GUIDANCE NOTE ON MAINTENANCE OF COST RECORDS AND COST AUDIT OF CONSTRUCTION INDUSTRY

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory body under an Act of Parliament)

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Foreword
(Second Edition)

I am delighted to convey that the Institute is releasing the second edition of Guidance Note on Maintenance of Cost Records for Construction Industry. You are aware that the Institute is taking all necessary steps for the capacity building of its members in all professional areas. Development of this guidance note is a very important step in this direction.

Indian Construction Industry is slated to grow at 30 per cent over the next decade. The growth of this sector is well complemented by the growth of the corporate environment and the demand for urban and semi-urban accommodations. The construction industry ranks third among the 14 major sectors in terms of direct and indirect effects in all sectors of the economy. Hence it is directly affecting the interests of common man.

The objective of statutory requirement of maintenance of Cost Accounting records and applicable audit by a qualified Cost Accountant of the Construction Sector is to protect the interests of investors, consumers, tax payers and society at large. Further the role of maintenance of proper Cost Records in this sector is to inculcate a culture of cost consciousness for better resource management, effective efficiency audit, and availability of cost data to the Government. I am sure that the Guidance Note will be helpful to the members in attaining the objectives successfully.

I congratulate CMA Amit Anand Apte, Chairman, Professional Development Committee of the Institute and its members for their contribution in developing this important document for the guidance of members, especially the practicing members. I hope that the PD Committee of the Institute will continue to bring out more such valuable documents to enhance the professional knowledge of the members.

I hereby request the readers of this Guidance Note to offer constructive suggestions to further improve this Guidance Note. I wish the members happy reading.

CMA Sanjay Gupta
May 18th, 2018

CMA AMIT A. APTE
Central Council Member
Chairman - Professional Development &
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PREFACE
(Second Edition)

I am happy to present the second edition of Guidance note on Maintenance of Cost Records for Construction Industry to the members on behalf of the Professional Development Committee of the Institute. The intention of coming out with the second edition is to also include the practical aspects of maintenance in addition to the requirements of law that were already available in the first edition. The second version has also been adequately updated with the relevant developments and latest notifications.

This guidance note will assist the members in practise as well as in service and other professionals to keep abreast the requirements of maintenance of Cost Records and Cost Audit in Construction sector. The aim is also to equip the organisations for maintenance of Cost Records in a structured manner which will not only aid the Cost Audit process but the methodology of preparation and maintenance of these Cost Accounting Records will serve as an aid in management decision making process.

A well-structured Cost Accounting system suited to the type, size & scale of operations will help in collection, assignment, apportionment and absorption of correct cost data to the relevant cost objects in the organization and make organisation cost competitive. The intent of this Guidance Note is to define the process, methodologies for the following activities as defined in The Companies (Cost Records and Audit) Rules 2014:

(i) Roads and other infrastructure projects corresponding to para No.(1) (a) as specified in Schedule VI of the Companies Act, 2013;

(ii) Construction Industry as per para No.(5) (a) as specified in Schedule VI of the Companies Act, 2013 (18 of 2013)

The Guidance Note has been updated with the Companies (Cost Records and Audit) Rules 2014, amended till date.

I am grateful to CMA Atul Ambekar and CMA J.K. Budhiraja for their efforts and expert knowledge to update the Guidance Note and bringing it into the current shape. I am also thankful to the members of the Professional Development Committee of the Institute for their guidance in bringing out the document as early as possible. I will be failing in my duties, if I don't express my sincere gratitude to the Secretariat of the PD Committee for its support to the efforts of the Committee in publishing the document.

I am greatly thankful to CMA Sanjay Gupta, President of the Institute for his all out support to the activities of the PD Committee. I assure that the PD Committee will come out with many more such Guidance Notes on relevant practicing areas for the CMA professionals.

I urge the members to give their suggestions on the Guidance Note so that it can be further improved in the time to come.

I am sure that the Guidance Note will help the CMAs and Construction Industry in supplementing their efforts in the area of Maintenance of Cost Records and Cost Audit and they will be benefitted in imparting their professional responsibilities successfully.

Thank you very much.

Apte

CMA Amit Anand Apte
May 18, 2018

CMA Dr. A. S. DURGA PRASAD
President

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FOREWORD

I am happy to note that 1st edition of Guidance Note on Maintenance of Cost Records and Cost Audit of Construction Industry is being brought out by the Professional Development Committee, which is imperative and well-timed after notification of Companies (Cost Records and Audit) Rules 2014.

These Rules include Construction Industry in the ambit of maintenance of cost accounting records and cost audit. The Guidance Note is very comprehensive and provides guidance not only for maintenance of cost records and cost audit but also includes how to recognize revenues and expenses relating to operations of construction industry. It also provides audit checks for each and every element of Costs included in Abridged Cost Statement. The Companies are required to e-file the Cost Audit Report in CRA-4 attaching therewith Cost Audit Report submitted by the Cost Auditor(s). The Annexure to Cost audit Report are to be prepared in XBRL format using the Costing Taxonomy-2015.

I sincerely acknowledge the contributions of CMA Kishore Bhatia, CMA Manish Kandpal, Practising Cost Accountants and CMA R. Balarami Reddy, Joint Managing Director, IVRCL Limited, Hyderabad and other officials working in Construction Industry. I am grateful to CMA Chandra Wadhwa, and CMA Kunal Banerjee, Former Presidents of the Institute for providing their technical outputs and suggestions in culminating this Guidance Note.

I would like to acknowledge valuable contributions made by CMA P. V. Bhattad, Vice President of the Institute and members of the PD Committee in providing technical support in preparation of Guidance Note. I also compliment CMA J.K. Budhiraja, Senior Director and his team at PD Directorate of the Institute for extending technical and administrative support in the development of this Guidance Note in shortest possible time.

I am sure that the Guidance Note will supplement the efforts of the members in practice, employment and Industry in maintaining the cost accounting records, preparing and filing cost audit report in XBRL format.

(CMA Dr. A.S. Durga Prasad)
9th July 2015

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1. Objective and Scope:

Objective:

Objective of statutory requirement of maintenance of Cost Accounting records and applicable audit if any, by a qualified cost accountant, is for protecting investor interests, consumers, tax payers and society at large. Maintenance of proper Cost Records is to inculcate a culture of cost consciousness for better resource management, effective efficiency audit, and availability of cost data to the Government.

The executive organ of Government of India for the purpose of implementation of the said sections is the Cost Audit Branch of Ministry of Corporate Affairs. The objective of this guidance note is to help the members in practise as well as in service and other professionals to keep abreast the requirements of maintenance of Cost Records and Cost Audit in Construction sector.

The aim is also to equip the organisations for maintenance of Cost Records in a structured manner which will not only aid the Cost Audit process but the methodology of preparation and maintenance of these Cost Accounting Records will serve as an aid in management decision making process.

A well-structured Cost Accounting system suited to the type, size & scale of operations will help in collection, assignment, apportionment and absorption of correct cost data to the relevant cost objects in the organization and make organisation cost competitive.

Scope:

Although the intent of this Guidance Note is to define the process, methodologies for the following activities as defined in The Companies (Cost Records and Audit) Rules 2014:

(i) Roads and other infrastructure projects corresponding to para No.(1) (a) as specified in Schedule VI of the Companies Act, 2013;
(ii) Construction Industry as per para No.(5) (a) as specified in Schedule VI of the Companies Act, 2013 (18 of 2013)

However as explained above this may be used as a management decision making tool.

Role of Cost and Management Accountant in Construction Industry is elaborated below, which will help in maintenance of Cost Records.

2. Background:

As per Schedule VI of The Companies Act 2013 the construction has wider meaning and is embedded in the Infrastructure Project or Facilities, The verbatim representation of Schedule VI of the Companies Act 2013 is as below:

Schedule VI:

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.

Although The Companies (Cost Records and Audit) Rules 2014 has specified the applicability only for the Para 1(a) and the Para 5(a) of the above, maintenance of Cost Record shall help the other infrastructure/construction companies as an aid for management decision making, cost monitoring and control.

Other considerations for Real Estate and Infrastructure meaning:

Real Estate:

As mentioned above the applicability for maintenance of Cost Records for Real Estate Development is as per Para 5(a) of the Schedule VI of The Companies Act 2013 hence lets us understand the meaning of it

As per Section 2 (zn) of the Real Estate (Regulation and Development) Act 2016,

"Real Estate Project" means the development of a building or a building consisting of apartments, or converting an existing building or a part thereof into apartments, or the development of land into plots or apartment, as the case may be, for the purpose of selling all or some of the said apartments or plots or building, as the case may be, and includes the common areas, the development works, all improvements and structures thereon, and all easement, rights and appurtenances belonging thereto;

Infrastructure:

As per RBI Circular DBOD.BP.BC.No.66/08.12.014/2013-14 following list of sub-sectors are considered as part of Infrastructure projects

List of sub-sectors for 'Infrastructure Lending'

A credit facility extended by lenders (i.e. banks and select AIFIs) to a borrower for exposure in the following infrastructure sub-sectors will qualify as 'infrastructure lending':

Sl.No.	Category	Infrastructure sub-sectors
1.	Transport	• Roads and bridges • Ports • Inland Waterways • Airport • Railway Track, tunnels, viaducts, bridges[1] • Urban Public Transport (except rolling stock in case of urban road transport)
2.	Energy	• Electricity Generation • Electricity Transmission • Electricity Distribution • Oil pipelines • Oil/Gas/Liquefied Natural Gas (LNG) storage facility[2] • Gas pipelines
3.	Water & Sanitation	• Solid Waste Management

		• Water supply pipelines • Water treatment plants • Sewage collection, treatment and disposal system • Irrigation (dams, channels, embankments etc) • Storm Water Drainage System
4.	Communication	• Telecommunication (Fixed network)[4] • Telecommunication towers
5.	Social and Commercial Infrastructure	• Education Institutions (capital stock) • Hospitals (capital stock)[5] • Three-star or higher category classified hotels located outside cities with population of more than 1 million • Common infrastructure for industrial parks, SEZ, tourism facilities and agriculture markets • Fertilizer (Capital investment) • Post-harvest storage infrastructure for agriculture and horticultural produce including cold storage • Terminal markets • Soil-testing laboratories • Cold Chain[6]

1. Includes supporting terminal infrastructure such as loading/unloading terminals, stations and buildings

2. Includes strategic storage of crude oil

3. Includes city gas distribution network

4. Includes optic fibre/cable networks which provide broadband / internet

5. Includes Medical Colleges, Para Medical Training Institutes and Diagnostics Centres

6. Includes cold room facility for farm level pre-cooling, for preservation or storage of agriculture and allied produce, marine products and meat

The entire gamut of these activities have been referred as “Construction”. This guidance note for maintenance of Cost Records can be referred by all construction sector even the Cost Audit and Record rules are not applicable.

Construction Sector in India

The Construction industry in India is one of the key indicator of the development as it creates investment opportunities across various related sectors. Year on Year Construction industry has contributed significantly to the national GDP. The sector is labour-intensive and, including indirect jobs, as per 2017-18 statistics, provides employment to more than 35 million people and creates assets worth over ₹ 200 billion. Infrastructure sector is a vital for the growth of Indian economy.

The sector is playing very important role in India's overall development and is having focussed attention from Government by way of initiating policies that would ensure time-bound creation of world class infrastructure in the country. Government has ambitious target of Rs 25 trillion (US$ 376.53 billion) investment in infrastructure over a period of three years, which will include Rs 8 trillion (US$ 120.49 billion) for developing 27 industrial clusters and an additional Rs 5 trillion (US$ 75.30 billion) for road, railway and port connectivity projects.

Infrastructure sector includes power, bridges, dams, roads and urban infrastructure development. In 2016, India jumped 19 places in World Bank's Logistics Performance Index (LPI) 2016, to rank 35th amongst 160 countries

Construction sector has accounted for around 40 per cent of the development investment during the past 50 years. Around 16 per cent of the nation's working population depends on construction for its livelihood.

It contributes more than 5 per cent to the nation's GDP and 78 per cent to the gross capital formation.

- Union Budgets: Measures for infrastructure development.
    - Increased total infrastructure outlay and defence capital expenditure by 10 per cent and 20.6 per cent to Rs. 3,96,135 crore (US$ 59.18 billion) and Rs. 86,488 crore (US$ 13.1 billion) respectively, over FY17 revised estimate. (Budget 17-18)
    - Railway expenditure allocation has increased by 8 per cent to Rs 1,31,000 crore (US$ 19.58 billion) for laying down 3,500 km of railway lines in 2017-18.
    - Affordable housing has been given infrastructure status. (Budget 17-18)
    - Lock-in period for long-term capital gains on land and buildings has been reduced from three to two years. (Budget 17-18)
- Parliament's approval sought for an additional expenditure of Rs 59,978.29 crore (US$ 8.96 billion) to support the government's rural jobs scheme, building rural infrastructure, urban development and farm insurance. (Budget 17-18)
- Of 111 National Waterways declared under the National Waterways Act 2016, The Ministry of Shipping plans to undertake development of 37 national waterways (NWs) in the next three years, which will help in reduction of overall logistics cost. (Budget 17-18)
- The Central Electricity Authority (CEA) expects investment in India's power transmission sector to reach Rs 2.6 lakh crore (US$ 38.85 billion) during the 13th plan (2017-22), and to enhance the transmission capacity of the inter-regional links by 45,700 megawatt (MW). (Budget 17-18)

- The monetisation of 75 publicly funded highway projects of value Rs 35,600 crore (US$ 5.32 billion) via toll-operate-transfer (TOT) mode will fetch adequate funds to finance road construction of 2,700 km length of roads. (Budget 17-18)
- Ambitious Bharatmala Pariyojana has been approved for providing seamless connectivity of interior and backward areas and borders of the country to develop about 35,000 kms in Phase-I at an estimated cost of Rs 5.35 lakh crore (Budget 2018-19)
- The Ministry Of Urban Development has approved investment of Rs 2,863 crore (US$ 433 million) in six states under the Atal Mission for Rejuvenation and Urban Transformation (AMRUT) scheme, for improving basic urban infrastructure over FY 2017-20.
- The Government of India has earmarked Rs 50,000 crore (US$ 7.34 billion) to develop 100 smart cities across the country
- Smart Cities Mission aims at building 100 Smart Cities with state-of- the-art amenities. 99 Cities have been selected with an outlay of `2.04 lakh crore. These Cities have started implementing various projects like Smart Command and Control Centre, Smart Roads, Solar Rooftops, Intelligent Transport Systems, Smart Parks. Projects worth Rs 2350 crore have been completed and works of Rs 20,852 crore are under progress. (Budget 18-19)
- The Government of India has announced highway projects worth US$ 93 billion, which include government flagship National Highways Building Project (NHDP) with total investment of US$ 45 billion over next three years.
- Infrastructure projects worth Rs 9.46 Lakh crore have been facilitated and fast tracked (Budget 18-19)

The Reserve Bank of India (RBI) has notified 100 per cent foreign direct investment (FDI) under automatic route in the construction development sector. The new limit came into effect in December 2014.

The government has initiated innumerable initiatives to lift the sector from its current dormant conditions.

Roads & Highways

India needs robust road connectivity for the targeted progress. The network spans about 3.3 million km but has road densities of 2.75 km per 1,000 people and 770 km per 1,000 sq km as compared to world averages of 6.7 km and 840 km respectively.

Private sector is now poised to take the challenge with the Risk associated with it. Effective Risk management requires efficient Cost Management and Cost Records are going to play vital role in this sector. National and state level investments in the sector are unlikely to be impacted though the economic slowdown may impact toll collections.

It is expected that the road sector will have massive change in coming years which will change the construction sector scenario and more and more domestic companies are expected to join this momentum. International players are also expected to enter the Indian road sector and existing players are churning out new strategies to retain their stronghold. Hence to survive in increasing competing scenarios, companies have to augment their project management skills . Cost management is going to play key role in the overall project management.

India has the second largest road network across the world at 4.7 million km. This road network transports more than 60 per cent of all goods in the country and 85 per cent of India's total passenger traffic. Road transportation has gradually increased over the years with the improvement in connectivity between cities, towns and villages in the country.

The Indian roads carry almost 90 per cent of the country's passenger traffic and around 65 per cent of its freight. In India sales of automobiles and movement of freight by roads is growing at a rapid rate.

Some of the recent developments are :

- The Road Transport & Highways Ministry has invested around Rs 3.17 trillion (US$ 47.55 billion), while the Shipping Ministry has invested around Rs 80,000 crore (US$ 12.0 billion) in the past two and a half years for building world class highways and shipping infrastructure in the country.
- NHAI plans to offer a risk cover to foreign investors who are willing to invest in government owned operational national highways.
- The Cabinet Committee on Economic Affairs (CCEA) has authorised the NHAI to monetise 75 publicly funded highway projects of value Rs 35,600 crore (US$ 5.34 billion) via toll-operate-transfer (TOT) mode which will fetch adequate funds to finance road construction of 2,700 km length of roads.!
- The Ministry of Road Transport and Highways and NHAI plan to take up 82 highway development projects under the Bharatmala project, which would help in improving connectivity to both major as well as minor ports in the country.
- The Government of India plans to invest Rs 3 trillion (US$ 44.73 billion) for developing 35,000 km of roads across the country, of which 21,000 km will be economic corridors and 14,000 km will be feeder routes, which is expected to improve freight movement, ease traffic bottlenecks and improve inter-city connectivity in the country.
- A panel set by Government of India has cleared 16 highway projects worth Rs 7,456 crore (US$ 1.11 billion) for bidding in 11 states, totalling a length of 622 kilometer (km), including the construction of new roads, widening and expansion of existing highways, and rehabilitation and upgrade of some projects.
- The Government of India plans to introduce a new framework on renegotiation of Public Private Partnership (PPP) contracts, which will allow renegotiations based on sector-specific issues, especially for national highways and ports, and provide greater flexibility to the parties involved.
- NHAI seeks to improve execution of highway projects by delegating powers to its Regional Officers (RO) for hiring of equipment and labourers to demolish structures falling within the project, which will enable NHAI to make encumbrance free land

available more speedily to the concessionaire/contractors.
- The Ministry of Road Transport and Highways plans to set up Land Acquisition (LA) cells across the country, which will work towards resolving issues related to land acquisition and ensure speedy compensation disbursal by the state governments.
- The Ministry of Road Transport and Highways plans to build five more greenfield expressways across the country, which are expected to reduce travel time and propel economic growth.
- Government has accelerated the construction of highways and expects the revival of investments in infrastructure sector to contribute more than 2 percentage points to the country's Gross Domestic Product (GDP) in the next two years and to create five million jobs.
- CCEA has approved a hybrid annuity model for implementing highway projects, which adopts a more rational approach to allocation of risks between the government and the private developer, and is hence expected to revive highway projects construction in India.
- India and Japan are planning to enter into a partnership and launch an infrastructure finance company which will provide soft loans for Indian road projects with a credit target of Rs 2 lakh crore (US$ 30 billion).
- With the objective of reviving private investment in the roads sector, the Ministry of Roads and Highways is now working on two more models for attracting capital. One model proposes allowing bidding of a road project on the basis of the least present value, and the other envisages selling off road projects that have been built using government funds.
- The Indian government plans to set up a finance corporation with an amount of Rs 1 trillion (US$ 15 billion), in collaboration with Japanese investors, to fund projects in the roads segment.

Road Ahead

The government, through a series of initiatives, is working on policies to attract significant investor interest. The Indian government plans to develop a total of 66,117 km of roads under different programmes such as National Highways Development Project (NHDP), Special Accelerated Road Development Programme in North East (SARDP-NE) and Left Wing Extremism (LWE). The government has identified development of 2,000 km of coastal roads to improve the connectivity between ports and remote villages.

References: Media Reports, Press Releases, Ministry of Road Transport and Highways, NHAI website, Press Information Bureau (PIB), Union Budget 2017-18 and Union Budget 2018-19

As per report by Ministry of Roads and Highways:

New Initiatives

i. Bharatmala: This has been envisaged as an umbrella program that will subsume unfinished parts of NHDP and also focus on the new initiatives like development of Border and International connectivity roads, Coastal & port connectivity roads, National Corridors Efficiency improvements, Economic corridors development and others.

ii. SetuBharatam program for building bridges for safe and seamless travel on National Highways. The aim is to make National Highways free of railway level crossings by 2019 by building Railway Over Bridges/ Under Passes. 1500 old and worn down bridges to be improved by replacement/widening/strengthening.

iii. National Highways Interconnectivity Improvement Project -This is a project to ensure safe, fast and all weather movement of traffic on National Highways mostly located in backward regions .Development of 1120 kms of National Highways in the States of Karnataka, Odisha, Bihar, Rajasthan and West Bengal have been approved. The projects are already taken up for implementation and 429 kms have been completed. The civil works are expected to be completed by July, 2019 and maintenance works are expected to be completed by July, 2024.

iv. Logistic Efficiency Enhancement Programme (LEEP) -aimed at enhancing the freight transportation in India through improving cost, time, tracking and transferability of consignments through infrastructure, procedural and Information Technology (IT) interventions. The parks are expected to serve four key functions: freight aggregation and distribution, multimodal freight movement, storage and warehousing, and value-added services such as custom clearances. The ministry has shortlisted 15 locations with the highest freight movement for the development of multimodal logistics parks worth Rs.32,853 crore. The locations are in the states of Maharashtra, Punjab, Gujarat, Rajasthan, Tamil Nadu, Karnataka and Telangana. 44 Economic Corridors, 170 feeder routes and inter-city corridors, 35 logistics parks and 191 choke points have been identified for development to improve logistics efficiency of National Highways.

Highway Construction -Policies

The following are the major policy interventions undertaken this year:-

i. Recycling of operational highway assets using - the Toll - Operate -Transfer (TOT) Model - The Model has been developed by MoRTH and approved by the CCEA in August, 2016. As per the Model, the right of collection of Toll Fees for operational public funded NH projects is to be assigned for a pre-determined concession period (30 years) to concessionaires against upfront payment of a lump-sum amount. O&M obligations of such projects shall be with the concessionaire till the completion of concession period. This Model facilitates long term O&M of constructed NH projects through private sector efficiency. This is a big investment opportunity for long term institutional investors- both domestic and international like pension funds, insurance funds, wealth funds etc in addition to banks. Initially, 75 public funded NH projects with aggregate length of around 4,500 km and annual toll revenue collection of around Rs 2,700 crores have been identified for the Model. The Model Concession Agreement (MCA) has been developed and the first round of bidding for projects shall be taken up in near future.

ii. Hybrid Annuity Model (HAM)- As per the model, 40% the Project Cost is to be provided by the Government as 'Construction Support' to the private developer during the construction period and the balance 60% as annuity payments over the operations period along with interest on outstanding amount. The payable interest rate is linked to market rates (Bank Rate +3.00%). There is separate provision for O&M payments by the Government to the concessionaire. The private party does not have to bear the traffic and inflation risks. The Model has been successful in reviving PPPs in the sector which is evident in the interest being shown by the market for such projects. Till now, 33 NH projects with aggregate length of around 1,800 km and involving cost of around Rs 29,450 crores have been already awarded under the Model. Many more are in matured stages of bidding.

iii. Issues resolved for languishing projects - 73 NH projects with aggregate length of around 8,310 km were languishing after award around two and half years back. These projects involved estimated capital investment of around Rs 1,00,000 crores that remained blocked. As a result of MoRTH interventions that included taking up policy measures and rounds of one to one interaction with concessionaires and bankers, most of the languishing projects have been effectively put back on track. Out of the 73 languishing projects as mentioned above, issues remain to be resolved for only 10 projects.

iv. Steps taken to streamline land acquisition - Land Acquisition (LA) has been expedited by bringing the awards and their disbursal in consonance with the principles of the RFCT LARR Act, 2013. For the purpose of monitoring and expeditious settlement of LA issues for various projects, guidelines have been circulated to constitute LA Cells in the Ministry, its ROs, NHAI, NHIDCL and their PlUs. As a first step, LA Cell has been constituted in the Ministry by engagement of a retired revenue Officer as Consultant. Instructions have been issued for appointment of additional CALA I Arbitrator to ease the load, and also for providing basic facilities to CALA/ TILRI/ Arbitrator, for smooth discharge of their duties. Besides acquisition under NH Act, 1956, a policy decision has been taken to ensure availability of requisite land for NHs through bulk purchase in accordance with the policy of the concerned State Governments. So far, instructions have been issued for the bulk acquisition/purchase of land through consent of land owners in the States of Himachal Pradesh, Goa, Odisha, Bihar, Rajasthan, Chhattisgarh, Kerala, Telangana, West Bengal, Punjab, Maharashtra, Uttar Pradesh and Karnataka. Further, acquisition of plots missed out from bulk acquisition due to land consolidation process and poor maintenance of revenue records, minor technical alteration and social or environmental considerations. has been authorised through CONSENT as an exception up to 10% of total of land.

Urban Infrastructure

To boost urban infrastructure across the country, the government has initiated multiple measures to lift the infrastructure and construction sectors from the ongoing slowdown and has allocated significant amount under the Jawaharlal Nehru National Urban Renewal Mission (JNNURM). The funds aimed at integrated development of urban infrastructure and services in rural areas and urban cities to boost allied sectors including construction material, steel and cement.

According to the High Powered Expert Committee (HPEC) appointed by the Ministry of Urban Development, which gave its recommendations to the Government in the year 2011, there is a requirement of investment in urban infrastructure to the tune of ₹ 39 Billion (₹ 39.2 lakh crore at 2009-2010 prices) over the next 20 years

As per estimates of the HPEC, as the backlog in urban roads is very large, 44 per cent of this investment requires to be for urban roads, while water, sewerage, solid waste management , storm water drains , streetlights would require another 20 per cent of investment, while 14 per cent investment would be required for transport and traffic related infrastructure. Among others, urban renewal including redevelopment of slums would require 10.5 per cent of investment and capacity building for better urban governance 2.5 per cent of investment.

Considering the huge estimated requirement of investment, sums of these magnitudes can not be located only from within the budgetary resources of Central, State and Local Governments. A compulsion has, therefore, arisen to access financial resources from the market, and induce the private sector to participate in urban development programmes as a policy.

Corpus of Rs. 4,000 crore for rural roads in the Interim Budget has brought cheer to the companies engaged in construction, infrastructure, logistics and transport segments. The move is expected to bring a shift in the supply-chain pattern and improve the delivery of construction materials as due to lack of such facilities in the countryside, the delivery is inadequate both in term of quantity and quality. Today, most of the tier II and III towns are emerging as rural market hubs of production, consumption and distribution.

The government has also launched the Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT) with an outlay of Rs. 64 billion to address infrastructure needs of 5,098 small towns and cities with an outlay of about Rs. 1,064. The JNNURM outlay of over Rs.1 trillion is targeted at augmenting urban infrastructure needs of over 65 mission cities under which the government provides grants ranging from 35% to 90% of the project cost, depending upon the size of the city with state governments and private players contributing the rest.

Moreover, the emphasis on creating infrastructure in villages through Rural Infrastructure Development Fund (RIDF) has raised hopes for construction and consumer companies hopping that the growing demands from the rural heartland will boost the sagging sectors. Most construction and infrastructure companies from power to roads, airports, ports and urban transport are asking for more in the final budget. Likewise oil & gas, civil aviation, ports, bridges, and semi-urban areas are set to offer lot of opportunities to the construction industry also to its important constituents like construction equipment, real estate and allied building activities. The measures are bound to lift the commodity linked industries including cement, steel, aluminium, glass, paint, stones, and titles.

The government recent measures focused on encouraging banks to fund PPP projects. This is a positive and progressive move at a time when the financing options of infrastructure players have shrunk in the backdrop of global credit crisis, delaying financial closures. Initially, the banks were demanding a higher equity proportion compared to earlier norms. The refinancing measures will provide better comfort to banks in lending to the infrastructure sector.

Real Estate

Falling inflation, interest rates and above all the recent fiscal stimulus announced by the government, will give indirect push to construction and housing activities across the country. Steel players will benefit from government measures such as bringing HR coils under the restricted category and levy of import duty on flat products. The reduction of taxes in cases where the output is sold directly to the consumer, withdrawal of export duty on iron ore fines and export duty reduction on iron ore lumps and pellets will encourage iron ore exports, besides encouraging developers to focus on affordable housing.

Similarly, the fiscal sops and stimulus and classified loans under Rs. 20 lakh as priority sector lending are all set to brighten the prospects of housing sector. The new classification of loans is aimed at encouraging banks to lend. The Rs. 4000 crore refinance facility for NHB will ensure availability of loans for the sector. The reduction in home loans rates by PSU banks to Rs. 5 lakh and reduced rate for loans in the range of Rs. 5 to 20 lakh has prompted will again encourage housing activities which will boost the business of steel and cement and construction companies.

Recently, the centre has given a major incentive to the states to engage private developers by agreeing in doling out 25% of the total cost of external services such as drainage, roads, sewage and a water supply as grant to state governments. Consequently, there is turnaround expected in Real Estate Sector making Realty sector growth to be reality !. Thus ensuring housing for masses will be the buzz in near future which will elevate both Construction companies as well as major material manufacturers. Developers have also announced plans to foray into the affordable housing segment. The leading players in the real estate business have also unveiled plans to build houses in the 20 lakh category.

3. Revenue Recognition and Operational Cost in Construction Industry

From the following discussion it will be clear that the Cost Records are of paramount importance in determining Revenue and Cost Recognition in financial books of the Construction company.

Revenue Recognition:

Construction Contracts

Accounting Standard-7 deals with the accounting treatment of revenue and costs associated with the construction contracts. The standard applies to the contracts of which start date and end date is falling in the different accounting period. Construction industry maintains its accounts and recognizes revenue based on Accounting Standard -7. The revenue recognition for purposes of cost accounting records would follow the same principles.

A construction contract may be negotiated for the construction of a single asset such as a bridge, building, dam, pipeline, road, ship or tunnel. A construction contract may also deal with the construction of a number of assets which are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use; examples of such contracts include those for the construction of refineries and other complex pieces of plant or equipment.

As per AS-7 Contract Revenue comprises of:

(a) the initial amount of revenue agreed in the contract; and

(b) variations in contract work, claims and incentive payments:

(i) to the extent that it is probable that they will result in revenue; and

(ii) they are capable of being reliably measured.

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract should be recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date. An expected loss on the construction contract should be recognised as an expense immediately. When it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognised as an expense immediately.

Revenue Streams in Construction Contract:

1. Work Done:
   a. Scheduled Items as per BOQ
   b. Change of Scope items
2. Reimbursements:
   a. Foreign Exchange fluctuations

   b. Royalty paid for quarry
   c. Insurance premium
3. Retention recovery
4. Other Income:
   a. Extra Items
   b. Interest on delayed payments
   c. Variations
   d. Escalations**
5. Advances:
   a. Mobilisation Advances
   b. Machinery Advances
   c. Other Advances

** Escalation Components: Labour, Cement, Steel, Fuel, Oil , Lubricants, Power based on the base indices

Deductions:

1. Recoveries:
   a. Material Advance
   b. Mobilisation Advance
   c. Charge for client Service utilisation
   d. Interest on Mobilisation Advance
   e. Interest on other Advances if any

2. Other Deductions:
   a. Retention Money
   b. Taxes

Disclosure requirements include:

- Amount of contract revenue recognizable for the period.
- Methods used to determine the same.
- Methods used to determine the stage of completion of the contract.
- Aggregate amount of net profits till date, advances received and retentions.
- Balance amounts due to be shown as assets/liabilities.

Other Income

- Income from current investments (Mutual Funds etc.).
- Income from non-current investments (shares, debentures, dividend, gain from partnership firms).
- Interest.
- Profit on disposal of fixed assets.

- Unclaimed balances and excess provisions written back.
- Miscellaneous income.
- Forex gain/loss.

Illustrative example of Revenue and Cost Recognition in Construction Company:

All figures in Rs. Lacs

Construction Company enters into contract for construction for the duration of 3 years

Particulars		**Year 1**	**Year 2**	**Year 3**
Agreed Contract Revenue	A	10,000	10,000	10,000
Approved Variation	B		500	500
Total Contract Revenue	C=A+B	10,000	10,500	10,500
Cost Incurred till reporting period	D	3,000	6200	9,200
Balance Cost to Complete	E=G-D	6,000	3000	------
Additional Approved Cost	F	100	100	------
Total Estimated Contract Cost	G	9,100	9,200	9,200
Estimated Profit	H	900	1,300	1,300
Stage of Completion	I	33%	67%	100%

The amounts of revenue, expenses and profit recognized in the statement of profit and loss in the three years are as follows:

For each year
*Revenue = Total Contract Revenue (C) * Stage of Completion (I)*
*Cost = Total Estimated Contract Cost (G) * Stage of Completion (I)*
Profit = Revenue -Cost

Year	**Particulars**	**Cumulative**	**Recognized in Previous Periods**	**To be Recognized in Current Period**
Year 1	Revenue	3,300	------	3,300
	Cost	3,003	------	3,003
	Profit	297	------	297
Year 2	Revenue	7,035	3,300	3,735
	Cost	6164	3,003	3,161
	Profit	871	297	574
Year 3	Revenue	10,500	7,035	3,465
	Cost	9200	6164	3,036
	Profit	1300	871	429

Thus, it is imperative that Cost must be estimated and recorded systematically with accuracy. Cost Object wise maintenance of Cost Records is essential to achieve this.

Real Estate :

Sale of goods to a real estate project:

Accounting standard 9 will be applicable in those cases where the project has been completed as the sale of goods require recognition of revenues on completion of the transaction/activity, when the revenue recognition process in respect of a real estate project is completed.

Conditions to apply AS-9 principles of revenue:

- The seller has transferred to the buyer all significant risks and rewards of ownership and the seller retain no effective control with ownership.
- The seller has handed over possession of the real estate unit.
- No significant uncertainty exists regarding amount of consideration.
- It is not unreasonable to expect ultimate collection of revenue from buyers.

Application of percentage of completion method:

Where to apply

- The duration of such project is beyond 12 months.
- Most features of the projects are common to the construction contract.
- The construction activities form a significant proportion of the project activity.

Conditions to Apply

- Total project revenue can be estimated reliably.
- The probable economic benefits associated with the project will flow to the enterprises.
- The cost to complete the project and cost up to stage of completion at the reporting date can be estimated reliably.
- The project cost attributable to the project can be identified and measured reliably for the purpose of comparison with prior estimates.
- All the approvals required for commencement of the project activity have been obtained.
    - Environmental and other clearance.
    - Approvals of plans and design.
    - Title to land and other rights to construction.
    - Change in land use.

Further conditions

- Stage of completion reaches a reasonable level of development.
    - Reasonable level of construction or development means the cost incurred at the reporting date is not less than of 25% of total construction or development cost.

- At least 25% of saleable project area is secured by the contracts with the buyers.
    - It means agreement or contract to sale of at least 25% saleable project area is already made with the buyers.
- At least 10% of the total revenue as per contract for each project is realized at the reporting date.

Following illustrative example will clarify this position

Revenue Recognition Process for Real Estate Company								
Percentage Completion Method								
				Case 1		Case 2		Remarks
Total Saleable area		S	Sq Ft		**20,000**		**20,000**	
Estimated Project Cost	Land Cost	A	Rs Lacs	300		300		
	Construction Cost	B	Rs Lacs	300		300		
	Total	C=A+B	**Rs Lacs**		**600**		**600**	
Cost Incurred Till End of Reporting Period	Land Cost	D	Rs Lacs	300		300		
	Construction Cost	E	Rs Lacs	60		90		
	Total	F=D+E	Rs Lacs		**360**		**390**	Change in Construction Cost while all other parameters are same
Area Sold till date of reporting period		G	Sq Ft		5,000		5,000	
		H=G/S			**25%**		**25%**	
Total Sale Consideration as per Agreement of Sale		I	Rs Lacs	200	200		200	
Amount Realized till end of the reporting period		J	Rs Lacs	50	50		50	
Amount Realized to Total Agreement Value		K=J/I			**25%**		**25%**	
Work Completed	Total Project Cost	L=F/C			60%		65%	
	Construction Cost	M=E/D			**20%**		**30%**	
*** To be Recognized only when K > 10% & M >25%								
Revenue to be recognized* **		N=L*I	Rs Lacs		-		**130**	(e.g. 65% of Agreement value i.e. Rs 200 L is rs 130 Lacs)
Proportionate Cost* **		O=F*H	Rs Lacs		-		**98**	
Income From Project		P=N-O	Rs Lacs		-		**33**	
WIP to be carried forward		Q=F-O	Rs Lacs		**360**		**293**	

Thus as explained, in a partially completed Real Estate Project when the ratio of amount realised from Customer to total agreement value exceed 10% and more than 25% of the Planned Construction Cost is incurred then only proportionate revenue and cost to be recognised.

