid growth in fertilizer use to increase agricultural production and productivity at the desired rate. In order to meet the growth targets in fertilizer use, the following measures are needed:

- Ensuring adequate and timely availability of quality fertilisers to the farmers at fair prices
- Creating an attractive environment for improving indigenous fertiliser
- Rationalisation of the level of fertiliser subsidy disbursed

Despite the overall health being fairly satisfactory, three of the central CPSUs, BVFCL, MFL and FACT are incurring losses due to outdated technology and high energy consumption. There is a need to explore various possibilities for their revival and sustainable operation to come up with a holistic revival plan for the sick CPSUs.

In spite of an amount of Rs.16,921 Crore having been allocated for 12th Five Year Plan on providing, incentives and developmental support by the Government, there were 3 cases aggregating to Rs.920 Crore under CDR relating to Fertilisers. Therefore, Effective cost management is vital to fully leverage and realize the immense growth potential of this industry. Growing population and income levels of the people mandates new focus on agricultural production including increase in efficiency and productivity in the agricultural sector. Fertilisers are the key inputs and driver for enhancing agricultural productivity and hence are of national importance in public interest. Government gives subsidy on fertilizers which can be appropriately worked out through analysis of cost data only.

Change in definition will afford clarity and avoid confusion. The linkage to CETA would enable clear identification.

Existing Clause 3(B)(a)(ix)

Sugar and industrial alcohol;

Suggested Change	***Clause renumbered 5(B)(a)(ix)***
Sugar, Sugar Products and Industrial Alcohol included in Chapters 17 and 22 of the Central Excise Tariff Act, 1985;	

Justifications

Naming the product as sugar without proper clarification and identification of the products actually covered under the category is confusing. Unless the entire value chain is covered, the cost accounting mechanism cannot derive its desired benefit.

Food products are essential for nutrition and good health of the people of the Country. Sugar is the key input to majority of the food products and thus has significance from public interest point of view.

India's sugar export competitiveness is constrained by high air freight cost, uncompetitive prices and lack of scale. Relevant and timely cost information is essential for the industry to maintain its competitiveness.

Change in definition will afford clarity and avoid confusion. The linkage to CETA would enable clear identification.

Existing Clause 3(B)(a)(x)

Petroleum products regulated by the Petroleum and Natural Gas Regulatory Board under the Petroleum and Natural Gas Regulatory Board Act, 2006(19 of 2006);

Suggested Change	***Clause renumbered 5(B)(a)(x)***
"Petroleum Industry" including production, processing, manufacturing mining, storage, transportation or distribution of crude oil, gases or any other petroleum products included under Chapter 27 of the Central Excise Tariff Act, 1985;	

Justifications

Petroleum sector is the key contributor to the energy sector in the economy which is essential for sustained economic development and availability of petroleum products of common use by the masses at affordable prices. Production of crude oil and natural gas is vital for development of the country. India imports substantial quantity of petroleum products which lead to drainage of precious foreign exchange from the country. Effective cost management will lead to improvement in operational efficiency of petroleum companies and thus help in making petroleum products more affordable for the people of the country.

Rules provide for cost records for petroleum products regulated by Petroleum and Natural Gas Regulatory Board. In fact PNGRB is the regulatory body for petroleum sector and not petroleum products. This anomaly needs to be corrected.

Most of the petroleum products are joint products and the costing of the same is done through a common cost accounting system. Introduction of cost accounting for certain joint-products to the exclusion of other products getting produced simultaneously is impractical and not feasible. In addition, the same product from the same production process is sold at market price as well as through administrated price and therefore it will be illogical to differentiate between Price controlled products and products not under price control produced out of the same production set up.

The definition excludes companies engaged in production of crude oil. Unless the entire activity from survey and exploration is covered within the ambit of the rules, maintenance of cost accounting would be impractical due to the very nature of the sector and the intricacies and linkages in production process involved in the sector. Since subsidy is involved, all kinds of petroleum products should be covered.

Change in definition will afford clarity and avoid confusion. The linkage to CETA would enable clear identification.

Existing Clause 3(B)(a)(xi)	
Rubber and allied products being regulated by the Rubber Board.	
Suggested Change	***To be deleted and combined with sub-clause (xi)***

Suggested Change	***Introduce new clause 5(B)(a)(xi)***
Plantation Products including Tea, Coffee, Rubber and articles thereof included in Chapters 9 and 40 of the Central Excise Tariff Act, 1985;	
Justifications	
Tea, Coffee and Rubber are the most commercially important plantation products. The sector is also highly labour intensive, one of the main cost elements. India has been facing stiff competition from Sri Lanka and Kenya and has been losing its export market due to high costs. The original Plantation Products Rules were issued pursuant to request from Tea Board and Coffee Board due to the necessity of making the sector cost conscious. Tea, Coffee and Rubber are traditional industry and till 2001 were still following the old system of accounting without any attention to individual cost elements. The introduction of Plantation Product rules enabled the companies to identify its key cost elements and make estate-wise comparison of costs leading to better utilisation of resources and cost control. Tea Board and Coffee Board are also regulatory bodies and in the same category as Rubber Board. Further, there are subsidies involved in Tea. Hence, cost management is essential as it will improve efficiency of operations and help the industry to become competitive.	

Existing Clause 3(B)(b)	
For the purposes of clause (B), the thresholds limit shall be as under, -	
Suggested Change	***To be deleted***
Justifications	
Combined threshold limit provided under clause 3 above.	
The reference to the turnover of a “product” is misleading and will lead to exclusion of every company categorised under this clause. For example, it can be argued that individual drugs are individual products since these are sold as separate “products” in the market. Similarly, Nitrogenous Fertilizer is a separate product different from Potassic Fertilizer or Phosphatic Fertilizer. This logic can be extended to the same product having different SKUs. The turnover criteria as prescribed would lead to exclusion of every item covered under this clause.	
It would be better to test the applicability against the turnover of the company and the percentage of the product under reference to the total turnover of the company.	
Further, having an individual turnover limit of Rs. 50 crores in multi-product cases and Rs.25 crores for single product company is contradictory.	
Further, the notified rules have no reference to the period for which turnover is relevant. It is logical to	

make the application of the rules based on the turnover of the preceding financial year.

Existing Clause 3(B)(b)(i)

In the case of a multi-product or a multi services company (i.e. a company producing more than one product or service), any product or a service for which the individual turnover (from such specific product or such specific service) is rupees fifty crore or more;

Suggested Change	***To be deleted***

Existing Clause 3(B)(b)(ii)

In the case of a company, producing any one specific product or service, if the net worth of the company is rupees one hundred and fifty crore or more or the turnover is rupees twenty five crore or more.

Suggested Change	***To be deleted***

Justifications

Combined threshold limit provided under clause 3 above.

Existing Clause 3(B)(c)

In the case of companies engaged in an industry regulated by a sectoral regulator, the requirements of sectorial regulator regarding cost records shall be taken into account.

Suggested Change	***To be deleted***

Justifications

The proviso to sub-section (1) of Section 148 states "Provided that the Central Government shall, before issuing such order in respect of any class of companies regulated under a special Act, consult the regulatory body constituted or established under such special Act".

The above proviso means the Central Government shall, before issuing such order [i.e. orders for maintenance of cost accounting records] in respect of any class of companies regulated under a special Act, consult the regulatory body constituted or established under such special Act.

Presently, only the following classes of companies are regulated under a special Act:

(a) Insurance companies regulated under the Insurance Act, 1938;

(b) Banking companies regulated under the Banking Regulation Act, 1949; and

(c) Electricity companies regulated under the Electricity Act, 2003.

Hence, providing for a provision to determine the requirement of "sectoral regulators" is contrary to the provision of the Act.

Existing Clause 3(C)

Companies operating in areas involving public interest such as:

Suggested Change	***Clause renumbered 5(C)***
Companies operating in areas involving public interest:	
Comments The term "Public Interest" has not been defined. In absence, it can be defined in many ways, such as involvement of public money [through equity, loans, deposits, fiscal incentives, tax concessions, subsidies, grants, waivers, moratoriums, free or subsidized inputs in the form of land, power, fuel, transport, and other economic benefits, etc.], employment generation, providing public services, public utilities, welfare of general public, etc. Further, from the construction of the clause, it is apparent that the sectors identified below are only illustrative and not exhaustive in its application. Any sector serving public interest would be covered under this clause and not limited to only the sectors detailed under clause (C).	