(a) **Cost Recognition**

The method of Cost Recognition is explained in above illustrations.

As per AS-7, Contract costs should comprise:

(a) costs that relate directly to the specific contract;

(b) costs that are attributable to contract activity in general and can be allocated to the contract; and

(c) such other costs as are specifically chargeable to the customer under the terms of the contract.

Contract Cost - Components of Cost

- Cost of land, plots and constructed properties and development rights
- Cost of Materials
- Local authorities/municipal taxes & levies
- Employee benefits expense
- Contractor Charges
- Finance costs
- Depreciation and amortization expense
- Cost of leasing plant & machinery
- Cost of design
- Guarantee and warranty cost
- Site overheads, including stores, transportation and logistics etc.
- Cost of technical assistance
- Construction and development overheads
- Other expenses
    - Rent
    - Rates and taxes
    - Electricity, fuel and water
    - Repair and maintenance
    - Insurance
    - Commission and brokerage
    - Advertisement and publicity
    - Travelling and conveyance
    - Vehicles running and maintenance
    - Operating and maintenance charge
    - Printing and stationery
    - Directors' fee
    - Commission to non-executive directors
    - Sales promotion
    - Communication
    - Legal and professional
    - Claim and compensation
    - Miscellaneous expenses

Reasons of Unexpected cost during construction period

- Lack of Planning and monitoring
- Labour issues especially migrant labour
- Erroneous estimation of Cost
- Wrong assessment of soil conditions
- Frequent changes in scope, design and plans
- Scheduling conflicts
- Litigations
- Encroachment

- Natural Calamities

Allocation of cost

Selecting an appropriate cost allocation method requires judgment. As a general rule, cost should be allocated to the portions of a project that benefit from the costs.

Broadly any project cost can be allocated based on below mentioned categories:

- **Specific identification method:** Where practicable, the costs of a real estate project are assigned to individual components of a project based on specific identification. The specific identification method is most frequently used for “the allocation of acquisition costs and direct construction costs in small projects”.
- **Relative value method:** If specific identification is not feasible or is impracticable, as is the case for indirect costs or common costs then costs should be allocated based on the relative value of the components, if possible. Under this method, costs are allocated based on the relative fair values of the individual components of a project in other words the relative sales value of the unit, component or project.
- **Area methods or other value methods:** Under the area method, costs are allocated based on lot sizes, the square footage of a structure, or the number of units in a development. The use of the area method is appropriate only if the allocation is not materially different from an allocation that is based on relative value methods, or if the application of the relative value method is impracticable.

Allocation of cost on any construction projects are mostly site/project specific. Common expenses are relating to corporate, marketing and finance department. Such common expenses may be allocated on the following basis:

- Cost incurred till date.
- Companies Standard Operating Process for Cost Allocation
- Incremental cost during the year.
- Capital employed for each project (for interest).
- Or a combination of above.

Cost Object

The Companies (Cost Records and Audit) Rules 2014 require cost records to be kept on regular basis in such manner so as to make it possible to calculate per unit cost of production or cost of operations, cost of sales and margin for each of its products and activities for every financial year on monthly/quarterly/half-yearly/annual basis.

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

For example:

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

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

  The company has received the contract of road and bridge construction as 2 separate projects (say Projects D1 and D2). For maintenance of cost accounting records, the company would be required to maintain specified records in respect of Projects A, B, C, D1, D2 and E as its distinct and individual cost objects.

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

Methodology

Project Costing Methodology:

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

Usage cost of common pool of Plant & Machinery:

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

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

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

Expenses, which are classified as non-cost items as per CRA-1 and the generally accepted cost accounting principles as well as cost accounting standards should not be considered as a part of cost and should be considered as a charge in the costing profit and loss account (reconciliation statement between cost accounts and financial accounts).

In respect of large companies engaged in various different construction projects, the administrative overheads and corporate expenses are not allocated to individual project accounts. However, for cost accounting records and to arrive at the true project costs, such overheads should be apportioned to individual projects on a suitable basis.

Interest and Financing charges, not directly related or identified with a particular project should be apportioned to the projects on a suitable basis.

Changing Accounting scenarios: Adoption of IND AS:

India is gradually converging to International Reporting standards and introduction and adoption of Indian Accounting Standards is first step towards it (IND AS). The application of IND AS is based on the listing status and net worth of a company. From 1st April 2016 , adoption of IND AS is mandatory for companies with a net worth equal to or exceeding Rs. 500 crore. For listed companies as well as others having a net worth equal to or exceeding Rs. 250 crore it is mandatory from 1st April 2017 onwards. Other than this, those companies who adopt the IND AS voluntarily cant switch back to old regime.

In Above illustrations existing standards AS-7 and AS-9 are discussed, however now it is imperative to understand the difference between earlier AS and IND AS from Cost perspective,

a. IND AS 11 and AS-7 i.e. Construction Contracts: In IND AS 11 there is no specific mention of Borrowing Cost whereas in AS-7 Borrowing Cost is considered as per AS-16 and can be attributable to contract and suitably allocated for different contracts.
b. IND AS 18 and AS-9: Revenue: In IND AS 18 revenue arising out of agreements of real estate developments is not covered which is covered in AS-9, also it considered revenue recognition on percentage completion method only whereas in AS-9 Completion Contract method is also allowed.

Other significant development is introduction of IND AS 115: Revenue from contracts with Customer, effective from 1st April 2018. This standard gives five steps for revenue recognition,

I. Identify the contract(s) with a customer
II. Identify the performance obligations in the contract
III. Determine the transaction price
IV. Allocate the transaction price to the performance obligations in the contract
V. Recognize revenue when (or as) the entity satisfies a performance obligation

Besides these five steps , IND AS 115 also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. Provided those costs are expected to be recovered, they can be capitalized and subsequently amortized and tested for impairment.

The verbatim representation of paras related to Contract Cost as covered in IND AS 115 is as below

Incremental costs of obtaining a contract

91. An entity shall recognise as an asset the incremental costs of obtaining a contract with a customer if the entity expects to recover those costs.

92. The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained (for example, a sales commission).

93. Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained shall be recognised as an expense when incurred, unless those costs are explicitly chargeable to the customer regardless of whether the contract is obtained.

94. As a practical expedient, an entity may recognise the incremental costs of obtaining a contract as an expense when incurred if the amortisation period of the asset that the entity otherwise would have recognised is one year or less.

Costs to fulfil a contract

95. If the costs incurred in fulfilling a contract with a customer are not within the scope of another Standard (for example, Ind AS 2, Inventories, Ind AS 16, Property, Plant and Equipment or Ind AS 38, Intangible Assets), an entity shall recognise an asset from the costs incurred to fulfil a contract only if those costs meet all of the following criteria:

(a) the costs relate directly to a contract or to an anticipated contract that the entity can specifically identify (for example, costs relating to services to be provided under renewal of an existing contract or costs of designing an asset to be transferred under a specific contract that has not yet been approved);

(b) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

(c) the costs are expected to be recovered.

96. For costs incurred in fulfilling a contract with a customer that are within the scope of another Standard, an entity shall account for those costs in accordance with those other Standards.

97. Costs that relate directly to a contract (or a specific anticipated contract) include any of the following:

(a) direct labour (for example, salaries and wages of employees who provide the promised services directly to the customer);

(b) direct materials (for example, supplies used in providing the promised services to a customer);

(c) allocations of costs that relate directly to the contract or to contract activities (for example, costs of contract management and supervision, insurance and depreciation of tools and equipment used in fulfilling the contract);

(d) costs that are explicitly chargeable to the customer under the contract; and

(e) other costs that are incurred only because an entity entered into the contract (for example, payments to subcontractors).

98. An entity shall recognise the following costs as expenses when incurred:

(a) general and administrative costs (unless those costs are explicitly chargeable to the customer under the contract, in which case an entity shall evaluate those costs in accordance with paragraph 97);

(b) costs of wasted materials, labour or other resources to fulfil the contract that were not reflected in the price of the contract;

(c) costs that relate to satisfied performance obligations (or partially satisfied performance obligations) in the contract (ie costs that relate to past performance); and

(d) costs for which an entity cannot distinguish whether the costs relate to unsatisfied performance obligations or to satisfied performance obligations (or partially satisfied performance obligations).

To meet these requirements maintenance of Cost Records as elaborated in further chapters.

4. Legal and Regulatory Requirements

There are numerous acts and rules which are applicable to Construction Industry, however in this section the extracts of acts and rules which are relevant for the Cost and Management Accounting function are deliberated.

i. The Companies Act 2013

Definitions:

2.(*13*) "books of account" includes records maintained in respect of—

(*iv*) the items of cost as may be prescribed under section 148 in the case of a company which belongs to any class of companies specified under that section;

2. (28) "Cost Accountant" means a cost accountant as defined in clause (b) of sub-section (1) of section 2 of the Cost and Works Accountants Act, 1959 and who holds a valid certificate of practice under sub-section (1) of section 6 of that Act;

2. (*38*) "expert" includes an engineer, a valuer, a chartered accountant, a company secretary, a cost accountant and any other person who has the power or authority to issue a certificate in pursuance of any law for the time being in force;

2. (76) "related party", with reference to a company, means—

(i) a director or his relative;

(ii) a key managerial personnel or his relative;

(iii) a firm, in which a director, manager or his relative is a partner;

(iv) a private company in which a director or manager is a member or director;

(v) a public company in which a director or manager is a director or holds along with his relatives, more than two per cent of its paid-up share capital;

(vi) any body corporate whose Board of Directors, managing director or manager is accustomed to act in accordance with the advice, directions or instructions of a director or manager;

(vii) any person on whose advice, directions or instructions a director or manager is accustomed to act:

Provided that nothing in sub-clauses (vi) and (vii) shall apply to the advice, directions or instructions given in a professional capacity;

(viii) any company which is—

(A) a holding, subsidiary or an associate company of such company; or

(B) a subsidiary of a holding company to which it is also a subsidiary;

(ix) such other person as may be prescribed;

Internal audit.

138. (1) Such class or classes of companies as may be prescribed shall be required to appoint an internal auditor, who shall either be a chartered accountant or a cost accountant, or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the company.

Powers and duties of auditors and auditing standards.

143. (1) Every auditor of a company shall have a right of access at all times to the books of account and vouchers of the company, whether kept at the registered office of the company or at any other place and shall be entitled to require from the officers of the company such information and explanation as he may consider necessary for the performance of his duties as auditor and amongst other matters inquire into the following matters, namely:—

a) whether loans and advances made by the company on the basis of security have been properly secured and whether the terms on which they have been made are prejudicial to the interests of the company or its members;
b) whether transactions of the company which are represented merely by book entries are prejudicial to the interests of the company;
c) where the company not being an investment company or a banking company, whether so much of the assets of the company as consist of shares, debentures and other securities have been sold at a price less than that at which they were purchased by the company;
d) whether loans and advances made by the company have been shown as deposits;
e) whether personal expenses have been charged to revenue account;
f) where it is stated in the books and documents of the company that any shares have been allotted for cash, whether cash has actually been received in respect of such allotment, and if no cash has actually been so received, whether the position as stated in the account books and the balance sheet is correct, regular and not misleading:

Provided that the auditor of a company which is a holding company shall also have the right of access to the records of all its subsidiaries insofar as it relates to the consolidation of its financial statements with that of its subsidiaries.

(2) The auditor shall make a report to the members of the company on the accounts examined by him and on every financial statement which are required by or under this Act to be laid before the company in general meeting and the report shall after taking into account the provisions of this Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of this Act or any rules made thereunder or under any order made under sub-section (11) and to the best of his information and knowledge, the said accounts, financial statements give a true and fair view of the state of the company's affairs as at the end of

its financial year and profit or loss and cash flow for the year and such other matters as may be prescribed.

(3) The auditor's report shall also state—

(a) whether he has sought and obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purpose of his audit and if not, the details thereof and the effect of such information on the financial statements;
(b) whether, in his opinion, proper books of account as required by law have been kept by the company so far as appears from his examination of those books and proper returns adequate for the purposes of his audit have been received from branches not visited by him;
(c) whether the report on the accounts of any branch office of the company audited under sub-section (8) by a person other than the company's auditor has been sent to him under the proviso to that sub-section and the manner in which he has dealt with it in preparing his report;
(d) whether the company's balance sheet and profit and loss account dealt with in the report are in agreement with the books of account and returns;
(e) whether, in his opinion, the financial statements comply with the accounting standards;
(f) the observations or comments of the auditors on financial transactions or matters which have any adverse effect on the functioning of the company;
(g) whether any director is disqualified from being appointed as a director under sub-section (2) of section 164;
(h) any qualification, reservation or adverse remark relating to the maintenance of accounts and other matters connected therewith;
(i) whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls;

(4) Where any of the matters required to be included in the audit report under this section is answered in the negative or with a qualification, the report shall state the reasons therefor.

(5) In the case of a Government company, the Comptroller and Auditor-General of India shall appoint the auditor under sub-section (5) or sub-section (7) of section 139 and direct such auditor the manner in which the accounts of the Government company are required to be audited and thereupon the auditor so appointed shall submit a copy of the audit report to the Comptroller and Auditor-General of India which, among other things, include the directions, if any, issued by the Comptroller and Auditor-General of India, the action taken thereon and its impact on the accounts and financial statement of the company.

(6) The Comptroller and Auditor-General of India shall within sixty days from the date of receipt of the audit report under sub-section (5) have a right to,—

(a) conduct a supplementary audit of the financial statement of the company by such person or persons as he may authorise in this behalf; and for the purposes of such audit, require information or additional information to be furnished to any person or persons, so authorised, on such matters, by such person or persons, and in such form, as the Comptroller and Auditor-General of India may direct; and

(b) comment upon or supplement such audit report:

Provided that any comments given by the Comptroller and Auditor-General of India upon, or supplement to, the audit report shall be sent by the company to every person entitled to copies of audited financial statements under sub-section (1) of section 136 and also be placed before the annual general meeting of the company at the same time and in the same manner as the audit report.

(7) Without prejudice to the provisions of this Chapter, the Comptroller and Auditor-General of India may, in case of any company covered under sub-section (5) or sub-section (7) of section 139, if he considers necessary, by an order, cause test audit to be conducted of the accounts of such company and the provisions of section 19A of the Comptroller and Auditor-General's (Duties, Powers and Conditions of Service) Act, 1971 (56 of 1971), shall apply to the report of such test audit.

(8) Where a company has a branch office, the accounts of that office shall be audited either by the auditor appointed for the company (herein referred to as the company's auditor) under this Act or by any other person qualified for appointment as an auditor of the company under this Act and appointed as such under section 139, or where the branch office is situated in a country outside India, the accounts of the branch office shall be audited either by the company's auditor or by an accountant or by any other person duly qualified to act as an auditor of the accounts of the branch office in accordance with the laws of that country and the duties and powers of the company's auditor with reference to the audit of the branch and the branch auditor, if any, shall be such as may be prescribed:

Provided that the branch auditor shall prepare a report on the accounts of the branch examined by him and send it to the auditor of the company who shall deal with it in his report in such manner as he considers necessary.

(9) Every auditor shall comply with the auditing standards.

(10) The Central Government may prescribe the standards of auditing or any addendum thereto, as recommended by the Institute of Chartered Accountants of India, constituted under section 3 of the Chartered Accountants Act, 1949 (38 of 1949), in consultation with and after examination of the recommendations made by the National Financial Reporting Authority:

Provided that until any auditing standards are notified, any standard or standards of auditing specified by the Institute of Chartered Accountants of India shall be deemed to be the auditing standards.

(11) The Central Government may, in consultation with the National Financial Reporting Authority, by general or special order, direct, in respect of such class or description of companies, as may be specified in the order, that the auditor's report shall also include a statement on such matters as may be specified therein.

(12) Notwithstanding anything contained in this section, if an auditor of a company, in the course of the performance of his duties as auditor, has reason to believe that an offence involving fraud is being or has been committed against the company by officers or employees of the company, he shall immediately report the matter to the Central Government within such time and in such manner as may be prescribed.

(13) No duty to which an auditor of a company may be subject to shall be regarded as having been contravened by reason of his reporting the matter referred to in sub-section (12) if it is done in good faith.

(14) The provisions of this section shall *mutatis mutandis* apply to—

(a) the cost accountant in practice conducting cost audit under section 148; or
(b) the company secretary in practice conducting secretarial audit under section 204.

(15) If any auditor, cost accountant or company secretary in practice do not comply with the provisions of sub-section (12), he shall be punishable with fine which shall not be less than one lakh rupees but which may extend to twenty-five lakh rupees.

Auditor not to render certain services.

144. An auditor appointed under this Act shall provide to the company only such other services as are approved by the Board of Directors or the audit committee, as the case may be, but which shall not include any of the following services (whether such services are rendered directly or indirectly to the company or its holding company or subsidiary company), namely:—

(a) accounting and book keeping services;
(b) internal audit;
(c) design and implementation of any financial information system;
(d) actuarial services;
(e) investment advisory services;
(f) investment banking services;
(g) rendering of outsourced financial services;
(h) management services; and
(i) any other kind of services as may be prescribed :

Provided that an auditor or audit firm who or which has been performing any non-audit services on or before the commencement of this Act shall comply with the provisions of this section before the closure of the first financial year after the date of such commencement.

Explanation.—For the purposes of this sub-section, the term "directly or indirectly" shall include rendering of services by the auditor,—

(*i*) in case of auditor being an individual, either himself or through his relative or any other person connected or associated with such individual or through any other entity, whatsoever, in which such individual has significant influence or control, or whose name or trade mark or brand is used by such individual;

(*ii*) in case of auditor being a firm, either itself or through any of its partners or through its parent, subsidiary or associate entity or through any other entity, whatsoever, in which the firm or any partner of the firm has significant influence or control, or whose name or trade mark or brand is used by the firm or any of its partners.

Auditor to sign audit reports, etc.

145. The person appointed as an auditor of the company shall sign the auditor's report or sign or certify any other document of the company *in accordance with the provisions of sub-section (2) of section 141* and the qualifications, observations or comments on financial transactions or matters, which have any adverse effect on the functioning of the company mentioned in the auditor's report shall be read before the company in general meeting and shall be open to inspection by any member of the company.

Auditors to attend general meeting.

146. All notices of, and other communications relating to, any general meeting shall be forwarded to the auditor of the company, and the auditor shall, unless otherwise exempted by the company, attend either by himself or through his authorised representative, who shall also be qualified to be an auditor, any general meeting and shall have right to be heard at such meeting on any part of the business which concerns him as the auditor.

Punishment for contravention.

147. (1) If any of the provisions of sections 139 to 146 (both inclusive) is contravened, the company shall be punishable with fine which shall not be less than twenty-five thousand rupees but which may extend to five lakh rupees and every officer of the company who is in default shall be punishable with imprisonment for a term which may extend to one year or with fine which shall not be less than ten thousand rupees but which may extend to one lakh rupees, or with both.

(2) If an auditor of a company contravenes any of the provisions of *section 139,* section 143, section 144 or section 145, the auditor shall be punishable with fine which shall not be less than twenty-five thousand rupees but which may extend to five lakh rupees:

Provided that if an auditor has contravened such provisions *knowingly or willfully* with the intention to deceive the company or its shareholders or creditors or *tax authorities*, he shall be punishable with imprisonment for a term which may extend to one year and with fine which shall not be less than one lakh rupees but which may extend to twenty-five lakh rupees.

(3) Where an auditor has been convicted under sub-section (2), he shall be liable to—

i. refund the remuneration received by him to the company; and

ii. pay for damages to the company, *statutory bodies or authorities* or to any other person for loss arising out of incorrect or misleading statements of particulars made in his audit report.

(4) The Central Government shall, by notification, specify any statutory body or authority or an officer for ensuring prompt payment of damages to the company or the persons under clause (ii) of sub-section (3) and such body, authority or officer shall after payment of damages to such company or persons file a report with the Central Government in respect of making such damages in such manner as may be specified in the said notification.

(5) Where, in case of audit of a company being conducted by an audit firm, it is proved that the partner or partners of the audit firm has or have acted in a fraudulent manner or abetted or colluded in any fraud by, or in relation to or by, the company or its directors or officers, the liability, whether civil or criminal as provided in this Act or in any other law for the time being in force, for such act shall be of the partner or partners *concerned* of the audit firm and of the firm jointly and severally.

Central Government to specify audit of items of cost in respect of certain companies.

148. (1) Notwithstanding anything contained in this Chapter, the Central Government may, by order, in respect of such class of companies engaged in the production of such goods or providing such services as may be prescribed, direct that particulars relating to the utilisation of material or labour or to other items of cost as may be prescribed shall also be included in the books of account kept by that class of companies:

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.

(2) If the Central Government is of the opinion, that it is necessary to do so, it may, by order, direct that the audit of cost records of class of companies, which are covered under sub-section (1) and which have a net worth of such amount as may be prescribed or a turnover of such amount as may be prescribed, shall be conducted in the manner specified in the order.

(3) The audit under sub-section (2) shall be conducted by a cost accountant in practice who shall be appointed by the Board on such remuneration as may be determined by the members in such manner as may be prescribed:

Provided that no person appointed under section 139 as an auditor of the company shall be appointed for conducting the audit of cost records:

Provided further that the auditor conducting the cost audit shall comply with the cost auditing standards.

Explanation.—For the purposes of this sub-section, the expression "cost auditing standards" mean such standards as are issued by the Institute of Cost Accountants of India, constituted under the Cost and Works Accountants Act, 1959 (23 of 1959), with the approval of the Central Government.

(4) An audit conducted under this section shall be in addition to the audit conducted under section 143.

(5) The qualifications, disqualifications, rights, duties and obligations applicable to auditors under this Chapter shall, so far as may be applicable, apply to a cost auditor appointed under this section and it shall be the duty of the company to give all assistance and facilities to the cost auditor appointed under this section for auditing the cost records of the company:

Provided that the report on the audit of cost records shall be submitted by the cost accountant in practice to the Board of Directors of the company.

(6) A company shall within thirty days from the date of receipt of a copy of the cost audit report prepared in pursuance of a direction under sub-section (2) furnish the Central Government with such report along with full information and explanation on every reservation or qualification contained therein.

(7) If, after considering the cost audit report referred to under this section and the information and explanation furnished by the company under sub-section (6), the Central Government is of the opinion that any further information or explanation is necessary, it may call for such further information and explanation and the company shall furnish the same within such time as may be specified by that Government.

(8) If any default is made in complying with the provisions of this section,—

a. the company and every officer of the company who is in default shall be punishable in the manner as provided in sub-section (1) of section 147;
b. the cost auditor of the company who is in default shall be punishable in the manner as provided in sub-sections (2) to (4) of section 147.

Company to have Board of Directors.

149. (6) An independent director in relation to a company, means a director other than a managing director or a whole-time director or a nominee director,—

(*e*) who, neither himself nor any of his relatives—

(*ii*) is or has been an employee or proprietor or a partner, in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed, of—

(*A*) a firm of auditors or company secretaries in practice or cost auditors of the company or its holding, subsidiary or associate company;

ii. The Companies Cost Audit and Record Rules:

The applicability and other provisions of The Companies Cost Audit Record Rules 2014 (as amended in July 2016) are briefed here:

The Companies Act, 2013 empowers the Central Government to make the rules for maintenance of cost records by the companies engaged in the specified industries, manufacturing / providing such goods / services; and for getting such cost records audited, vide Section 148.

Thus, it is the “subordinate legislative power” of the Central Government, to make rules for maintenance of cost records and audit thereof in respect of specific industries. Accordingly, the Central Government made, from time to time, several notifications / orders, ever since the provisions were made in the erstwhile Companies Act, 1956, as well as under the current Act of 2013.

The key rules and applicability of the act is briefed below:

Rule 1: Short title and commencement

(1) These rules may be called the Companies (Cost Records and Audit) Rules, 2014.

(2) They shall come into force on the date of publication in the Official Gazette i.e. 30.06.2014.

Rule 2: Definitions

Key definitions explained in this section are:

(a) “Act” means the Companies Act, 2013 (18 of 2013);

(aa) “Customs Tariff Act Heading” means the heading as referred to in the Additional Notes in the First Schedule to the Customs Tariff Act, 1975 (51 of 1975);

(b) “Cost Accountant in practice” means a cost accountant as defined in clause (b) of sub- section (1) of section 2 of the Cost and Works Accountants Act, 1959 (23 of 1959), 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;

(c) “cost auditor” means a Cost Accountant in practice, as defined in clause (b), who is appointed by the Board;

(d) “cost audit report” means the duly signed cost auditor’s report on the cost records examined and cost statements which are prepared as per these rules, including attachment, annexure, qualifications or observations attached with or included in such report

(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;

(f) “form” means a form annexed to these rules;

(fa) "Indian Accounting Standards" means Indian Accounting Standards as referred to in Companies (Indian Accounting Standards) Rules, 2015.

(g) “institute” means the Institute of Cost Accountants of India constituted under the

Cost and Works Accountants Act, 1959 (23 of 1959);

(h) all other words and expressions used in these rules but not de ned, and de ned 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.

Rule-3: Application of Cost Records

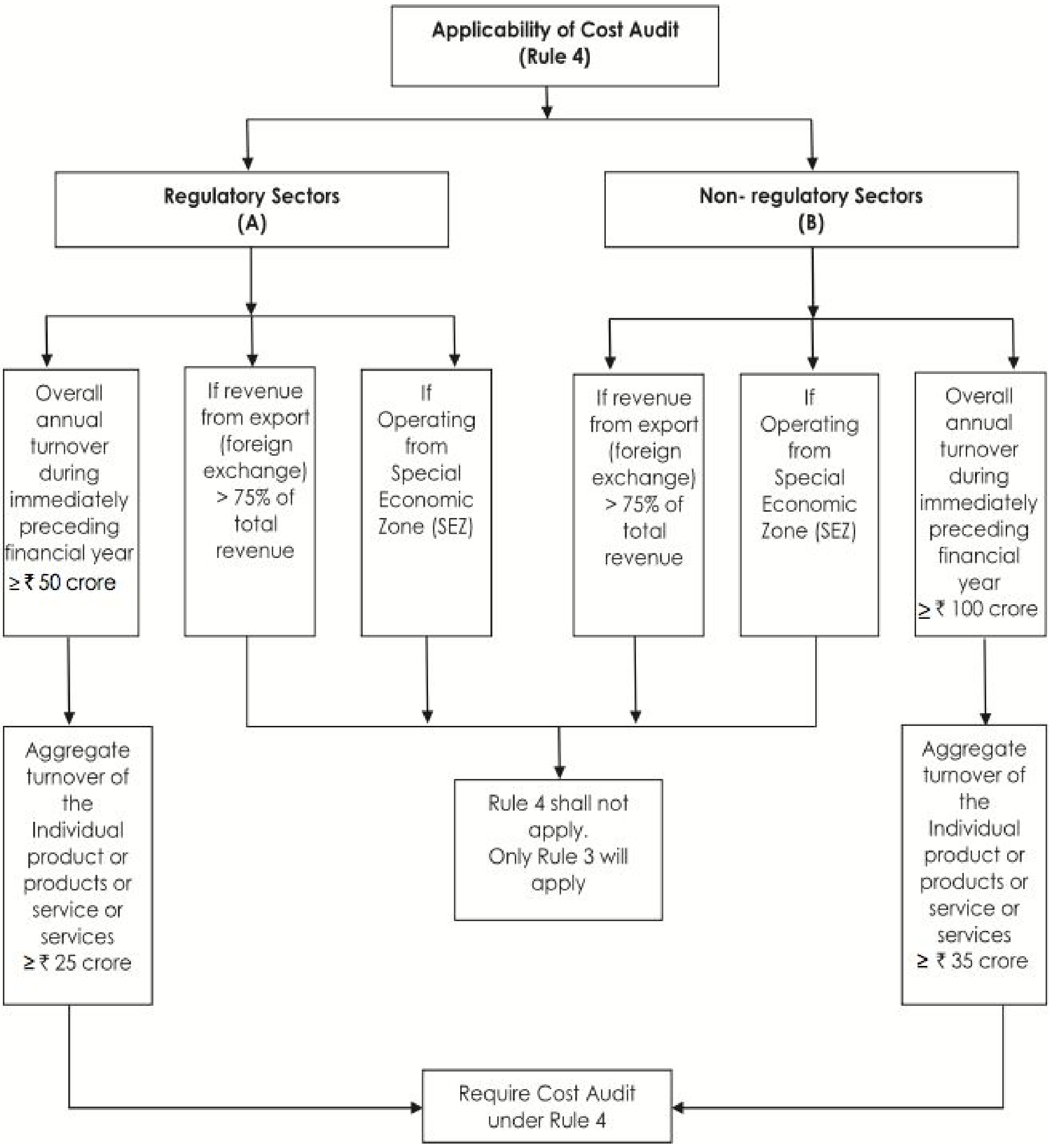
Two categories (regulated sectors and non-regulated sectors) have been retained and a general threshold of turnover of INR 35 crores or more has been prescribed for companies covered. Micro enterprise or a small enterprise as per MSMED Act, 2006 have been taken out of the purview.

Rule-4: Applicability for Cost Audit

For regulated sectors Cost audit requirement has been made subject to a turnover based threshold of INR 50 crores for all product and services and INR 25 crores for individual product or services.

For Non-regulated sector the threshold is INR 100 crores and INR 35 crores respectively.

Rule 4: Diagrammatic Representation

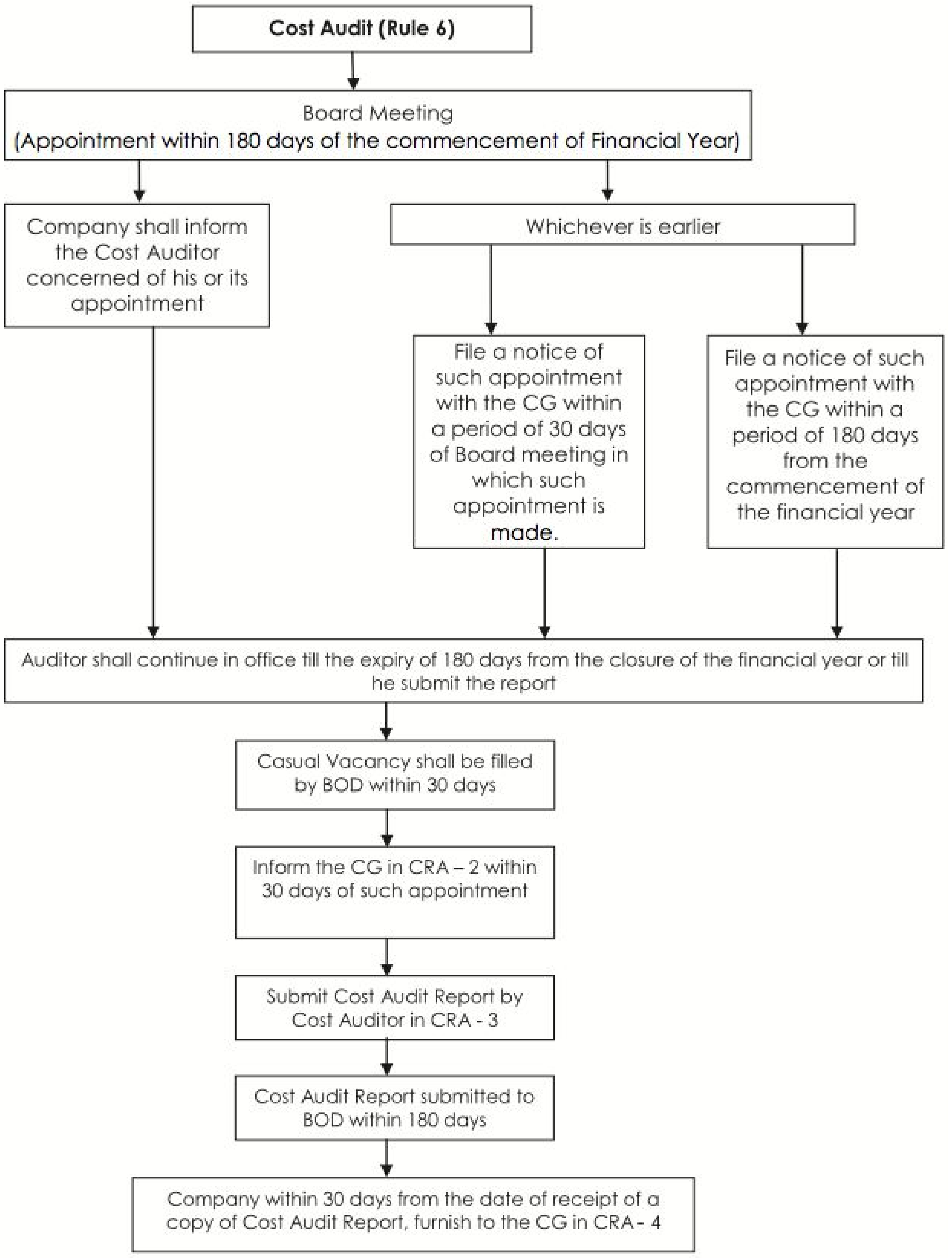


Rule-5: Maintenance of Cost Records

The Cost Records are to be maintained in Form CRA-1, refer Annexure -6 for details

Rule-6: Cost Audit

Any casual vacancy in the office of a cost auditor, whether due to resignation, death or removal to be filled by the Board of Directors within thirty days of occurrence of such vacancy and the company shall inform the Central Government in Form CRA-2 within thirty days of such appointment of cost auditor.



Forms Under the Rules:

CRA-1: Forms in which cost records shall be maintained [Pursuant to rule 5(1)]

The form CRA-1 prescribes the form in which cost records shall be maintained. The form categorises the requirement of maintaining proper details as per 30 headings. For verbatim representation of Form CRA-1 please refer to Annexure-6.

CRA-2: Form of intimation of appointment of cost auditor by the company to Central Government [Pursuant to rule 6(2) & (3A)]

Key Requirements:

(1) Corporate Identity number (CIN) or foreign company registration number (FCRN) of the company

(2) General Information

(3) Product(s)/Service(s) to which Cost Audit relates

(4) Details of all the Cost Auditor(s) appointed

(5) Financial year to be covered under the Cost Audit

(6) Details of previous Cost Auditor which has not been reappointed

(7) Attachments

- Copy of the Board resolution of the company
- Optional attachment - if any

CRA-3: Form of Cost Audit Report [Pursuant to rule 6(4)]

Clause (vii) have been added to auditor's report as under:

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

CRA-4: Form for ling Cost Audit Report with the Central Government [Pursuant to rule 6(6)]

(1) Corporate identity number (CIN) or foreign company Registration number (FCRN) of the company

(2) General Information

(3) Corporate identity number (CIN) or foreign company Registration number (FCRN) of the company

(4) Details of Industries/Sectors/Product(s)/Service(s) (CETA heading level, wherever applicable as per Rules for Regulated and Non-regulated sector) for which the Cost Audit Report is being submitted

(5) Details of Industries/Sectors/Product(s)/Service(s) (CETA heading level, wherever applicable as per Rules for Regulated and Non-regulated sector) not covered in the Cost Audit Report

(6) Details of the cost auditor(s) appointed

(7) Details of observation of the Cost Audit report

(8) Attachment

- XBRL document in respect of the cost audit report and Company's information and explanation on every Qualification and reservation contained therein
- Optional attachment, if any.

Annexures to Cost Audit Report:

The Companies (Cost Records and Audit) Rules 2014 were notified on 30th June 2014 vide GSR 425(E) dated 1st July 2014 which were amended by the Companies (Cost Records and Audit) Amendment Rules, 2014, 2015, 2016 and 2017. Form CRA-3 of these Rules gives the Form of the Cost Audit Report and Annexure thereof. The Annexures to CRA-3 are in Four Parts as follows:

1. **Part-A** includes General Information about Company, General information of Cost Auditor, Cost Accounting Policy, and Product/ Service details. It has been provided to explain the difference, if any, between turnover as per annual accounts and turnover as per excise / service tax records.
2. **Part-B** provides for following Annexures for manufacturing sector:
   - Quantitative Information.
   - Abridged Cost Statement.
   - Details of Material Consumed.
   - Details of Utilities Consumed.
   - Details of Industry Specific Operating Expenses.
3. **Part C** provides for following Annexures for Service sector:
   - Quantitative Information.
   - Abridged Cost Statement.
   - Details of Material Consumed.
   - Details of Utilities Consumed.
   - Details of Industry Specific Operating Expenses.
4. **Part D** provides for following Annexures:
   - Product and service profitability statement (for audited products / services).
   - Profit reconciliation (for the company as a whole).
   - Value addition and distribution of earning (for the company as a whole).
   - Financial position and Ratio Analysis (for the company as a whole).
   - Related Party Transactions (for the Company as a whole).
   - Reconciliation of Indirect Taxes (for the company as a whole).

The above paras are explained below:

PART – A

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 (in INR)	Absolute/thousands/lacs/crores
11	Whether Indian Accounting Standards are applicable to the company:	Yes/No
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 auditor's 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	

Explanation on the General Information:

1. **Corporate identity number or foreign company registration number:** The Company is to provide valid CIN/FCRN Number of the Company which should be same as per MCA Database.

2. **Name of company:** Name of the Company should be based on CIN or FCRN as applicable and as per MCA Database.
3. **Address of registered office or of principal place of business in India of company:** Here the cost auditor is to give registered office address. In case of a foreign company, address of principal place of business as per MCA Database, should be given.
4. **Address of corporate office of company:** Here the cost auditor is to give corporate office address. In case it is the same as registered office, then registered office address as per MCA Database.
5. **Email address of company:** Email address of the company should be given as per MCA Database.
6. **Date of beginning of reporting financial year:** The Cost Auditor should give the date of beginning of reporting financial year in dd/mm/yyyy format. This financial year should be same for which the cost auditor is appointed for audit of the cost records.
7. **Date of end of reporting financial year:** The Cost Auditor should give date of end of reporting financial year in dd/mm/yyyy format.
8. **Date of beginning of previous financial year:** The Cost Auditor should give beginning date of the immediately preceding financial year in dd/mm/yyyy format.
9. **Date of end of previous financial year:** The Cost Auditor should give end date of the immediately preceding financial year in dd/mm/yyyy format.
10. **Level of rounding used in cost statements (in INR):** Level of rounding off used for the report should be in Absolute/thousands/lacs/crores format. It is to be noted that the selected rounding off of figures must be adopted uniformly across the report for every para.
11. **Indian Accounting Standards are applicable to the company:** Yes/No
12. **Number of cost auditor(s) for reporting period:** Number of cost auditors as are appointed by the company for its units/ plants are to be given under this sub-para. It is to be noted that only one cost audit report can be filed by a company irrespective of number of products for which cost auditors are appointed. It may be noted that the Rules vide para 2 to Part-A of the CRA-3 require to appoint Lead Auditor for consolidating and filing the Cost Audit. Lead Auditor may be appointed by the company afresh in addition to cost auditors appointed by the company for audit of the cost records. The appointment in this regard is to be intimated by the company to Central Government in CRA-2 (*Intimation of Appointment of cost auditor by the company to Central Government*). In case the company has appointed a single cost auditor for audit of the cost records, then there is no need to appoint Lead Auditor and the same cost auditor may act as Lead Auditor and consolidate the Cost Audit Reports of all products/ Units of the company. Further, the Company may also designate any of the cost auditors out of the multiple cost auditors appointed by the company for audit of the cost records of all its units/ plants/ products

13. **Date of board of directors meeting in which annexure to cost audit report was approved:**

    Date of meeting of Board of Directors approving the annexure to cost audit report should be in dd/mm/yyyy format.

14. **Whether cost auditor's report has been qualified or has any reservations or contains adverse remarks:** This sub-para should be seen from the perspective of the Lead auditor. The Lead Auditor or the single auditor should mentioned "YES/NO" taking into consideration the reports of all the cost auditors.

15. **Consolidated qualifications, reservations or adverse remarks of all cost auditors:** Summary of qualifications, reservations or adverse remarks of all cost auditors are to be given. In case of a single auditor, qualifications, reservations or adverse remarks of the single auditor should be given.

16. **Consolidated observations or suggestions of all cost auditors:** Summary of observations or suggestions of all cost auditors should be given. In case of a single auditor, enter observations or suggestions of the single auditor should be given.

    Note:

    The individual cost auditors appointed for specific construction units/service would be required to audit and provide Para numbers A-4, C-1, C-2, C-2A, C-2B, C-2C (as applicable), D-1 in respect of the products/services coming under the purview of their respective audits. The individual auditors would also be required to submit to the Board of Directors the individual cost audit report as per Form of the Cost Audit Report given in CRA-3.

    The lead auditor would be responsible for preparing the Para numbers A-3, D-2, D-3, D-4, D-5, D- 6 and consolidate Para numbers A-4, C-1, C-2, C-2A, C-2B, C-2C (as applicable), D-1 received from the individual cost auditors.

    The consolidated report should contain the reports of all the individual cost auditors including the report of the Lead Cost Auditor. In case individual cost auditors have any observations or suggestions or qualifications, they would be required to mention the same under Para 2 of the cost audit report and the lead auditor would have to mention the specific observations and/or qualifications of all the individual cost auditors in the place provided for the same in the under Para A-1.

    The consolidated report so prepared would be converted to XBRL and submitted to the Central Government by the Company in Form CRA-4

17. **Whether company has related party transactions for sale or purchase of goods or services:** Yes or No should be indicated. If yes is given that the company has to give the information. The column cannot be left blank. The details of Related Party Transactions should be for those transactions which have been asked vide sl. No. 24 of CRA-1.

2. 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/cost auditor's firm	
5	PAN of cost auditor/cost auditor's firm	
6	Address of cost auditor or cost auditor's firm	
7	Email id of cost auditor or cost auditor's firm	
8	Membership number of member signing report	
9	Name of member signing report	
10	Name(s) of product(s) or service(s) with CTA Headings	
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	

1. **Whether cost auditor is lead auditor:** Select "YES" or "NO". This field would always be YES since the cost auditor preparing the consolidated report for filing would either be the Lead Auditor or the single auditor of the company who would in any case be a Lead Auditor.
2. **Category of cost auditor:** Whether the cost auditor is a firm or a sole proprietor should be mentioned. An individual practising in individual name is to be considered under the Sole Proprietorship category.
3. **Firm's registration number:** Registration number of the firm allotted by the Institute of Cost Accountants of India should be given. Cost Auditors are advised to check the Firm Registration Number allotted to them from the portal of the Institute and enter the correct number. In case of Partnership Firms, the Firm Registration number starts with "0" and in case of individuals or sole proprietors the number starts with "1". The Firm registration number is different from the Membership Number of individual members irrespective of whether the cost auditor is a Partnership Firm or a Sole Proprietor or Individual.
4. **Name of cost auditor or cost auditors firm:** Name of the firm or trade name of the sole proprietor (including individual) should be given. This name must be same as per the Institute of Cost Accountants of India database.
5. **PAN of cost auditor/ cost auditors firm:** Provide Permanent Account Number (PAN) of firm in case the cost auditor is a Firm. In case of a sole proprietor or an individual, enter

the PAN of the individual member. The individual PAN of the Partner of the Firm is not to be provided here.

6. **Address of cost auditor or cost auditors firm:** Address of the firm as registered with the Institute of the Cost Accountants of India should be given.
7. **Email id of cost auditor or cost auditors firm:** Email id of the firm should be given.
8. **Membership number of member signing report:** Give membership number of the signing Partner in case a Firm is appointed as the cost auditor. In case of Sole Proprietor or individual, enter membership number of Sole Proprietor or individual. It should be a valid membership number as per the Institute of Cost Accountants of India database.
9. **Name of member signing report:** Give name of the member signing the report. The name should be entered as appearing in the database of the Institute.
10. **Name(s) of product(s) or service(s) with CTA heading**: Give name of the applicable product(s) for which cost audit has been done [with their respective **CTA** headings] or service(s). The Cost Audit Report for Manufactured Products is to be as per **CTA** heading and without mentioning the **CTA** heading for manufactured products, the cost audit report cannot be filed by the company with the Central Government.
11. **SRN number of Form 23C/ CRA-2**: Give SRN number of Form 23C/CRA-2. Some of the companies appointed cost auditors for the financial year 2014-15 under the erstwhile Rules 2011 and filed Form 23C prior to notification of the Companies (Cost Records and Audit) Rules 2014 by the Ministry of Corporate Affairs on 30th June 2014. As per New Rules viz. Companies (Cost Records and Audit) Rules 2014, intimation of appointment is to be filed with the Central Government in CRA-2. The Ministry of Corporate Affairs, vide General Circular No. 42/2014 dated 12th November 2014 clarified that the companies which had filed the Form 23-C for the appointment of cost auditor for the financial year 2014-15, are not required to file Form CRA-2 afresh. Accordingly, the companies which had filed Form 23C or CRA-2 and generated SRN are required to mention SRN accordingly.
12. **Number of audit committee meeting attended by cost auditor during year**: Give number of audit committee meetings attended by the cost auditor(s) during the reporting period.
13. **Date of signing cost audit report and annexure by cost auditor**: Give date of signing of the cost audit report by the cost auditor in dd/mm/yyyy format. Date cannot be before date of Board meeting at which annexures to cost audit report is approved.
14. **Place of signing cost audit report and annexure by cost auditor**: Give name of place where the report is signed.

3. Cost Accounting Policy

(1) The Cost Auditor(s) is required to briefly give 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 product(s)/service(s) under reference separately for each product(s)/service(s). The policy should cover, inter alia, the following areas:

(i) Identification of cost centres/cost objects and cost drivers.

(ii) Accounting for material cost including packing materials, stores and spares etc., employee cost, utilities and other relevant cost components.

(iii) Accounting, allocation and absorption of overheads

(iv) Accounting for Depreciation/Amortization

(v) Accounting for by-products/joint-products or services, scarps, wastage etc.

(vi) Basis for Inventory Valuation

(vii) Methodology for valuation of Inter-Unit/Inter Company and Related Party transactions.

(viii) Treatment of abnormal and non-recurring costs including classification of other non-cost items.

(ix) Other relevant cost accounting policy adopted by the Company

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

Any change in the Cost Accounting Policy/ cost accounting principles and methods applied for the measurement and assignment of any of the cost elements included in the Cost Accounting Policy, if has a material effect on the products for which cost audit is done should be disclosed. Where the effect of such change is not ascertainable wholly or partly the fact should be indicated.

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

Summary of observations of all cost auditors with regard to adequacy or otherwise of the

Budgetary Control System are to be given. In case of a single auditor, observation about adequacy or otherwise of the Budgetary Control System of the single auditor should be given.

4. PRODUCT / SERVICE DETAILS (FOR THE COMPANY AS A WHOLE)

Name of Product(s) /Service(s)	UOM	*CTA Heading (Wherever applicable)*	Whether Covered under Cost Audit Yes / No	Net Operational Revenue (net of taxes, duties etc.)	
				Current Year Rs.	Previous Year Rs.
1.					
2.					
3.					
4.					
………					
Total Net revenue from Operations					
Other Incomes of Company					
Total revenue as per Financial Accounts					
Exceptional, Extra Ordinary and Other Comprehensive Income, if any					
Total Revenue including Exceptional, Extra Ordinary and Other Comprehensive Income, if any					
Turnover as per Excise/Service Tax Records					
Note: Explain the difference, if any, between Turnover as per Financial Statements and Turnover as per Excise/Service Tax Records.					

Note on filing this Para

(a) Name of Product(s)/ Service(s)

All the products/ services for which the company has booked the revenues in the books of account are to be given. The information for all products manufactured should be based on CETA heading irrespective of whether they are under cost audit or not. The Ministry of Corporate Affairs has not notified the service codes and all the services under this para should be mentioned without any code. All products of same CETA heading are to be consolidated and reported accordingly.

(b) ***UOM:*** *Unit of measurement (UOM) for product(s) or service(s) is to be mentioned e.g. Kgs. Litres, Meters, Square Feet etc.*

(c) **CETA Heading (Whether Applicable):** For manufactured products, CETA heading is mandatory and should be mentioned accordingly. For services leave blank the row corresponding to this column. In case any Product has multiple units of measurement, then the relevant Product shall be repeated against each unit of measurement separately. Wherever same CETA Chapter Headings have been shown against two or more, the actual details shall be shown against the most appropriate CETA code of the Product.

(d) **Whether covered under Cost Audit (Yes/No):** As all the products and services for which the company booked the revenues in the Annual Accounts are to be given, some of the products or services may not be covered under the cost audit, accordingly, "Yes" should be given for products/ services covered under Cost Audit and "No" for other products/ services, which are not covered under the cost audit.

(e) **Net operational Revenue (net of taxes, duties etc.):** The value of "Net revenue from Operations in respect of each of the Products/services is to be provided for the current year as well as for previous year as per the Annual Audited Accounts of the Company. The net revenue from operation should be net of taxes and duties.

(f) **Total Net revenue from operations:** It shall be sum of net operational revenues of all the products/ services mentioned under columns "Current Year" and "Previous Year".

(g) **Other incomes of company:** All the non-operating incomes as per audited Profit and Loss Account of the year, shall be shown under this heading. The other incomes may be: (a) Interest Income; (b) Dividend Income; (c) Net gain/loss on sale of investments; (d) Other non-operating income.

(h) **Total revenue as per financial accounts:** It shall be sum of Net Operational Revenue and Other Incomes of the company. This figure should be equal to the Net Revenue of the company as per audited annual accounts.

(i) **Extra ordinary income, if any:** Enter extra ordinary income of the company as a whole as per audited annual accounts. It is to be noted that this extra ordinary income should be equal to Other Income shown in S. No. 9 of Para 3 of PART – D.

(j) Extraordinary income arises from events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly.

(k) **Total Revenue including Extra Ordinary Income, if any:** This shall be sum of total revenue and extra ordinary income of the company.

(l) **Turnover as per Excise/Service Tax Records:** The amount of turnover should be equal to assessable values shown in respective returns. In case there is difference, this should be explained in the note given below the table of this para, providing the reasons of such difference between Turnover as per Annual Accounts and Turnover as per Excise/Service Tax Records.

PART-B: For Manufacturing Sector: As Construction Industry is covered under Service Sector, the para under Part B are not explained in this Guidance Note.

PART-C: For Service Sector

1. QUANTITATIVE INFORMATION (for each service separately)

Name of Service			
Service Code (if applicable)			
Particulars	**Unit of Measureme**	**Curren t**	**Previou s Year**
1. Available Capacity			
(a) Installed Capacity			
(b) Capacity enhanced during the year, if any			
(c) Total available Capacity			
2. Actual Services Provided			
(a) Own Services			
(b) Services under contractual arrangements			
(c) Outsourced Services			
(d) Total Services			
3. Total Services provided as per Service Tax			
4. Capacity Utilization (in-house)			
5. Actual Sales			
(a) Services rendered – Domestic			
(b) Services rendered – Export			
(c) Total Services Rendered			

Details under this para are required to be provided for each service under cost audit separately. The number of tables should be at least equal to the number of services covered under cost audit. In case the services having different unit of measurement, then the information is required to be provided separately for each service separately for different units of measurement.

(i) Name of service: Provide the name of service for which the quantitative detail is furnished.

(ii) Service code (if applicable): Service codes are yet to be notified by the MCA. Hence, leave blank the column corresponding to this line item.

(iii) Unit of measurement for service: Provide unit of measurement of the service. If the same services contain different units of measurement, separate tables are to be prepared for each unit of measurement.

(iv) Available Capacity:

a. ***Installed capacity:*** Details of installed capacity is to be provided for the current year as well as for previous year also, if applicable.

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

c. Generally installed capacity cannot be defined for this industry due to its peculiar nature. However, if available, this should be given.

d. ***Capacity enhanced during the year, if any:*** Provide details for capacity enhanced during the year, if applicable. The figure should be entered on annualised basis.

e. ***Total available Capacity:*** This shall be sum of "Total Installed Capacity" and "Capacity enhanced during the year"

(v) Actual Services Provided

a. ***Own Services:*** *Provide details of own services rendered by the company.*

b. ***Services under contractual arrangement:*** *Give details of services which have been provided under contractual arrangement with a third party.*

c. ***Outsourced Services: Provide details of outsourced services with an outside agency.***

d. ***Total Services: This is a sum of all the above (i) to (iii) services.***

(vi) Total Services provided as per Service Tax Records: Provide the details of total services provided as per Service Tax Returns/ Records.

(vii) Capacity Utilization (in-house): These are the services which have been utilized by the company internally.

(viii) Actual sales

a. ***Services rendered- Domestic:*** Provide total value/Quantity of sales of services rendered in the domestic market.

b. ***Services rendered-Export: Provide total value/Quantity of sales of services rendered outside India.***

c. ***Total Services Rendered: This is sum total of services rendered in domestic area and outside India.***

2. ABRIDGED COST STATEMENT (for each service separately)

Name of Service	
Service Code (if applicable)	
Unit of Measure	

		Services Provided	**Captive Consumption**	**Other Adjustments**	**Services rendered**
	Current Year				
	Previous Year				

		Current Year		**Previous Year**	
S. No.	**Particulars**	**Amount (Rs.)**	Rate per Unit (Rs.)	**Amount (Rs.)**	**Rate per Unit (Rs.)**
1	Materials Consumed (specify details as per Para				
2	Utilities (specify details as per Para 2B)				
3	Direct Employees Cost				
4	Direct Expenses				
5	Consumable Stores & Spares				
6	Repairs & Maintenance				
7	Quality Control Expenses				
8	Research & Development Expenses				
9	Technical know-how Fee / Royalty				
10	Depreciation/Amortization				
11	Other Overheads				
12	Industry Specific Operating Expenses (specify details as per Para 2C)				
13	Total (1 to 12)				
14	Less: Credits for Recoveries, if any				
15	Cost of Services provided (13 - 14)				
16	Cost of Outsourced/Contractual Services				
17	Total Services available				
18	Less: Self/Captive Consumption				
19	Other Adjustments (if any)				
20	Cost of Services Sold (17 – 18 + 19)				
21	Administrative Overheads				
22	Selling & Distribution Overheads				
23	Cost of Sales before Interest (20+21+22)				
24	Finance Cost				
25	Cost of Sales (23 + 24)				

26	Net Sales Realization (Net of Taxes and Duties)				
27	Margin [Profit/(Loss) as per Cost Accounts] (26 -				
	NOTES:				
1.	Separate cost statement shall be prepared for each service				
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 service.				
3.	The Proforma may be suitably modified to meet the requirement of the industry/service.				
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				

2A. Details of Materials Consumed								
Name of Service								
Service Code (if applicable)								
Description of Material	**Category**	**UOM**	**Current Year**			**Previous Year**		
			Quantity	**Rate per Unit Rs)**	**Amount**	**Quantity**	**Rate per Unit (Rs.)**	**Amount**
1.								
2.								
3.								
4.								
5.								
6.								
7.								
8.								
9.								
10.								
Category: Indigenous/ Imported/ Self Manufactured								

2B. Details of Utilities Consumed							
Name of Service							
Service Code (if applicable)							
		Current Year			**Previous Year**		
Description of Material	**UOM**	**Quantity**	**Rate per Unit (Rs.)**	**Amount**	**Quantity**	**Rate per Unit (Rs.)**	**Amount**
1.							
2.							
3.							
4.							
5.							
6.							
7.							
8.							
9.							
10.							

2C. Details of Industry Specific Operating Expenses		
Name of Service		
Service Code (if applicable)		
	Current Year	**Previous Year**
Description of Industry Specific Operating Expenses	**Amount**	**Amount**
1.		
2.		
3.		
4.		
5.		
6.		
7.		
8.		
9.		

10.		

(a) Details under this para are required to be provided for each service under cost audit separately. The number of tables should be at least equal to the number of services covered under cost audit. In case the services having different unit of measurement, then the information is required to be provided separately for the each service separately for different units of measurement.

Number of tables shall be equal to the services details provided in Para 4 (Product/ Service Details- Company as a whole) of Part-A.

(b) Service Codes are yet to be notified by the Ministry of Corporate Affairs.

(c) The respective quantitative details in the Abridged Cost Statement should match with the corresponding item of quantity shown in Para 1 –Quantitative Information of PART-C.

(d) All line items given under this table are self-explanatory.

However, the cost auditor should check whether the cost items incorporated in the respective Abridged Cost Statement are in accordance with the principles of measurement and valuation explained in CRA-1 and in the Chapter: Maintenance of Cost Accounting Records.

I. Consumption of Materials

(i) Consumption of material for each construction site/ cost centre is as per BOM (Bill of Material). Whether the following have been excluded from the material consumption:

- ✓ Foreign exchange fluctuation in case of imported material.
- ✓ Demurrage / detention charges

(ii) Processing/ manufacturing charges payable to the third party for job work is treated as part of material cost

(iii) Cost Auditor should also check the process from receipt to consumption. (It should include checking of quantity & quality, rejection, etc.)

(iv) Whether there is any transit loss of material from supplier to construction site. If yes whether it has been recovered through insurance and highlight abnormal losses.

(v) Is there any material handling loss from Store to construction site. If yes highlight abnormal losses.

(vi) Whether accounting for scrap is done as per CRA-1/CAS-6. Explain the treatment of scrap revenue in the cost records.

(vii) What is the Input-Output Ratio?

II. Self-Captive Consumption

Check whether stock transfer is valued as per CAS 4: Cost Accounting Standard on Cost of Production for Captive Consumption issued by the Institute of Cost Accountants of

India. As stock transfer in respect of construction industry may not be excisable goods, the valuation of stock of non-excisable goods should be without adding 10% margin and for excisable goods if any it should be strictly in accordance with CAS-4.

III. Other Quantitative Adjustments

Check whether Quantitative Adjustments of any shortage/ excess/ wastage of non-moving and slow moving inventory have increased compared to previous year.

IV. Utilities

(a) Whether cost of utilities like power, water, etc. have been computed as per CRA-1/CAS 8.

(b) Whether credits/recoveries relating to the utilities and also cost of utilities provided to outside parties/ transferred to other construction sites, material and quantifiable, are deducted from the cost of utility to arrive at the net cost of utility.

(c) Whether consumption of fuel per unit of generation as compared to standard is abnormal. If yes, highlight it.

(d) Whether consumption of other utilities are comparable to standard. If abnormal, highlight the same.

V. Employees Cost

(a) Whether Employee Cost has been computed as per CRA-1/CAS 7.

(b) Whether any Subsidy, Grant, Incentive or any such payment received or receivable with respect to any Employee cost has been reduced for ascertainment of cost of the cost object to which such amounts are related.

(c) Whether penalties, damages paid to statutory authorities or other third parties forming part of the Employee cost.

(d) Whether any amount recovered from the employee towards any benefit provided like Housing, Supply of electricity, subsidized canteen facility etc. has been reduced from employee cost.

(e) Whether cost of workers hired through contractors or agencies and also for those who are not on the role of the entity has been excluded from employee cost.

VI. Direct Expenses

(a) Whether direct expenses like Job work charges, special design or drawing charges, etc. incurred for the use of bought out resources are determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of trade discounts, rebates, taxes and duties refundable or to be credited.

(b) Whether credits/recoveries relating to the Direct Expenses, have been deducted to arrive at the net Direct Expenses.

(c) Whether company is having proper control on the material or goods lying at job workers premises.

(d) Whether job work rejections are within the limit fixed by the company.

VII. Consumable Stores and Spares

(i) Whether Company has proper definition and codification of materials and stores & spares.

(ii) Whether there are any variances in actual consumption compared to standard consumption.

(iii) Whether stores and spares consumption per unit of production compared to standard is abnormal. If yes, highlight.

(iv) Check the process for issuance of consumable stores and spares.

VIII. Repair and Maintenance

(i) Whether repairs and maintenance cost like mechanical, electrical, civil, etc., includes aggregate of all direct and indirect cost relating to repairs and maintenance activity and it has been computed as per CRA-1/CAS 12.

(ii) Whether maintenance activity is in-house or outsourced. Cost of repair and maintenance jobs carried out by outside contractors shall include charges made by the contractor and cost of own materials, consumable stores, spares, manpower, equipment usage, utilities and other costs used in such jobs.

(iii) Whether a Company has proper schedule of preventive and corrective maintenance for plant and machinery.

(iv) Whether a Company has Standard Procedure for maintenance of office building and residential quarters.

IX. Research and Development

(i) Whether Research and Development Costs includes all the costs that are directly traceable to research and/or development activities or that can be assigned to research and development activities.

(ii) Whether development cost of an asset amortized over the useful life of the asset.

(iii) Whether development cost is assigned on the principle of 'benefits received'.

(iv) Whether Research and Development Costs includes cost of development and improvement of a new process or product.

X. Quality Control Cost

(i) Quality Control cost incurred in-house shall be the aggregate of the cost of resources consumed in the Quality Control activities of the entity.

(ii) The cost of resources procured from outside shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discounts), taxes and duties refundable or to be credited by the Tax Authorities

(iii) Such cost shall include: Cost of conformance to quality: (a) prevention cost; and (b) appraisal cost.

(iv) Whether Quality Control cost includes aggregate of the cost of resources consumed in the Quality Control activities of the entity.

XI. Technical know-how Fee / Royalty

(i) Whether Royalty and Technical Know-how fee that is directly traceable to the cost object assigned to that cost object as per agreement (Copy of Agreement to be analysed.

(ii) Whether the amount of Royalty and Technical Know-how fee assigned on the basis of units constructed forming part of construction cost of the particular unit/ cost object.

(iii) Whether the amount Royalty and Technical Know-how fee assigned on the basis of units sold or sales value forming part of cost of sales.

XII. Depreciation and Amortization

(i) Whether the amount of depreciation is provided in accordance with CRA-1/CAS-16.

(ii) Whether fixed assets register cost centre wise/ Construction site wise is maintained by the Company.

(iii) Whether depreciation is based on useful life of assets.

(iv) Whether Impairment loss on assets has been excluded from cost of operation/ construction cost.

(v) The minimum amount of depreciation to be provided shall not be less than the amount calculated as per principles and methods as prescribed by any law or regulations applicable to the entity and followed by it.

XIII. Administrative Overheads (CAS-11)

Administrative overheads include the aggregate of cost of resources consumed in activities relating to general management and administration of an organisation. Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the administrative overheads

XIV. Selling & Distribution Overheads

Selling and Distribution Overheads includes the aggregate of the cost of resources consumed in the selling and distribution activities of the entity. Expenses like commission, brokerage, and sales promotion etc. form part of selling and distribution expenses. Any demurrage or detention charges, or penalty levied by transportation or other authorities in respect of distribution activity shall not form part of the Selling and Distribution Overhead.

XV. Finance Cost

The cost auditor should check whether treatment of interest and financing charges to cost objects have been given in accordance with CRA-1/CAS-17. Check:

(i) Interest and commitment charges on bank borrowings, other short term and long term borrowings.

(ii) Amortisation of discounts or premium related to borrowings.

(iii) Amortisation of ancillary cost incurred in connection with the arrangements of borrowings.

(iv) Financing Charges in respect of finance leases and other similar arrangements: and

(v) Exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest costs.

(vi) Cash discount allowed to customers.

(vii) Interest and Financing Charges incurred are identified for:

- ✓ Acquisition / construction of qualifying assets including fixed assets.
- ✓ Other finance costs relating to construction activity/cost of operations or services rendered which cannot be classified as qualifying assets.
- ✓ Interest and Financing Charges directly attributable to the acquisition / construction of a qualifying asset shall be included in the cost of the asset.
- ✓ Interest and Financing Charges should not include imputed costs, Subsidy / Grant / Incentive or amount of similar nature received / receivable with respect to Interest and Financing Charges if any. If included then reduce to ascertain the net interest and financing charges.
- ✓ Penal Interest for delayed payment, Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the Interest and Financing Charges.
- ✓ In case the company delays the payment of Statutory dues beyond the stipulated date, interest paid for delayed payment shall not be treated as penal interest.
- ✓ Interest paid for or received on investment shall not form part of the other financing charges for cost of construction/ operations or services rendered.

(e) The computation of rate per unit details is explained below:

It may be noted that the rate per unit of a cost element is to be calculated for all corresponding value of such cost elements However, this will not be applicable to the following elements-

(i) Self/ Captive Consumption

(ii) other Adjustments (if any)

(f) The divisor of all individual cost elements from "Materials Consumed" till "Credits for recoveries, if any" is the quantity i.e. numeric element entered in Para 1 of PART – C of "Own Service".

(g) Rate per unit of total inputs and conversion cost i.e. serial no. 13 is to be computed as the sum total of the "Rate per unit of materials consumed" till "Rate per unit of industry specific operating expenses".

(h) The divisor of "Cost of Outsourced/Contractual Services" is the sum total of quantity/ entered in Para 1 of PART – C of "Services under contractual arrangements" and "Outsourced Services".

(i) "Rate per unit of Total Services available" is to be computed as sum total of "Rate per unit of total inputs and conversion cost" till "Rate per unit of Cost of Outsourced/Contractual Services".

(j) The divisor of "Cost of Services Sold" is the quantity i.e. numeric element entered in Para 1 of PART – C of "Total Services"

(k) The divisor of all individual cost elements from "Administrative Overheads" till "Selling and Distribution Overheads" is the quantity i.e. numeric element entered in Para 1 of PART – C of "Total Services Rendered".

(l) "Rate per unit cost of sales before interest" is to be computed as sum of per unit rates of "Cost of services sold" till "Cost of selling and Distribution Overheads".

(m) "Rate per unit cost of sales" to be computed as sum of per unit rates of "Cost of Sales before interest" and "Interest and Financing Charges" divided by quantity i.e. numeric element entered in Para 1 of PART – C of "Total Services Rendered".

(n) "Per unit net sales realization of service" to be computed as "Net Sales Realization (Net of Taxes and duties" divided by quantity i.e. numeric element entered in Para 1 of PART – C of "Total Services Rendered".

(o) Per unit margin as per cost accounts is to be computed as difference between per unit net sales realization and per unit cost of sales.

(p) Material consumed, utilities and industry specific operating expenses details are to be provided in separate tables. The number of materials, utilities and industry specific operating expenses may vary from industry to industry and company to company. Each of the Tables relating to "Material Consumed", "Utilities" and "Industry Specific Operating Expenses" provide maximum 10 rows to provide the details. Only major items are required to be reflected in the respective tables. In case the number of items in a particular group of Material or Utility or Industry Specific Operating Expenses is more than 10, then item-wise details of 9 major items is to be provided in descending order of value and the balance should be shown under other Materials or Utilities or Industry Specific Operating Expenses as the as may be. The total of each of the respective tables must be equal to the total shown the Abridged Cost Statement of respective service. If these cost elements are more than 10, then the top 9 major cost elements in descending order of value may be shown and the balance amount should be shown under 10th row

(q) The Industry Specific Operating Expenses are specific to that Industry/ company which are not common to other industry. For example, in telecommunication industry, specific elements are License fee, Radio Spectrum charges, Microwave charges, Leased Circuits and Gateway Charges etc.

PART – D

1. PRODUCT AND SERVICE PROFITABILITY STATEMENT (for audited products/services)

S no.	Particulars	Current Year			Previous Year		
		Sales	Cost of Sales	Margin	Sales	Cost of Sales	Margin
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
	Product 1						
	Product 2						
	Product 3						
	…… etc.						
	Service 1						
	Service 2						
	Service 3						
	…… etc.						
	Total						

- Details under this para are required to be provided for each products and services. The number of rows would depend on the number of Product(s)/Service(s) in which the company is engaged. The value of "Sales", "Cost of Sales" and "Margin" in respect of each of the Product(s)/Service(s) is to be provided for the current year as well as for the previous year.
- It is to be noted that the name of the Product(s)/Service(s)/ is to be indicated against the element name: Product 1, Product 2 etc. or Service 1, Service 2 etc. as the case may be.
- Details in respect product(s)/services(s) shall be matched with the details of products and services provided in para 4 of Part-A.
- As this Guidance Note includes the information relating to Service Industry only, the para as per Part B- Manufacturing are not explained here. If a company is both manufacturing and service (construction industry), then they need to fill up information for manufacturing sector as per Part-B of Companies (Cost Records and Audit) Rules 2014 also.
- Since, Products details are not there in construction industry, the details of Products asked for should be left blank.

2. PROFIT RECONCILIATION (for the company as a whole)

S no.	Particulars	Current Year Rs.	Previous Year Rs.
1	Profit or Loss as per Cost Accounting Records		
	(a) For the audited product(s)/service(s)		
	(b) For the un-audited product(s)/service(s)		
2	Add: Incomes not considered in cost accounts (specify details)		
	a)		
	b)		
	c)		
	d)		
	e)		
	f)		
	g)		
3	Less: Expenses not considered in cost accounts (specify details)		
	a)		
	b)		
	c)		
	d)		
	e)		
	f)		
	g)		
4	Difference in Valuation of stock between financial accounts and cost accounts		
5.	Other adjustments, if any		
6	Profit or Loss as per Financial Accounts (excluding Other Comprehensive Income for companies following Ind AS)		
Note: Show abnormal wastages, expenses on strikes/lock-outs and any other items of expenses or incomes of abnormal nature etc. not considered in cost separately			

Details of Incomes not considered in Cost

Particulars	Current Year Rs.	Previous Year Rs.
1.		
2.		
3.		
4. (etc.)		
Total		

Details of Expenses not considered in Cost

Particulars	Current Year Rs.	Previous Year Rs.
1.		
2.		
3.		
4. (etc.)		
Total		

The profit reconciliation statement is for the company as a whole. The previous year figures are also required to be provided.

1. **"Profit or loss as per Cost Accounting Records**
   (i) **For audited product(s)/ service(s)**: the profit/loss of products under cost audit should be arrived at by adding the margin of individual products arrived at in the Abridged Cost Statements.

   (ii) **For un-audited product(s)/ service(s):** In case the company is engaged in certain activities for which cost accounting records rules are not applicable, in such a case the profit/loss to be considered here would be the profit/loss as available from the financial accounts.

2. **Income not considered in cost accounts** – Incomes which are 'Abnormal' in nature and 'purely financial' in nature is not considered in cost accounts to arrive at the costing Profit or Loss. Hence, such incomes would be required to be considered in the reconciliation statement to arrive at the profit/loss as per Financial Accounts.

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

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

(i) Interest received on investment, deposits outside the business

(ii) Dividends received on investment outside the business

(iii) Profits on sale of capital assets and investment

(iv) Fees received on transfer of shares

(v) Gains on foreign exchange fluctuation

(vi) Prior period income

(vii) Trading Profit

3. **Expenses not considered in cost accounts** – Expenses which are 'Abnormal' in nature and 'purely financial' are not considered in cost accounts to arrive at the costing Profit or Loss.

   Examples of expenses not considered in cost accounts are:

   Abnormal Expenses – Abnormal expenses may be:

   (i) Abnormally high rejections;

   (ii) Defective work, spoilages etc.;

   (iii) Losses due to theft, pilferage, or acts of nature like earthquake, flood fire;

   (iv) Abnormal idle time;

   (v) Abnormal under-utilisation of plant facilities;

   (vi) Losses due to abnormal situation like strikes, war, accidents etc.

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

   (i) Loss on sale of capital assets and investments

   (ii) Stamp duty and expenses on issue and transfer of shares

   (iii) Discount on bonds and debentures

   (iv) Fines and Penalties

   (v) Loss on investments

   (vi) Loss on foreign exchange fluctuations

   (vii) Premium on forward contract

   (viii) Liquidated damages

   (ix) Short recovery of Excise

   (x) Bad Debts

(xi) Donations

(xii) Prior period expenses

(xiii) Expenses on Buy Back of shares

(xiv) Preliminary expenses written off

(xv) Trading Loss

(xvi) Reference also may be made to CAS & GACAP for specific items of this nature

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

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

4. **Difference in Valuation of stock between financial account and cost account:** This is self- explanatory.

5. **Other Adjustments, if any:** If company has made in other adjustments in the books of accounts than the items listed under Sl. No. (2) and (3) above, those items of adjustments should be given under this heading.