Existing Clause 3(C)(a)(i) Railway or tramway locomotives, rolling stock, railway or tramway fixtures and fittings, mechanical (including electro mechanical) traffic signalling equipment's of all kind;	
Suggested Change	***Clause renumbered 5(C)(a)(i)***
Railway or Tramway locomotives, rolling stocks and parts thereof; railway or tramway track fixtures and fittings and parts thereof; mechanical (including electro-mechanical) traffic signalling equipment of all kinds included in Chapter 86 of the Central Excise Tariff Act, 1985;	
Justifications Change in definition to afford clarity and avoid confusion. The linkage to CETA would enable clear identification.	

Existing Clause 3(C)(a)(ii) Mineral products including cement;	
Suggested Change	***Clause renumbered 5(C)(a)(ii)***
Cement and Mineral Products included in Chapters 25, 26, 68 and 69 of the Central Excise Tariff Act, 1985;	
Justifications Cement, asbestos, mica, ceramic products, glass and glassware are the key inputs for industries and infrastructure products. Infrastructure, which is already included under the rules, is a strategic sector due to its facilitating and multiplier effects. Effective cost management will help the industry become competitive. Recently competition commission of India has initiated the case against the Asbestos Manufacturers and have sought Cost Audit Reports from companies.	

Change in definition to afford clarity and avoid confusion. The linkage to CETA would enable clear identification.

Existing Clause 3(C)(a)(iii) Ores;	
Suggested Change	***To be deleted. Included under clause 5(C)(a)(ii)***
Justifications The item falls under Mineral Products and classified under the same Central Excise Tariff Code. Hence, a separate clause is not required.	

Existing Clause 3(C)(a)(iv) Mineral fuels (other than Petroleum), mineral oils etc.;	
Suggested Change	***Clause renumbered 5(C)(a)(iv)***
Mineral Fuels (other than Petroleum) included in Chapter 27 of the Central Excise Tariff Act, 1985;	
Justifications Change in definition will afford clarity and avoid confusion. The linkage to CETA would enable clear identification. Petroleum is excluded from this clause since the same is already covered separately above.	

Existing Clause 3(C)(a)(v) Base metals;	
Suggested Change	***Clause renumbered 5(C)(a)(v)***
Base Metals and articles thereof included in Chapters 72 to 83 (excluding Chapter 77) of the Central Excise Tariff Act, 1985;	
Justifications Base metals have multiple and wide spread applications in various industries and thus help in facilitating industrial activity in various sector of the economy. Base metals are crucial to the development of any modern economy and are considered to be one of the backbones of industry and economy. The level of per capita consumption of steel is treated as an important index of the level of socio-economic development in a country. Presently, steel contributes to nearly two per cent of the gross domestic product (GDP) and employs over 500,000 people. The total market value of the Indian steel sector stood at US$ 57.8 billion in 2011 and is expected to touch US$ 95.3 billion by 2016. India's per capita steel consumption stood at 57.8 kilograms in 2013, according to a World Steel Association report and is expected to rise with increased industrialization throughout the country. India is slated to become the second-largest steel producer in	

the world by 2015. Steel production in the country has increased at a compound annual growth rate (CAGR) of 6.9 per cent over 2008-2012.

Increasing demand by sectors such as infrastructure, real estate and automobiles at home and abroad has put India on the world map. The construction sector accounts for around 50 per cent of the country's total steel demand while the transport (including automobile) industry accounts for 16 per cent.

The Centre's Steel Development Fund (SDF) and Plan Scheme presently provide financial assistance for R&D in the sector. Under the SDF scheme, 82 R&D projects have been approved with total project cost of Rs. 677 crore (US$ 112.61 million) where in SDF assistance is Rs. 370 crore (US$ 61.54 million). Under the Plan Scheme, eight projects have been approved with a total cost of Rs. 123.27 crore (US$ 20.51 million) where in government assistance is Rs. 87.28 crore (US$ 14.51 million).

Steel is vital to our everyday life. We depend on steel for housing and health. Without it there would be no offices or retail parks. It is at the root of the quality of life that each of us enjoys today, helping to shelter us, to feed us and to facilitate both our working and our leisure day. Just about everything we use either contains steel or has been made using steel. Whether it is bolts or buildings, clothes or chemicals, food or fast cars, lamps or lemonade, all depend on steel at some point. Even industries producing other materials like glass, aluminium and plastics, all need steel.

Almost every sector of economy consumes Steel. Some of the major consumers of steel are Construction sector which uses almost 50% of steel production on residential, commercial, industrial and infrastructure constructions activities. 34% of steel consumed by the Capital and Consumer goods industries such as manufacture of Machines, Metal production, Electrical and domestic / household appliances. Automobile industry consumes almost 16% of steel production in manufacture of Cars, Trucks, Ships and Railways etc. These segments need different types of steel inputs for their respective uses.

Change in definition will afford clarity and avoid confusion. The linkage to CETA would enable clear identification.

Existing Clause 3(C)(a)(vi)

Inorganic chemicals, organic or inorganic compounds of precious metals, rare-earth metals of radioactive elements or isotopes, and Organic Chemicals;

Suggested Change	***Clause renumbered 5(C)(a)(vi)***

Organic, Inorganic Chemicals and Chemical Products, organic or inorganic compounds of precious metals, rare-earth metals of radioactive elements or isotopes, Polymers, PVC, Polyurethane, Resins, Plastics and articles thereof included in Chapters 28, 29, 32, 34, 38 & 39 of the Central Excise Tariff Act, 1985;

Justifications

Petrochemicals is an ‘enabler’ industry playing a vital role in the functioning of virtually all key sectors in the economy including packaging, agriculture, infrastructure, healthcare, textile and consumer goods. Petrochemicals provide critical inputs which enable other sectors to grow. Even though this industry is capital and technology intensive, the downstream sector is a major avenue for large-scale employment.

The downstream plastic processing industry employs over 3.53 million people who derive their livelihood from this sector. This industry is vital for the economy due to its direct linkage to petroleum industry. Effective cost management will help the industry become competitive

In spite of allocation of an amount of Rs.2893 Crore during 12th Five Year Plan on providing, incentives and developmental support by the Government, there were 5 cases aggregating to Rs.5500 Crore under CDR relating to the sector. Therefore, Effective cost management is vital to fully leverage and realize the immense growth potential of this industry.

Change in definition will afford clarity and avoid confusion. The linkage to CETA would enable clear identification.

Existing Clause 3(C)(a)(vii)

Jute and Jute Products;

Suggested Change	***Clause renumbered 5(C)(a)(vii)***
Jute and other textile products included in Chapters 50 to 63 of the Central Excise Tariff Act, 1985;	

Justifications

Textile Sector comprises of cotton, man-made fibre, jute, sericulture & silk, wool, a number of specialty fibres and their products, handlooms and handicrafts. It plays a very key role in the Indian economy by way of significant contribution to GDP, manufacturing output, employment generation and export earnings. A series of steps taken by the Government over a period of time has helped the industry to grow and sustain the growth momentum. These include schemes such as the Technology Mission on Cotton and the Technology Up gradation Fund Scheme and rationalization of fiscal duties to provide a level playing field to all segments, resulting in the holistic growth of the industry.

The textile sector alone accounts for 2% of GDP (at factor cost), 14% Industrial Production, 8% Excise and Customs revenue collections and 12% of total manufacturing exports. The sector employs about 35 million people. The Government has earmarked Rs.11,952.80 crores with TUFS (Technology Upgradation Fund Scheme).

The textile industry including jute and jute products, which is subject to severe international competition is a major employer and export earner in the country. The industry also faces severe cyclical recession periodically. It also supports cotton and silk farmers who form a major part of the agricultural sector. In order to promote export of textile items the Government also provides periodical support in the form of export subsidy, EPCG, special modernization fund to enable the sector to sustain international competition.