6. **Profit or Loss as per Financial Accounts (excluding Other Comprehensive Income for companies following Ind AS):** The resultant figure after adjustments of all items as per Sl. (1) to (5) should be Profit or Loss as per Audited Accounts.

3. VALUE ADDITION AND DISTRIBUTION OF EARNINGS (for the company as a whole)

S no.	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: Exceptional, Extra Ordinary and Other Comprehensive Income, if any		
10	Earnings available for distribution		
	Distribution of Earnings to:		
1	Employees as salaries & wages, retirement benefits,		
2	Shareholders as dividend		
3	Company as retained funds		
4	Government as taxes (specify)		
5	Exceptional and Extra Ordinary Expenses, if any		
6	Others, if any (specify)		
7	Total distribution of earnings		

(a) All figures for the computation of Value Addition and Distribution of Earnings would flow from the audited Profit & Loss Account of the company.

(b) All the line items in this para are self-explanatory.

(c) The Net Revenue from Operations plus Export Incentives plus Other Incomes should be equal to the total revenue of the company as shown in Para 4 of PART -A.

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

- Duty Drawback (DBK)
- Duty Entitlement Passbook Scheme (DEPB)
- Focus Market Scheme (FMS)
- Focus Product Scheme (FPS).
- Duty Exemption Scheme
- Vishesh Krishi and Gram Udyog Yojna (VKGUY)
- Marketing Development Assistance (MDA)
- Export Promotion Capital Goods Scheme
- Served from India Scheme
- Exchange earner Foreign Currency Account (EEFC Account)

(d) Cost of other bought-out inputs of company would include expenses incurred for purchase of all types of bought out services like Telephone, Postage, Printing & Stationery, Rates & Taxes, Travelling Expenses, Rent, Insurance, Freight, outside conversion charges (if not included in cost of materials and used as input for further processing), audit fees, commission charges, brokerage, discount etc. In other words, Employee Cost and Benefits, Depreciation, Borrowing Costs and other Non-Cost Items of expenses shall not be included here.

(e) Distribution of Earnings:

(i) **Employees as salaries & wages, retirement benefits, etc.** – This would include all items considered under Employee Benefits Expense in the Profit & Loss Account. Items to be considered shall include salaries, wages, contribution to provident and other funds, contribution to gratuity, other retirement benefits, medical benefits, staff welfare expenses etc.

(ii) **Shareholders as Dividend** – The proposed dividend, if any, payable to shareholders to be provided here. The dividend would include dividend payable on all types of shares.

(iii) **Company as Retained Funds**– This would mean Depreciation and Amortization Expense charged to the Profit & Loss Account during the year and undistributed surplus in Profit & Loss Account transferred to Reserves arising out of the current year profits after payment of tax and dividend.

(iv) **Government as Taxes (specify)** – This would include Income Tax including taxes on dividend (if borne by the company) – both current and deferred, Wealth Tax, difference between Excise Duty Paid and Excise Duty recovered.

(v) Exceptional, Extra Ordinary and Other Comprehensive Income, if any: Extraordinary expenses are those that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly. Examples of such events or transactions are: (a) attachment of property of the enterprise, an earthquake etc.

(vi) **Others, if any (specify)** would include all non-cost expenses available on the face of the Profit and Loss Account, e.g., Loss on sale of capital assets and investments, Loss/gain on forex, bad debts, stores/stocks written off, Demurrage, Fines and Penalties to statutory authorities, prior period expenses etc. Exceptional Items, if any, and Financial Costs considered in Profit & Loss Account would also be included here.

(vii) **Total Distribution of Earnings** – This is to be computed as sum total of [Employees as salaries & wages, retirement benefits etc. + Shareholders as Dividend + Government as Taxes + Other Distribution of Earnings]. This will be equal to “Earnings available for Distribution” computed above.

3. FINANCIAL POSITION AND RATIO ANALYSIS (for the company as a whole)

Sno.	Particulars	Units	Current Year	Previous Year
A.	**Financial Position**			
1	Share Capital			
2	Reserves & Surplus			
3	Long Term Borrowings			
4	(a) Gross Fixed Assets			
	(b) Net Fixed Assets			
5	(a) Current Assets			
	(b) Less: Current Liabilities			
	(c) Net Current Assets			
6	Capital Employed			
7	Net Worth			
B.	**Financial Performance**			
1	Value Added			
2	Net Revenue from Operations of Company			
3	Profit before Tax (PBT)			
C.	**Profitability Ratios**			
1	PBT to Capital Employed (B3/A6)	%		
2	PBT to Net Worth (B3/A7)	%		
3	PBT to Value Added (B3/B4)	%		
4	PBT to Net revenue from Operations (B3/B2)	%		
D.	**Other Financial Ratios**			
1	Debt-Equity Ratio			
2	Current Assets to Current Liabilities			
3	Valued Added to Net Revenue from Operations	%		
E.	**Working Capital Ratios**			
1	Raw Materials Stock to Consumption	Month		
2	Stores & Spares to Consumption	Month		
3	Finished Goods Stock to Cost of Sales	Month		

Notes:

1) In this table, in case of companies to which Indian Accounting Standards apply:
   a) Share Capital shall mean 'Equity Share Capital'
   b) Reserves & Surplus shall mean 'Other Equity.'
   c) Long Term Borrowings shall mean 'Borrowing under Non Current Liabilities'
   d) Net Fixed Assets shall mean the sum total of 'Property, Plant and Equipment', 'Capital Work in Progress', 'Goodwill', 'Other intangible assets', 'Intangible assets under development' and 'Biological assets other than bearer plants'.
2) Capital Employed means average of "Net fixed assets (excluding effect of revaluation plus Non-current investments and net current assets" existing at the beginning and close of the financial year.
3) Net Worth is as defined under clause (57) of section 2 of the Companies Act, 2013.

(a) All figures for the computation of the Financial Ratios would flow from the audited Profit & Loss Account and Balance Sheet of the company except cost of sales.

(b) The Profit to be considered for this para is the Profit before Tax of the company.

(c) The computation of individual line items of the para is explained below:

1. ***Share Capital:*** Subscribed and paid-up shares of any type including amount paid up on forfeited shares, if any.

2. ***Reserves and Surplus:*** Any reserves and surplus appearing in the Balance Sheet of the company. The classification of Reserves and Surplus as per Schedule-III of the Companies Act 2013 as follows:

(i) (a) Capital Reserves; (b) Capital Redemption Reserve; (c) Securities Premium Reserve; (d)

Debenture Redemption Reserve; (e) Revaluation Reserve; (f) Share Options Outstanding Account; (g) Other Reserves–(specify the nature and purpose of each reserve and the amount in respect thereof); (h) Surplus i.e., balance in Statement of Profit and Loss disclosing allocations and appropriations such as dividend, bonus shares and transfer to/ from reserves, etc.; (Additions and deductions since last balance sheet to be shown under each of the specified heads);

(ii) A reserve specifically represented by earmarked investments shall be termed as a "fund".

(iii) Debit balance of statement of profit and loss shall be shown as a negative figure under the head "Surplus". Similarly, the balance of "Reserves and Surplus", after adjusting negative balance of surplus, if any, shall be shown under the head "Reserves and Surplus" even if the resulting figure is in the negative.

3. ***Long-term Borrowings:*** This shall be same figure as shown in the Audited Balance Sheet. Schedule III of the Companies Act 2013 shows the following classification in respect of Long- Term Borrowings:

(i) (a) Bonds/debentures; (b) Term loans: (A) from banks. (B) from other parties. (c) Deferred payment liabilities; (d) Deposits; (e) Loans and advances from related parties; (f) Long term maturities of finance lease obligations; (g) Other loans and advances (specify nature).

(ii) Where loans have been guaranteed by directors or others, the aggregate amount of such loans under each head shall be disclosed.

4. ***(a)*** Gross Fixed Assets: Gross Assets would consist Fixed Assets including Tangible assets, Intangible assets, Capital work-in-progress and Intangible assets under development and Non-current investments, Deferred tax assets (net), Long-term loans and advances and Other non-current assets at their respective Gross Book Value at the end of the year.

(b) Net Fixed Assets: This would be Net block of Assets after adjusting depreciation/amortisation if any at the end of the year.

5. ***(a) Current assets:*** Current Assets will consist of Current investments, Inventories, Trade Receivables, Cash and Cash equivalents, Short-Term Loans and Advances and Other Current Assets.

(b) Current liabilities: Current Liabilities would consist of Short-term borrowings, Trade payables, other current liabilities & short-term provisions.

6. ***Net Current Assets:*** Net Current Assets will be difference between Current Assets and Current Liabilities as shown above.

7. ***Capital Employed:*** Capital Employed means average of net fixed assets (excluding effect of revaluation of fixed assets) plus Non-current investments and net current assets existing at the beginning and close of the financial year

8. ***Net Worth:*** As defined under clause (57) of section 2 of the Companies Act, 2013, which is given below:

"net worth" means the aggregate value of the paid-up share capital and all reserves created out of the profits and securities premium account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation.

9. ***Value Added:*** Value added figure would be as per para 3: Statement of Value Addition and Distribution of Earnings under Part D to Annexure to Cost Audit Report.

10. ***Net Revenue from Operations of company:*** Net revenue from operations of company would be as per para 3: Statement of Value Addition and Distribution of Earnings of PART - D to Annexure to Cost Audit Report.

11. ***Profit before Tax:*** Profit before Tax would be as per Profit & Loss Account. The Profit before tax amount reflected here must be equal to the "Profit or Loss as per Financial Accounts" shown in Para 2 of PART – D to Annexure to Cost Audit Report.

12. ***Profit before Tax to Capital Employed [B3/A6] (%):*** Profit before Tax expressed as a percentage of Capital Employed.

13. ***Profit before Tax to Net Worth [B3/A7] (%):*** Profit before Tax expressed as a percentage of Net Worth.
14. ***Profit before Tax to Value Added [B3/B1] (%):*** Profit before Tax expressed as a percentage of Value Added.
15. ***Profit before Tax to Net Revenue from Operations [B3/B2] (%):*** Profit before Tax expressed as a percentage of Net Revenue from Operations.
16. ***Debt-Equity Ratio:*** Long Term Borrowings divided by Shareholders' Funds. Shareholders' Funds is Share Capital plus free Reserves & Surplus and money received against share warrants.
17. ***Current Assets to current Liabilities:*** Current Assets divided by Current Liabilities.
18. ***Value Added to Net Revenue from Operations (%):*** Valued Added expressed as a percentage of Net Revenue from Operations.
19. ***Raw materials stock to consumption (in months):*** Raw material stock divided by (Total Raw Material consumption divided by 12).
20. ***Stores and spares stock to consumption in months):*** Stores & spares stock divided by (Total Stores & Spares consumption divided by 12).
21. ***Finished goods stock to cost of sales (in months):*** Finished goods stock divided by (Cost of sales of company divided by 12).

4. RELATED PARTY TRANSACTIONS (for the company as a whole)

S no.	Name & Address of the Related Party	Name of the Product / Service	Nature of Transaction n (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 /Service separately.
2) Details of Related Party transactions without indicating the Normal Price and the basis thereof shall be considered as incomplete information.

(a) The information under this para is to be provided for the company as a whole.

(b) The information of related party transactions is to be given only for the period under cost audit. Previous year figures are not required to be provided.

(c) Related Party for this para would have to be considered according to the definition as provided under sub-section 76 of section 2 of the Companies Act, 2013, which is as follows:

"***related party***", with reference to a company, means—

(i) a director or his relative;

(ii) a key managerial personnel or his relative;

(iii) a firm, in which a director, manager or his relative is a partner;

(iv) a private company in which a director or manager is a member or director;

(v) a public company in which a director or manager is a director or holds along with his relatives, more than two per cent. of its paid-up share capital;

(vi) anybody corporate whose Board of Directors, managing director or manager is accustomed to act in accordance with the advice, directions or instructions of a director or manager;

(vii) any person on whose advice, directions or instructions a director or manager is accustomed to act:

Provided that nothing in sub-clauses (vi) and (vii) shall apply to the advice, directions or instructions given in a professional capacity;

(viii) any company which is—

(A) a holding, subsidiary or an associate company of such company; or

(B) a subsidiary of a holding company to which it is also a subsidiary;

(ix) such other person as may be prescribed;

(d) Further, the information under this para is to be provided for the items mentioned in

CRA-1 as follows:

(i) purchase and sale of raw materials, finished good(s), rendering of service(s), process materials and rejected goods including scraps, etc.;

(ii) utilisation of plant facilities and technical know-how;

(iii) supply of utilities and any other services;

(iv) administrative, technical, managerial or any other consultancy services;

(v) purchase and sale of capital goods including plant and machinery; and

(vi) any other payment related to the production of goods or rendering of services under reference.

(e) CRA-1 gives the following basis for determination of Normal Price for transactions to be stated in the above para: (i) Comparable Uncontrolled Price Method, (ii) Resale Price Method, (iii) Cost Plus Method, (iv) Profit Split Method, (v) Transactional Net Margin Method and (vi) Any other method, to be specified.

(f) The information in respect of related party transactions is to be aggregated for the Products/ Services. In case of product information is to be aggregated CETA heading wise for each product. Codes for Services are yet to be notified by the Ministry of Corporate Affairs. Accordingly, details are to be provided for all services which qualified to be "Related Party".

5. 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	Duty Free Clearance, Others etc.					
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					
12	Cenvat/VAT Credit Utilised - Input					
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					
Note: Provide separate amounts in notes in respect of Item 4 above.						

(a) This Para is to be prepared for the company as a whole covering excise duty, service tax and VAT (including CST and any other State Tax) for all types of products whether or not covered under cost audit.

(b) The information of indirect taxes is to be given for current year and no previous year's figures are required.

(c) CST and Other State Taxes have been added in the costing taxonomy to show the details relating to them also.

(d) Assessable Value relating to all types of taxes should be taken from the respective Returns submitted with the tax authorities. For example, assessable value for excise duty should be taken from RT 12 (now ER-1); the gross amount (assessable value) for service tax should be taken as gross value of services as mentioned in ST-3 (under section 70 of Finance Act 1994).

(e) The duties and taxes Payable is based on clearances of goods and services against the respective heads.

(f) Duties / Taxes Paid include CENVAT/ VAT Credit utilized on inputs, capital goods, input services and other utilization, if any.

(g) Taxes paid through PLA/ Cash refer to the payment of Excise Duty, Service Tax, Cess & Others and VAT through debit in PLA account or deposit in to the PLA account or payment in to the bank account by way of cheque or cash through the GAR-7 Challan or the Challan for making the payment of VAT.

(h) Duties /Taxes Recovered should be taken from Books of Account of the company. It is necessary that the gross turnover or the gross billings should be duly accounted under various heads such as net sales, excise duty, VAT, sales tax, service tax, etc.

(i) Difference between duties / taxes paid and recovered refer to the amount of total duties/ taxes paid and recovered. This may not match due to the following reasons –

- Excise duty element in stock of excise duty paid goods at depots, branches, and warehouse or with C & F agents.
- The goods lying at depots, etc. are duty paid goods which have not been sold to the customer. Hence, the duty has not been recovered from the customers.
- Excise duty/ VAT/sales tax paid on free issues, samples, where the taxes are not recovered from customers.
- Excise Duty paid on inter factory transfers.
- Excise Duty paid on the goods captively consumed.
- Excise duty / VAT/ sales tax / service tax /cess and other payments arising out of Order-in- Original or Order-in-Appeal, etc.

(j) The fines, penalties, interest etc. are not a payment of Excise Duty, Service Tax, Cess & Others and VAT. However, sometimes it is paid through PLA or Cash (deposit in to the bank account by way of cheque or cash through Challan) under the separate code as specified in the Challan. In these circumstances, the amount should be identified and shown separately. This amount can be tallied from Monthly ER-1 Return (Excise), Annual Financial Information Statement in ER-4 (Excise), Half Yearly ST-3 Return (Service Tax) and Monthly / Annual VAT return.

iii. Real Estate (Regulation and Development) Act 2016

Background:

The Real Estate (Regulation and Development) Act, 2016 is an Act of the Parliament of India which seeks to protect home-buyers as well as help boost investments in the real estate industry. The bill was passed by the Rajya Sabha on 10 March 2016 and by the Lok Sabha on 15 March 2016. The Act came into force from 1 May 2016 with 59 of 92 sections notified. Remaining provisions came into force from 1 May 2017.

Key Definitions:

Section 2. : In this Act, unless the context otherwise requires

(a) "agreement for sale" means an agreement entered into between the promoter and the allottee;

(b) "allottee" in relation to a real estate project, means the person to whom a plot, apartment or building, as the case may be, has been allotted, sold (whether as freehold or leasehold) or otherwise transferred by the promoter, and includes the person who subsequently acquires the said allotment through sale, transfer or otherwise but does not include a person to whom such plot, apartment or building, as the case may be, is given on rent;

(c) "apartment" whether called block, chamber, dwelling unit, flat, office, showroom, shop, godown, premises, suit, tenement, unit or by any other name, means a separate and self-contained part of any immovable property, including one or more rooms or enclosed spaces, located on one or more floors or any part thereof, in a building or on a plot of land, used or intended to be used for any residential or commercial use such as residence, office, shop, showroom or godown or for carrying on any business, occupation, profession or trade, or for any other type of use ancillary to the purpose specified;

(d) "building" includes any structure or erection or part of a structure or erection which is intended to be used for residential, commercial or for the purpose of any business, occupation, profession or trade, or for any other related purposes;

(k) "carpet area" means the net usable floor area of an apartment, excluding the area covered by the external walls, areas under services shafts, exclusive balcony or verandah area and exclusive open terrace area, but includes the area covered by the internal partition walls of the apartment

(n) "common areas" mean—

i. the entire land for the real estate project or where the project is developed in phases and registration under this Act is sought for a phase, the entire land for that phase;

ii. the stair cases, lifts, staircase and lift lobbies, fire escapes, and common entrances and exits of buildings;

iii. the common basements, terraces, parks, play areas, open parking areas and common storage spaces;

iv. the premises for the lodging of persons employed for the management of the property including accommodation for watch and ward staffs or for the lodging of community service personnel;

v. installations of central services such as electricity, gas, water and sanitation, air-conditioning and incinerating, system for water conservation and renewable energy;

vi. the water tanks, sumps, motors, fans, compressors, ducts and all apparatus connected with installations for common use;

vii. all community and commercial facilities as provided in the real estate project;

viii. all other portion of the project necessary or convenient for its maintenance, safety, etc., and in common use;

(q) "completion certificate" means the completion certificate, or such other certificate, by whatever name called, issued by the competent authority certifying that the real estate project has been developed according to the sanctioned plan, layout plan and specifications, as approved by the competent authority under the local laws;

(v) "estimated cost of real estate project" means the total cost involved in developing the real estate project and includes the land cost, taxes, cess, development and other charges;

(w) "external development work" includes roads and road systems landscaping, water supply, sewage and drainage systems, electricity supply transformer, sub-station, solid waste management and disposal or any other work which may have to be executed in the periphery of, or outside, a project for its benefit, as may be provided under the local laws;

(z) "immovable property" includes land, buildings, rights of ways, lights or any other benefit arising out of land and things attached to the earth or permanently fastened to anything which is attached to the earth, but not standing timber, standing crops or grass;

(na) "interest" means the rates of interest payable by the promoter or the allottee, as the case may be.

Explanation.—For the purpose of this clause—

i. the rate of interest chargeable from the allottee by the promoter, in case of default, shall be equal to the rate of interest which the promoter shall be liable to pay the allottee, in case of default;

ii. the interest payable by the promoter to the allottee shall be from the date the promoter received the amount or any part thereof till the date the amount or part thereof and interest thereon is refunded, and the interest payable by the allottee to the promoter shall be from the date the allottee defaults in payment to the promoter till the date it is paid;

(*zb*) "internal development works" means roads, footpaths, water supply, sewers, drains, parks, tree planting, street lighting, provision for community buildings and for treatment and disposal of sewage and silage water, solid waste management and disposal, water conservation, energy management, fire protection and fire safety requirements, social infrastructure such as educational health and other public amenities or any other work in a project for its benefit, as per sanctioned plans;

(zf) "occupancy certificate" means the occupancy certificate, or such other certificate by whatever name called, issued by the competent authority permitting occupation of any building, as provided under local laws, which has provision for civic infrastructure such as water, sanitation and electricity;

(*zk*) "promoter" means,—

(i) a person who constructs or causes to be constructed an independent building or a building consisting of apartments, or converts an existing building or a part thereof into apartments, for the purpose of selling all or some of the apartments to other persons and includes his assignees; or

(ii) a person who develops land into a project, whether or not the person also constructs structures on any of the plots, for the purpose of selling to other persons all or some of the plots in the said project, whether with or without structures thereon; or

(iii) any other person who acts himself as a builder, coloniser, contractor, developer, estate developer or by any other name or claims to be acting as the holder of a power of attorney from the owner of the land on which the building or apartment is constructed or plot is developed for sale; or

(iv) such other person who constructs any building or apartment for sale to the general public.

Explanation.—For the purposes of this clause, where the person who constructs or converts a building into apartments or develops a plot for sale and the persons who sells apartments or plots are different persons, both shall be deemed to be the promoters and shall be jointly liable as such for the functions and responsibilities specified, under this Act or the rules and regulations made thereunder;

(*zn*) "real estate project" means the development of a building or a building consisting of apartments, or converting an existing building or a part thereof into apartments, or the development of land into plots or apartment, as the case may be, for the purpose of selling all or some of the said apartments or plots or building, as the case may be, and includes the common areas, the development works, all improvements and structures thereon, and all easement, rights and appurtenances belonging thereto;

CHAPTER II: Registration of Real Estate Projects and Registration of Real Estate Agents

Section 4 (2): The promoter shall enclose the following documents along with the application referred to in sub-section (*1*), namely:—

(l) a declaration, supported by an affidavit, which shall be signed by the promoter or any person authorised by the promoter, stating:—

(D) that seventy per cent. of the amounts realised for the real estate project from the allottees, from time to time, shall be deposited in a separate account to be maintained in a scheduled bank to cover the cost of construction and the land cost and shall be used only for that purpose:

Provided that the promoter shall withdraw the amounts from the separate account, to cover the cost of the project, in proportion to the percentage of completion of the project:

Provided further that the amounts from the separate account shall be withdrawn by the promoter after it is certified by an engineer, an architect and a chartered accountant in practice that the withdrawal is in proportion to the percentage of completion of the project:

CHAPTER III: Functions and duties of Promoter

13.(*1*) A promoter shall not accept a sum more than ten per cent of the cost of the apartment, plot, or building as the case may be, as an advance payment or an application fee, from a person without first entering into a written agreement for sale with such person and register the said agreement for sale, under any law for the time being in force.

iv. Others

1. **Building and other Construction Workers (Regulation of Employment and Conditions of Service) Act, 1996**

   This Act is to regulate the employment and conditions of service of building and other construction workers and to provide for their safety, health and welfare measures and for other matters connected thereof or incidental thereto.

   This act enacted to regulate the employment and condition of service of building and other construction workers and provide for their safety, health and welfare measures and or other matters connected therewith. The act applies to every establishment which employed on any day of the preceding 12 months, 10 or more building construction workers in any building or other construction works. This Act is applicable to every construction work costing more than Rs.10 lakh (excluding land cost).

2. **The Contract Labour (Regulation and Abolition) Act, 1970**

   This Act is to regulate the employment of contract labor in certain establishments and to provide for its abolition in certain circumstances and related matters. It applies to every establishment in which 20 or more contract labors are employed and to every contractor who employs 20 or more labors.

3. **The Employees' Compensation Act, 1923** ***(Earlier, The Workmen's Compensation Act, 1923)***

   This act ensures compensation to the employee *(now includes clerical and casual employees also)* or his/her survivor in the event of industrial accidents or occupational diseases, resulting in death or disablement during the person's employment.

4. **The Employees' Provident Funds and Miscellaneous Provisions Act, 1952**

   This Act is to provide for the institution of provident funds and pension fund and deposit linked insurance fund for employees (includes international workers, *Amendment 2008*) in factories and other establishments.

   Applicability

   - Every establishment which is engaged in any one or more of the industries specified in Schedule I of the Act or any activity notified by Central Government in the Official Gazette.
   - Employing 20 or more persons.
   - Cinema Theatres employing 5 or more persons.

   The Ministry of Labour and Employment, Government of India has, with effect from 1 September 2014, brought into force several important amendments to the schemes framed under the Employees' Provident Funds and Miscellaneous Provisions Act, 1952.

5. **The Employees' State Insurance Act, 1948**

   This Act is to provide for certain benefits to employees in case of sickness, maternity and employment injury and to make provision for certain other matters in relating thereto.

Under ESI Act all workers including manual & casual, drawing wages up to a certain amount were entitled to the benefits.

6. **The Fatal Accidents Act, 1855**

   This Act is to provide compensation to families for loss occasioned by the death of a person caused by actionable wrong.

7. **The Inter-State Migrant Workmen (Regulation of Employment and Conditions of Service) Act, 1979.**

   This Act is to regulate the employment of inter-state migrant workmen and to provide for their conditions of service and for matters connected therewith.

8. **The Minimum Wages Act, 1948**

   The Minimum Wages Act provides for prescribing the minimum rates of wages payable to the employees employed in Scheduled Employment as enumerated in the schedule to the Act. It also provides maintenance of records and registers and hours of work overtime, etc., in the interest of the workers.

   It provides penalty for the non-payment of minimum rates of wages and non-maintenance of records. It also specifies authorities for filing claim application for non-payment or less payment of minimum rates of wages under the Act.

9. **The Payment of Bonus Act, 1965**

   This Act is to provide for the payment of bonus to persons employed in certain establishments on the basis of profits or based on production or productivity and for matters connected thereof. The clause (vi) of Section 32 (dealing with the type of employees NOT under the preview of this act) of the Act has been omitted to bring employees employed through contractors on building operations within the ambit of the Act (Amendment 2007).

10. **The Payment of Wages Act, 1936**

    This Act is to regulate the payment of wages of certain classes of employed persons. The salary in factories / establishments employing less than 1000 workers is required to be paid by 7^{th} of every month and in other cases by 10th day of every month. A worker, who either has not been paid wages in time or an unauthorized deduction have been made from his / her wages, can file a Claim either directly or through a Trade Union or through an Inspector under this Act, before with the Authority appointed under the Payment of Wages Act.

11. **The Public Liability Insurance Act, 1991**

    This Act is to provide for public liability insurance for providing immediate relief to the persons affected by accident occurring while handling any hazardous substance and for matters connected therewith or incidental thereto.

12. **The Unorganized Workers' Social Security Act, 2008**

This Act is to provide for the social security and welfare of unorganized workers and other matters connected therewith or incidental thereto. Different States also have constituted “State Social Security Board” and framed Rules under this Act.

13. The Weekly Holidays Act, 1942

This Act is to provide for the grant of weekly holidays to persons employed in ***shops, restaurants and theatres***. No deductions or abatement of the wages of any person employed in an establishment to which this Act applies shall be made on account of any day or part of a day on which the establishment has remained closed or a holiday has been allowed and if such person is employed on the basis that he would not ordinarily receive wages for such day or a part of a day he shall nonetheless be not paid; for such day or part of a day the wages he would have drawn had the establishment not remained closed or the holiday not been allowed on that day or part of a day.

14. Equal Remuneration Act, 1976

This Act provides for the payment of equal pay for equal work for both man and woman. It also provides for the prevention of discrimination in payment of wages on the ground of sex against women in the matter of employment and for the matter commented therewith or incidental thereto.

15. Maternity Benefit Act, 1961

Regulates the employment of women in certain establishments before and after childbirth and other benefits.

16. Child Labour (Prohibition and Regulation) Act, 1986

The Act aims clearly at prohibiting the employment of children below 14 years of age. It specifically prohibits the employment of all children under the age 14 in specified hazardous occupations and processes. It prohibits employment of children in 16 occupations and 65 processes considered hazardous to the health and psyche of the child. The Act also regulates industries where children are permitted to be employed and has put strong penalties for employers flouting the law with monetary fines and punishment such as imprisonment. Family units and training centers are not included in the purview of the Act. Penalty for violation of the Act could range from three months to one year of imprisonment with a fine of Rs. 10,000/- to 20,000/-.

17. The Environment (Protection) Act, 1986

This Act is to provide for the protection and improvement of environment and for matters connected therewith.

18. Industrial Employment (Standing Orders) Act 1946

It is applicable to all establishments employing prescribed minimum (say, 100, or 50). The Act provides for laying down rules governing the conditions of employment by the Employer on matters provided in the Act and get these certified by the designated Authority.

19. Trade Unions Act 1926

The Act lays down the procedure for registration of trade unions of workmen and Employers. The Trade Unions registered under the Act have been given certain immunities from civil and criminal liabilities.

20. Factories Act 1948

The Act lays down the procedure for approval of plans before setting up a factory, health and safety provisions, welfare provisions, working hours, annual earned leave and rendering information regarding accidents or dangerous occurrences to designated authorities. It is applicable to premises employing the prescribed minimum (say, 10) persons or more with aid of power or another prescribed minimum (say, 20) or more persons without the aid of power engaged in manufacturing process.

21. Stamp duty and Registration

Stamp duty is a type of tax paid by the purchaser to the government treasury. States follows Indian stamp act 1899 or separate act framed by the states. The percentage of stamp duty levied also varies in different states.

The types of property may be freehold or leasehold from land (agricultural and non-agricultural), independent houses, flats to commercial units. Stamp duty is established on the agreement value or on the market value whichever is greater. Once the stamp duty has been paid on a document, it must be registered under the Indian Registration Act (1908)

Sectoral Regulations:

Although there are many regulations in Infrastructure for various segments such as Power, Railway, Ports, Airport , Shipping etc., but here sector regulators related to Roads & Highways and Real Estate Development are discussed due to applicability of Cost Audit and Record Rules.

Roads and Highways

The National Highways Authority of India (NHAI) is an autonomous agency of the Government of India, responsible for management of a network of over 70,000 km of National Highways in India. It is a nodal agency of the Ministry of Road Transport and Highways. NHAI has signed a memorandum of understanding (MoU) with the Indian Space Research Organisation for satellite mapping of highways.

The NHAI was created through the promulgation of the National Highways Authority of India Act, 1988. In February 1995, the Authority was formally made an autonomous body. It is responsible for the development, maintenance and management of National Highways, totalling over 92,851.05 km (57,694.97 mi) in length. The NHAI is also responsible of the toll collection on several highways

The functions relating to development, maintenance and management of National Highways are carried out by National Highways Authority of India.

FDI up to 100% (with total foreign equity up to 1500 crore) is permitted in construction and maintenance of roads, highways, toll roads, vehicular tunnels, rail beds, non-vehicular bridges, non-vehicular tunnels, pipelines, ropeways and runways.

Fiscal incentives include duty free imports, 10 years of corporate tax holiday within 20 years of commissioning the project, exemption on profits of financing institutions, exemption on long-term capital gains of investors, concession period up to 30 years and toll rates indexed to wholesale Price Index.

Real Estate Development:

Registration Under RERA:

The Real Estate (Regulation and Development) Act, 2016 makes it mandatory for all commercial and residential real estate projects where the land is over 500 square metres, or eight apartments, to register with the Real Estate Regulatory Authority (RERA) for launching a project, to provide greater transparency in project-marketing and execution.

For on-going projects which have not received completion certificate on the date of commencement of the Act, will have to seek registration within 3 months. Application for registration must be either approved or rejected within a period of 30 days from the date of application by the RERA. On successful registration, the promoter of the project will be provided with a registration number, a login id and password for the applicants to fill up essential details on the website of the RERA.

For failure to register, a penalty of up to 10 percent of the project cost or three years' imprisonment may be imposed.

Key Objective of the act:

The Act prohibits unaccounted money from being pumped into the sector and as of now 70 per cent of the money must be deposited in bank accounts through cheques. A major benefit for consumers included in the Act is that builders will have to quote prices based on carpet area and not super built-up area, while carpet area has been clearly defined in the Act to include usable spaces like kitchen and toilets.

Real Estate Regulatory Authority and Appellate Tribunal:

It will help establish state-level Real Estate Regulatory Authorities (RERAs) to regulate transactions related to both residential and commercial projects and ensure their timely completion and handover.

Appellate Tribunals will now be required to adjudicate cases in 60 days and Regulatory Authorities to dispose of complaints in 60 days.

5. Construction Industry

i. Types and Structures

The Construction activity which, inter alia includes building / re-building / restoring structures or infrastructure facilities, uses engineering, architectural, designer and commercial skills.

Features of a construction contract / project and real estate development are as follows:

- Execution of projects as a contractor / sub-contractor or as a developer.
- Projects involving design, detailed engineering, procurement, manufacturing/ fabrication, installation, commissioning.
- In case of Construction of large projects, the contracts/projects are finalized normally through a bidding process and projects are executed as per client's requirements at client's project site and in case of real estate development the developer or promoter identifies the location and Project design and development is done as per market demand.
- The business model of Construction Project and Real Estate Development project are totally different.
- In Construction project, clients normally make payments based on the milestone planed and based on certification of either by third party or joint inspection as per the contract terms and in Real Estate Projects various payment schemes are in force.
- Construction Contracts also lay down performance guarantee conditions, warranty/defect liability period, liquidated damages for schedule delay, price variation clause if any, client's obligations during construction period, method to be followed for any change in scope of work, claim management, force-majeure clause, arbitration etc. Such provisions were not there earlier but now with introduction of Real Estate (Regulation and Development) Act 2016, the consumer of real estate have been vested similar rights.
- The duration of a construction as well as real estate development project may vary from project to project. Normally the projects are of long duration (more than 12 months) and revenue is recognized generally based on Accounting Standard (AS-7) or Accounting Standard 9 (AS-9) and Guidelines for Revenue Recognition for Real Estate Sector, notified by Government of India, Ministry of Corporate Affairs.

Construction Project Models

Public Private Partnership (PPP) Model:

PPPs broadly refer to long term, contractual partnerships between the public and private sector agencies, with facilities and services earlier used to be provided by Government such as financing, designing, implementing, and operating infrastructure to be provided by the Private partner.

Mutually agreed allocation of resources, risks, and returns are the basis of these collaborative ventures which brings the expertise and capability of the project partners and are based on a contractual agreement. Thus, developing and operating public utilities and infrastructure by the private sector under terms and conditions agreeable to both the government and the private sector is called PPP.

Types of PPP:

Service Contract:

Under a service contract, the Government (public authority) hires a private partner to carry out one or more specified tasks or services for a period, typically 1–3 years.

The public authority remains the primary provider of the infrastructure service and contracts out only portions of its operation to the private partner.

The private partner is contractually to provide the service at the agreed cost and meet performance standards set by the authority.

The Government pays the private partner a predetermined fee for the service, which may be one-time fee, based on unit cost, or some other basis.

Management Contract:

Management and operation of the public service (i.e., utility, hospital, port authority, etc.) is outsourced to private partner for daily operations and management. In most cases, the private partner provides working capital but do not finance the project.

The private partner is paid a predetermined rate for the services based on the nature of project.

Lease Contract:

The private partner is responsible for the entire service and is also responsible for service quality.

Unless explicitly defined, the private partner provides the service at his expense and risk.

The duration of the leasing contract is typically for 10 years and may be renewed for up to 20 years.

The private partner is responsible for losses and for unpaid consumers' debts.

Leases do not involve any sale of assets to the private sector.

Concessions:

A concession makes the private partner (concessionaire) responsible for operation, maintenance, collection, management, and construction and rehabilitation of the project.

Private partner is responsible for all capital investment, even though the funding is done by Private Partner the asset remains as publicly owned even during the concession period.

The public sector is responsible for ensuring performance standards for concessionaire who collects the revenue based on concession agreement.

In few cases the government gives financing support to help the concessionaire for capital expenditure.

The concessionaire is responsible for any capital investments required to build, upgrade, or expand the system, and for financing those investments out of its resources and from the tariffs paid by the system users.

A concession contract is typically valid for 25–30 years to recover the capital invested and earn an appropriate return over the life of the concession.

Government may contribute to the capital investment cost by way of subsidy (Viability Gap Funding - VGF) to enhance commercial viability of the concession.