The Central Government is also coming out with a national textile policy and set up a venture capital fund. The Union Budget for the current year has also announced setting up of new textile parks. The proposed parks to be set up for the first time have an allocation of Rs. 500 crores with the government providing a subsidy of Rs.70 crores for each park.

The increase in the duty of free import of trimmings and embellishments from 3% to 5% of the free on board value for the garment sector would result in additional export of value-added garments to the tune of Rs.10,000 crores. The measures of the government are aimed at doubling textile exports from the country. Textile exports stood at around $39 billion on 2013-14. Textile and apparel exports have been growing at a robust pace in the current year on the back of a recovery in demand in Europe and US, the largest markets.

Textile is used by every single living person and its products have significant importance for common man being an essential item. Textile industry also has huge employment potential. Change in definition will afford clarity and avoid confusion. The linkage to CETA would enable clear identification.

Existing Clause 3(C)(a)(viii)

Edible Oil under Administrative Price Mechanism;

Suggested Change	***Clause renumbered 5(C)(a)(viii)***

Edible Oil Seeds and Oils (including Vanaspati) included in Chapter 12 and 15 of the Central Excise Tariff Act, 1985;

Justifications

There is no Edible Oil under Administrative Price Mechanism. Hence, qualifying the clause by defining Edible Oil under Administered Price Mechanism is incorrect.

Change in definition will afford clarity and avoid confusion. The linkage to CETA would enable clear identification.

Suggested Change	***Introduce new clause 5(C)(a)(ix)***

Vehicles other than railway or tramway rolling-stocks, and parts and accessories thereof included under Chapter 87 of the Central Excise Tariff Act, 1985;

Justifications

The Automobile (including auto components) sector & the FMCG sector in India are characterised by multiple units located at multiple locations, fiscal benefits being one of the driving force for setting up units at remote locations. Automobile sector is one sector where significant related party transactions pertaining to sale and purchase of finished goods happen. The responsibility cast on the independent directors with respect to such transactions is very high under the new Companies Act. Cost is one of the major determinants of Arm's length pricing. Thus the examining of cost records is of utmost importance. The cost data for the sector is also used extensively by the revenue authorities. The number of certification in CAS4 formats demanded by the Central excise department from these sectors periodically is proof to this.

This sectors accounts for 6% of GDP, 22% of Manufacturing GDP, 15% Compounded Annual Growth Rate and Employs directly and indirectly about 13.1 million people. The Indian auto components industry is one of the fastest growing industries in the country. It has grown at a CAGR of 26.2% during the last five years ended 2011-12. The industry has transformed itself from a local supplier to a global auto parts supplier catering to some of the big names in the global automobile industry. While the established manufacturing base is a compelling attraction for global Original Equipment Manufacturers (OEMs) to outsource components from India, the industry is transforming itself from a low volume highly fragmented industry into a competitive industry backed by competitive strengths, technology and transition up the value chain.

The Indian auto component industry can potentially grow to over 5 lakh crore by the year 2020 with a Domestic turnover of around Rs. 4 lakh crore and an export potential of around Rs. 1 lakh crore which would contribute 3.6% of GDP by 2020. The industry would require additional skilled manpower of over 1 million people and investments of over 1.6 lakh crore during this period.

The usefulness of the cost audit report to the Revenue Department of Finance Ministry can be observed from a study of the Annexures to the cost audit report pertaining to Central excise & Service tax Reconciliation and Related Party transaction details. Though the details available in these paragraphs of the cost audit report is important to every sector/industry covered under cost audit, it has a special significance with respect to the Automobile Sector due to the large amount of revenue involvement of the sector and possible leakage of revenue. Further, The Competition Commission of India (CCI) seeks exhaustive and authentic cost information for cases which come under their purview, Automobile & FMCG sectors being highly competitive sectors the cost records serve as very crucial data in any such case. Very recently around Rs.2,500 crore penalty has been imposed in 18 automobile companies which have been selling their components at very high price through their dealers for providing after sales service to the consumers. This imposition of penalty was based on the cost audit reports.

India has been facing dumping of automobile components from other countries including China. There is also an attempt by other countries to omit such components while entering into Free Trade Agreements with India. Cost accounting records are the only source of data to protect the interest of the country.

These advantages need to be exploited in a manner to attain the twin objective of ensuring the companies to move to higher level of competitive performance and making available best quality product at lowest cost to the consumers. Effective cost management will lead to improvement in operational efficiency and make the products more affordable for the people.

Suggested Change	***Introduce new clause 5(C)(a)(x)***
Tyres & Tubes included in Chapter 40 of the Central Excise Tariff Act, 1985;	

Justifications

India is set to break into the league of the top five vehicle producing nations to account for 80 per cent of the total sales by 2020. India is the second fastest growing automobile market in the world after China. The Indian Tyre Industry accounts for approximately 5.0% of the global tyre demand generating revenue of approximately Rs 30,000 crore for the year 2011. With a turnover of Rs. 43,000 crore, Exports of Rs.4,800 crore, tyre production in India is anticipated to reach 191 Million Units by the end of FY 2016. Natural rubber is the key raw material for tyre industry which accounts for 45% of all raw materials and which is scarce and a precious natural resource. The use of such natural resources also has a large bearing on the environment. Effective cost management will enable the industry to improve the efficiency of operations and bring about effective utilisation of scarce natural resources.

Under various trade agreements the duty on tyres ranges between nil to 8.6% facilitating tyre imports into India. While tyres (finished products) can be imported into India at preferential/ concessional duty under various trade agreements, rubber (basic raw material) falls under negative list thus impacting the tyre industry both ways. Effective cost management in this industry can stimulate demand for auto mobiles and have a positive multiplier effect. This will also help the government in rationalising the import duty structure so that the domestic industry in this sector is appropriately protected for sustained development.

Suggested Change	***Introduce new clause 5(C)(a)(xi)***
Paper, Paperboard and articles thereof included in Chapter 47 and 48 of the Central Excise Tariff Act, 1985;	

Justifications

Paper Industry is one of the high priority industries having a bearing on the socio-economic development of the country. In India this industry plays a vital role in the overall industrial growth and also provides a necessary medium to propel our knowledge based economy forward in the new millennium. The Indian Paper industry produces just 2.6% of the total world production of paper, paper board and newsprint. The annual turnover of the Indian Paper industry is nearly Rs.30,000 crore. Paper industry contributes Rs.3,000 crore to the national exchequer. The industry employs 0.37 million people directly and 1.37 million indirectly and the average growth rate of paper industry is estimated at 7.8%.

Paper Industry in India is moving up with a strong demand push and is in expansion mode to meet the projected demand of 20 Million tonnes by 2020. The expected increase in demand for paper in the country will require considerable increase in the indigenous production base of the paper sector in the next fifteen years. Clearly, this would require in-depth planning to address critical issues such as non-availability of fibrous resource, trained manpower, high input costs, technological obsolescence and lack of economies of scale.

There is need of substantial capital investment for technological up gradation and capacity expansion to meet the short term as well as long term demand forecast and environmental obligations. In order to sustain the required growth rate, the industry requires financial assistance in the form of interest subsidies on energy & environment friendly technologies. Fund requirement for up gradation of the existing capacity – Rs. 30,000 crore, for additional capacity – Rs. 22,500 crore, for Duplex Board – Rs.14,000 crore and for Kraft paper – Rs. 6,300 crore.

In spite of substantial financial assistance from the Government, There were 14 cases aggregating to Rs.4,433 crore which were referred for Corporate Debt Restructuring. Thus there is an imperative need for effective cost management in Paper and Paper products industry for enhancing the efficiency and productivity to meet the need of a growing knowledge economy.

Very recently CCI has ordered probed into alleged cartelisation by big paper makers (Economic Times of 29/08/14) to investigate whether paper manufacturers acted in collusion to increase prices simultaneously. As per reports available in the public domain, the paper industry has been facing an excess supply situation owing to the significant capacity addition made in the past few years in conjunction with sluggish demand. The complaint to CCI has been filed by Sivakasi Master Printers Association who has alleged cartelisation of companies having large coverage of the domestic market effecting price rise every month. Such an investigation by the CCI would be futile and impossible in the absence of statutorily maintained and audited cost accounting records.