The PPP Projects are usually in the following sectors:

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

PPP Projects normally operate on the following basis:

- **BOO - Build Own Operate:**

Government doesn't provide direct funding to Private Partner, but gives fiscal incentives and tax benefits. The developer owns and operates the facility independently.

- **BOLT - Build Own Lease Transfer:**

A BOOT project is often seen to develop a large public infrastructure project with private funding.

- **BOOST - Build Own Operate Share Transfer:**

A contractual arrangement whereby a concessionaire is authorized to finance, construct, own operate and maintain, share a part of the revenue and transfer the infrastructure facility at the end of the period. The proponent can recover its total investment, operating and maintenance costs plus a reasonable return thereon by collecting tolls, fees, rentals or other charges from facility users.

- **BOT- Build, Operate and Transfer:**

Used to develop a discrete asset rather than a whole network and is generally entirely new or Greenfield in nature (although refurbishment may be involved). In a BOT Project the project company or operator generally obtains its revenues through a fee charged to the utility/ government rather than tariffs charged to consumers.

- **BOOT- Build, Own, Operate and Transfer:**

A project based on the granting of a concession by a Principal (the Union or Government or a local authority) to the concessionaire, who is responsible for the construction, financing, operation and maintenance of a facility over the period of the concession before finally transferring the facility, at no cost to the Principal, a fully operational facility. During the concession period the promoter owns and operates the facility and collects revenue to repay the financing and investment costs, maintain and operate the facility and make a margin of profit.

BOLT - Build Own Lease Transfer

The government grants the right to finance and build a project which is then leased back to the government for an agreed term and fee. The facility is operated by the government. At the end of the agreed tenure the project is transferred to the government.

BLOT- Build, Lease, Operate and Transfer

Private Partner designs, finances and builds a facility on leased public land. The private organization operates the facility for the duration of the lease and then transfers ownership to the public organization.

DBFO - Design Build Finance Operate

Under this model, the private partner designs, builds, finances, operates and/or maintains a new facility under a long-term lease. At the end of the lease term, the facility is transferred to the public sector. In some countries, DBFO/M covers both BOO and BOOT.

DBFOT- Design, Build, Finance, Operate and Transfer

Private Partner assumes the entire responsibility for the design, construct, finance, and operate or operate and maintain the project for the period of concession. The project will recover its investments (ROI) through concessions granted or through annuity. Project risks related to the design, financing and construction would stand transferred to the private partner.

OMT - Operate Maintain Transfer

Concessionaire takes charge of the maintenance for a fixed concession period which ranges from four to nine years. For revenue generation, the concessionaire can levy and collect user fees from road users.

Real Estate Development Model

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

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

Some commonly used models of Real estate development are:

Green field development (Traditional model)

Redevelopment model

Examples of Real estate development projects are:

Housing, Land and Township Infrastructure Development
Development of commercial real estate

Development of Corporate IT parks

EPC Contracting Model

The Developer of a project (either Govt. or Private Player under PPP model) delegates a portion of the contract to an EPC (Engineering, Procurement and Construction, including installation, commissioning etc. wherever applicable) Contractor. These contracts are finalized normally through a technical and commercial bidding process and the projects are executed as per client's requirements at the project site.

Examples of commonly used models of EPC contracts are:

LSTK- Lump sum turnkey contracts

Cost plus contracts

Item Rate Contract

A Combination of above

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

Construction involving in-house fabrication or manufacturing

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

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

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

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

- Cement concrete slabs, beams, columns etc. for infrastructure projects
- Reactors for Chemical Plants

- Heat exchangers for Fertilizer Plants
- Process platforms for Oil & Gas exploration projects
- Transmission towers for power transmission line projects

ii. Industry Specific Issues

Time and Cost Overrun are the perennial issue faced by the construction sector.

Few of the reasons for this issue are

- Unplanned movement of unorganised migrant labour;
- Lack of detailed planning and monitoring;
- Poor quality of planning and engineering design;
- Erroneous estimation;
- Lack of proper Due Diligence while bidding for the project;
- Delays in various approvals;
- Land acquisition problems;
- Weak dispute resolution practices;
- Weak performance management;
- Non-availability or paucity of skilled and semi-skilled workers;
- Weak risk management skills;
- Lack of best-in-class procurement practices;
- Low prevalence of lean construction principles;

iii. Contracts and other documentation in Construction Industry:

Construction projects have become larger and more complex and yet still maintain a high drive for quality. Because of this increase in size and complexity, the quantities of documentation and information required to control the overall project process have themselves become more complex.

Every construction project is unique. But every construction project also consists of repetitive components that can be described in standardized ways. What is the right list of construction resources and work descriptions? Many countries are not having a list of standard construction resources, most of the contractors have their own list, all with their own codes, rates etc. Also, many contractors have several measurement methods breaking down how the work shall be described and quantified. Most of the contractors do not have costing system and cost control data out of unique combinations of standard components. Also, standardization of items for maintaining the costs is difficult in construction industry.

Hence, standardizations of items/ resources used are very much required for cost control in the construction industry. BOQ (Bill of Quantities) items as per the contract may be taken as standard for the contract, which may change contract to contract. Normally standardization is a combination of estimating resource, scope description item (BOQ item), schedule activity, cost controlling line etc.

A bill of quantities (BOQ) is a document used in tendering in the construction industry in which materials, parts, and labor (and their costs) are itemized. It also details the terms and conditions of the construction or repair contract and itemizes all work to enable a contractor to price the work for which he or she is bidding.

The estimated amount of each tender is calculated based on the technical specifications of work to be carried out breaking down in measurable quantities. Before tendering is done, the amount so calculated is to be approved or sanctioned by the competent authority of the organization.

Conditions to be fulfilled before inviting/accepting tenders (adapted from CPWD works manual but applies practically to all Construction Project award process)

The authorized officer of the company may invite/accept tenders only after the following conditions are fulfilled:

- The work is technically sanctioned by the competent authority of the organization.
- The Notice Inviting Tender (NIT) is approved by the competent authority of the organization.
- When the tender exceeds the amount technically sanctioned for the work by an amount greater than the power of the technical sanctioning authority, revised technical sanction should be obtained from the next higher authority before acceptance of tender.
- When the tender involves liability exceeding the expenditure sanction for the work by an amount greater than 10%, such excess will require a revised expenditure sanction. This sanction should be obtained as soon as such an excess is foreseen.
- An assurance should be received, either at the time of communication of expenditure sanction or subsequently, from the authority competent to provide the necessary funds that the required funds will be allocated before the liability is incurred.

1. **Bidding activity:**

   Bids are generally invited in two bid system i.e. Technical Bid & Financial Bid for the work to be executed. The Bid will form the basis for future discussions and ultimately, a contract between the Company and the selected firm.

   Bidders may require clarifications on general or special conditions of the Bid documents before submission of their Bids. NIT generally specifies the date, time and venue of the pre-bid meeting. If this is not mentioned, then bidders may request for clarification and such requests must be sent in writing by email or by fax or speed post to the Company.

   On acceptance of Tender by the Competent Authority of the organization, the

Contractor is required to deposit the Performance Security (PS) as specified in the NIT. It may be specified in the NIT that the successful bidder may either submit the Performance Security either in the form of Bank Draft or Bank Guarantee or partly through Bank Draft or partly by Bank Guarantee of the specified amount. In case of Bank Guarantee, the Contractor is required to provide an irrevocable Performance Guarantee of specified amount in addition to other deposits mentioned in the contract agreement for his proper performance of the contract. Sometime the contractor may not be able to furnish the Performance Guarantee within a given period. The company based on genuine grounds may extend the period for submission of Performance Guarantee.

The Performance Guarantee should be initially valid up to the stipulated date of completion. In case the time for completion of work gets enlarged, the contractor should get the validity of Performance Guarantee extended to cover such enlarged time for completion of work. The performance guarantee may be returned to contractor on receipt of the completion certificate for the work by the competent authority.

In the event of the contract being determined or rescinded because default on the part of contractor under provision of any of the Clause/Conditions of the agreement, the performance guarantee should stand forfeited in full and should be absolutely at the disposal of the Company.

Preparation of Bid

a. **<u>Technical Bid</u>**

In a Technical Bid, the Bidders are generally asked to submit the following:

(i) Qualification Information and supporting documents (in prescribed Annexure, credentials, certificates etc.) as specified in the Bidding document such as quantities of work executed in the past, commitments, machinery list, key personal list in the formats, Bank certificate, Affidavit & Undertaking etc.

(ii) Earnest Money as mentioned in the NIT (package-wise).

(iii)Undertaking to the effect that Bid shall remain valid for the period as mentioned in the Bid Document.

Contractor is expected to examine all terms and instructions included in the documents furnished with offer. Failure to provide requisite information may result in rejection of Bid. Contractor should submit the credentials/bio data of the proposed Project Manager, Senior Engineers, Safety Officer conforming their qualifications, experience and working knowledge with Government Departments for scrutiny and interview with the company and should be approved by it for deployment for project prior to issue of Acceptance/Work order and bio data/CV in line with the requirement for other personnel also to be submitted for approval.

Technical Bid should provide the following information, but not limited to, using the Standard Formats:

- A description of the methodology (work place), which the Contractor proposes to employ in performing the Assignment, duly illustrated with bar charts of activities, Critical Path Method (CPM) or Project Evaluation and Review Technique (PERT) or any other type of graphics.
- Curricula Vitae (C.V.) recently signed by the proposed key professional staff and countersigned by an authorized officer of the Contractor. Key information should include: years with the firm/entity and degree of responsibility held in various assignments during the last ten years.
- Confirmation/ submission on salient technical conditions mentioned in Offer Document.
- Quality assurance system/programme proposed to be employed in design, engineering, procurement, inspection, and management activities.
- The technical Bid shall not include any financial information.

b. <u>Financial Bid</u>

The Financial Bid consists of the following:

(i) Schedule of Rates (Rates to be quoted by the Bidder as per Schedule of Quantities in the NIT). It may be provided that all taxes and duties should be shown separately in the tender wherever applicable.

(ii) Form of Bids as prescribed in the Bidding document.

The following may be criterial for preparation of Financial Bid:

- Time Dependent payment per month for the construction period for a period of specified months shall be quoted in amount per month for the technical personnel employed.
- Progress Dependent payment per month shall be quoted % (percentage) of work done. The amount/ rates quoted in the Bid shall be both in figures and words. Cost may be expressed in the currency as specified in Summary of Costs (SC).
- Total amount quoted shall be sum of the all Phases and the lowest bidder shall be considered for acceptance.

The Financial Bid, for the assignment and for additional works shall be all inclusive, and should cover, but not be limited to, remuneration for staff (in the field and at headquarters), gratuity, provident fund, travel assistance, out of pocket expense (per diem), overheads, profits, accommodation (housing), transportation (for mobilization and demobilization),

communication, equipment (vehicles, office equipment, furniture, consumable etc.), printing of documents, surveys, training. The Financial Bid shall also include the tax liability and cost of insurance of Construction firm and his specified personnel.

Validity of Offers (indicative only)

All tenders should be kept valid for acceptance for 90 days from the tender closing date unless otherwise specified in tender invitation. Tenders of lesser validity period may not be considered.

1. **Bidding Process** *(Indicative Only)*

- **Technical Evaluation:** A comparative statement of all the Tenders should be prepared and credentials of the tenderers should also be analysed, recorded and signed by authorized officials. If Technical Consultant is appointed for bid evaluation, the opinion of the Technical Consultant should be also obtained before finalization of the tenders.
- **Opening of Price Bids:** After completion of the technical evaluation process the Tender Committee will recommend opening of the price bids of the technically qualified tenderers.
    - Generally in PSUs and Government Departments, there should be at least three technically qualified tenderers or it may be more/less based on the Standard Operating Procedure (SOP) of the Organization or if considering the condition of site or work, less number of bidders are anticipated to quote against the NIT then the minimum number as fixed/approved by the competent authority before inviting the tenders.
    - If it is found that prior to opening the price bids, approval for opening of less than (A+2) bids has already been taken during technical evaluation process and no further rejection of offers has taken place during the technical evaluation process, no further approval is required for price bid opening.
    - However if it is found that (A+2) or more number of bids were available before the technical evaluation process but there are less than (A+2) bids at the time of price bid opening, tender will be processed on the basis of technically qualified bids only.
- If the rate as quoted by L1 party is abnormally low rate (ALR) i.e. 20% below the estimated cost, then the Tender Committee will ask the L1 party to give written explanation to justify such rates before finalization of contractor.
- In PSUs/ Government bidding, the basis of evaluation of bids for finalization of tender should be well defined in each tender document. It is desirable to finalize all tenders on the lowest offer basis for tender as a whole. However, where the tender involves procurement of more than one item and each item can be procured separately from different parties, in such cases it should be clearly indicated in the tender document that the offers should be finalized on lowest offer basis for every individual item.
- In PSUs/Government Departments, the Order is placed to the tenderer in L-1 position. The Tender Committee should record its justification in case of any deviation. If the L-1 backs out fully, re-tendering should be resorted to without

considering the backed out tenderer. Besides forfeiting the EMD of the said tenderer, the tenderer can also be disallowed from participation in any tender process for a period of six months with the approval of the management.

- In case tender is called for procurement with service/AMC and only for AMC or hiring of equipment for longer duration then L-1 will be decided on the basis of predetermined discounted cash flow method which should be given in the tender notice itself. In all these type of contracts final approval needs to take from the management.
- In case the L-1 party is unable to execute the full quantity/scope of work the balance quantity/scope of work, if any, can be ordered as follows : (I) All the remaining technically qualified tenderers can be asked to offer maximum quantity up to the uncovered quantity/scope of work and match L1 rates. Offers of such tenderers who match L-1 price may be accepted in order of their rankings. (ii) If the quantity/scope of work is still not covered then the balance quantity can be retendered/cancelled with the approval of the competent authority.
- The remarks of the Committee along with comparative statement should be summarized in the Report to be signed by all members of the Tender Committee and to be placed for approval. The reasonability of the rates to be deliberated by the tender committee members with estimated rate and last purchase/award rate after adding escalation based on WPI or specific index for relevant period as available from RBI or market survey/pre estimated proposal.
- After obtaining the approval of the competent authority, the Purchase Convener or Tender Committee Convener should forward the same to the concerned Head of Department, who should place the Purchase Order with a copy to the Convener and also to the Head, Finance Department.
- Generally in PSUs/ Government Departments negotiation is prohibited except for exceptional cases with prior approval of the tender approving authority. If it is required, it should be with the L-1 bidder only after taking prior approval of tender approving authority and should be routed through tender committee.
- In PSUs/ Government Department repeat orders are generally avoided as far as possible. However, if required under exigencies, it may be allowed maximum up to the previous order quantity at the same rate from the same party for maximum two consecutive times (for example if it was an annual contract it can be renewed for maximum two years). The renewal of service contracts (including AMC) on the same price and same terms & conditions as previous year with the vendor initially selected through the tender process mentioned herein can also be considered on the recommendations of the respective heads of the user department based on satisfactory past performance. In all such cases it should be routed through Tender Committee with due certification that there is no downward trend in prices. Tender document should specifically provide that the management will have a right to

extend the service contract for further maximum two times on yearly basis on the same terms and conditions provided the service provider has given the satisfactory

services. In such cases the approving authority will be based on the total value including extended period.

- This document will also be applicable for procurement of all goods and services, including Capital Items (other than Land, Building/Flat) required for the operation of the head office and branches.

2.* Standard Contract Clauses: *(Sample Only for Guidance)

A. ELIGIBILITY CRITERIA (Generally applicable in PSUs/Government Departments)

- Average Annual financial turnover during the last 3 years, ending 31st March of the previous financial year, should be at least 30% of the estimated cost.
- Experience of having successfully completed similar works during last 7 years ending last day of month previous to the one in which applications are invited should be either of the following:-
  - Three similar completed works each costing not less than the amount equal to 40% of the estimated cost.

    Or

  - Two similar completed works each costing not less than the amount equal to 50% of the estimated cost.

    Or

  - One similar completed work costing not less than the amount equal to 80% of the estimated cost.
- Definition of "*similar work*" should be clearly defined.

In addition to above, the criteria regarding satisfactory performance of works, personnel, establishment, plant, equipment etc. may be incorporated according to the requirement of the Project/work.

B. Earnest Money Deposit (EMD)/Bid Security (Generally applicable in PSUs/ Government Departments)

EMD/Bid Security amount to be specified in the tender notice [1% in case of service contracts and 2% in case of procurement tenders rounded off to higher hundred rupees.] This amount will be calculated based on estimated value. It should be in shape of Demand Draft from any schedule bank in favor of the Institute. If it is accepted in the form of Bank Guarantee from any schedule bank, the validity of the Bank Guarantee should be valid for 30 days beyond the validity of the bid.

If any bidder backs out after opening of bid, their EMD should be forfeited, with right of management for any other disciplinary action against the party.

Earnest Money Deposit of the successful bidder may be adjusted against Security Deposit.

Earnest money of unsuccessful bidders should be refunded as promptly as possible, but not later than 21 days after the expiry of the bid validity.

Bids without appropriate Bid Security/EMD should be treated as unresponsive and no further evaluation of such bids should be made.

C. Security Deposit (SO):

- In case of procurement/supply tenders, it should be 10% of the supply order value. This clause should be stipulated in the tender and the successful tenderer getting the order should deposit the same within two weeks' time (15 days) from the date of receipt of order. This may be in shape of Demand Draft from any schedule bank in favour of the institute or in shape of Bank Guarantee from scheduled banks. In case the firm fails to deposit the security money, the order should be cancelled and the case should be processed to order elsewhere and the firm's performance is to be kept recorded for future dealings with them.

  The value of Security Money to be deposited by the successful tenderer in the form of Bank Draft from any schedule bank should be 10% of the value of the awarded contract without having any ceiling. For successful tenderer, EMD should be converted to Security Deposit. Bank Guarantee Format will be provided by Director (Finance)/ CFO on case to case basis. Submitted Bank Guarantee documents should be verified from the concerned Banks and kept in record by concern department. Bank Guarantee should have a claim period of three months. In case the Bank Guarantee is required to be renewed, then action to be initiated by concerned department three months prior to the expiry date of Bank Guarantee.

  Security Deposit will be refunded to the firm within 30 days of satisfactory execution of the contract with the approval of tender approving authority.

- In case of Civil Contracts it may be accepted in two parts viz;

  - **Initial Security:** Deposit should be 5% of the contract award value to be deposited by the successful tenderer/contractor in shape of Demand Draft or Bank Guarantee within 15 days from the date of receipt of order or before signing of Agreement, whichever is earlier. EMD may be adjusted against the initial security deposit. In case the firm fails to deposit the security money, the order should be cancelled and the case should be processed to order elsewhere and the firm's non-performance is to be kept recorded for future dealings with them.

  - **Retention Money:** Balance of the security deposit to be deducted from each running bill @ 5% of the completed work (progress work). Total of

Performance Guarantee & Retention Money should not exceed 10% of Contract amount or lesser sum indicated in the bid document.

Initial Security Deposit of 5% should be refunded within 14 days of the issue of the defects liability Certificate (taking over Certificate with a list of defects). Balance of retention money (5%) should be refunded after issue of No Defects Certificate. This balance amount can be substituted by "on demand" Bank Guarantee, at the option of the contractor.

D. Mobilization Advance

The Contract generally provides for grant of Mobilization advance not exceeding 10% of the tendered value, if requested by the contractor in writing within 15 days of the order to commence the work. Such advance may be in two or more installments as per the terms of the contract. The first installment of such advance may be released by the Principal to the contractor on his request. The second and subsequent installments may be released by the Principal after the contractor furnishes a proof of the satisfactory utilization of the earlier installment to the entire satisfaction of the Principal.

Before any installment of advance is released, the contractor may be required to execute a Bank Guarantee Bond from Scheduled/Nationalized Bank for advance & valid for the contract period. Bank Guarantee is to be kept renewed from time to time to cover the balance amount and likely period of complete recovery, together with interest.

E. Secured Advance on Non-perishable Materials

The Contract may provide for that the contractor, on signing an indenture in the form to be specified by the Principal, shall be entitled to be paid during the progress of the execution of the work up to 75% of the assessed value of any materials which are in the opinion of the Resident Engineer/ Principal is non-perishable, non-fragile and non-combustible and are in accordance with the contract and which have been brought on the site in connection with and are adequately stored and/or protected against damage by weather or other causes but which have not at the time of advance been incorporated in the works. When materials on account of which an advance has been made are incorporated in the work the amount of such advance shall be recovered/deducted from the next payment made under any of the clause or clauses of the contract.

Such secured advance may also be payable on other items of perishable nature, fragile and combustible with the approval of the Resident Engineer/ Principal, provided the contractor provides a comprehensive insurance cover for the full cost of such materials. It may be provided that the decision of the Resident Engineer/ Principal shall be final and binding on the contractor in this matter. No secured advance, shall however, be paid on high-risk materials such as ordinary glass, sand, petrol, diesel etc.

F. Plant, Machinery & Shuttering Material Advance

It may be provided in the Contract that an advance for plant, machinery & shuttering materials required for the work and brought to site by the Contractor may be given if requested by the contractor in writing within for example one month of bringing such plant and machinery to site. Such advance shall be given on such plant and machinery, which in the opinion of the Resident Engineer/Principal will add to the expeditious execution of work and improve the quality of work.

The amount of advance may be restricted to 5% of tender value. In the case of new plant and equipment to be purchased for the work the advance may be restricted to 90% of the price of such new plant and equipment paid by the contractor for which the contractor shall produce evidence satisfactory to the Resident Engineer/Principal. In the case of second hand and used plants and equipment, the amount of such advance shall be limited to 50% of the depreciated value of plant and equipment as may be decided by the Resident Engineer/ Principal. The contractor may be required to submit to the Resident Engineer/ Principal the statement of value of such old plant and equipment duly approved by a Registered Valuer recognized by the Central Board of Direct Taxes under the Income Tax Act, 1961. No such advance shall be paid on any plant and equipment of perishable nature and on any plant and equipment of a value less than for example of Rs. 50,000/-. Seventy-five per cent of such amount of advance shall be paid after the plant & equipment is brought to site and balance twenty-five per cent on successfully commissioning the same.

Leasing of equipment shall be considered at par with purchase of equipment and shall be covered by tripartite agreement with the following:

(i) Leasing company which gives certificate of agreeing to lease equipment to the contractor.

(ii) Principal or its Authorised Representative, and

(iii) The contractor.

This advance shall further be subject to the condition that such plant and equipment (a) are considered by the Resident Engineer/ Principal to be necessary for the works; (b) and are in and are maintained in working order; (c) hypothecated to the Principal's Company/ Firm as specified by the Resident Engineer/ Principal before the payment of advance is released. The contractor shall not be permitted to remove from the site such hypothecated plant and equipment without the prior written permission of the Resident Engineer/ Principal. The contractor shall be responsible for maintaining such plant and equipment in good working order during the entire period of hypothecation failing which such advance shall be entirely recovered in lump sum.

For this purpose, steel scaffolding and form work shall be treated as plant and equipment.

The contractor shall insure the Plant & Machinery for which mobilization advance is sought and given, for a sum sufficient to provide for their replacement at site. Any amounts not recovered from the insures will be borne by the contractor.

G. Interest & Recovery

The mobilization advance and plant & machinery advance may bear simple interest at the rate of 12 percent per annum and shall be calculated from the date of payment to the date of recovery, both days inclusive, on the outstanding amount of advance. Recovery of such sums advanced shall be made by the deduction from the contractor's bills commencing after for example first ten percent of the gross value of work is executed and paid, on pro-rata percentage basis to the gross value of the work billed beyond 10% in such a way that the entire advance is recovered by the time eighty per cent of the gross value of the contract is executed and paid, together with interest due on the entire outstanding amount up to the date of recovery of the instalment.

H. Bid Prices:

The contract should be for the whole works based on the priced Bill of Quantities submitted by the Bidder. The bidder should fill in rates and prices for all items of the Works described In the Bill of Quantities. Items for which no rate or price is entered by the bidder will not be paid for by the

Employer when executed and should be deemed covered by the other rates and prices in the Bill of Quantities. Correct ions, if any, should be made by crossing out, initialing, dating and rewriting.

All duties, taxes, and other levies payable by the contractor under the contract, or for any other cause should be included in the rates, prices and total Bid Price submitted by the Bidder.

Any new Taxes, levies, duties imposed after signing the Contract should be reimbursed by the employer on production of documentary evidence and only if the contract is fulfilled within the stipulated time period. If there is any delay on the part of the party, there will be no reimbursement.

The rates and prices quoted by the bidder should be fixed for the duration of the Contract and should not be subject to adjustment on any account.

OR

The rates and prices quoted by the bidder are subject to adjustment during the performance of the Contract in accordance with the provisions of the Conditions of Contract.

I. **Currencies:** All payments should be made in Indian Rupees unless specifically mentioned.

J. Variations, Extra/ Substituted Items (in case of civil contracts}: (Indicative only)

- Variation permitted should be± 25% in quantity of each individual item, and ± 10% of the total contract price. Within 14 days of the date of instruction for executing varied work, extra work or substitution, and before the commencement of such work, notice should be given either:
    - By the Contractor to the Company of his intention to claim extra payment or

a varied rate or price, or

- ❖ By the Company to the Contractor of his intention to vary a rate or price.

- ➢ For items not existing in the Bill of Quantities or substitutions to items in the Bill of Quantities, rate payable should be determined by methods given below and in the order given below:
  - ❖ Rates and prices in Contract, if applicable;
  - ❖ Rates and prices in the Schedule of Rates applicable to the Contract ± tendered percentage, where appropriate;
  - ❖ Market rates of materials and labour, plus 10% for overheads and Profits of contractor;
  - ❖ Escalation/de-escalation to be paid as admissible.
- ➢ In case of delay in processing the claim, the company and the contractor agree on the rate of an extra item, provisional rates as agreed by both party may be payable till such time as the rates are finally determined.
- ➢ For items existing in the Bill of Quantities but where quantities have increased beyond the variation limits, the rate payable for quantity in excess of the quantity in the Bill of Quantity plus the permissible variation should be:
  - ❖ Rates and prices in contract, if reasonable, failing which
  - ❖ Market rates of material and labour, plus 10% for overheads and profits of contractor.

The following Clauses in respect of escalation/ de-escalation have been adapted from CPWD:

CLAUSE 10 C

Payment on Account of Increase in Prices/ Wages due to Statutory Order (s)

If after submission of the tender the price of any material incorporated in the works (not being a material supplied from the Principal's/Owner's stores in accordance with Clause 10 of Clauses of Contract thereof) and/or wages of labour increases as a direct result of the coming into force of any fresh law, or statutory rule or order (but not due to any changes in sales tax/ VAT) and such increase in the price and/or wages prevailing at the time of the last stipulated date for receipt of the tenders including extensions if any for the work, and the contractor thereupon necessarily and properly pays in respect of that material (incorporated in the works) such increased price and/or in respect of labour engaged on the execution of the work such increased wages, then the amount of the contract shall accordingly be varied and provided further that any such increase shall not be payable if such increase has become operative after the stipulated date of completion of the work in question.

If after submission of the tender, the price of any material incorporated in the works (not being a material supplied from the Principal's/Owner's stores in accordance with Clause 10 of Clauses of Contract thereof) and/or wages of labour is decreased as a direct result of the coming into force of any fresh law or statutory rules or order (but not due to any changes in sales tax/ VAT) and such decrease in the prices and/or wages prevailing at the time of receipt of the tender for the work.

Principal shall in respect of materials incorporated in the works (not being materials supplied from the Principal's/Owner's stores in accordance with Clause-10 of Clauses of Contract thereof) and/or labour engaged on the execution of the work after the date of coming into force of such law statutory rule or order be entitled to deduct from the dues of the contractor such amount as shall be equivalent to the difference between the prices of the materials and/or wages as prevailed at the time of the last stipulated date for receipt of tenders including extensions if any for the work and the prices of materials and/or wages of labour on the coming into force of such law, statutory rule or order.

The contractor shall, for this condition, keep such books of account and other documents as are necessary to show the amount of any increase claimed or reduction available and shall allow inspection of the same by a duly authorized representative of the Resident Engineer/ Principal and further shall, at the request of the Resident

Engineer/ Principal may require any documents so kept and such other information as the Resident Engineer/ Principal may require.

The contractor shall, within a reasonable time of his becoming aware of any alteration in the price of any such materials and/or wages of labour, give notice thereof to the Resident Engineer/ Principal stating that the same is given pursuant to this condition together with all information relating thereto which he may be in position to supply.

For this purpose, the labour component of the work executed during any period shall be the percentage as specified in contract, of the value of work done during that period.

CLAUSE 10 CA

Payment due to variation in prices of materials after receipt of tender

If after submission of the tender, the price of material specified in contract increases/decreases beyond the prices(s) prevailing at the time of the last stipulated date for receipt of tenders (including extension, if any) for the work, then the amount of the contract shall accordingly be varied and provided further that any such variation shall be effected for stipulated period of contract including the justified period extended under the provision of the contract.

However, for work done during the justified period extended as above, it will be limited to indices prevailing at the time of stipulated date of completion or as prevailing for the period under consideration, whichever is less.

The increase/ decrease in prices of cement, steel reinforcement and structural steel shall be determined by price indices issued by the Principal. For other items provided in the contract, this shall be determined by the All India Wholesale Price Indices of materials as published by Economic Advisor to Government of India, Ministry of Commerce and Industry and base price for cement, steel reinforcement and structural steel as issued under the authority Principal and base price of other materials issued by the Principal and valid on the last stipulated date of receipt of tender, including extension if any and for the period under consideration. In case, price index of a material is not issued by Ministry of Commerce and Industry, then the price index of nearest similar material as indicated in the contract shall be followed.

The amount of the contract shall accordingly be varied for all such materials and will be worked out as per the formula given below for individual materials:

V=P x Q x CI-CIo

CIo

Where,

V= Variation in material cost i.e. increase or decrease in the amount in rupees to be paid or recovered.

P= Base Price of material as issued by the Principal and as indicated in the contract valid at the time of the last stipulated date of receipt of tender including extensions, if any,

Q= Quantity of material brought at site for bonafide use in the works since previous bill.

CIo= Price index for cement, steel reinforcement bars and structural steel as issued by the Principal as valid on the last stipulated date of receipt of tenders including extensions, if any. For other items, if any, provided in contract, All India Wholesale Price Index for the material as published by the Economic Advisor to Government of India, Ministry of Industry and Commerce as valid on the last stipulated date of receipt of tenders including extensions, if any.

CI= Price index for cement, steel reinforcement bars and structural steel as issued by the Principal for period under consideration. For other items, if any provided in the contract, All India Wholesale Price Index for the material for period under consideration as published by Economic Advisor to Government of India, Ministry of Industry and Commerce.

Note:

(i) In respect of the justified period extended under the provisions of the contract, the index prevailing at the time of stipulated date of completion or the prevailing index of the period under consideration, whichever is less, shall be considered

***Provided always that provisions of the preceding Clause 10 C shall not be applicable in respect of materials covered in this clause*.**

(ii) If during progress of work or at the tie of completion of work, it is noticed that any material brought at site is in excess of requirement, then amount of escalation if paid earlier on such excess quantity of material shall be recovered on the basis of cost indices as applied at the time of payment of escalation or as prevailing at the time of effecting recovery, whichever is higher.

CLAUSE 10 (CC)

Payment due to Increase/ Decrease in Prices/Wages (excluding materials covered under clause 10CA) after Receipt of Tender for Works

If the prices of materials (not being materials supplied or services rendered at fixed prices by the Principal in accordance with Clause 10 & other Clauses of Contract thereof) and/or wages of labour required for execution of the work increase, the contractor shall be compensated for such increase as per provisions detailed below and the amount of the contract shall accordingly be varied, subject to the condition that such compensation for escalation in prices and wages shall be available only for the work done during the stipulated period of the contract including the justified period extended under the provisions of the contract. However, for the work done during the justified period extended as above, the compensation as detailed below will be limited to prices/wages prevailing at the time of stipulated date of completion or as prevailing for the period under consideration, whichever is less. No such compensation shall be payable for a work for which the stipulated period of completion is equal to or less than the time as specified in the contract.

Such compensation for escalation in the prices of materials and labour, when due, shall be worked out based on the following provisions:

(i) The base date for working out such escalation shall be the last stipulated date of receipt of tenders including extension, if any.

(ii) The cost of work on which the escalation will be payable shall be reckoned as below:

a) Gross value of work done up to this quarter: (A)

b) Gross value of work done up to the last quarter : (B)

c) Gross value of work done since previous quarter (A-B) :(C)

d) Full assessed value of Secured Advance (excluding materials covered under clause 10CA) fresh paid in this quarters: (D)

e) Full assessed value of Secured Advance (excluding materials covered under clause 10CA) recovered in this quarter :(E)

f) Full assessed value of Secured Advance for which escalation is payable in this quarter (D-E) :(F)

g) Advance payment made during this quarter :(G)

h) Advance payment recovered during this quarter :(H)

i) Advance payment for which escalation is payable in this quarter (G-H) :(I)

j) Extra items paid as per provision of the contract based on prevailing market rates during this quarter :(J) Then, Q= C+F+ L-J R=0.85 Q

k) Less cost of material supplied by the Principal as per provision of the contract and recovered during the quarter :(K)

l) Less cost of services rendered at fixed charges as per Clause of the contract and recovered during the quarter :(L)

m) Less cost of Cement-Quantity of cement brought at site for bonafide use in the work during the quarter X Base Price of Cement

n) Less Cost of reinforcement bars-

Quantity of reinforcement bars brought at site for bonafide use in the work during the quarter X Base Price of reinforcement bars.

o) Less cost of structural steel-Quantity of Structural steel- Quantity of Structural Steel brought at site for bonafide use in the work during the quarter X Base Price of Structural Steel.: (M)

p) Less cost of other material covered under clause 10 CA-Quantity of such Materials/Materials brought at site for bonafide use in the work during the quarter covered under clause 10 CA X Base Price of such Material/Materials. : (N)

Cost of work for which escalation is
applicable: W=R-(K+L) – (M+N+O+P)

(iii) Components of materials (except cement, reinforcement bars, structural steel or others materials covered under Clause 10CA) labour, P.O.L etc. shall be pre-determined for every work and incorporated in the conditions of contract attached to the tender papers included in Schedule of the contract. The decision of the Resident Engineer/ Principal in working out such percentage shall be binding on the contractor. : (P)

(iv) The compensation for escalation for other materials (excluding cement, reinforcement bars, structural steel or others materials covered under Clause 10CA) and P.O.L shall be worked as per the formula given below :-

c) Adjustment for civil component (except cement, reinforcement bars, structural steel and others materials covered under Clause 10CA) /electrical component of construction 'Materials'.

Vm = W x Xm x MI-
MIo 100 MIo

Vm = Variation in material cost i.e. increased or decrease in the amount in rupees to be paid or recovered.

W = Cost of work done worked out as indicated in sub-para (ii) of Clause 10 CC.

Xm= Component of 'materials' (except cement, reinforcement bars, structural steel and others materials covered under Clause 10CA) expressed as percent of the total value of work.

MI= All India Wholesale Price Index for civil component/electrical component* of construction materials as worked out on the basis of All India Wholesale Price Index for individual Commodities/Group Items for the period under consideration as published by Economic Advisor to Government of India, Ministry of Industry & Commerce and applying weightages to the individual Commodities/Group Items.

(In respect of the justified period extended under the provisions of clause-5 of the contract, without any action under clause-2, the index prevailing at the time of stipulated date of completion or the prevailing index of the period under consideration, whichever is less, shall be considered).

Mio = All India Wholesale Price Index for civil component/electrical component * of construction materials as worked out on the basis of All India Wholesale Price Index for Individual Commodities/ Group Items valid on the last stipulated date of receipt of tender including extension, if any, as published by the Economic Advisor to Government of India, Ministry of Industry & Commerce and applying weightages to the individual Commodities/Group Items.

*Note : relevant component only will be applicable.

d) Adjustment for components of
'POL' Vf = W x Z x (FI – FI0)

100 FI0

Vf = Variation in cost of Fuel, Oil & Lubricant i.e. increase or decrease in the amount in rupees to be paid or recovered.

W = Cost of work done worked out as indicated in sub-para (ii) of Clause 10 CC.