Further, the basic raw material for paper industry is natural wood which is scarce and a precious natural resource. The use of such natural resources also has a large bearing on the environment. Effective cost management will enable the industry to improve the efficiency of operations and bring about effective utilisation of scarce natural resources.

Suggested Change	***Introduce new clause 5(C)(a)(xii)***
Glass and Glassware included in Chapter 70 of the Central Excise Tariff Act, 1985;	

Justifications

The Industry has Installed capacity 15 lac tonnes per year and is expected to grow at 16% CAGR up to 2017. It is only 8% of the overall Indian packaging industry. Per capita glass container consumption of 1.8 kg in India as compared to 9 kg in China, 27 kg in USA. It is expected that the market size of Indian glass industry will be worth Rs.340 billion by 2015. One case with an aggregate amount of Rs.404 crore in Glass industry was referred for corporate Debt Re-structuring.

Glass is made from all-natural, sustainable raw materials, thus it is 100 % eco-friendly. It is preferred packaging material for consumer health and the environment as it the only packaging material rated 'GRAS' or 'generally regarded as safe' by the US Food & Drug Administration.

The use of glass is of critical importance in the present day when deteriorating environmental conditions have set alarm bells ringing for protection of environment in the interest of human health and well-being. There is an urgent need for preservation and improvement of environment. Increase in use of glass will go a long way in surging ahead towards achieving this objective.

The government support is required by the glass industry to control the increasing prices of raw materials and regularize the cullet collection system in India which would help the industry to counter the competition from other alternative uses for glass. Glass and glassware are the key inputs for industries and infrastructure products. Infrastructure is strategic industry due to its facilitating and multiplier effects. Effective cost management will help the industry become competitive.

Suggested Change	***Introduce new clause 5(C)(a)(xiii)***
Machinery, mechanical appliances and parts thereof, electrical/electronic machinery, equipment, appliances and parts thereof included in Chapter 84 and 85 of the Central Excise Tariff Act, 1985;	

Justifications

This sector comprises of plant and machinery, equipment / accessories required for manufacture / production, either directly or indirectly, of goods or for rendering services, including those required for replacement, modernization, technological up gradation and expansion. It also includes packaging machinery and equipment, refrigeration equipment, power generating sets, equipment and instruments for testing, research and development, quality and pollution control. Capital goods sector is extremely crucial for the development of the country's economy for the following two important reasons:

- Capital Goods is considered as a strategic sector and development of domestic capabilities is essential from a national self-reliance and security perspective
- Capital Goods sector has multiplier effect and has bearing on the growth of the user industries as it provides critical input, i.e., machinery and equipment to the remaining sectors covered under the manufacturing activity.

Indian manufacturers have been facing competition from foreign players, particularly Chinese and Korean manufacturers. Currently, despite increased domestic capacities, low cost foreign manufacturers still give tough competition to domestic manufactures.

The sector is of strategic importance as per the Industrial Policy Statement of 1991. This industry has intense integration with other industry segments. Development in sectors such as infrastructure, power, mining, oil and gas, refinery, steel, automotive and consumer durables are driving demand in engineering sector. Electronics industry is projected to cross Rs 10,000 crore during the current year. Defence electronics purchases will be about Rs 600,000 crore in the next ten years. National Electronics Policy aims at addressing the huge gap which is estimated at Rs.15.31 lakh crore ($300 billion) between locally manufactured electronics and the consumer demand for electronics that we expect to see by 2020. In spite of significant incentive and developmental support by the government, there were 2 cases aggregating to Rs 2,294 crore under CDR relating to Electrical and electronics industry. This indicates an urgent and imperative need to have a rationalized and principle based cost accounting system in companies engaged in this sector so as to make them more efficient and productive through focus on Input-output and other measures of performance analysis. Effective cost management will help the industry become competitive.

Suggested Change	***Introduce new clause 5(C)(a)(xiv)***
Packaged Food Products included under Chapters 2 to 25 of the Central Excise Tariff Act, 1985 (except chapters 5, 6, 14, 23 and 24);	

Justifications

Food processing is a large sector that covers activities such as agriculture, horticulture, plantation, animal husbandry and fisheries. It also includes other industries that use agricultural inputs for manufacturing of edible products. The ministry of food processing, Government of India indicates the following segments within the food processing industry - Diary, fruits & vegetable processing, Grain processing, Meat & poultry processing and Fisheries. India is the world's second largest producer of food with the potential of being the biggest, backed by its food and agricultural sector. The food processing industry is one of the largest industries in India and is ranked fifth in terms of production, consumption, export and expected growth.

Significant part of financial outlay proposed for food industry is through various initiatives under National

Mission on Food Processing (NMFP). The financial projections for the 12th plan are aimed at growth of food processing sector and have provided for budgetary allocations of Rs. 15,077 crores. The proposed financial outlay has an aggregate component Rs. 10,300 Crore towards providing part capital assistance to food processing project. There is an imperative need for effective monitoring of the financial support being given to the food processing industry by the government through various incentives and promotional schemes so as to ensure that the initiatives of the government are leading to desired outcomes and impact in terms of growth of the industry. Cost accounting records and audit is an effective mechanism to ensure appropriate monitoring and progressive evaluation of the efficiency and productivity level of the units engaged in food processing industries for realization of the objectives set by National Mission on Food Processing for the country.

Existing Clause 3(C)(a)(ix) Construction Industry;	
Suggested Change	***Clause renumbered 5(C)(a)(xv)***
Construction and development of infrastructural projects and facilities as defined under Schedule VI of the Companies Act, 2013;	
Justifications Construction and infrastructure projects are of national importance and the Government of India is placing a major thrust on infrastructure development. Since many of the projects are on Public Private Partnership mode, the toll tariff fixation has become a sensitive issue, which requires a transparent tariff fixation mechanism based on costs and reasonable return. An active monitoring of costs right from the Initial tariff fixation till the time full recovery is made, will enable the reduction of toll recovery period and thereby reducing the toll charges to the benefit of the general public. A proper definition is required instead of just saying "construction" which is vague.	

Existing 3(C)(a)(x) Companies engaged in health services viz. functioning as or running hospitals, diagnostic centres, clinical centres or test laboratories;	
No change	***Clause renumbered 5(C)(a)(xvi)***
Companies engaged in health services viz. functioning as or running hospitals, diagnostic centres, clinical centres or test laboratories;	

Existing 3(C)(a)(xi) Companies engaged in education services, other than such similar services falling under philanthropy or as part of social spend which do not form part of any business.

No change	***Clause renumbered 5(C)(a)(xvii)***
Companies engaged in education services, other than such similar services falling under philanthropy or as part of social spend which do not form part of any business.	

Existing Clause 3(C)(b) For the purposes of clause (C), the thresholds limit shall be as under, -	
Suggested Change	***To be deleted***
Existing Clause 3(C)(b)(i) 3(C)(b)(i) in the case of a multi-product or a multi services company (i.e. a company producing more than one product or service), any product or a service for which the individual turnover (from such specific product or such specific service) is rupees fifty crore or more;	
Suggested Change	***To be deleted***
Justifications Combined threshold limit provided under clause 3 above. Further, having an individual turnover limit of Rs. 50 crores in multi-product cases and Rs.25 crores for single product company is contradictory.	

Existing Clause 3(C)(b)(ii) In the case of a company producing any one specific product or service, if the net worth of the company is rupees one hundred and fifty crore or more or the turnover is rupees twenty five crore or more.	
Suggested Change	***To be deleted***
Justifications Combined threshold limit provided under clause 3 above. Further, having an individual turnover limit of Rs. 50 crores in multi-product cases and Rs.25 crores for single product company is contradictory.	

Existing Clause 3(D) Companies (including foreign companies other than those having only liaison offices) engaged in the production, import and supply or trading of following medical devices, namely:-	
No change	***Clause renumbered 5(D)***
Companies (including foreign companies other than those having only liaison offices) engaged in the production, import and supply or trading of following medical devices, namely:-	

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Existing Clause 3(D)(a)

(i) Cardiac Stents;
(ii) Drug Eluting Stents;
(iii) Catheters;
(iv) Intra Ocular Lenses;
(v) Bone Cements;
(vi) Heart Valves;
(vii) Orthopaedic Implants;
(viii) Internal Prosthetic Replacements;
(ix) Scalp Vein Set;
(x) Deep Brain Stimulator;
(xi) Ventricular peripheral Shud;
(xii) Spinal Implants;
(xiii) Automatic Impalpable Cardiac Deflobillator;
(xiv) Pacemaker (temporary and permanent);
(xv) Patent ductusarteriosus, atrial septal defect and ventricular septal defect closure device;
(xvi) Cardiac Re-synchronize Therapy ;
(xvii) Urethra Spinicture Devices;
(xviii) Sling male or female;
(xix) Prostate occlusion device; and
(xx) Urethral Stents.

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No change

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Clause renumbered 5(D)(a)

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(i) Cardiac Stents;
(ii) Drug Eluting Stents;
(iii) Catheters;
(iv) Intra Ocular Lenses;
(v) Bone Cements;
(vi) Heart Valves;
(vii) Orthopaedic Implants;
(viii) Internal Prosthetic Replacements;
(ix) Scalp Vein Set;
(x) Deep Brain Stimulator;
(xi) Ventricular peripheral Shud;

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(xii)	*Spinal Implants;*
(xiii)	*Automatic Impalpable Cardiac Deflobillator;*
(xiv)	*Pacemaker (temporary and permanent);*
(xv)	*Patent ductusarteriosus, atrial septal defect and ventricular septal defect closure device;*
(xvi)	*Cardiac Re-synchronize Therapy ;*
(xvii)	*Urethra Spinicture Devices;*
(xviii)	*Sling male or female;*
(xix)	*Prostate occlusion device; and*
(xx)	*Urethral Stents.*

Existing Clause 3(D)(b) For the purposes of clause (D), the thresholds limit shall be as under, -	
Suggested Change	***Not Applicable. To be deleted***
Existing Clause 3(D)(b)(i) In the case of a company engaged in multiple products, any product or device for which the individual turnover (from such specific product or device) is rupees ten crore or more, or one third of the turnover, whichever is less.	
Suggested Change	***Not Applicable. To be deleted***
Existing Clause 3(D)(b)(ii) In the case of a company engaged in one specific product or device, if it has net worth of rupees one hundred and fifty crore or more or the turnover is rupees twenty five crores or more;	
Suggested Change	***Not Applicable. To be deleted***
Justifications Combined threshold limit for application of cost accounting records provided under clause 3 above.	

6. Cost audit.-	
Existing Clause 6(1) The category of companies specified in rule 3 and the thresholds limits laid down in rule 4, shall within one hundred and eighty days of the commencement of every financial year, appoint a cost auditor.	
Suggested Change	
The category of companies specified in rule 5 and the thresholds limits laid down therein, shall within ninety days of the commencement of every financial year, appoint a cost auditor.	

Justifications

Providing for one hundred and eighty days from the commencement of the financial year appears to be a very long period which is not required. The provision of appointment within ninety days as existing at present is more logical. Further, the companies would be required to get the remuneration of cost auditors ratified in the AGM and usually the AGMs are held much before a period of 180 days.

Suggested Change	***Introduce new clauses 6(2) to 6(7)***
New Clause 6(2) *In case of a company that is required to constitute an Audit Committee under section 177, the committee, and, in cases where such a committee is not required to be constituted, the Board, shall take into consideration the qualifications and experience of the individual or the firm proposed to be considered for appointment as auditor and whether such qualifications and experience are commensurate with the size and requirements of the company:* *Provided that while considering the appointment, the Audit Committee or the Board, as the case may be, shall have regard to any order or pending proceeding relating to professional matters of conduct against the proposed auditor before the Institute of Cost Accountants of India or any competent authority or any Court.*	
New Clause 6(3) *The Audit Committee or the Board, as the case may be, may call for such other information from the proposed auditor as it may deem fit.* *Provided that while considering the appointment, the Audit Committee or the Board, as the case may be, shall have regard to any order or pending proceeding relating to professional matters of conduct against the proposed auditor before the Institute of Cost Accountants of India or any competent authority or any Court.*	
New Clause 6(4) *Subject to the provisions of sub-rule (2), where a company is required to constitute the Audit Committee, the committee shall recommend the name of an individual or a firm(s) as cost auditor to the Board for consideration and in other cases, the Board shall consider an individual or a firm as cost auditor for appointment.*	
New Clause 6(5) *If the Board agrees with the recommendation of the Audit Committee, it shall proceed further for appointment of an individual or a firm as cost auditor.*	
New Clause 6(6) *If the Board disagrees with the recommendation of the Audit Committee, it shall refer back the recommendation to the committee for reconsideration citing reasons for such disagreement.*	

New Clause 6(7)
If the Audit Committee, after considering the reasons given by the Board, decides not to reconsider its original recommendation, the Board shall record reasons for its disagreement with the committee and proceed with its own recommendation for appointment of the cost auditor; and if the Board agrees with the recommendations of the Audit Committee, it shall proceed for appointment of the cost auditor in accordance with the recommendation of the audit committee.
Justifications
The Act provides same qualifications/disqualifications and duties and responsibilities for cost auditors as that of a financial auditor. Hence, it is imperative that the manner and procedure of appointment is also made same as provided under Rule 6 of Chapter X as notified by the MCA.

Existing Clause 6(2)	
Every company referred to in sub-rule (1) shall inform the cost auditor concerned of his or its appointment as such and file a notice of such appointment with the Central Government within a period of thirty days of the Board meeting in which such appointment is made or within a period of one hundred and eighty days of the commencement of the financial year, whichever is earlier, through electronic mode, in **form CRA-2**, along with the fee as specified in Companies (Registration Offices and Fees) Rules, 2014.	
Suggested Change	***Clause renumbered 6(8)***
*Every company referred to in sub-rule (1) of rule 6 shall inform the cost auditor concerned of his or its appointment as such and file a notice of such appointment with the Central Government within a period of thirty days of the Board meeting in which such appointment is made or within a period of ninety days of the commencement of the financial year, whichever is earlier, through electronic mode, in **form CRA-2**, along with the fee as specified in Companies (Registration Offices and Fees) Rules, 2014.*	
Justifications	
Providing for one hundred and eighty days from the commencement of the financial year appears to be a very long period which is not required. The provision of appointment within ninety days as existing at present is more logical. Further, the companies would be required to get the remuneration of cost auditors ratified in the AGM and usually the AGMs are held much before a period of 180 days.	

Suggested Change	***Introduce new Clause 6(9)***
Every cost auditor appointed under sub-Rule (1) shall hold office till one hundred and eighty days from the close of the company's financial year or till he submits the cost audit report, for the financial year for which he has been appointed. *Provided that where the company fails to furnish cost accounting records to the cost auditor so as to enable the cost auditor to submit his report within one hundred and eighty days from the close of the*	

financial year, the cost auditor shall continue to hold office till he submits the cost audit report for that financial year and the cost auditor shall make a report to the Central Government regarding non-furnishing of the cost accounting records by the Company to enable him/it to submit its report. *Provided further that the cost auditor shall continue to hold office if he has been reappointed for the succeeding year.*
Justifications The Act provides same qualifications/disqualifications and duties and responsibilities for cost auditors as that of a financial auditor. Hence, it is imperative that the manner and procedure of appointment is also made same as provided under Rule 6 of Chapter X as notified by the MCA. Holding of office in respect of a cost auditor would necessarily be different since the cost auditor is appointed by the Board and not in the AGM.

Suggested Change	***Introduce new Clause 6(10)***
Every company appointing more than one cost auditor shall appoint or designate one of the cost auditors as the Lead Auditor of the Company.	
Justifications Large PSUs are appointing multiple cost auditors and in the absence of a procedure set out in the rules, this becomes a practical problem. Unlike financial audit, where they are joint auditors of the company, different cost auditors can be appointed for different products or units or even multiple cost auditors can be appointed for same products manufactured in separate units. In such a case, the cost audit report for the company as a whole becomes difficult to be consolidated since terms of reference of individual cost auditors gets limited to their units/products.	
Suggested Change	***Introduce new Clause 6(11)***
Any casual vacancy in the office of cost auditor arising out of death or resignation or removal shall be filled by the Board of Directors within thirty days and the newly appointed cost auditor shall hold the office for the balance period for the financial year for which he is appointed as per provision of sub-Rule (9) of Rule 6.	
Justifications No provision has been made as to what will happen in case of death or resignation of a cost auditor.	