Z= Component of Fuel, Oil & Lubricant expressed as percent of the total value of work. FI= All India Wholesale Price Index for Fuel, Oil &

Lubricant for the period under consideration as published by the Economic Advisor to Government of India, Ministry of Industry & Commerce, New Delhi.

(In respect of the justified period extended under the provisions of the contract, the index prevailing at the time of stipulated date of completion or the prevailing index of the period under consideration, whichever is less, shall be considered).

Fio= All India Wholesale Price Index for Fuel, Oil & Lubricant valid on the last stipulated date of receipt of tender including extension, if any.

(v) The following principles shall be followed while working out the indices mentioned in para

(iv) above.

a) The compensation for escalation shall be worked out at quarterly intervals and shall be with respect to the cost of work done as per bills paid during the three calendar months of the said quarter. The first such payment shall be made at the end of three months after the month (excluding) in which the tender was accepted and thereafter at three months' interval. At the time of completion of the work, the last period for payment might become less than 3 months, depending on the actual date of completion.

b) The index (MI/FI etc.) relevant to any quarter/period for which such compensation is paid shall be the arithmetical average of the indices relevant to the three calendar months. If the period up to date of completion after the quarter covered by the last such instalment of payment, is less than three months, the index MI and FI shall be the average of the indices for the months falling within that period.

(vi) The compensation for escalation for labour shall be worked out as per the formula given below:-

VL = W x Y x (L1 – L10)
100 L10

VL = Variation in labour cost i.e. amount of increase or decrease in rupees to be paid or recovered.

Value of work done, worked out as indicated in sub-para (ii) above.

Y = Components of labour expressed as a percentage of the total value of the work.

LI= Minimum wage in rupees of an unskilled adult male mazdoor, fixed under any law, statutory rule or order as applicable on the last date of the quarter previous to the one under consideration.

(In respect of the justified period extended under the provisions of the contract, the minimum wage prevailing on the last date of quarter previous to the quarter pertaining to stipulated date of completion or the minimum wage prevailing on the last date of the quarter previous to the one under consideration, whichever is less, shall be considered).

LIo = Minimum daily wage in rupees of an unskilled adult male mazdoor, fixed under any law, statutory rule or order as on the last stipulated date of receipt of tender including extension, if any.

(vii) The following principles will be followed while working out the compensation as per sub- para (vi) above.

a) The minimum wage of an unskilled male mazdoor mentioned in sub-para (vi) above shall be the higher of the wages notified by Government of India, Ministry of Labour and that notified by the local administration both relevant to the place of work and the period of reckoning.

b) The escalation for labour also shall be paid at the same quarterly intervals when escalation due to increase in cost of materials and/or P.O.L is paid under this clause. If such revision of minimum wages takes place during any such quarterly intervals, the escalation compensation shall be payable at revised rates only for work done in subsequent quarters.

c) Irrespective of variations in minimum wages of any category of labour, for the purpose of this clause, the variation in the rate for an unskilled adult male mazdoor alone shall form the basis for working out the escalation compensation payable on the labour component.

(viii) In the event the price of materials and/or wages of labour required for execution of the work decrease/s, there shall be a downward adjustment of the cost of work so that such price of materials and/or wages of labour shall be deductible from the cost of work under this contract and in this regard the formula herein before stated under this clause 10 CC shall mutatis mutandis apply, provided that:

a) No such adjustment for the decrease in the price of materials and/or wages of labour aforementioned would be made in case of contracts in which the stipulated period of completion of the work is equal to or less then the time as specified in Schedule'F'.

b) The Resident Engineer/ Principal shall otherwise be entitled to lay down the procedure by which the provision of this sub-clause shall be implemented from time to time and the decision of the Resident Engineer/ Principal in this behalf shall be final and binding on the contractor.

(ix) Provided always that:

a) Where provisions of clause 10 CC are applicable provisions of clause 10 C will not be applicable but provisions of clause 10CA will be applicable.

b) Where provisions of clause 10 CC are not applicable, provisions of clause 10 C and 10 CA will become applicable.

K. Liquidated Damages (Civil Contracts)

The following are clauses (indicative only) found in the Tender Documents

➢ In case of delay in completion of the contract, liquidated damages (L.D) not by way of penalty may be levied at the rate of half per cent (1/2%) of the contract price per week of delay, subject to a maximum of 10 per cent of the contract price. \

In the following cases delay are generally condoned:

- Force majeure, or
- Abnormally bad weather, or
- Serious loss or damage by fire, or
- Civil commotion, local commotion of workmen, strike or lockout, affecting any of the trades employed on the work, or

• Delay on the part of other contractors or tradesmen engaged by Engineer, in executing work not forming part of the Contract, or any other cause which, in the absolute discretion of the authority is beyond the Contractor's control.

The Company, if satisfied, that the works can be completed by the contractor within a reasonable time after the specified time for completion, may allow further extension of time at its discretion with or without the levy of L.D. In the event of extension granted being with L.D, the company will be entitled without prejudice to any other right or remedy available in that behalf, to recover from the contractor as agreed damages equivalent to half per cent (1/2%) of the contract value of the works for each week or part of the week subject to the ceiling of 10% defined above.

- The Company, if not satisfied that the works can be completed by the contractor, and in the event of failure on the part of the contractor to complete work within further extension of time allowed as aforesaid, should be entitled, without prejudice to any other right, or remedy available in that behalf, to rescind the contract.
- The Company, if not satisfied with the progress of the contract and in the event of failure of the contractor to recoup the delays in the mutually agreed time frame, should be entitled to terminate the contract.
- In the event of such termination of the contract as described in clauses above the Company should be entitled to recover L.D. up to ten per cent (10%) of the contract value and forfeit the security deposit made by the contractor besides getting the work completed by other means at the risk and cost of the contractor.

L. Escalation/ de-escalation in case of Civil Contracts.

1) All short duration contracts up to 24 months may be awarded by the companies on fixed price basis and are not subject to any escalation/de-escalation what so ever. However, only statutory variation limited to duties and taxes are considered for adjustment in contract price, however same will not be paid if delayed execution is attributable to the contractor.

2) For calculating escalation/de-escalation, base prices should be taken as on the date of opening of the Bids or negotiation date, whichever is later.

   The Contract document should specify the suitable percentage of input for labor, materials like cement, steel, bitumen, POL and other materials and equipment usage for the purposes of calculating escalation/de-escalation.

3) Escalation/de-escalation should be calculated, based on:

   - Notified fair wages and in the absence of which consumer price index for labor would be applicable,
   - Market rate for cement and steel,
   - Average official retail price of bitumen & POL, and

- Whole sale price index for other materials,
- Published Government Documents should be used for calculation of escalation/ de-escalation amount.
- The formula is to be pre-defined in the tender document.

4) Escalation/de-escalation reimbursement should be calculated for to the extent of 85% of the escalation/de-escalation so calculated.

M. Preparation of Estimates:

As per the CPWD guidelines, it involves the following steps:

- Preliminary Estimates
- Detailed Estimate
- Schedule of Rates
- Recasting of Estimate
- Supplementary Estimate
- Revised Estimate
- Estimates for additions and alterations
- Estimates for petty works
- Estimates for road works
- Estimates for furniture
- Estimates for purchase of buildings
- Estimates for repairs to leased and requisitioned properties
- Hiring of accommodation
- Powers for hiring accommodation

N. Scope of Work (Indicative)

The assignment consists of Construction Management and Construction Supervision Services for the project. The project may be consisting of Civil, Public Health, Electrical works, Firefighting, External Development and Demolition work.

The services to be provided by Contractor include the following:

The architectural, structural work

- Architectural design
- Quality assurance
- Control
- Monitoring progress

- Enforcement of construction safety

The site supervision services

- Plumbing, Sanitation, Drainage, Interior works
- Electrical, Communication network
- All work required for the services within the plot
- All other miscellaneous works required to be carried out for the completion of the project

Contractor may provide full time technical staff needed in various disciplines to supervise construction by providing house engineers or by appointing specialized services personnel. In case of appointment of specialized personnel, overall responsibility of performance of specialized personnel remains with Contractor.

O. Bills of Quantities

The prime purpose of the Bill of Quantities (BOQ) is to enable contractors tendering for a contract to quote the price based on the information contained in the tender documents. The After this, it is widely used for post-tender work such as: material scheduling; construction planning; cost analysis; and cost planning.

The contract document covers the work to be carried out, which may or may not include all labour, materials, tools, plants, equipment and transport that may be required in preparation of and for and in the full and entire execution and completion of the works.

The Schedule of Quantities should include wastage on materials, carriage and cartage, carrying and return of empties, hoisting, setting, fitting and fixing in position including works at all heights, leads, patterns and designs and all other labours necessary in and for the full and entire execution and completion of the work in accordance with good practice and recognized principles.

In the case of discrepancy between the Schedule of Quantities, the Specifications and/or the Drawings, the following order of preference should be observed:

- Description of nomenclature of items of Schedule of Quantities.
- Particular Specifications and special Condition, if any
- Drawings
- C.P.W.D. Specifications
- Indian Standard Specifications of Bureau of Indian Standard.

Once the contractor is selected for a project, he must sign the contract with the accepting authority. The contract generally consists of the following:

- Technical Bid;

- Detailed Notice Inviting Tender (NIT);
- Tender, Proforma Work Order & Agreement;
- General Rules & Directions;
- Conditions of Contract;
- Clauses of Contract;
- Special Conditions;
- Additional Conditions;
- Schedules (A to F);
- Safety Code;
- Model Rules;
- Contractor's Labour Regulations;
- Proforma of Registers;
- Schedule of Quantities - (Civil Works, Electrical Works & Fire Fighting work);
- Specifications;
- Forms;
- Addenda, if any;
- Proceedings of Pre-bid Conference, if any;
- Drawing.

No payment for the work done will be made unless contract is signed by the contractor.

P. Foreclosure of Contract due to Abandonment or Reduction in Scope of Work

It may happen (generally provided in the conditions of the contract) that after acceptance of the tender, the Principal may decide to abandon or reduce the scope of the works for any reason whatsoever and may not require the whole or any part of the works to be carried out, the contractor may be required to act accordingly in the matter. In that event, the contractor should have no claim to any payment of compensation or otherwise whatsoever, because any profit or advantage which he might have derived from the execution of the works in full but which he did not derive in consequence of the foreclosure of the whole or part of the works.

The contractor should be paid at contract rates full amount for works executed at site and, in addition, a reasonable amount as certified by the Resident Engineer of the Principal for the items which could not be utilized on the work to the full extent in view of the foreclosure.

Q. Measurement of Work Done

The measurement of work is done to ascertain and determine the value of work done in accordance with the contract.

Measurement of all items having financial value are to be entered in Measurement Book and/or level field book so that a complete record is obtained of all works performed under the contract.

All measurements and levels should be taken jointly by the Company or his authorized representative and by the contractor or his authorized representative from time to time during the progress of the work and such measurements should be signed and dated by the Company and the contractor or their representatives in token of their acceptance. If the contractor objects to any of the measurements recorded, a note should be made to that effect with reason and signed by both the parties.

Except where any general or detailed description of the work expressly shows to the contrary, measurements should be taken in accordance with the procedure set forth in the specifications notwithstanding any provision in the relevant Standard Method of measurement or any general local custom. In the case of items which are not covered by specifications, measurements should be taken in accordance with the relevant standard method of measurement issued by the Bureau of Indian Standards and if for any item no such standard is available then a mutually agreed method should be followed.

R. Payment of Interim or Running Bills

The interim or running account (RA) bills for the work executed based on recorded measurements, submitted by the contractor on monthly basis or such other period fixed or on achieving value of work done or completion of stage of work done as may be specified either in Terms and Conditions of the Contract or agreement are entitled to be paid by the Principal during the stipulated time frame say within 15 days of submission of RA bill. However, if the gross work done together with net payment/ adjustment of advances for material collected, if any, since the last such payment is less than the amount specified in Terms and Conditions, in which case the RA bill is prepared on the appointed date of the period after the requisite progress is achieved, the Principal may consider such advance payment or interim payment to the extent of say 75% of the submitted net value of RA bill, which shall be adjusted in the RA bill in future. It may happen that the Contractor is failed to submit the RA bill then Resident Engineer, appointed by the Principal may arrange to have the bill prepared by taking or causing to be taken, where necessary, the requisite measurements of the work. In that event, no claims whatsoever due to delays on payment including that of interest shall be payable to the contractor.

All such interim payments are regarded as payment by way of advances against final payment only and shall not preclude the requiring of bad, unsound and imperfect or unskilled work to be rejected, removed, taken away and reconstructed or re-erected. Generally, the RA bills and Final Bill for the contract are first verified by the Resident Engineer and Architect or Supervising Agency appointed by the Principal before submission of the bills to the Principal for payment. It is also provided in the terms and conditions of the contract that pending consideration of extension of date of completion interim payments continue to be made by the Principal are without prejudice to the right of the Principal to act under the terms of this contract for delay in the completion of work, if the extension of date of completion is not granted by the competent authority.

Also, on request of the contractor, the Principal may release payment towards the RA bill up to 75% of the amount of initial scrutiny within 15 days of the receipt of contractors running account bill. The balance amount of the bill may be released within 10 days of the release of initial scrutiny amount.

The Contract may also provide for Interest because of delay in payments by the Principal.

S. Payment of final bill

The final bill should be submitted by the contractor in the same manner as specified in contract within given time frame of physical completion of the work or within stipulated time of the final certificate of completion, whichever is earlier. No further claims should be made by the contractor after submission of the final bill and these are deemed to have been waived and extinguished.

Payments of those items of the bill in respect of which there is no dispute and of items in dispute, for quantities and rates as approved by the Principal are made within the specified period. The payment for disputed items are made based on settlement between Principal and Contract either based on agreement or if Arbitration is resorted or Legal remedy is resorted based on decision of the Arbitrator(s)/ Court.

T. Contractor liable for damages, defects during Maintenance Period

This is a general clause found in the contacts. If the contractor or his working people or servants break, deface, injure or destroy any part of building in which they may be working, or any building, roads, road curb, fence, enclosure, water pipe, cables, drains, electric or telephone post or wires, trees, grass or grassland, or cultivated ground contiguous to the premises on which the work or any part is being executed, or if any damage shall happen to the work while in progress, from any cause whatever or if any defect, shrinkage or other faults appear in the work within stipulated period after a certificate final or otherwise of its completion have been given by the Company as aforesaid, arising out of defect or improper materials or workmanship the contract shall upon receipt of a notice in writing on that behalf make the same good at his own expense or in default the Company cause the same to be make good by other workman and deduct the expense from any sums that may be due or at any time thereafter may become due to the contractor, or from his security or the proceeds of sale thereof or of a sufficient portion thereof.

The security deposit of the contractor shall not be refunded before the expiry of given period after the issue of the certificate final or otherwise, of completion of work, or till the final bill has been prepared and passed whichever is later. In case of Maintenance and Operation works of E&M services, the security deposit deducted from contractor should be refunded within one month from the date of final payment or within one month from the date of completion of the maintenance contract whichever is earlier.

U. Completion Certificate and Completion Plans

Within such period as specified in the contract of the completion of the work, the contractor gives notice of such completion to the Resident Engineer or Principal and within say thirty days of the receipt of such notice the Resident Engineer or representative appointed by the Principal shall inspect the work. The contractor is to remove all scaffolding, surplus materials, rubbish and all huts and sanitary arrangements required for his/their work people on the site about the execution of the works and clean off the dirt from all wood work, doors, windows, walls, floor or other parts of the building. If the contractor fails to comply with the requirements of the terms and conditions of the contract as to removal of scaffolding, surplus materials and rubbish and all huts and sanitary arrangements as aforesaid and cleaning off dirt on or before the date fixed for the completion of work, the Resident Engineer or Principal may at the expense of the contractor remove such scaffolding, surplus materials and rubbish etc., and dispose of the same as he/it thinks fit and clean off such dirt as aforesaid, and the contractor may have no claim in respect of scaffolding or surplus materials as aforesaid except for any sum actually realised by the sale thereof. After completion of work and removal of the items as aforesaid, the Principal issues the “Completion Certificate” for the work/contract.

V. Completion Plans to be submitted by the Contractor

The contractor is to submit a set of completion plan/ drawings along with tracing, showing the following (Indicative only):

(i) Storm Water Drainage system showing alignment & gradients.

(ii) Sewer lines with location of manholes, diameter of pipes and their invert levels.

(iii) All internal and external water supply lines with diameters in different colours.

(iv) The layout of all electrical conduits and cabling.

(v) Earthing system.

(vi) External lighting and street lighting.

(vii) Electrical systems.

(viii) Fire Fighting & Fire Alarm System

6. Use of Cost Records for Construction Industry

a. Risk Management:

Risks in Construction Industry and use of Cost Records as mitigation measure:

Risk is inherent in any business and Construction is not an exception. It's a high-risk business. Every stakeholder be it the Company owner, Promoter, Developer, Project owner, Consultants, Bankers, financial institutions, vendors & suppliers and even the service providers, everyone is exposed to some sort of the risk when dealing with Construction business. The impact and probability of Risks are different for different scenarios but a Costing Professional has to evaluate the Risk Management Process and its potential impact on the overall construction Project. (Refer Cost Auditing Standards in Section of this guidance note)

An absence on focus towards Risk Management can be catastrophic for the Construction Business as Cost of Project Risks, if unassessed, can lead to a disaster and the construction project becomes unviable. Subsequently funding from Banks and Financial Institutions takes a backseat and the loss of credibility further damages the business. The situation becomes unmanageable and is detrimental to the overall growth of the industry and thus, the economy.

Since escalating, unmanaged and unplanned costs in construction lead to disaster, robust risk management process prevents from this adverse impact and helps in better cost management.

The Construction companies have to deal with host of government agencies for various clearances during both pre and post construction activities, Business development, and also have to deal with host of Design consultants, Architects, EPC contractors, Civil Contractors, Labour contractors, O&M agencies, Investors. Given the nature of Business, Risk Management has to be embedded into the Business as a Key Performance Indicator. Cost Monitoring and Control is the key to the successful Risk Management process. As it is general saying that what gets recorded can only be monitored and controlled hence maintenance of Cost Records is of paramount importance for Construction Industry.

Also, The Companies Act 2013 has specific provisions related to Risk Management, briefly described below:

- *Section 134 (3) There shall be attached to statements laid before a company in general meeting, a report by its Board of Directors, which shall include—*

    (n) a statement indicating development and implementation of a risk management

policy for the company including identification therein of elements of risk, if any, which in the opinion of the Board may threaten the existence of the company;

- *Section 177 (4) Every Audit Committee shall act in accordance with the terms of reference specified*

  in writing by the Board which shall, inter alia, include, —

  (vii) evaluation of internal financial controls and risk management systems;

- *Section 149. (8) The company and independent directors shall abide by the provisions specified in*

  Schedule IV.

- *Provisions of Schedule IV –*
  - *The independent directors shall:*

    (4) satisfy themselves on the integrity of financial information and that financial controls and the systems of risk management are robust and defensible;

The area to be focussed are

a) The monetary quantification of risks i.e. Value At Risk (VAR)
b) The Cost of Manging the Risk vs Impact
c) Cost Benefit analysis of Mitigation measures

Indicative Areas of Risk where Cost Records are essential:

Cost Overrun: The most common risk across the Construction Industry is Risk of Cost Overrun. This Risk if unmanaged lead to disaster which may lead to closure of the organisation or particular project.

The factors responsible for Cost Over Run are

1. Lack of Schedule monitoring
2. Unplanned expenditure
3. Frequent design changes
4. Obsolete Technology

Liquidity: Risk related to fulfil the financial obligations of the company of the Project

Liquidity Risk arises due to companies inability to repay the debt owing to project becoming financially unviable.

Few of the key reasons for this Risk are

1. Erroneous cost and revenue estimates during pre-bid stage
2. Non-availability of Cost Records of similar project executed in past
3. Poor Cost Management i.e. monitoring and control

Interest Rate Risk: Changes in Interest Rate significantly impact the viability of Construction project.

Non-Compliance Risk: Risk of statutory and/or contractual non-compliance is a big threat to the survival of any Construction company. There are many labour , environmental and other regulatory requirement a company is required to comply with. Besides this contractual compliance include not meeting the deliverables and conditions stipulated in concession agreement or contract.

This risk exposes organisation to additional cost, which if unmanageable can be detrimental to the organisations future.

Exchange rate risk : Turbulence in exchange rate can jeopardise the debt service coverage ratio and also the import procurements. Adequate protection is required to mitigate this risk.

Insolvency risk: This is the risk of insolvency of contractors, project sponsors, suppliers, purchasers of project output, insurers or a syndicate bank.

Illustrative Impact, if the Risk Materialises or remain in system for long:

1. Lack trust by the Investor which may lead to non-availability of funds and project becoming unviable
2. Demotivated employees leading to low productivity
3. Bankruptcy

Cost Records as Mitigation Measure:

Assessment of risks, quantifying them and regular review of these risks is the prerequisite for either elimination or reduction of the adverse impact of the risk.

As it is often said what gets measured gets controlled. Hence to prevent the adverse impact of Risk materialisation , cost has to be controlled and to control cost it must be recorded systematically in such a way that the focussed attention can be given to the area of concern. With this intention The Companies Cost Record Rules 2014 (as amended in July 2016) specifies maintenance of Cost Records as below.

Rule 5. Maintenance of records

(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.

Provided that in case of company covered in serial number 12 and serial numbers 24 to 32 of item (B) of rule 3, the requirement under this rule shall apply in respect of each of its financial year commencing on or after 1st day of April, 2015.

(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.

(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.

Thus the Cost Records to be :

A. Maintained on regular basis
B. Able to calculate unit cost of Production/Service
C. Able to Calculate Cost of Sales and Margin

Periodic review of Budget vs Actual Cost and Margin and subsequent measures to reduce the gaps, works as first level mitigant for elimination or reduction of the adverse impact of any risk.

b. Management Information System

Construction industry is poised for rapid growth and with increasing activities it is very difficult to manage the growth without automation. New Construction technologies have reduced the time and cost in the actual construction work, similarly financial management of the growing construction activities also needs to be at par with the global standards as well as it should help management to take proactive measures in the event of adverse business scenario forecast. Management also need to communicate to various stakeholders about the financial performance , project progress. Enterprise Resource Planning (ERP) is the solution for all such issues.

ERP systems are being used by construction companies to improve responsiveness in relation to customers, strengthen supply chain partnerships, enhance organizational flexibility, improve decision making capabilities and reduce project completion time and lower costs. These information systems are designed to integrate and partially automate many of the company’s business processes such as human resources, financial management, manufacturing, procurement, construction, operations and maintenance.

Cost Records is vital source of information for effective Management Information System (MIS). Designing an integrated ERP is the foremost priority for successful project management.

Steps to integrate Cost Records and business operations for effective MIS:

Pre-requisite: (Applies both to Roads as well as Real Estate Projects)

i. Detailed Project Report and detailed Bill of Quantities (BOQ) with rate issued by the employer or principal
ii. Deployment of suitable software to configure the MIS process
iii. Standard Operating Process (SOP) for generation of periodic MIS: This should provide roles, responsibilities and methodology of generating automated MIS.

Design of Cost Record based MIS:

A. Project Structure:

1. Design appropriate Work Breakdown Structure:
   A Work Breakdown Structure (WBS) describes the individual tasks and activities in hierarchical manner to represent the entire project from Concept to commissioning. Every project is unique and hence for every project. Two illustrative examples are as below
   (a) **Road Construction Project**
   Levels of WBS of the Project Structure are as below, for illustration purpose one WBS is explained in detail
   (1) Road Project – ……. Level 1 WBS
      a. Preliminary Work …… Level 2 WBS
         i. Administrative ….. Level 3 WBS
         ii. Civil Works ….. Level 3 WBS
      b. Roadway ….. Level 2 WBS
         i. Earthwork….. Level 3 WBS
            1. Clearing … Level 4 WBS
               a. Chainage 1 to last Chainage*….. Level 5 WBS
            2. Excavation… Level 4 WBS
            3. Filling… Level 4 WBS
            4. Finishing… Level 4 WBS
         ii. Paving….. Level 3 WBS
      c. Structures
         i. Minor Bridges….. Level 3 WBS
         ii. Culverts ….. Level 3 WBS
      d. Support Services….. Level 2 WBS

   (* Chainage is Section of road divided for the better construction management)

(b) **Real Estate Project (Construction of Building)** An Illustrative example of mixed used project and one of the WBS is given below

(2) Real Estate Project ……. Level 1 WBS

a. Land Acquisition …… Level 2 WBS
   i. Residential ….. Level 3 WBS
   ii. Commercial ….. Level 3 WBS
   iii. Common ….. Level 3 WBS
b. Approvals …… Level 2 WBS
   i. Local Authorities ….. Level 3 WBS
   ii. State Level Authorities ….. Level 3 WBS
   iii. Others ….. Level 3 WBS
c. Construction…… Level 2 WBS
   i. Residential ….. Level 3 WBS
      1. Civil ………Level 4 WBS
         a. RCC …… Level 5 WBS
            i. Tower A ….. Level 6 WBS
               1. Flat 101 …. Level 7 WBS
         b. Shuttering …… Level 5 WBS
         c. Reinforcement …… Level 5 WBS
      2. Finishes……… Level 4 WBS
      3. Electrical Works ……. Level 4 WBS
      4. Plumbing ……. Level 4 WBS
   ii. Commercial ….. Level 3 WBS
   iii. Common ….. Level 3 WBS
d. Finishing…… Level 2 WBS
e. Handover…… Level 2 WBS

Thus in above 2 examples the Cost planning and booking is done at the lowest level of WBS . Normally WBS structure is based on the BOQ (Bill of Quantities) of the Project. The planned and actual cost gets rolled up to the next upper level of WBS and finally to project cost. As required by The Companies (Cost Records and Audit) Rules 2014 to calculate the unit cost this cost booking methodology is of paramount importance.

2. Map activities and network to Work Breakdown Structure:
   Once the WBS structure is defined , the project planning and scheduling is required to be done at the lowest level of the WBS so as to roll up to next level and ultimately at the project level. Network and activity are subordinate to lowest level WBS and the quantity planning is done at the activity level.

B. Costing with Project Structure:

1. **Revenue :** When the WBS structure is based on the BOQ basis and if the billing is against BOQ then it is easy to plan the revenue against the WBS and also Budget

vs Actual also can be analysed easily. When the WBS is not as per BOQ then separate WBS to be created for revenue planning and booking.

2. **Cost**: Quantity with planned rate of the activity gives the planned value of activity and multiple activity leads to WBS level planned cost.
   The actual quantity is booked against the activity whereas actual amount is captured against the WBS element. Since the activity is subordinate to WBS , Actual Cost with quantity and thus the actual rate information is available at WBS for all types of analysis and reporting

C. Reporting

1. **Resource Consumption:**

   Since the quantity planning and actual boking is available at WBS level, a MIS report of consumption of major materials like Cement, Steel , Sand and Aggregate can be generated from the system. This will help in better Cost Monitoring and control. Similarly subcontracting expenses can also be analysed.

2. **Progress Monitoring:**
   Planned quantity and actual quantity data is available against each activity. Network is used for scheduling. When actual timelines are entered against the network, ERP can generate the progress monitoring report which helps in Cost Optimisation.

3. **Cost Variances**
   Variance of Budget vs Actual at various WBS level can be generated from ERP. Also the quantity and rate variances of major material and resources such as subcontracting can be generated using ERP

Thus the Cost Records serve major source of information for MIS and helps management in effective and efficient utilisation of available resources and also gives early warning signals to prevent from any adverse impact of any sort of risk.

7. Cost Auditing Standards

Government of India, Ministry of Corporate Affairs, vide their letter no. 52/33/CAB/2013 dated 10th September, 2015 has, under section 148(3) of the Companies Act, 2013, granted Central Government's approval to the following Cost Auditing Standards:

1. Planning an Audit of Cost Statements

Cost Auditing Standard (Cost Auditing Standard- 101) on "Planning an Audit of Cost Statements".

In this Standard, the standard portions have been set in bold italic type. This Standard should be read in the context of the background material, which has been set in normal type.

1. Introduction

Planning an audit of cost statements, records and other related documents is considered necessary to ensure achievement of audit objectives with available resources and securing coordination with the auditee on audit work.

2. Objective

The objective of this Standard is to guide the members in planning for the audit of cost statements so that it is performed in an efficient and effective manner. Audit planning shall also include establishing the overall audit strategy and audit plan for the conduct of the audit.

3. Scope

This Standard deals with the auditors' responsibility to plan an audit of cost statements, records and other related documents. The auditor shall prepare and document the overall audit strategy and audit plan.

4. Definitions

The following terms are being used in this standard with the meaning specified.

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

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

4.3 Audit Plan: A record of the planned nature, timing and extent of risk assessment procedures and further audit procedures at the assertion level in response to the assessed risks.

4.4 Audit Risk: Audit risk is the risk that the cost auditor expresses an inappropriate audit opinion on the cost statements that are materially misstated. Audit risk is a function of the risk of material misstatement and detection risk.

(a) The risk of material misstatement has two components viz. Inherent Risk and Control risk.

(1) Inherent risk: the susceptibility of an assertion about the measurement, assignment or disclosure of cost to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.

(2) Control risk: the risk that a misstatement that could occur in an assertion about the measurement, assignment or disclosure of cost and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal, operational and management control.

(b) Detection risk: the risk that the procedures followed by the cost auditor to reduce audit risk to an acceptable low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements.

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

4.6 Auditee: Auditee means a company or any other entity for which cost audit is being carried out.

4.7 Cost Audit: Cost audit is an independent examination of cost statements, cost records and other related information of an entity including a non-profit entity, when such an examination is conducted with a view to expressing an opinion thereon.

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

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

4.10 Initial Audit: Initial audit means an audit where:-

(a) The entity is subject to audit for the first time, as per the applicable laws, or

(b) The audit of the entity for the prior period was conducted by a different audit firm.

4.11Misstatement: A difference between the amounts, classification, presentation or disclosure of a reported cost statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable cost reporting framework. Misstatements can arise from error or fraud.

Where the cost auditor expresses an opinion on whether the cost statements give a true and fair view, misstatements also include those adjustments of amounts, classifications, presentation, or disclosures that, in the cost auditor's judgment, are necessary for the cost statements to be presented fairly, in all material respects, or to give a true and fair view.

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

4.13 Risk Assessment: The audit procedures performed to obtain an understanding of the entity and its environment, including the entity's internal control, to identify and assess the risks of material misstatement, whether due to fraud or error, at the overall cost statement level and at the assertion level including items of cost, cost heads and disclosure thereof.

5. Requirements

5.1 Prior to entering the planning phase, the Cost Auditor shall ensure that:

(a) the appointment as cost auditor is proper, he has received the letter of appointment and legal formalities regarding his appointment have been complied with;

(b) the ethical requirements as per the regulations continue to be satisfied; (Refer 6.3)

(c) an understanding of the terms of reference including the units to be covered, products/services to be covered, scope of coverage where the regulations leave it to be agreed between the auditor and the auditee.

5.2 The audit partner and other key members of an audit team shall be involved in planning the audit, including planning and participating in the discussion among audit team members. (Refer 6.4)

5.3 The Cost Auditor shall formulate an Overall audit strategy that sets the scope, timing and direction of the audit.

The overall audit strategy guides the development of the audit plan.

5.4 In formulating the Overall audit strategy, the Cost Auditor shall consider all relevant factors. (Refer 6.5)

These relevant factors include:

(a) results of preliminary activities as specified in 5.1 above
(b) knowledge from previous audits and other engagements with the auditee
(c) knowledge of business
(d) nature and scope of the audit
(e) statutory deadlines and reporting format
(f) relevant factors determining the direction of the audit efforts
(g) nature, timing and extent of resources required for the audit.

5.5 The Cost Auditor shall develop an audit plan. The audit plan will include the nature, extent and timing of risk assessment, audit procedures and other activities (Refer 6.5, 6.6)

5.6 The Cost Auditor shall plan the nature, extent and timing of the direction and supervision of audit team members and the review of their work.(Refer 6.7)

5.7 The Cost Auditor shall update the Overall audit strategy and the audit plan as required during the course of audit. (Refer 6.8)

5.8 The Cost Auditor shall document the overall audit strategy, the audit plan and any significant changes made therein during the audit engagements and the reasons for the changes.

5.9 In the initial audit, the Cost Auditor shall perform procedures regarding the acceptance of the client relationship and the specific audit. In case where the audit of the entity for the prior period was conducted by a different audit firm, the auditor shall communicate with the previous auditor. (Refer 6.9)

6. Application Guidance

6.1 The nature and extent of planning activities will vary according to the:

(a) size and complexity of the entity's activities, the number of products to be covered, the processes and operations involved.

(b) the audit team members' previous experience with the entity and the industry.

(c) changes in circumstances that occur during the audit.

6.2 Planning is not a discrete phase of an audit, but rather a continuous and iterative process. Planning includes scheduling which involves determining the priority of audit procedures and their inter dependence. For example, the risk assessment procedures are planned early in the audit process.

6.3 Prior to the performance of other significant activities for the current year's audit, the auditor shall ensure that {Refer 5.1 (b)} :

(a) After the Cost Auditor has accepted the appointment for an entity, there are no changes in his position in relation to the entity that impede his arm's length relationship with the entity. Such as, acceptance of an assignment relating to designing and implementation of cost accounting system for the entity.

(b) Subsequent to his acceptance of the assignment, no issues about management integrity has cropped up that may affect the auditor's willingness to continue the engagement.

6.4 The involvement of the audit partner and other key members of the audit team in planning the audit draws on their experience and insights, thereby enhancing the effectiveness and efficiency of the planning process.(Refer 5.2)

6.5 Matters that are relevant in formulating the overall audit strategy and drawing up the audit plan include, in addition to those mentioned earlier, the following (Refer 5.4, 5.5):

(a) The cost reporting framework generally prescribed, under the Companies Act and Rules prescribed thereunder, as well as under any other law as applicable, on the basis of which the cost information to be audited has been prepared, including need for reconciliation with financial reporting framework.

(b) Industry regulators' requirement as to how costs will be handled.

(c) Unique features of an industry that influence audit requirements such as definition of product in the newspaper industry.

(d) Reliance that can be placed on the work of financial auditors, other cost auditors appointed by the entity and internal auditors. such as their attendance in annual stocktaking

(e) State of IT (Information Technology) implementation, whether the entity is using an ERP (Enterprise Resource Planning) system or internally developed systems and the reliance that can be placed on them.

(f) Statutory timelines for cost reporting, which can be modified by the management for early completion.

(g) Timelines for Board/ audit committee meetings, which can set the time limits for completion of audit work.

(h) Resources required and available in terms of manpower, equipment and others and the assignment of these to specific parts of the work.

6.6 The audit plan is more detailed than the overall audit strategy as it includes the nature, timing and extent of audit procedures to be performed by audit team members. Planning for these audit procedures takes place over the course of the audit as the audit plan for the engagement develops. For example, planning of the auditor's risk assessment procedures occurs early in the audit process. However, planning the nature, timing and extent of specific further audit procedures depends on the outcome of those risk assessment procedures. (Refer 5.5)

6.7 The nature, extent and timing of the direction and supervision of audit team members and review of their work vary depending on, among others, the size and complexity of the entities activities, risk assessment results and the capabilities and competence of the individual team members performing the audit work.(Refer 5.6)

6.8 As a result of unexpected events, changes in conditions or the audit evidence obtained from the results of audit procedures, the auditor may need to modify the overall audit strategy and audit plan. (Refer 5.7)

6.9 Additional Consideration in Initial Audit Engagements (Refer 5.9): The purpose and objective of planning the audit are the same whether the audit is an initial or recurring engagement. However, for an initial audit, the auditor may need to expand the planning activities because the auditor does not ordinarily have the previous experience with the entity that is considered when planning recurring engagements. For the initial audit, additional matters the auditor may consider in formulating the overall audit strategy and audit plan include the following.

(a) The planning activities may expand to cover consultations with the previous

auditor, review of previous year's audit working papers, if not prohibited by other Law or regulation, and previous year's transactions having an impact on current year's cost.
(b) Any major issues (including the application of cost accounting principles or of auditing and reporting standards) discussed with management in connection with the initial selection as cost auditor, the communication of these matters to those charged with governance and how these matters affect the overall audit strategy and audit plan.

(c) The audit procedures necessary to obtain sufficient appropriate audit evidence regarding opening balances (such as Inventory).