6(3) Every cost auditor appointed as such shall continue in such capacity till the expiry of one hundred and eighty days from the closure of the financial year or till he submits the cost audit report, for the financial year for which he has been appointed.	
Suggested Change	***To be deleted***

Suggested Change	***Introduce new Clause 7***

7. Conditions for appointment and notice to Central Government -

7(1) The cost auditor appointed under rule 6 shall submit a certificate that -

7(1)(a) the individual or the firm, as the case may be, is eligible for appointment and is not disqualified for appointment under the Act, the Cost Accountants Act, 1959 and the rules or regulations made thereunder;

7(1)(b) the proposed appointment is as per the term provided under the Act;

7(1)(c) the proposed appointment is within the limits laid down by or under the authority of the Act;

7(1)(d) the list of proceedings against the auditor or audit firm or any partner of the audit firm pending with respect to professional matters of conduct, as disclosed in the certificate, is true and correct.

Justifications

The Act provides same qualifications/disqualifications and duties and responsibilities for cost auditors as that of a financial auditor. Hence, it is imperative that the manner and procedure of appointment is also made same as provided under Rule 6 of Chapter X as notified by the MCA.

Suggested Change	***Introduce new Clause 8***

8. Removal of Cost Auditor –

A cost auditor appointed under sub-Rule (1) or under sub-Rule (11) of Rule 6 may be removed from his office before the expiry of his term only by a resolution of the Board, after obtaining the previous approval of the Central Government in that behalf in the prescribed form, along with such fees or additional fees as prescribed under the Companies (Fees of Applications) Rules notified under section 459 of the Act.

Provided that before taking any action under this rule, the cost auditor concerned shall be given a reasonable opportunity of being heard.

Justifications

A removal procedure should be laid down in the rules. Since a cost auditor is appointed by the Board and not in the AGM, the cost auditor should be provided an opportunity of being heard before any removal takes place.

Suggested Change	***Introduce new Clause 9***

9. Cost Auditor to sign the cost audit reports, etc.

Suggested Change	***Introduce new Clause 9(1)***

A person or where a firm of cost accountants or limited liability partnership firm is appointed as a cost

auditor of the company under sub-Rule (1) or under sub-Rule (11) of Rule 6, the cost auditor's report or any other document or cost statements of the company shall be signed by such person or by any 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, and in accordance with the provisions of sub-section (2) of section 141 of the Act, as applicable. In any case the report should not be signed by merely affixing the firm's name.
Justifications   In view of the duties and responsibilities as well as the additional duties cast on a cost auditor in the Act, it is necessary to provide the clause to fix responsibility.

Suggested Change	***Introduce new Clause 9(2)***
A company where more than one cost auditor is appointed, the cost auditor's report or any other document or cost statements pertaining to its area of audit shall be signed by such person or by any 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 any case the report should not be signed by merely affixing the firm's name. *Provided that where a firm including a limited liability partnership is appointed as a cost auditor of a company, only the partners practising in India who are qualified for appointment as a cost auditor shall be authorised to act and sign on behalf of the firm.*	
Justifications In view of the duties and responsibilities as well as the additional duties cast on a cost auditor in the Act, it is necessary to provide the clause to fix responsibility. Since cost audit reports can be prepared separately for individual products, a cost auditor appointed for a specific unit or product should not be held responsible for the audit of the entire company not within his terms of reference. Such responsibility would vest with the lead auditor.	

Suggested Change	***Introduce new clause 10***
10. Form of the Report:	

Existing Clause 6(4) Every cost auditor, who conducts an audit of the cost records of a company, shall submit the cost audit report along with his or its reservations or qualifications or observations or suggestions, if any, in form CRA-3.	
Suggested Change	***Clause renumbered 10(1)***
Every cost auditor, who conducts an audit of the cost records of the company shall, within one hundred and eighty days from the close of the company's financial year to which the report relates, submit the cost	

audit report along with his or its observations and suggestions, and Annexure to the Board of Directors of the company in form CRA-3.

Suggested Change	***Introduce new clause 10(2)***

Every cost auditor, who submits a report under sub-Rule (1), shall also furnish performance appraisal report covering inter alia the following parameters duly authenticated by the cost auditor, to the Board of Directors of the company.

a) Capacity Utilization Analysis

b) Productivity/Efficiency Analysis

c) Utilities/Energy Efficiency Analysis

d) Key-Costs & Contribution Analysis

e) Product/Service Profitability Analysis

f) Market/Customer Profitability Analysis

g) Working Capital & Inventory Management Analysis

h) Manpower Analysis

i) Application of Management Accounting Tools

j) Any other area that would result in reduction in cost or better performance.

Justifications

Performance Appraisal Report was introduced in 2011 and the same has been found to be helpful and beneficial by the Industry. The purpose of performance analysis is to determine if a company is performing well and to identify areas that require improvement. By evaluating a company's performance, it is possible to keep the company on track. The implications of formulating strategies include many parameters where the cost impact is a significant one and hence the cost auditors' appraisal of the performance of the company is an important input for the top management of the company. The report provides an external review perspective. It serves a very useful purpose by drawing management's attention towards key issues and helps overall improvement in the performance of the company.

Existing Clause 6(5)

Every cost auditor shall forward his report to the Board of Directors of the company within a period of one hundred and eighty days from the closure of the financial year to which the report relates and the Board of directors shall consider and examine such report particularly any reservation or qualification contained therein.

Suggested Change	***Clause renumbered 10(3)***

In case of a company that is required to constitute an Audit Committee under section 177, the committee, and, in cases where such a committee is not required to be constituted, the Board, shall consider and

examine such report particularly any reservation or qualification contained therein. The cost auditor, wherever appointed shall attend and participate at the concerned meeting of the Audit Committee or of the Board, as the case may be, but shall neither be a member nor have the right to vote.
Justifications Cost auditor provided an opportunity to present the report to the audit committee or the Board, as the case may be and apprise them of his findings.

Existing Clause 6(6) Every company covered under these rules shall, within a period of thirty days from the date of receipt of a copy of the cost audit report, furnish the Central Government with such report along with full information and explanation on every reservation or qualification contained therein, in form CRA-4 along with fees specified in the Companies (Registration Offices and Fees) Rules, 2014.	
No change	***Clause renumbered 10(4)***
Every company covered under these rules shall, within a period of thirty days from the date of receipt of a copy of the cost audit report, furnish the Central Government with such report along with full information and explanation on every reservation or qualification contained therein, in form CRA-4 along with fees specified in the Companies (Registration Offices and Fees) Rules, 2014.	

Existing Clause 6(7) The provisions of sub-section (12) of section 143 of the Act and the relevant rules made thereunder shall apply mutatis mutandis to a cost auditor during performance of his functions under section 148 of the Act and these rules.	
No change	***Clause renumbered 10(5)***
The provisions of sub-section (12) of section 143 of the Act and the relevant rules made thereunder shall apply mutatis mutandis to a cost auditor during performance of his functions under section 148 of the Act and these rules.	

Existing Clause 7 **Rules not to apply in certain cases. -** The requirement for cost audit under these rules shall not be applicable to a company which is covered under rule 3, and,	
Existing Clause 7(i) whose revenue from exports, in foreign exchange, exceeds seventy five per cent of its total revenue or	
Suggested Change	***To be deleted***

Justifications
Exemption provided to Companies having more than 75% turnover from exports in foreign exchange is vague. Companies have fluctuating percentage in terms of export and such a clause is not proper. Further, the cost accounting mechanism is a tool for making a company competitive and it is more relevant in case of companies who are competing in the export market.

Existing Clause 7(ii)	
which is operating from a special economic zone.	
Suggested Change	***To be deleted***
Justifications	
It is not clear whether the exemption to SEZ includes EOU's as well. EOU's are allowed to sell up to 50% in domestic market. Hence the logic behind such and exemption is not clear.	

OBSERVATIONS ON FORM CRA-3

1. The entire structure has been copied from the old Cost Audit Report Rules which are totally outdated.
2. For every Para in the Annexure, the words "Good(s)/Service(s)" have been used without considering whether it is applicable. Obviously, quantitative details, installed capacity, capacity utilisation, wastage, stock adjustment of service, service write-off, input of service corresponding of input of materials in production are not applicable at all. There are many other such instances across the Form.
3. The structure of this report was changed in 2011 since most of the information provided here are already available in the financial accounts and is duplication having no relevance to cost or cost accounting.
4. The formats are also not compatible for development of taxonomy for XBRL filing. It may be kept in mind that extensions in taxonomy are not allowed in India as a policy. The structure of the report also compromises on uniformity and standardisation of the report which will completely nullify inter-firm comparisons. The rigid experience of the last 40 years should be kept in mind.
5. General Information: Annexure 1: Copied from the structure that was issued in June 2011. However, this had to be amended later on to make it compatible to XBRL Taxonomy.
6. Annexure 3: Process of Manufacture – redundant paragraph having no practical use. This is irrelevant for a service industry company.
7. Para 4 – Sales: Without reference to the Product group code (as has been introduced in 2011), every company will describe its product or services in the way they please. This will not allow the data to be used for any analysis by any Regulatory body or other users. Further, there is no unit of measure provided which will lead to combination of sales figures of products recorded/sold under different unit of measures. The structure will not enable conversion to XBRL.
8. Para 5: Quantitative Information – None of the details are applicable for a service company though mentioned in the prescribed para.
9. Para 6: Details of Major Input Materials – Not applicable for Service. For production and manufacturing companies, this represents critical data. There were many representations from industry so that such confidential information is not required to be disclosed. Giving details of every raw material exceeding 5% of the value of total raw materials consumed would jeopardize such confidentiality and in turn competitive advantage of a company. The details asked for are also not compatible to XBRL filing since extensions are not allowed in India.
10. Para 6(A): Standard and Actual Consumption – Not applicable for Service. For production and manufacturing companies, this represents critical data. There were many representations from industry so that such confidential information is not required to be disclosed. Giving

details of raw materials exceeding 5% means the list can go to hundreds of items. The format is also not compatible to XBRL filing due to table and dimension problems.

11. Para 6(B): Cost of Imported Input Materials – Not applicable for Service. Under SAP system now prevalent in most of the companies, the details required are not available. The data is also not relevant. The total imports are available in financial accounts.

The same conclusions will be drawn on a perusal of every para as explained above.

The report format has also prescribed a cost statement that runs into 5 pages. The cost elements and the presentation are on the basis of a single unit single product company. Asking for details of different overheads within the body of the cost statement has no relevance and is contradictory to the basic definition and character of an overhead. This cost statement was introduced in 1965 and years of experience already showed that the cost statements prepared in this structure were just form filling up which had no relevance to the management of a company. It is because of such structure of reporting that cost audit always received criticism from industry and considered as a non-value adding exercise.

The new structure introduced in 2011 took into consideration all these issues and structured the report in a form which provided all the relevant data without compromising on the confidentiality aspect. It also presented the relevant data in a report which drew the attention of the management. It should be kept in mind that a cost statement loses its impact and relevance to the management unless they are able to see the total cost impact of important cost elements of a product or service at a glance in one single sheet.

The prescribed format has asked for detailed information of every cost element in different para. It would be similar to reproduction of a ledger in the body of a Profit and Loss Account. Further, the information asked for are readily available from the financial accounts and annual report and this has no relevance in a cost audit report. It is from this point of view all these items/paras were removed from the cost audit report and a much better crisp report was introduced containing relevant data available from the cost accounting system. Certain Data has been asked for cost centre-wise. Under the present IT environment and wide-spread use of SAP and other such accounting systems, the number of cost centres can be anywhere between 250-300 in number. Such information on the body of the report would be meaningless.

Analysis of each and every para would reveal more such examples. It may further be noted that in any multiproduct company where all its activities may not be covered under the Rules, such a company would not be in a position to provide the data asked for under different cost elements for the company as a whole and the product/service under reference. To fulfil the requirement, it would again be some figures that would be provided to meet the compliance requirement without any reality.

We give below the reporting format as our suggestion which is XBRL compliant.

Form CRA-1

[Pursuant to Rule 4(6) of the Companies (Cost Records and Audit) Rules, 2014]
FORM OF THE COST RECORD REPORT

To,

The Board of Directors,

…………………………………………………… *(mention name of the company)*

……………………………………………… *(mention registered office address of the company)*

I/We …………………………………… being in permanent employment of the company / in practice, and having been appointed as cost accountant under Rule 4(6) of the Companies (Cost Records and Audit) Rules, 2014 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 sub-section (1) of section 148 of the said Act, and other relevant records for the period/year ……………………… *(mention the financial year)* and state 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 cost record report.

2 In my/our opinion, proper cost records, as per Companies (Cost Records and Audit) Rules, 2014 prescribed under sub-section (1) of section 148 of the Companies Act, 2013, 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, 2013 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 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 COST RECORD REPORT

a) Name of the company:

b) Registered office address:

c) Financial year to which the Cost Record Report relates.

QUANTITATIVE INFORMATION

Product/Activity Group Name	UOM	Product Group Code	CETA Chapter Heading	Covered In Cost Audit	Actual Production	Net Operational Revenue	
						Quantity	Value Rs.
1.							
2.							
………							
Total Net revenue from Operations							
Extra Ordinary Income, if any							
Other Incomes of Company							
Total Income as per Audited Annual Report							

RECONCILIATION STATEMENT

Particulars	**Amount Rs.**
Profit (loss) from product or activity groups covered under cost audit **Profit (loss) from product or activity groups covered under cost accounting records rules but not covered under cost audit** **Profit (loss) from activities not covered under cost accounting records rules** **Add: Incomes not considered in Cost, if any** **Less: Expenses not considered, if any**	
Total **Difference in Valuation of Stock between financial accounts an cost accounts**	
Profit as per Financial Accounts	

Dated: this ____ day of _________ 20__ at _________________ (*mention name of place of signing this report*)

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

Form CRA-3

[Pursuant to Rule 10(1) of the Companies (Cost Records and Audit) Rules, 2014]

FORM OF THE COST AUDIT REPORT

I/We,... having been appointed as Cost Auditor(s) under Section 148(3)of the Companies Act, 2013(18 of 2013) 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 Cost Records maintained under section 148 of the said Act, in compliance with the cost auditing standards, in respect of the...................................(mention name (s) of ***Product Group of*** good(s)/service(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 section 148 of the Companies Act, 2013, have/have not been maintained by the company in respect of good(s)/service(s) 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, 2013, in the manner so required.

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

(vi) In my/our opinion, information, statements in the annexure to this cost audit report gives/does not give a true and fair view of the cost of production of good(s)/rendering of service(s), cost of sales, margin and other information relating to good(s)/service(s) under reference.

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 AND 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/she shall indicate the same against the relevant para (i) to (vi) in the prescribed form of the Cost Audit Report giving details of discrepancies he/she 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.