(d) Other procedures required by the firm's system of quality control for initial cost audit engagements (for example, the firm's system of quality control may require the involvement of another partner or senior individual to review the overall audit strategy prior to commencing significant audit procedures or to review reports prior to their issuance).

6.10 In audits of small entities where the entire audit may be conducted by a small audit team comprising the audit partner working with say one team member, formulating the audit strategy and drawing up the audit plan need not be elaborate. Nonetheless it is necessary to have regard to the matters mentioned under Requirements.

7. Effective Date

This Standard is effective for audits on or after September 11, 2015.

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2. Cost Audit Documentation

Cost Auditing Standard – 102 Cost Auditing Standard on Cost Audit Documentation

In this Standard, the standard portions have been set in bold italic type. This Standard should be read in the context of the background material, which has been set in normal type.

1. Introduction

The purpose of this Standard is to provide guidance to the members in preparation of Audit Documentation in the context of the audit of cost statements, records and other related documents.

Nature and Purpose of Cost Audit Documentation

Cost Audit documentation that meets the requirement of this Cost Auditing Standard and the specific documentation requirements of other relevant Cost Auditing Standards provides:

(a) Evidence of the cost auditor's basis for a conclusion about the achievement of the overall objectives of the cost auditor; and

(b) Evidence that the cost audit was planned and performed in accordance with Cost Auditing Standards and applicable legal and regulatory requirements.

Cost Audit documentation serves a number of additional purposes, including the following:

(a) Assisting the audit team to plan and perform the cost audit.
(b) Assisting members of the audit team responsible for supervision to direct and supervise the cost audit work, and to discharge their review responsibilities.
(c) Enabling the audit team to be accountable for its work.
(d) Retaining a record of matters of continuing significance to future cost audits.
(e) Enabling the conduct of quality control reviews in accordance with the Guidance Manual for Audit Quality issued by Quality Review Board (QRB).
(f) Enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements.

2. Objective

The objective of this Standard is to guide the members to prepare documentation that provides:

(a) A sufficient and appropriate record of the basis for the Cost Auditor's Report; and
(b) Evidence that the audit was planned and performed in accordance with Cost Auditing Standards and applicable legal & regulatory requirements.

3. Scope

This Standard deals with the cost auditor's responsibility to prepare audit documentation for the audit of cost statements, records and other related documents. The specific documentation requirements of other Cost Auditing Standard's do not limit the application of this Cost Auditing Standard. Laws or regulations may establish additional documentation requirements.

4. Definitions

The following terms are being used in this Standard with the meaning specified.

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

4.2 Audit documentation: Audit Documentation means the records, in physical or electronic form, including working papers prepared by and for, or obtained and retained by the Cost auditor, in connection with the performance of the audit.

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

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

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

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

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

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

5. Requirements

5.1 The cost auditor as part of the audit documentation shall record audit procedures performed, relevant audit evidence obtained, and conclusions reached. (Refer 6.1)

5.2 The Cost Auditor shall prepare audit documentation that is sufficient to enable another competent person, having no previous connection with the said audit, including person undertaking peer review to understand:

(a) Conformance of audit procedures performed with legal and regulatory requirements;

(b) Conformance to Cost Auditing Standards. (Refer 6.6)

(c) The results of audit procedures performed

(d) The audit evidence obtained

(e) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.(Refer 6.7 & 6.8)

5.3 The Cost Auditor shall record the discussions of significant matters with client personnel and outsiders. (Refer 6.9).

5.4 The Cost Auditor shall record any departure from the standard requirement in a Cost Auditing Standard. (Refer 6.11)

5.5 In documenting the nature, timing and extent of audit procedures performed, the Cost Auditor shall record the characteristics of the specific items or matters tested, the persons responsible for performing and reviewing such procedures with relevant dates and extent of review. (Refer 6.12)

5.6 The Cost Auditor shall prepare audit documentation on a timely basis. (Refer 6.14)

5.7 If, in exceptional circumstances, Cost Auditor performs any new or additional audit procedures or draws new conclusions, after the date of Cost Audit Report, then he shall document such circumstances and details of such procedures performed. (Refer 6.15)

5.8 The cost auditor shall assemble the audit documentation in an audit file. (Refer 6.16)

6. Application Guidance

6.1. The Cost Audit documentation will usually contain:

(a) Checklists

Example: Checklist of compliance with:-

(1) The Rules, regarding maintenance of Cost Records, as prescribed under the Companies Act,

(2) The Cost Accounting Standards (CAS) as prescribed by the Institute

(3) The Generally Accepted Cost Accounting Principles (GACAP) as prescribed by the Institute

(b) Audit programs

Example: Audit Program for Material Cost, Employee Cost and others

(c) Analysis

Cost Audit relies more on analytical review than on substantive testing to establish true and fair view.

Example: Calorific value of different fuels used and average Cost per unit of calorific value and Specific Heat Consumption.

(d) Audit Query List

Contains log of audit queries raised and their resolution.

Example: Supply of materials indicating price, quality terms, O & M contracts, Terms of supply of contract labour and others

(f) Letters of confirmation

Example: Stock of materials with subcontractors.

(g) Letter of Representation from Management Correspondence (including e-mail) concerning significant matters.

Example: Correspondence regarding terms of supply of goods and services.

(h) Abstract or copies of the entity's records

6.2. Audit documentation may be in paper form or electronic form. Where it is in electronic form, special care may be required to protect against accidental deletion, or tampering.

6.3. The content and form of audit documentation will depend on a number of factors such as:

(a) the size and complexity of the operations of the auditee,

(b) the extent of computerization of cost records,

(c) the assessed risks of material misstatement of cost,

(d) the cost audit methodology and tools used. For example whether automated queries were used to get audit evidence from cost records.

(e) the nature of the audit procedure to be performed.

6.4. In particular, it is necessary to document the basis for a conclusion, not readily determinable from other documentation. For example: consumption of materials by a product from technical norms, normal price for a related party contract from Cost Auditor's own sources of data of the industry.

6.5. Audit documentation must be sufficient and appropriate, and oral explanations by the Cost Auditor cannot substitute for such documentation.

6.6. Audit documentation must contain evidence of conformance to requirements of Cost Auditing Standards in respect of this Standard and other standards {Refer 5.2(b)}:

Typical of such evidence are:

(a) an adequately documented audit plan

(b) the signed appointment letter from the auditee

(c) Minutes of discussion with client personnel, with names of members of audit team present, particularly of the audit partner when he is present

(d) Minutes of audit team discussions, with names of members of audit team present, particularly of the audit partner when he is present.

6.7. Matters that give rise to significant risks of a material misstatement are significant matters. Those that causes a revision of the Cost Auditor's previous assessment of the risks of material misstatement is also a significant matter. The Cost Auditor may have reached a certain conclusion regarding the misstatement of the Material Cost in a Cost statement based on the availability of a well documented Bill of Materials but his assessment of risk may undergo a change if he finds that there is considerable use of substitute and alternate materials in the actual production process. Matters that cause the Cost Auditor significant difficulty in applying necessary audit procedures are also significant, as for example heaps of bulk material in irregular shapes which make volumetric measurement of stock in a physical stock taking unreliable. {Refer 5.2(e)}

6.8. Determining what are significant matters in an audit to warrant their inclusion in the documentation must be objectively done. The conclusions reached and the application of professional judgment in respect of these also needs to be documented. For example the determination of the normal capacity for applying overheads is a significant matter in Cost Audit and requires not mere calculations but considerable judgment. These should be adequately documented. {Refer 5.2(e)}

6.9. Records of discussions include Minutes of discussion of significant matters with management, those charged with governance and others. It also includes Discussion with third parties seeking information or confirmation. (Refer 5.3)

6.10. The Cost Audit Documentation in respect of smaller entities may be less detailed than what is indicated but must include at the minimum the following:

(a) A description of the entity, the products produced, services provided and other activities

(b) An organization Chart showing the responsibility centres and the person responsible

(c) A description, preferably a flow chart of the manufacturing process

(d) Internal controls over material cost, labour cost and expenses

(e) The risks of material misstatement assessed, for example, in respect of scrap recovery and disposal

(f) Tests of materiality used

(g) The overall audit strategy and audit plan

(h) Significant matters noted during the audit, and conclusions reached

6.11. If, in exceptional circumstances, the Cost Auditor finds it necessary to perform alternative audit procedures different from a corresponding requirement in a Cost

Auditing Standards, the Cost Auditor shall document how the alternative audit procedures performed achieve the aim of that requirement, and the reasons for the departure. (Refer 5.4)

6.12. It is necessary in a Cost Audit to identify the specific matters or items tested. In connection with a Cost Audit these may include Purchase Orders for supply of key raw materials, Goods Receipt Notes for materials, Issue notes for materials, bills of contractors for supply of contract labour among others. Where the Cost Auditor resorts to test checking, the basis used for selection, for example issues of spares above a certain value, and the documents selected. (Refer 5.5)

6.13. Names of the team member preparing specific audit documents and details of their review by the Cost Auditor are a necessary part of the Audit Documentation.

6.14. Preparing the audit Documentation on timely basis helps to enhance the quality of audit. Documentation prepared after the audit work has been performed is likely to be less accurate than the documentation prepared during execution. (Refer 5.6)

6.15. Facts which become known to the Cost Auditor after the date of the audit report but which if known earlier would have caused the cost statements to be changed or the Cost Audit Report to be modified should be added to the Cost Audit Documentation. The resulting changes to the audit documentation must also be reviewed as the original documentation. (Refer 5.8)

6.16. The Cost Audit Documentation must be assembled as the audit goes on and the final assembly required of audited documentation must be limited. Assembly the final audit file should be completed within a reasonable time after the completion of the audit. After the assembly of the final audit file has completed, the auditor should not delete or discard audit documentation of any nature before the end of its retention period. (Refer 5.9)

6.17. The audit documentation is the property of the Cost Auditor. Unless otherwise specified by law or regulation, he may at his discretion, make portions of, or extracts from audit documentation available to clients

6.18. The Cost Audit Documentation should be retained for at least ten years from the date of the Cost Audit Report.

7. Effective Date

This Standard is effective for audits on or after September 11, 2015.

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3. Overall objectives of the independent cost auditor and the Conduct of an Audit in Accordance with Cost Auditing Standards

Cost Auditing Standard – 103: Overall Objectives of the Independent Cost Auditor and the Conduct of an Audit in Accordance with Cost Auditing Standards

In this Standard, the standard portions have been set in bold italic type. This Standard should be read in the context of the background material, which has been set in normal type.

1. Introduction

This Standard on Auditing deals with the overall objectives of the independent cost auditor, the nature and scope of a Cost audit the independent auditor's overall responsibilities when conducting an audit of cost statements in accordance with Cost Auditing Standards. It also explains the requirements establishing the general responsibilities of the independent auditor applicable in all audits, including the obligation to comply with the Cost Auditing Standards.

The independent Cost Auditor is referred to as "Cost auditor" hereafter.

2. Objectives

The objective of this Standard is to lay down the overall objectives of the Cost Auditor and ensuring the Conduct of the Audit of Cost Statements in accordance with the Cost Auditing Standards.

The Cost auditor's overall objectives are:

2.1. to obtain reasonable assurance about whether the cost statements as a whole are free from material misstatement, whether due to fraud or error, and to enable the auditor to express an opinion whether the Cost Statements are prepared, in all material respects, in accordance with the applicable Cost reporting framework, Cost Accounting Standards(CAS) and Generally Accepted Cost Accounting Principles (GACAP) as issued by the Institute, and give a true and fair view of the Cost of a product, activity or service. In the case of a Cost Audit under the Companies Act and Rules prescribed thereunder, the objective is to express an opinion on whether the Cost Statements subject to audit represent a true and fair view of the cost of production, cost of sales and margin of products covered by the Cost Audit.

2.2. to report on the cost statements in the form required by law or by the Cost Auditing Standards in accordance with the auditor's findings.

Where reasonable assurance cannot be obtained, the cost auditor should qualify the opinion and in extreme cases disclaim an opinion.

The Cost Auditors objective may extend to making observations and suggestions where required by applicable regulations.

3. Scope

The scope of this standard is to establish overall objectives of the cost auditor while conducting an audit of cost statements, in accordance with the cost auditing standards.

It also describes management responsibility for the preparation and presentation of the

Cost Statement, to identify the Cost Reporting framework and to lay down Cost Accounting policies.

4. Definitions

The following terms are being used in this standard with the meaning specified.

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

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

4.3. Audit Risk: Audit risk is the risk that the cost auditor expresses an inappropriate audit opinion on the cost statements that are materially misstated. Audit risk is a function of the risk of material misstatement and detection risk.

(a) The risk of material misstatement has two components viz. Inherent Risk and Control risk.

(1) Inherent risk: the susceptibility of an assertion about the measurement, assignment or disclosure of cost to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.

(2) Control risk: the risk that a misstatement that could occur in an assertion about the measurement, assignment or disclosure of cost and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal, operational and management control.

(b) Detection risk: the risk that the procedures followed by the cost auditor to reduce audit risk to an acceptable low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements.

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

4.5. Auditee: Auditee means a company or any other entity for which cost audit is being carried out.

4.6. Auditor: Auditor is used to refer to the person or persons conducting the audit, usually the audit partner or other members of the audit team, or, as applicable the firm. Auditor includes Cost Auditor

4.7. Cost Audit: Cost audit is an independent examination of cost statements, cost records and other related information of an entity including a non-profit entity, when such an

examination is conducted with a view to expressing an opinion thereon.

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

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

4.10. Management: The person(s) with executive responsibility for the conduct of the entity's operations. For some entities in some jurisdictions, management includes some or all of those charged with governance.

4.11. Misstatement: A difference between the amounts, classification, presentation or disclosure of a reported cost statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable cost reporting framework. Misstatements can arise from error or fraud.

Where the cost auditor expresses an opinion on whether the cost statements give a true and fair view, misstatements also include those adjustments of amounts, classifications, presentation, or disclosures that, in the cost auditor's judgment, are necessary for the cost statements to be presented fairly, in all material respects, or to give a true and fair view.

4.12. Non-compliance: Acts of omission or commission by the entity, either intentional or unintentional, which are contrary to the prevailing laws or regulations governing Cost Accounting, Cost Records and Cost Audit. Such acts include transactions entered into by, or in the name of, the entity, or on its behalf, by those charged with governance, management or employees. Non-compliance does not include personal misconduct (unrelated to the business activities of the entity) by those charged with governance, management or employees of the entity.

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

4.14. Professional Judgment: The application of relevant training, knowledge and experience, within the context provided by cost auditing standards, cost accounting standards and ethical requirements, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement.

4.15. Professional Skepticism: An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatements due to error or fraud, and a critical assessment of audit evidence.

4.16. Risk Assessment: The audit procedures performed to obtain an understanding of the entity and its environment, including the entity's internal control, to identify and assess

the risks of material misstatement, whether due to fraud or error, at the overall cost statement level and at the assertion level including items of cost, cost heads and disclosure thereof.

4.17. Those charged with governance: The person(s) or organisation(s) (e.g., a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.

5. Requirements

5.1. The cost auditor shall comply with the relevant ethical requirements including those pertaining to independence in respect of cost audit engagements. (refer 6.1)

5.2. While conducting an audit, the cost auditor shall comply with each of the Cost Auditing Standards relevant to the audit. A Cost Auditing Standard is relevant to the audit when the Cost Auditing Standard is in effect and the circumstances addressed by the Cost Auditing Standard exist. (refer 6.2)

5.3. The cost auditor shall have an understanding of the entire text of the Cost Auditing Standard, including its application and other explanatory material, to understand its objectives and to apply its requirements properly.

5.4. The cost auditor shall not represent compliance with the cost auditing standards in the cost auditor's report unless the auditor has complied fully with all of the Cost Auditing Standards relevant to the audit.

5.5. In exceptional circumstances, the cost auditor may judge it necessary to depart from a relevant requirement in a Cost Auditing Standard. In such circumstances, the auditor shall perform alternative audit procedures to achieve the aim of that requirement.{Refer 6.2(c)}

5.6. The cost auditor shall plan and perform an audit with an attitude of professional skepticism recognizing that circumstances may exist that cause the Cost Statements to be materially misstated. (refer 6.3)

5.7. The auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion.(refer 6.4)

5.8. The cost auditor shall exercise professional judgment in planning and performing the audit.

5.9. The cost auditor shall determine whether the Cost Reporting Framework followed by management in preparing cost statements is in line with the Companies Act and the Rules prescribed thereunder. (refer 6.5)

5.10 The cost auditor shall not be required to perform audit procedures regarding the entity's compliance with laws and regulations governing cost audit in the absence of identified or suspected non-compliance. (refer 6.6)

5.11 If an objective in a relevant Cost Auditing Standard cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor, in accordance with the Cost Auditing Standards, to modify the auditor's opinion.

6 Application Guidance:

6.1 Audit and Ethics: The cost auditor should comply with relevant ethical requirements as per Code of Ethics issued by the Institute of Cost Accountants of India. This code establishes fundamental principles of professional ethics relevant to the auditor while conducting an audit and provides a conceptual framework for applying these principles. The fundamental principles with which the auditor is required to comply are Independence, Integrity, Objectivity, Professional competence and due care, Confidentiality and Professional conduct. In case of an audit engagement, it is in the public interest that the auditor should be independent of the entity subject to the audit. The cost auditor's independence from the entity safeguards the cost auditor's ability to form an opinion without being affected by influences that might compromise that opinion. Independence enhances the auditor's ability to act with integrity to be objective and to maintain an attitude of professional skepticism. (Refer 5.1)

For Example: The provision of services for maintenance of cost records, design and implementation of Cost Systems and internal audit are considered to erode the independence.

6.2 Conduct of audit:(Refer5.2)

(a) The Cost Auditing Standards provide the standards for the cost auditor's work in fulfilling the overall objectives of the cost auditor. The Cost Auditing Standards deal with general responsibilities of the cost auditor, as well as cost auditor's further considerations relevant to the application of those responsibilities to specific topics.

(b) In performing an audit, the cost auditor may be required to comply with legal or regulatory requirements in addition to Cost Auditing Standards. In such cases in addition to complying with each of the Cost Auditing Standard relevant to the cost audit, it may be necessary for the cost auditor to perform additional audit procedures in order to comply with the legislative and regulatory requirements. The Cost Auditing Standards do not override law or regulations that govern audit process. The form of the cost auditor's opinion will depend upon the applicable cost reporting framework and any applicable laws or regulations such as Companies Act and Rules prescribed thereunder.

(c) The need for the auditor to depart from a relevant requirement is expected to arise only where the requirement is for a specific procedure to be performed and, in the specific circumstances of the audit, that procedure would be ineffective in achieving the aim of the requirement. (Refer 5.5)

6.3 Professional skepticism: An attitude of professional skepticism means the cost auditor makes a critical assessment, with a questioning mind, of the validity of audit evidence obtained and be alert to audit evidence that contradicts or brings into question the reliability of documents and responses to inquiries and other information obtained from management and those charged with governance. An attitude of professional skepticism is necessary throughout the cost audit process for the auditor to reduce the risk of overlooking unusual circumstances, of over generalizing when drawing conclusions from cost audit observations, and of using faulty assumptions in determining the nature, timing and extent of the cost audit procedures and evaluating the results thereof. When making inquiries and performing other cost audit procedures, the cost auditor should not be satisfied with less-than-persuasive audit evidence based on a belief that management and those charged with governance are honest and have integrity. Accordingly, representations from management are not a substitute for obtaining sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the cost auditor's opinion. (Refer 5.6)

(a) A cost auditor conducting an audit in accordance with Cost Auditing Standards obtains reasonable assurance that the Cost Statements taken as a whole are free from material misstatement, whether due to fraud or error. Reasonable assurance is a concept relating to the accumulation of the audit evidence necessary for the auditor to conclude that there are no material misstatements in the Cost Statements taken as a whole. Reasonable assurance relates to the whole audit process.

A cost auditor cannot obtain absolute assurance because there are inherent limitations in an audit that affect the cost auditor's ability to detect material misstatements. These limitations result from factors such as the following:

(1) The use of sample testing.

(2) The inherent limitations of internal control (for example, the possibility of management override or collusion).

(3) The fact that most audit evidence is persuasive rather than conclusive.

Also, the work undertaken by the cost auditor to form an audit opinion is permeated by judgment, in particular regarding:

(1) The gathering of audit evidence, for example, in deciding the nature, timing and extent of audit procedures; and

(2) The drawing of conclusions based on the audit evidence gathered, for example, assessing the reasonableness of the estimates made by management in preparing the Cost Statements.

(b) Further, other limitations may affect the persuasiveness of audit evidence available to draw conclusions on particular assertions. (For example, transactions between related parties). In these cases certain Cost Auditing Standard identify specified audit procedures which will, because of the nature of the particular assertions, provide sufficient appropriate audit evidence in the absence of:

(1) Unusual circumstances which increase the risk of material misstatement beyond that which would ordinarily be expected; or

(2) Any indication that a material misstatement has occurred.

Accordingly, because of the factors described above, an audit is not a guarantee that the Cost Statements are free from material misstatement, because absolute assurance is not attainable. Further, an audit opinion does not assure the future viability of the entity nor the efficiency or effectiveness with which management has conducted the affairs of the entity.

6.4 Audit Risk and Materiality: Entities pursue strategies to achieve their objectives, and depending on the nature of their operations and industry, the regulatory environment in which they operate, and their size and complexity, they face a variety of business risks. Management is responsible for identifying such risks and responding to them. However, not all risks relate to the preparation of the Cost Statements. The auditor is ultimately concerned only with risks that may affect the cost statements. (Refer 5.7)

(a) The cost auditor obtains and evaluates audit evidence to obtain reasonable assurance about whether the Cost Statements give a true and fair view or in accordance with the applicable cost reporting framework. The concept of reasonable assurance acknowledges that there is a risk the audit opinion is inappropriate. The risk that the cost auditor expresses an inappropriate audit opinion when the Cost Statements are materially misstated is known as "audit risk."The cost auditor reduces audit risk by designing and performing audit procedures to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base an audit opinion. Reasonable assurance is obtained when the auditor has reduced audit risk to an acceptably low level.

(b) Audit risk is a function of the risk of material misstatement in the cost statements (or simply, the "risk of material misstatement") (i.e., the risk that the Cost Statements are materially misstated prior to audit) and the risk that the auditor will not detect such misstatement ("detection risk"). The cost auditor performs audit procedures to assess the risk of material misstatement and seeks to limit detection risk by performing further audit procedures based on that assessment. The audit process involves the exercise of professional judgment in designing the audit approach, through focusing on what can go wrong (i.e., what are the potential misstatements that may arise) at the assertion level and performing audit procedures in response to the assessed risks in order to obtain sufficient appropriate audit evidence.

(c) The cost auditor is concerned with material misstatements, and is not responsible for the detection of misstatements that are not material to the Cost Statements taken as a whole. The cost auditor considers whether the effect of identified uncorrected misstatements, both individually and in the aggregate, is material to the Cost Statements taken as a whole. Materiality and audit risk are related

In order to design audit procedures to determine whether there are misstatements that are material to the cost statements taken as a whole, the cost auditor considers the risk of material misstatement at two levels:

(1) the overall cost statement level and

(2) In relation to cost heads, items of cost and disclosures and the related assertions.

(d) The cost auditor considers the risk of material misstatement at the overall cost statement level, which refers to risks of material misstatement that relate pervasively to the Cost Statements as a whole and potentially affect many assertions. Risks of this nature often relate to the entity's control environment (although these risks may also relate to other factors, such as declining economic conditions), and are not necessarily risks identifiable with specific assertions at the cost heads, items of cost or disclosure level. Rather, this overall risk represents circumstances that increase the risk that there could be material misstatements in any number of different assertions, for example, through management override of internal control. Such risks may be especially relevant to the cost auditor's consideration of the risk of material misstatement arising from fraud. The auditor's response to the assessed risk of material misstatement at the overall cost statement level includes consideration of the knowledge, skill, and ability of personnel assigned significant engagement responsibilities, including whether to involve experts; the appropriate levels of supervision;

(e) The cost auditor also considers the risk of material misstatement at the cost heads, items of cost and disclosure level because such consideration directly assists in determining the nature, timing, and extent of further audit procedures at the assertion level. The cost auditor seeks to obtain sufficient appropriate audit evidence at the cost heads, items of cost, and disclosure level in such a way that enables the auditor, at the completion of the audit, to express opinion on the Cost Statements taken as a whole at an acceptably low level of cost audit risk. Auditors use various approaches to accomplish that objective. The discussion in the following paragraphs provides an explanation of the components of audit risk.

(f) The risk of material misstatement at the assertion level consists of two components as follows:

(1) "Inherent risk" is the susceptibility of an assertion to a misstatement that could be material, either individually or when aggregated with other misstatements, assuming that there are no related controls. The risk of such misstatement is greater for some assertions and related cost heads, items of cost and disclosures than for others. For example, complex calculations are more likely to be misstated than simple calculations. Cost heads consisting of amounts derived from cost estimates that are subject to significant measurement uncertainty pose greater risks than do cost heads consisting of relatively routine, factual data. External circumstances giving rise to business risks may also influence inherent risk. For example, technological developments might make a cause changes to a manufacturing process rendering the existing classification of variable and fixed costs inappropriate and cause product contribution to be misstated. In addition to those circumstances that are peculiar to a specific assertion, factors in the entity and its environment that relate to several or all of the classes of cost heads, items of cost, or disclosures may influence the inherent risk related to a specific assertion. These latter factors include, for example, external market constraints may cause normal capacity as an unreliable basis for determining unit costs.

(2) "Control risk" is the risk that a misstatement that could occur in an assertion and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal control. That risk is a function of the effectiveness of the design and operation of internal control in achieving the entity's objectives relevant to preparation of the entity's Cost Statements. Some control risk will always exist because of the inherent limitations of internal control. Inherent risk and control risk are the entity's risks; they exist independently of the audit of the Cost Statements. The auditor is required to assess the risk of material misstatement at the assertion level as a basis for further audit procedures, though that assessment is a judgment, rather than a precise measurement of risk. When the auditor's assessment of the risk of material misstatement includes an expectation of the operating effectiveness of controls, the auditor performs tests of controls to support the risk assessment. The Cost Auditing Standard do not ordinarily refer to inherent risk and control risk separately, but rather to a combined assessment of the "risk of material misstatement." Although the Cost Auditing Standard ordinarily describe a combined assessment of the risk of material misstatement, the auditor may make separate or combined assessments of inherent and control risk depending on preferred audit techniques or methodologies and practical considerations. The assessment of the risk of material misstatement may be expressed in quantitative terms, such as in percentages, or in non-quantitative terms. In any case, the need for the auditor to make appropriate risk assessments is more important than the different approaches by which they may be made.

(g) "Detection risk" is the risk that the cost auditor will not detect a misstatement that exists in an assertion that could be material, either individually or when aggregated with other misstatements. Detection risk is a function of the effectiveness of an audit procedure and of its application by the auditor. Detection risk cannot be reduced to zero because the auditor usually does not examine all of cost heads, items of cost, or disclosure and because of other factors. Such other factors include the possibility that a cost auditor might select an inappropriate audit procedure, misapply an appropriate audit procedure, or misinterpret the audit results. These other factors ordinarily can be addressed through adequate planning, proper assignment of personnel to the audit team, the application of professional skepticism, and supervision and review of the audit work performed.

Detection risk relates to the nature, timing, and extent of the auditor's procedures that are determined by the auditor to reduce audit risk to an acceptably low level.

For a given level of audit risk, the acceptable level of detection risk bears an inverse relationship to the assessment of the risk of material misstatement at the assertion level. The greater the risk of material misstatement the auditor believes exists, the less the detection risk that can be accepted. Conversely, the less risk of material misstatement the auditor believes exist, the greater the detection risk that can be accepted.

6.5 Responsibility for the Cost Statements: The cost auditor is responsible for forming and expressing an opinion on the Cost Statements. (Refer 5.9)

The term "Cost Statements" refers to a structured representation of the cost information, which ordinarily includes accompanying notes, derived from cost accounting records and intended to communicate an entity's use of economic resources and the output obtained in accordance with a Cost reporting framework. The term can refer to for example, a cost statement, reconciliation with financial accounts and related explanatory notes.

(a) The requirements of the Cost reporting framework determine the form and content of the Cost Statements and what constitutes a complete set of Cost Statements. For certain Cost reporting frameworks, a single cost statement as such and the related explanatory notes constitute a complete set of Cost Statements. For example: a Cost Statement under Cost Accounting Standard 4.

(b) The Cost auditor is not responsible for preparing and presenting the cost statements in accordance with the applicable Cost reporting framework including inter-alia:

(1) Designing, implementing and maintaining internal control relevant to the preparation and presentation of Cost Statements that are free from material misstatement, whether due to fraud or error;

(2) Selecting and applying appropriate Cost accounting policies; and

(3) Making cost estimates that are reasonable in the circumstances.

6.6 Non-compliance: The cost auditor shall request management to provide written representation that all known instances of non-compliance or suspected non- compliance with laws and regulations governing Cost Accounting, Cost Records and Cost Audit have been disclosed to the cost auditor. The representations provide necessary audit evidence about management knowledge of identified or suspected non- compliance with laws and regulations whose effects may have a material effect on the cost statement however, written representation do not provide sufficient audit evidence on their own, and accordingly do not affect the nature and extent of other audit evidence that is to be obtained by the cost auditor. (Refer 5.10)

7. Effective Date

This Standard is effective for audits on or after September 11, 2015.

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4. Knowledge of business, its processes and the business environment.

Cost Auditing Standard – 104 Knowledge of Business, its Processes and the Business Environment

In this Standard, the standard portions have been set in bold italic type. This standard should be read in the context of the background material, which has been set in normal type.

1. Introduction

In performing an audit of cost statement, records and other related documents, the cost auditor should have the knowledge of the client's business to enable him to understand the processes and express his opinion on the cost statements.

The cost auditor's level of knowledge for a cost audit engagement should include a general knowledge of the economy and the industry within which the entity operates, and a more particular knowledge of how the entity operates.

2. Objective

The objective of this standard is to enable the cost auditor to have knowledge of the client's business which is sufficient to identify and understand the events, transactions and practices that, in the cost auditor's judgment may have a significant effect on the examination of cost statements or on the preparation of the cost audit report.

3. Scope

This standard deals with obtaining the knowledge of the client's business, its processes and business environment as it is important for the cost auditor and members of the audit team working on an audit engagement.

4. Definitions

The following terms are being used in this standard with the meaning specified.

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

4.2 Audit Plan: A record of the planned nature, timing and extent of risk assessment procedures and further audit procedures at the assertion level in response to the assessed risk.

4.3 Audit Risk: Audit risk is the risk that the cost auditor expresses an inappropriate audit opinion on the cost statements that are materially misstated. Audit risk is a function of the risk of material misstatement and detection risk.

(a) The risk of material misstatement has two components viz. Inherent Risk and Control risk.

(1) Inherent risk: the susceptibility of an assertion about the measurement, assignment or disclosure of cost to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration

of any related controls.

(2) Control risk: the risk that a misstatement that could occur in an assertion about the measurement, assignment or disclosure of cost and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal, operational and management control.

(b) Detection risk: the risk that the procedures followed by the cost auditor to reduce audit risk to an acceptable low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements.

4.4 Auditee: Auditee means a company or any other entity for which cost audit is being carried out.

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

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

4.7 Risk Assessment : The audit procedures performed to obtain an understanding of the entity and its environment, including the entity's internal control, to identify and assess the risks of material misstatement, whether due to fraud or error, at the overall cost statement level and at the assertion level including items of cost, cost heads and disclosure thereof.

5. Requirements

5.1 The Cost Auditor shall have adequate level of understanding of the knowledge of Business, its Processes and the Business Environment to develop a reasonable assurance in order to express an opinion on the cost statements on which he is expressing an opinion.(refer 6.1)

5.2 The Entity and Its Environment: The cost auditor should obtain an understanding of the following:

(a) The nature of the entity, (including its operations covering Business processes, major inputs, Joint & By-Products and Wastages and major outputs etc) and the entity's ownership and governance structure.

(b) Relevant industry, regulatory, and other external factors including the applicable cost and financial reporting framework.(refer 6.2)

(c) The entity's selection and application of cost accounting policies.(refer 6.3)

(d) The measurement and review of the entity's performance. (refer 6.4)

5.3 The Entity's Internal Control: The cost auditor shall obtain an understanding of internal controls relevant to the audit. (refer 6.5)

(a) Control Environment: The cost auditor shall evaluate whether management has created and maintained a culture of honesty and ethical behaviour.

(b) The entity's risk assessment process: The cost auditor shall obtain an understanding of whether the entity has a process for: (refer 6.6, 6.7, 6.8)

(1) Identifying business risks relevant to cost reporting objectives;

(2) Assessing the likelihood of their occurrence;

(3) Estimating the significance of the risks; and

(4) Deciding about actions to address those risks.

(c) Cost Information System/ Management Information System: The cost auditor shall obtain an understanding of the Information System including Management Information System, relevant to cost reporting, including the following areas: (refer 6.9)

(1) The classes of transactions and their analysis, that are significant to the cost statements;

(2) The procedures, by which those transactions and their analysis are initiated, recorded, processed, and reported in the management information systems and cost statements;

(3) The related cost accounting records, supporting information that are used to initiate, record, process and report transactions; and

(4) The reporting process used to prepare the entity's cost statements, including significant estimates and disclosures.

(d) Control Activities: The auditor shall obtain an understanding of the control activities, relevant to the audit.(refer 6.10)

(e) Monitoring of controls:

(1) The auditor shall obtain an understanding of the major activities, that the entity uses to monitor internal control over reporting.(refer 6.11)

(2) The cost auditor shall evaluate the adequacy of the internal audit function in relation to cost records. (refer 6.12)

5.4 IT (Information Technology) Environment and Control: The cost auditor shall evaluate and assess: (refer 6.13)

(1) IT Architecture, Systems and programmes in use in the entity;

(2) Controls on access to data;

(3) Controls on changes to data in master files, systems or programmes; an

(4) Integrity of information and security of the data

5.5 Identifying and Assessing the Risks of Material Misstatement: The cost auditor shall identify and assess the risks of material misstatement at the cost statement level; and at the assertion level including items of cost, cost heads and disclosures thereof. For this purpose, the cost auditor shall: (refer 6.14, 6.15, 6.16)

(1) Identify risks including relevant controls that relate to the risk of material misstatements or a risk of fraud;

(2) Assess whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention;

(3) Assess whether the risk involves significant transactions with related parties;

(4) Assess the degree of subjectivity in the measurement of information related to the risk.

(5) Assess whether there arises a need for revising the assessment of risk based on additional audit evidence obtained.

5.6 Documentation: The auditor shall document:

(a) Key elements of the understanding obtained regarding each of the aspects of the entity and its environment specified in paragraph 5.1 & 5.2 above and of each of the internal control components specified in paragraphs 5.3 above; the sources of information from which the understanding was obtained; and the risk assessment procedures performed;

(b) The identified and assessed risks of material misstatement at the cost statement level and at the assertion level including items of cost, cost heads and disclosure thereof as required by paragraph 5.5 above; and

(c) The risks identified, and related controls about which the auditor has obtained an understanding, as a result of the requirements in paragraphs 5.5 above.

6 Application Guidance

6.1 Obtaining an understanding of the entity and its environment, including the entity's internal control, is a continuous and dynamic process of gathering, updating and analysing information throughout the audit. The understanding establishes a frame of reference within which the cost auditor plans the audit and exercises professional judgment throughout the audit, for example, when: (Refer 5.2)

(a) Assessing risks of material misstatement of the cost statements;

(b) Considering the appropriateness of the selection and application of cost accounting policies, and the adequacy of cost statement disclosures;

(c) Identifying areas where special audit consideration may be necessary, for example, abnormal losses, lower yields, higher wastages, higher utilities consumption, related party transactions etc.

(d) Developing Models for use in performing analytical procedures;

(e) Responding to the assessed risks of material misstatement, including designing and performing further audit procedures to obtain sufficient appropriate audit evidence; and

(f) Evaluating the sufficiency and appropriateness of audit evidence obtained, such as the appropriateness of assumptions and of management's oral and written representations.