Annexure to the Cost Audit Report

1. General Information

1	Corporate identity number or foreign company registration number	
2	Name of company	
3	Address of registered office or of principal place of business in India of company	
4	Address of corporate office of company	
5	Email address of company	
6	Date of beginning of reporting Financial Year	dd/mm/yyyy
7	Date of end of reporting Financial Year	dd/mm/yyyy
8	Date of beginning of previous financial year	dd/mm/yyyy
9	Date of end of previous financial year	dd/mm/yyyy
10	Level of rounding used in cost statements	Absolute/thousands/lacs/crores
11	Reporting currency of entity	INR
12	Number of cost auditors for reporting period	
13	Date of board of directors meeting in which annexure to cost audit report was approved	
14	Whether cost auditors report has been qualified or has any reservations or contains adverse remarks	
15	Consolidated qualifications, reservations or adverse remarks of all cost auditors	
16	Consolidated observations or suggestions of all cost auditors	
17	Whether company has related party transactions for sale or purchase of goods or services	

General Details of Cost Auditor

1	Whether cost auditor is lead auditor	
2	Category of cost auditor	
3	Firm's registration number	
4	Name of cost auditor’s firm	
5	PAN of cost auditor’s firm	
6	Address of cost auditor or cost auditors firm	
7	Email id of cost auditor or cost auditors firm	
8	Membership number of member signing report	
9	Name of member signing report	
10	Name of product or industry	
11	SRN number of Form 23C / CRA-2	
12	Number of audit committee meeting attended by cost auditor during year	
13	Date of signing cost audit report and annexure by cost auditor	
14	Place of signing cost audit report and annexure by cost auditor	

2. Cost Accounting Policy

(1) Briefly describe the cost accounting policy adopted by the Company and its adequacy or otherwise to determine correctly the cost of production/operation**,** cost of sales, sales realization and margin of the good(s)/service(s) under reference separately for each good(s)/service(s). 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 or services, scarps, 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) Other relevant cost accounting policy adopted by the Company

(2) Briefly specify the changes, if any, made in the cost accounting policy for the good(s)/service(s) under audit during the current financial year as compared to the previous financial year.

(3) Observations of the Cost Auditor regarding adequacy or otherwise of the Budgetary Control System, if any, followed by the company.

2. PRODUCT GROUP DETAILS (for the company as a whole)

Name of Activity Group	Product/ Activity Group Code	UOM	4 digit CETA Chapter code covered	Covered under Cost Audit Yes / No	Net Operational Revenue	
					Current Year Rs.	Previous Year Rs.
1.						
2.						
3.						
………						
Total Net revenue from Operations						
Extra Ordinary Income, if any						
Other Incomes of Company						
Total revenue as per Financial Accounts						

4. QUANTITATIVE INFORMATION (for each product/activity 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			
3. Production as per Excise Records			
4. Capacity Utilization (in-house)			
5. Finished Goods Purchased			
(a) Domestic Purchase of Finished Goods			
(b) Imports of Finished Goods			
(c) Total Finished Goods Purchased			
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 of Product/Services			
(b) Domestic Sales of Traded Goods			
(c) Export Sale of Product/Services			
(d) Export Sale of Traded Goods			
(e) Total Quantity Sold			

5. ABRIDGED COST STATEMENT (for each product/activity group separately)							
	UOM	Production	Finished Goods Purchased	Finished Stock Adjustment	Captive Consumption	Other Adjustments	Quantity Sold
	Current Year						
	Previous Year						

Sno.	Particulars	Current Year Amount (Rs.)	Current Year Rate per Unit (Rs.)	Previous Year Amount (Rs.)	Previous Year Rate per Unit (Rs.)
1	Materials Consumed				
	a) Indigenous Purchased				
	b) Imported				
	c) Self Manufactured / Produced				
2	Process Materials/Chemicals				
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				
11	Depreciation/Amortization				
12	Other Production Overheads				
13	Industry Specific Operating Expenses (specify details)				
14	Total (1 to 13)				
15	Increase/Decrease in Work-in-Progress				
16	Less: Credits for Recoveries, if any				
17	Primary Packing Cost				
18	Cost of Production/Operations (14 + 15 to 17)				
19	Cost of Finished Goods Purchased				
20	Total Cost of Production & Purchases (18 + 19)				
21	Increase/Decrease in Stock of Finished Goods				
22	Less: Self/Captive Consumption (incl. Samples, etc.)				
23	Other Adjustments (if any)				
24	Cost of Production/Operation of Goods/Services Sold (20 + 21 to 23)				
25	Administrative Overheads				
26	Secondary Packing Cost				
27	Selling & Distribution Overheads				
28	Interest & Financing Charges				
29	Cost of Sales (24 + 25 to 28)				
30	Net Sales Realization (Net of Taxes and Duties)				
31	Margin [Profit/(Loss) as per Cost Accounts] (30 - 29)				

	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.

6. OPERATING RATIO ANALYSIS (for each product/activity group separately)				
Sno.	**Particulars**	**Units**	**Current Year**	**Previous Year**
	Ratio of Operating Expenses to Cost of Sales			
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	Industry Specific Operating Expenses	%		
9	Packing Cost	%		
10	Other Expenses	%		
11	Stock Adjustments	%		
12	Production Overheads	%		
13	Finished Goods Purchased	%		
14	Administrative Overheads	%		
15	Selling & Distribution Overheads	%		
16	Interest & Financing Charges	%		
17	Total	%		

7. PROFIT RECONCILIATION (for the company as a whole)			
Sno.	**Particulars**	**Current Year Rs.**	**Previous Year Rs.**
1	Profit or Loss as per Cost Accounting Records		
	(a) For the audited product/activity groups		
	(b) For the un-audited product/activity groups		
2	Add: Incomes not considered in cost accounts (specify details)		
3	Less: Expenses not considered in cost accounts (specify details)		
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	Profit or Loss as per Financial Accounts		

8. VALUE ADDITION AND DISTRIBUTION OF EARNINGS (for the company as a whole)			
Sno.	**Particulars**	**Current Year Rs.**	**Previous Year Rs.**
	Value Addition:		
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	Add: Extra Ordinary Income		
10	Earnings available for distribution		
	Distribution of Earnings to:		
1	Employees as salaries & wages, retirement benefits, etc.		
2	Shareholders as dividend		
3	Company as retained funds		
4	Government as taxes (specify)		
5	Extra Ordinary Expenses		
6	Others, if any (specify)		
7	Total distribution of earnings		

9. FINANCIAL POSITION AND RATIO ANALYSIS (for the company as a whole)				
Sno.	**Particulars**	**Units**	**Current Year**	**Previous Year**
A.	**Financial Position**			
1	Share Capital	Rs/Lakh		
2	Reserves & Surplus	Rs/Lakh		
3	Long Term Borrowings	Rs/Lakh		
4	(a) Gross Tangible Assets	Rs/Lakh		
	(b) Net Tangible Assets	Rs/Lakh		
5	(a) Current Assets	Rs/Lakh		
	(b) Less: Current Liabilities	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	Value Added	Rs/Lakh		
4	Net Revenue from Operations of Company	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 revenue from Operations (B5/B4)	%		
4	PBT to Value Added (B5/B3)	%		
D.	**Other Financial Ratios**			
1	Debt-Equity Ratio	Ratio		
2	Current Assets to Current Liabilities	Ratio		
3	Valued Added to Net Revenue from Operations	%		
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:

(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.

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								

NOTES:

(1) Details should be furnished for each Related Party and Product Group/Activity Group separately.

(2) Details of Related Party transactions without indicating the Normal Price and the basis thereof shall be considered as incomplete information.

11. Reconciliation of Indirect Taxes (for the Company as a whole)

	Particulars	Assessable Value Rs.	Excise Duty Rs.	Service Tax Rs.	Cess & Others Rs.	VAT Rs.
	Duties/Taxes Payable					
	Excise Duty					
1	Domestic					
2	Export					
3	Stock Transfers (Net)					
4	Others, if any					
5	**Total Excise Duty (1 to 4)**					
6	Service Tax					
7	VAT, CST etc.					
8	Other State Taxes if any					
9	**Total Duties / Taxes Payable (5 to 8)**					
	Duties/Taxes Paid					
10	Cenvat/VAT Credit Utilised - Inputs					
11	Cenvat/VAT Credit Utilised - Capital Goods					
12	Cenvat/VAT Credit Utilised - Input Services					
13	Cenvat/VAT Credit Utilised - Others					
14	Total (10 to 13)					
15	Paid through PLA/Cash					
16	Total Duties/Taxes Paid (14 + 15)					
17	Duties/Taxes Recovered					
18	Difference between Duties/Taxes Paid and Recovered					
19	Interest/Penalty/Fines Paid					

SIGNATURE	SIGNATURE	SIGNATURE
NAME	NAME	NAME
COST AUDITOR	COMPANY SECRETARY/DIRECTOR	DIRECTOR
MEMBERSHIP NUMBER	MEMBERSHIP/DIN NUMBER	DIN NUMBER
SEAL	STAMP	STAMP
DATE	DATE	DATE

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.