6.2 Relevant industry factors include industry conditions such as the competitive environment, supplier and customer relationships, and technological developments etc. Examples of matters the cost auditor may consider include: {Refer 5.2(b)}

(a) The market and competition

(b) Cyclical or seasonal activity

(c) Changes in product technology

(d) Business risk (for example, high technology, high fashion, ease of entry for competition)

(e) Declining or expanding operations

(f) Adverse conditions (for example, declining demand, excess capacity, serious price competition)

(g) Key ratios and operating statistics

(h) Specific cost accounting practices and problems

(i) Specific or unique practices (for example, relating to labour contracts, financing methods, accounting methods).

(j) Energy supply sources and cost

(k) Environmental requirements and problems

6.3 An understanding of the entity's selection and application of cost accounting policies may encompass matters such as: {Refer 5.2(c)}

(a) The methods the entity uses to account for significant and unusual transactions (abnormal events).

(b) The effect of significant cost accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

(c) Changes in the entity's cost accounting policies.

(d) Cost reporting framework, and laws and regulations that are new to the entity and when and how the entity will adopt such requirements.

6.4 Management will measure and review those things they regard as important. Performance measures, whether external or internal, create pressures on the entity.

These pressures, in turn, may motivate management to take action to improve the business performance or to misstate the cost or financial statements. Accordingly, an understanding of the entity's performance measures assists the cost auditor in considering whether pressures to achieve performance targets may result in management actions that increase the risks of material misstatement, including those due to fraud. Examples of internally-generated information used by management for measuring and reviewing financial performance, and which the cost auditor may consider, include: {Refer 5.2(d)}

(a) Key performance indicators and key ratios (financial and non-financial).

(b) Key trends and operating statistics.

(c) Period-on-period financial performance analyses.

(d) Budgets, forecasts, variance analyses, segment information and divisional, departmental or other unit level performance reports.

(e) Employee performance measures and incentive compensation policies.

(f) Comparisons of an entity's performance with that of competitors.

6.5 While understanding controls that are relevant to the audit, cost auditor should evaluate the design of those controls and determine whether they have been implemented properly, by performing procedures in addition to discussions with the entity's personnel.(Refer 5.3)

6.6 If the entity has established risk assessment process, the cost auditor should obtain an understanding of it, and the results thereof. If the cost auditor identifies risks of material misstatement that management failed to identify, the cost auditor should evaluate whether there was an underlying risk of a kind that the cost auditor expects would have been identified by the entity's risk assessment process. If there is such a risk, the cost auditor should obtain an understanding of why that process failed to identify it, and evaluate whether the process is appropriate to its circumstances or determine if there is a significant deficiency in internal control with regard to the entity's risk assessment process. {Refer 5.3(b)}

6.7 As part of the risk assessment, the cost auditor should determine whether any of the risks identified are, in the cost auditor's judgment, a significant risk. In exercising this judgment, the cost auditor should exclude the effects of identified controls related to the risk. {Refer 5.3(b)}

6.8 An understanding of the business risks facing the entity increases the likelihood of identifying risks of material misstatement, since most business risks will eventually have financial consequences and, therefore, an effect on the cost statements. However, the cost auditor does not have a responsibility to identify or assess all business risks because not all business risks give rise to risks of material misstatement. {Refer 5.3(b)}

6.9 The cost auditor should understand the related cost accounting records, supporting information and specific accounts in the financial statements that are used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information is transferred primarily to the accounting system and subsequently to cost accounting statement. {Refer 5.3(c)}

6.10 The cost auditor should obtain an understanding of control activities relevant to cost/ management information system in order to assess the risks of material misstatement at the assertion level and design further audit procedures responsive to assessed risks. An audit does not require an understanding of all the control activities related to each significant class of transactions and disclosure in the cost statements or to every assertion relevant to them. {Refer 5.3(d)}

6.11 The cost auditor should obtain an understanding of the major activities that the entity uses to monitor internal control relevant to cost reporting, including those related to those control activities relevant to the audit, and how the entity initiates remedial actions to deficiencies in its controls. {Refer 5.3(e)(1)}

6.12 If an entity has an internal audit function, inquiries of the appropriate individuals within the function may provide information that is useful to the cost auditor in obtaining an understanding of the entity and its environment, and in identifying and assessing risks of material misstatement at the cost statement and assertion levels. If based on responses to the cost auditor's inquiries, it appears that there are findings that may be relevant to the entity's audit; the cost auditor may consider it appropriate to read related reports of the internal audit function. {Refer 5.3(e)(2)}

6.13 The cost auditor should assess the following with regard to IT environment and controls. (Refer 5.4)

(a) Reliance on systems or programs that are inaccurately processing data, processing inaccurate data, or both.

(b) Unauthorized access to data that may result in destruction of data or improper changes to data, including the recording of unauthorized or non-existent transactions, or inaccurate recording of transactions. Particular risks may arise where multiple users access a common database.

(c) The possibility of IT personnel gaining access to privileges beyond those necessary to perform their assigned duties thereby breaking down segregation of duties.

(d) Unauthorized changes to data in master files.

(e) Unauthorized changes to systems or programs.

(f) Failure to make necessary changes to systems or programs.

(g) Inappropriate manual interventions.

(h) Potential loss of data or inability to access data as required.

6.14 Risks at the cost statement level may derive in particular from a deficient control environment (although these risks may also relate to other factors, such as declining economic conditions). For example, deficiencies such as management's lack of competence may have a more pervasive effect on the cost statements and may require an overall response by the auditor. (Refer 5.5)

6.15 Risks of material misstatement at the cost statement level refer to risks that relate pervasively to the cost statements as a whole and potentially affect many assertions. Risks of this nature are not necessarily risks identifiable with specific assertions at the class of transactions, or disclosure level. Rather, they represent circumstances that may increase the risks of material misstatement at the assertion level, for example, through management override of internal control. Cost statement level risks may be especially relevant to the auditor's consideration of the risks of material misstatement arising from fraud. (Refer 5.5)

6.16 The auditor's assessment of the identified risks at the assertion level provides a basis for considering the appropriate audit approach for designing and performing further audit procedures. For example, the auditor may determine that only by performing tests of controls may the auditor achieve an effective response to the assessed risk of material misstatement for a particular assertion. (Refer 5.5)

7 Effective Date

This Standard is effective for audits on or after September 11, 2015.

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5. Other Standards on Cost Auditing (SCA) (Approved by CASSB and Council)

(Awaiting approval from Central Government)

No	Standard on..	Objective in Brief
SCA-105	Agreeing the Terms of Cost Audit Engagements	Cost Audit engagement to be accepted or continued only when precondition are met and there is common understanding with Management for terms of engagement
SCA-106	Audit Sampling	Provide a reasonable basis for the Cost Auditor to draw conclusion about the population from which the sample is selected in performing audit procedures for the audit of cost statement, cost records and other related documents.
SCA-107	Audit Evidence	Enable Cost Auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusion on which Cost Auditor’s opinion is based.
SCA-108	Materiality in Planning and Performing a Cost Audit	Apply concept of materiality appropriately in planning and performing the Cost Audit.
SCA-109	Cost Auditor’s Responsibility relating to Fraud in an Audit of Cost Statements	Identify and assess the risks of material misstatement, obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, respond appropriately to fraud or suspected fraud identified during the audit
SCA-110	Written Representations	Obtain written representations to support audit evidence and indicating management responsibility for completeness of the information provided to auditor.
SCA-111	Evaluation of Misstatements identified during the Cost Audit	Specify Cost Auditor’s responsibility to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements on Cost Statements
SCA-112	Analytical Procedures	Obtain relevant and reliable audit evidence when using substantive analytical procedures, To design and perform analytical procedures near the end of the cost audit that assist in forming an overall opinion as to whether the cost statements are in consistent with the cost auditor’s understanding of the entity and its business.
SCA-113	Using the work of internal Auditor	Asses the suitability of Internal Audit work or use of Internal Auditor to support the audit and determines its adequacy to support the Cost Audit
SCA-114	Using the Work of Cost Auditor's Expert	Whether to use the work of a Cost Auditor’s expert, and if used determine whether the work is adequate for the purpose.
SCA-115	Communication with Those Charged with Governance	Promote effective two-way communication between Cost Auditor and those charged with governance
SCA-116	Communicating Deficiencies in Internal Control to Those charged with Governance and Management	To communicate appropriately to those charged with governance and management about deficiencies in internal control which are of sufficient importance to merit their attentions.
SCA-117	Identifying and Assessing the Risks of Material Misstatement	Identify and assess the risks of material misstatement, whether due to fraud or error, at the cost statement and assertion levels, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement.
SCA-118	The Cost Auditor’s Responses to Assessed Risks	Design and Implement appropriate responses to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement in audit of cost statements
SCA-119	Related Parties	To obtain sufficient appropriate audit evidence about whether related party relationships and transactions have been appropriately identified, accounted for and disclosed in the cost statements in accordance with the framework and whether they are prone to fraud risk which either leads to material misstatements or misleading for compliance framework

8. Cost Accounting Standards and Construction Sector

Cost Accounting Standards Board issued 24 Cost Accounting Standards which are mandatory to be followed in preparation of Cost Statements.

The objective of these standards to bring uniformity and consistency in the principles and methods of determination of the output with reasonable accuracy.

Following table depicts where and how these standards can be applied while preparation of Cost Statements in Construction Sector.

Cost Accounting Standards

CAS No	Title	Remarks for Construction Sector
CAS-1	Classification of Cost	This standard shall be applied to cost statements, which require classification, presentation and disclosure of cost including those requiring attestation. Basic guidelines for understanding the fundamentals of Cost and its application are illustrated in the CAS.
CAS2	Capacity Determination	Not significant for Construction Industry.
CAS3	Production and Operation Overheads	Production and Operation in Construction parlance means Under construction of the project or ready project to be available for sale or delivery. Production or operational overheads are indirect cost involved in project construction. Examples of these costs are Administrative Costs, Indirect Material and manpower The variable Production or Operation Overheads shall be absorbed to services or activities based on actuals whereas fixed Production or Operation Overheads shall be absorbed based on the normal capacity. Normal Capacity for construction industry would be number of labour hors that can be deployed for each activity.
CAS4	Cost of Production for Captive Consumption	This standard finds its application largely in manufacturing sector however certain items like Pre-Cast or Fabricated Structures, Ready Mix Concrete are manufactured by Construction companies, hence this is applicable. This standard guides for maintenance of cost records for unit cost calculation for such captive consumption of materials and preparation of Cost Statement for various statutory requirement.
CAS5	Average (equalized) Cost of	Not Significant for Construction Industry.

	Transportation	
CAS6	Material Cost	The standard deals with principle in valuation of receipt, issue of material and assignment of materials to Cost Object. Quantity and rates of major items of materials shall be disclosed. Major items are defined as those who form 5% of cost of materials. Cost of Materials procured from related parties shall be disclosed. The forex component of imported material cost shall be converted at the rate on the date of the transaction. Any subsequent change in the exchange rate till payment or otherwise shall not form part of the material cost.
CAS7	Employee Cost	This standard deals with the principles and methods of classification, measurement and assignment of Employee cost, for determination of the Cost of product or service, and the presentation and disclosure in cost statements. Employee cost is employee benefits paid or payable in all forms of consideration given for the service rendered by employees (including temporary, part time and contract employees) of an entity. Please note that if any sub-contractor is supplying manpower for execution of work and is charging on the basis of quantum of activity executed then it is not the employee cost but direct expenses.
CAS8	Cost of Utilities	Inputs such as power, steam, water, compressed air and the like which are used construction but do not form part of the final product. Water when used in ready mix concrete is part of material cost and not the utilities.
CAS9	Packing Material Cost	Not significant for Construction Sector.
CAS10	Direct Expenses	Expenses relating to manufacture of a product or rendering a service, which can be identified or linked with the cost object other than direct material cost an direct employee cost. Interest and other costs incurred by an entity in connection with the financing arrangements are not part of the direct cost. Direct Expenses, if material, shall be presented as a

		separate cost head with suitable classification. e.g. Subcontract charges, Royalty paid towards mining rights.
CAS11	Administrative Overheads	Administrative overheads is cost of all activities relating to general management and administration of an entity but it shall exclude production/construction overheads, marketing overheads and finance cost. Production/construction overheads includes administration cost relating to production/construction, factory, works or manufacturing. It usually represents cost of shared services.
CAS12	Repairs And Maintenance Cost	Cost of all activities which have the objective of maintaining or restoring an asset in or to a state in which it can perform its required function at intended capacity and efficiency. Repairs and Maintenance activities for the purpose of this standard include routine or preventive maintenance, planned (predictive or corrective) maintenance and breakdown maintenance. The repair or overhaul of an asset which results in restoration of the asset to intended condition would also be a part of Repairs and Maintenance activity. High value spare, when replaced by a new spare and is reconditioned, shall be recognised as property, plant and equipment when they meet the definition of property, plant and equipment and depreciated accordingly. Otherwise, such items are classified as inventory and recognised in cost as and when they are consumed
CAS13	Cost of Service Cost Centre	Support-Service Cost Centre are one which primarily provides auxiliary services across the entity. The cost centre which provides services to construction activity or support other services but not directly engaged in construction activity. Examples of service cost centres are engineering, workshop, research & development, quality control, quality assurance, designing, laboratory, welfare services, safety, transport, Component, Tool stores, Pollution Control, Computer Cell, dispensary, school, crèche, township, Security etc. Administrative Overheads include cost of administrative

		Service Cost Centre.
CAS14	Pollution Control Cost	Pollution Control means the control of emissions and effluents into environment. It constitutes the use of materials, processes, or practices to reduce, minimize, or eliminate the creation of pollutants or wastes. It includes practices that reduce the use of toxic or hazardous materials, energy, water, and / or other resources. Future remediation or disposal costs which are expected to be incurred with reasonable certainty as part of Onerous Contract or Constructive Obligation, legally enforceable shall be estimated and accounted based on the quantum of pollution generated in each period and the associated cost of remediation or disposal in future. Contingent future remediation or disposal costs e.g. those likely to arise on account of future legislative changes on pollution control shall not be treated as cost until the incidence of such costs become reasonably certain and can be measured.
CAS15	Selling and Distribution Overheads	Selling overheads are the expenses related to sale of products or services and include all indirect expenses incurred in selling the products or services. Distribution overheads, also known as distribution costs, are the costs incurred in handling a product or service from the time it is ready for despatch or delivery until it reaches the ultimate consumer including the units receiving the product or service in an inter-unit transfer. For Construction sector there no distribution overheads but for Real Estate companies Selling overheads exists.
CAS16	Depreciation and Amortisation	Depreciation and Amortisation are both systematic allocation of the depreciable amount of an intangible asset over its useful life. An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount. The residual value of an intangible asset shall be assumed to be zero unless: (a) there is a commitment by a third party to purchase the asset at the end of its useful life; or (b) there is an active market for the asset
CAS17	Interest and	Interest and Financing Charges are interest and other costs incurred by an entity in connection with the

	Financing Charges.	financing arrangements. Examples are: 1. Interest and commitment charges on bank borrowings, other short term and long term borrowings: 2. Financing Charges in respect of finance leases and other similar arrangements: and 3. Exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest costs. The terms Interest and financing charges, finance costs, and borrowing costs are used interchangeably. Interest and Financing Charges incurred shall be identified for: (a) acquisition / construction/ production of qualifying assets ; and (b) Other finance costs for production of goods/ operations or services rendered which cannot be classified as qualifying assets. Interest and Financing Charges directly attributable to the acquisition / construction/ production of a qualifying asset shall be included in the cost of the asset.
CAS18	Research and Development Costs	Research cost is the cost of original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Development cost is the cost for application of research finding or other knowledge to a plan or design for the production/construction of new or substantially improved methodology , materials, devices, products, processes, systems, or services before the start of commercial production/construction or use.
CAS19	Joint Costs	Not significant for Construction Sector
CAS20	Royalty and Technical Know-How Fee	Royalty is any consideration for the use of asset (tangible and/or intangible) to the owner. Royalty is often expressed as a percentage of the revenues obtained by use of the owners asset(tangible and/or intangible); per unit of production or sales value. It may relate to use of: Non-renewable resource (petroleum and mineral resources) ; Patents; Trademarks; Franchise rights; Copy

		rights; art-work, software and the like. Technical service fee is any consideration payable to provider of technical or managerial services. In Construction sector Royalty for mining rights of quarry form part of the material cost and not this one.
CAS21	Quality Control	Quality control: A procedure or a set of procedures exclusively designed to ensure that the manufactured products or performed service adhere to a defined set of quality criterion or meets requirement of the client or the customer. Quality Control cost: Cost of resources consumed towards quality control procedures.
CAS22	Manufacturing Cost	In case of Construction sector the manufacturing relates to manufacturing of Pre-cast or fabricated structures or Ready Mix Concrete or similar material such as Bituminous concrete. These materials are mostly used for captive consumption ,but in some instances are sold to outside parties. Manufacturing cost includes: Cost of Materials (including process materials), Employee Cost, Cost of Utilities, Packing Cost, Direct Expenses, Repairs &Maintenance Cost, Pollution Control Cost, Quality Control Cost, Research & Development Cost, Cost of Inputs received free of cost or received at concessional value from the buyer of the excisable good, Depreciation and Amortisation (including amortisation cost of free tools, patterns ,dies, drawings, blue prints, technical maps, charts, engineering, development, art work, design work, plans, sketches, packaging material and the like necessary for production of excisable goods), Cost of Rework, reconditioning, retro- fitment, Manufacturing Overheads, other costs allocable to such activity, adjustment for stock of work-in-process and recoveries for sales of scrap and wastages and the like but does not include expenses of the above nature incurred for post manufacturing purposes.
CAS23	Overburden Removal Cost	Overburden is the overlying materials generally having no commercial value. Overburden Removal cost is the cost incurred to remove the overlying material from the mine site.

		It is common phenomena in Construction to remove overburden and cost of such removal is part of the construction activity which is either payable or non-payable, but this standard is applicable to mining industry.
CAS24	Treatment of Revenue in Cost Statements	Revenue from operations: is the income arising in the course of the ordinary activities of an entity from the sale of goods or rendering of services. Revenue from operations represents income arising from the sale of goods or rendering of services and includes other operating revenue, such as sale of scrap, government subsidies, or incentives received. Revenue from operations is generally recognised at the net value excluding indirect taxes. Sometime, revenue is presented at the gross value including excise duty and the excise duty is presented as deduction from such gross value of the revenue. Other Operating Revenue is the incidental income arising in the course of ordinary activities of an entity but not arising from the sale of main goods or services, and it does not include Other Income. Examples: • Sale of By-products; • Sale of manufacturing scrap; • Export incentives received from Government; and • Product related subsidies or grants received from Government.

9. Cost Records and Construction Sector

Maintenance of Cost Records:

Pursuant to Section 148 of the Companies Act 2013, the Ministry of Corporate Affairs notified Companies (Cost Records and Audit) Rules 2014 on 30th June 2014 vide GSR 425(E) dated 1st July 2014, which were later amended by the Companies (Cost Records and Audit) Amendment Rules 2014 on 31st December 2014 vide GSR 01(E) dated 1st January 2015. As per these Rules, vide Table B under Rule 3, the following activities relating to infrastructure sector are covered for maintenance of Cost Records:

(i) Vide Sl. No. 10: Roads and other infrastructure projects corresponding to para No.(1) (a) as specified in Schedule VI of the Companies Act, 2013;

(ii) Vide Sl. No. 21: Construction Industry as per para No.(5) (a) as specified in Schedule VI of the Companies Act, 2013 (18 of 2 013).

These Rules contain the provisions relating to maintenance of cost accounting records for the above sectors:

1. Rule 3: Application of cost records:

(a) For the purpose of sub-section (1) of Section 148 of the Act, the class of companies, including foreign companies defined in clause (42) of Section 2 of the Act, engaged in the production of the goods or providing services under in the Table specified therein, having an overall turnover from all its products and services of rupees thirty five crore or more during the immediately preceding financial year, shall include cost records for such products or services in their books of account. Overseas project of an Indian company are also covered by the rules.

2. Rule 5: Maintenance of records:

(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.

The companies in above referred sectors are required to Maintain cost records in respect of each of its financial years commencing on or after 1st day of April, 2014.

(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.

(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.

3. Exemption from Maintenance of Cost Records

The Rules are not applicable to a company which is classified as a micro enterprise or a small enterprise including as per the turnover criteria under sub-section (9) of section 7 of the Micro, Small and Medium Enterprises Development Act, 2006.

4.Meaning of Cost Records:

As per Rule 2(e) the Companies (Cost Records and Audit) Rules, 2014, “cost records” means ‘books of account relating to utilization 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’. There cannot be any exhaustive list of cost accounting records. Any transaction - statistical, quantitative or other details - that has a bearing on the cost of the product/activity is important and form part of the cost accounting records.

However, as mentioned above, the cost records are to be kept on regular basis to make it possible to "calculate per unit cost of production/operations/ services rendered, cost of sales and margin for each of its products/ services for every financial year on monthly/quarterly/half-yearly/annual basis“. The point is to maintain such records and details in a structured manner on a regular basis so that accumulation is possible on a periodical basis.

It is to be noted that product-wise cost statement is the final outcome of maintenance of such cost records in a structured manner. The system should be geared to generate such cost statements on a periodical basis as stipulated by the rules. However, it is not necessary to mandatorily prepare cost statements periodically. For a clearer understanding, analogy may be drawn from maintenance of financial records which is geared to generate profit & loss account and balance sheet from the financial books at any point of time and such generation is possible when the financial books are structured in such a manner. A computerized system of accounting makes it possible. Similarly, the cost accounting system should be geared to generate the required cost statements at any given point of time.

5.Regular & Continuous maintenance of Cost Records

As mentioned under Rule 5 above that 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.

It may be noted that once a company is covered under the Rules, is required to maintain cost accounting records on regular basis even if the turnover of the company falls below the threshold limit in subsequent year in view of Rule-5, which mentions “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”.

6. Meaning of “Turnover” in relation to the Companies (Cost Records and Audit) Rules, 2014

Sub-section 91 of Section 2 of the Companies Act, 2013 defines “turnover” as “the aggregate value of the realization of amount made from the sale, supply or distribution of goods or on account of services rendered, or both, by the company during a financial year. For the purposes of these Rules, “Turnover” means gross turnover made by the company from the sale or supply of all products or services during the financial year. It includes any turnover from job work or loan license operations but exclude duties and taxes. Export benefit received should be treated as a part of sales.

It may be noted that the Turnover shall include other operational income like Job work income, scrap sale, trading turnover, export benefits, sales of services etc.

7. Format to maintain Cost Records

The Companies (Cost Records and Audit) Rules 2014, as amended state that cost records are to be maintained in Form CRA-1 (Given at Annexure- 6 to this Guidance Note). However, CRA-1 does not prescribe any format but only provides principles to be followed for different cost elements.

The principles enshrined for maintenance of cost accounting records in CRA-1 are in sync with the cost accounting standards issued by the Institute of Cost Accountants of India. The Rules are principle based and no formats have been prescribed for maintenance of cost accounting records. The Rules give option to the industry to maintain cost accounting records according to its size and nature of business so long as it determines a true and fair view of the cost of production/operation, cost of services rendered, and cost of sales and margin of the products/services. It may be noted that the cost audit report prepared by cost auditor is required to be in conformity with the “cost auditing standards” as referred to in Section 148 of the Companies Act, 2013.

It is also to be noted that the Council of the Institute of Cost Accountants of India has made it mandatory for cost accountants in practice to follow and conform to the Cost Accounting Standards issued by it and it is incumbent on the cost auditors to report any deviations from cost accounting standards.

Sr.	Cost Record	Key Points and takeaways for Construction Sector
1	Material Cost	Records of Receipt issue and consumption of major materials such as Cement Steel Sand Aggregate Bitumen and others whose value is more than 2% of the project cost to be maintained and valuation to be done as per Cost Accounting Standard-6: Material Cost Separate records are to be maintained for indigenous and imported material for both quantity and cost. All Costs which attribute up to the receipt of material excluding finance cost are to be part of material cost. Imported material to be valued at the exchange rate prevailing on the date of transaction. In Construction Industry self-manufactured items are generally Ready Mix Concrete Structures or Fabricated Structures. Separate records of cost of making these items also to be maintained.

		However cost of indirect materials such as Scaffoldings shuttering materials and other construction material to be amortised over its useful period.
2	Employee Cost	Cost Centre wise or Depart wise details of all elements of cost which are payable to employees are to be maintained. Employees do not include non-executive directors and elements of cost do not include unamortised separation cost. Recruitment Cost Training cost to be treated as overheads. When employee cost is not traceable to particular cost object i.e. Cost Centre of department then suitable apportion be done on the basis of generally accepted principles.
3	Utilities	Power (both purchased and self-generated) Compressed Air Sewage and effluent treatment plants water are major utilities which are to be treated as Cost Objects and their records of receipt production (if applicable e.g. power by DG sets) and consumption are to be maintained which includes cost of receipt or production and cost of distribution till the point of consumption. Where the cost of utilities is not directly traceable to cost object it shall be assigned on the most appropriate basis
4	Direct Expenses	Direct expenses are those which is not material or labour cost but cost such as Sub-contractor cost whose is paid on lump sum basis. Onetime payment whose benefits are going to be received during entire duration of project which is more than one year is to be amortised over such duration. An item of Direct Expense which does not meet the test of materiality it can be treated as part of overheads
5	Repair and Maintenance	Many companies have their own construction equipment and some hire such machineries. In case of hire machineries mostly it is the responsibility of equipment supplier to maintain the equipment but

		in other cases and in case of owned equipment the records of cost incurred for repairs and all types of maintenance such as Predictive, Preventive, Scheduled and Breakdown are to be maintained to the extent it is economically feasible to trace it to particular cost object. The cost include cost of material, spares, Consumable and subcontracting services incurred for the particular equipment. In case of high value spare which is reconditioned which is to be used for future the difference between the total of the cost of the new spare and the reconditioning cost and the value of the reconditioned spare should be treated as repairs and maintenance cost.
6	Fixed Assets and Depreciation	As mentioned above many companies own Construction equipment beside it there are other assets held by the company. It is required to maintain asset class wise records which include date and cost of acquisition ,installation charges, rate of depreciation. In case of regulated industry the amount of depreciation shall be the same as prescribed by the concerned regulator. The useful life of an intangible asset, in any situation, shall not exceed 10 years from the date it is available for use. Impact of revaluation or impairment of assets shall not be considered for depreciation workings. Refer Cost Accounting Standard -16 (CAS-16) for details.
7	Overheads	For definition, classification and details of overheads refer Cost Accounting Standard- (CAS-3, 11 and 15) Overhead variances attributable to abnormal reasons shall be excluded from overheads. Assignment of overheads to the cost objects shall be based on two principles a) Cause and effect and b) Benefits received. Variable production overheads shall be absorbed to

		products or services based on actual capacity utilisation whereas fixed production overheads shall be absorbed based on the normal capacity.
8	Administrative Overheads	Administrative overheads shall be the aggregate of cost of resources consumed in activities relating to general management and administration of an organisation. While assigning administrative overheads, traceability to a cost object in an economically feasible manner shall be the guiding principle. Assignment of overheads to the cost objects shall be based on two principles a) Cause and effect and b) Benefits received.
9	Transportation Cost	This is important for manufacturing sector, however transportation cost records of inward movement of material as well as outward movement (in case of Ready Mix Concrete, Fabricated or Pre-cast structures) are to maintained.
10	Royalty and Technical Know-how	Royalty and Technical Know-how Fee paid or incurred in lump-sum or which are in the nature of 'one–time' payment, shall be amortised on the basis of the estimated output or benefit to be derived from the related asset. The fee that is directly traceable to a cost object shall be assigned to that cost object or else it shall be assigned on the basis of Sale value of the individual service or product. For production of Boulders and aggregate , royalty is paid for quarry mining rights such royalty is to be part of material cost and not of the Royalty and Technical Know-How cost.
11	Research and Development expenses	Research, and Development Costs shall assigned to construction activities or Work Breakdown Structures (WBS) strictly on the basis of a) cause and effect or b) benefits received. Research and Development costs attributable to a specific cost object or activity shall be assigned to that cost object or activity directly. Research and Development activity related to the

		improvement of an existing process continues for more than one accounting period, the cost of the same shall be accumulated and amortised over the estimated period of use of the improved process.
12	Quality Control Expenses	Cost incurred for assuring quality of the construction or structure shall assigned to construction activities or Work Breakdown Structures (WBS) strictly on the basis of a) cause and effect or b) benefits received
13	Pollution Control Expenses	Future remediation or disposal costs which are expected to be incurred with reasonable certainty as part of Onerous Contract or Constructive Obligation, legally enforceable shall be estimated and accounted based on the quantum of pollution generated in each period and the associated cost of remediation or disposal in future. Contingent future remediation or disposal costs e.g. those likely to arise on account of future legislative changes on pollution control shall not be treated as cost until the incidence of such costs become reasonably certain and can be measured. External costs of pollution which are generally the costs imposed on external parties including social costs are difficult to estimate with reasonable accuracy and are excluded from general purpose cost statements. Social costs of pollution are measured by economic models of cost measurement. The cost by way of compensation by the polluting entity either under future legislation or under social pressure cannot be quantified by traditional models of cost measurement. They are best kept out of general purpose cost statements.
14	Service Department Expenses	In a construction organisation service department includes Laboratory, Safety, Maintenance and others which directly support the construction activities. Cost of such services to include cost of materials, spare, consumables, labour, utilities and related overheads. Cost of a Stand-by service shall include the committed costs of maintaining such a facility for

		the service. While assigning cost of services, traceability to a cost object in an economically feasible manner shall be the guiding principle.
15	Packing Expenses	Generally packing expenses are not incurred in construction sector however when a structure is fabricated or cast at one place and is transported to another, the record of packing expenses (both primary and secondary) shall form part of that structure cost.
16	Interest and Financing Charges	Interest and Financing charges are costs incurred by an enterprise in connection with the borrowing of fund or other costs which in effect represent payment for the use of non- equity fund. Such Charges incurred shall be identified for: i) acquisition or construction or production of qualifying assets including fixed assets; and ii) Other finance costs for production of goods or operations or services rendered which cannot be classified as qualifying assets. Charges directly attributable to the acquisition or construction or production of a qualifying asset shall be included in the cost of the asset.
17	Any other item of Cost	Every industry has its unique cost structure and construction is not an exception. The Cost incurred towards rehabilitation subsequent to acquisition of land for construction, clearances of encroachment on public as well as private land etc. Records of such expenses to be maintained and assignment to Cost Object on economic feasible manner or if the duration of the project is more than a year then to be amortised over the project duration.
18	Capacity Determination	Every Construction is unique and there is no standard way of determining the capacity. The capacity can be expressed in as number of labour hours but this is again highly subjective matter for Construction sector and mostly becomes inapplicable while presenting the cost records.

19	Work- in-progress and finished stock	In Construction Project the cost of Work in Progress to be measured as percentage completion of the project on the basis of work certification by the agency stipulated in contract.
20	Captive Consumption	Most of the construction activities use pre-cast or fabricated structures for captive consumption or manufacture Ready Mix Concrete (RMC). Records of manufacturing of such structures are to maintained such as to enable to calculate the unit cost of product.
21	By- Products and Joint Products	Not applicable for Construction activity.
22	Adjustment of Cost Variances	When other than Standard Costing is used for maintenance of Cost records, the process to be followed for measurement of efficiency and variances thereof is to be documented as cost records.
23	Reconciliation of Cost and Financial Accounts	The cost statements shall be reconciled with the financial statements for the financial year specifically indicating the expenses or incomes not considered in the cost records or statements to ensure accuracy and to adjust the profit of the goods or services under reference with the overall profit of the company. The variations, if any, shall be clearly indicated and explained.
24	Related Party Transactions	Related Party means related party as defined under sub-section 76 of section 2 of the Companies Act, 2013. Records to disclose the basis of Normal Price charged to related party and also it should disclose the contracts entered into, agreements or understanding reached with each related party for all transactions related to Cost.
25	Expenses or Incentives on Exports	Not applicable for Construction Industry.
26	Production records	As mentioned Para 20 on captive consumption , records of in house produced materials are to be maintained for each of the product so as to calculate the unit cost.

27	Sales records	For Construction Industry Sales Records include Records of Running Bill account, milestone payment schedule or in case of real estate companies records to include slab wise payment schedule or after receipt of Occupation Certificate, sales records of residential, commercial or industrial units sold.
28	Cost Statements	Cost statements (monthly, quarterly and annually) shall be prepared for each construction project separately. Each project is to be considered as product and Cost , Revenue and margin from each of such project to be calculated separately.
29	Statistical Records	Records of utilisation of machine, labour are to be maintained and in addition assets added as replacement and those added for increasing existing capacity are also to be maintained as Cost Records.
30	Records of Physical Verification.	Records of physical verification of raw materials such as Cement, Steel, Sand, Aggregate and Bitumen besides other material like consumables, spares, fuel, fixed assets are to be maintained on periodic basis and reasons for shortages or surplus arising out of such verifications and the method followed for adjusting the same in the cost of the goods or services shall be indicated in the records.

10. Cost Audit and Appointment of Cost Auditor

Pursuant to Companies Act 2013 and in supersession of Cost Accounting Records Rules 2011 and Companies (Cost Audit Report) Rules 2011, the Ministry of Corporate Affairs notified Companies (Cost Records and Audit) Rules 2014 on 30th June 2014 which were amended vide Companies (Cost Records and Audit) Amendment Rules 2014 on 31st December 2014. The mechanism with respect to maintenance of cost records, cost audit and appointment of cost auditors has been changed and shall be in accordance with Companies (Cost Records and Audit) Rules 2014 as amended.

The applicability of maintenance of Cost Records and Cost Audit shall be for those sectors which are mentioned in the Tables 'A' and 'B' to the Companies (Cost Records and Audit) Amendment Rules 2014 dated 31st December 2014 notified by the Government vide GSR 1/2015(E) dated 1st January 2015.

Maintenance of Cost Accounting Records and Cost Audit

The Rules state that cost records are to be maintained in Form CRA-1, which provides principles to be followed for different cost elements. The principles are in sync with the cost accounting standards issued by the Institute of Cost Accountants of India. Since the Rules are principle based, no format has been prescribed for maintenance of cost accounting records like pre-2011 industry specific rules. It is opened for industry to maintain cost accounting records according to its size and nature of business so long as it determines a true and fair view of the cost of production, cost of sales and margin of the products/services.

The cost audit report is required to be in conformity with the "cost auditing standards" as referred to in Section 148 of the Companies Act, 2013.

It may be noted that the Council of the Institute of Cost Accountants of India has made it mandatory for cost accountants in practice to follow and conform to the Cost Accounting Standards issued by it and it is incumbent on the cost auditors to report any deviations from cost accounting standards.

Applicability of Cost Audit:

a) The Rules have classified sectors/industries under Regulated and Non-Regulated sectors. The sectors/industries covered under Table A of the Rules are under the Regulated Sector and sectors/industries covered under Table B are under the Non-Regulated Sector.

b) Every company, including foreign companies defined in clause (42) of section 2 of the Act, engaged in the production of the goods or providing services, specified in Tables A and B, having an overall turnover from all its products and services of rupees thirty five crore or more during the immediately preceding financial year, shall be required to maintain cost accounting records.

However, foreign companies having only liaison office in India and engaged in production, import and supply or trading of medical devices listed in Sl. 33 of Table B are exempted. Further, companies which are classified as a micro enterprise or a small enterprise including as per the turnover criteria under sub-section (9) of section 7 of the Micro, Small and Medium Enterprises Development Act, 2006 (27 of 2006) are also excluded from the purview of the Rules.

c) The Rules are effective from April 1, 2014 in respect of certain class of companies and for the others it is effective from April 1, 2015 as detailed below:

Rules Applicable from April 1, 2014 – Regulated Sectors		
Sl.	**Industry /Sector/ Product/Service**	**CTA Heading**
1.	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)	Not applicable
2.	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 (referred to in the Electricity Rules, 2005);	………
3.	Petroleum products regulated by the Petroleum and Natural Gas Regulatory Board under the Petroleum and Natural Gas Regulatory Board Act, 2006 (19 of 2006);	2709 to 2715;
4.	Drugs and pharmaceuticals	2901 to 2942; 3001 to 3006.
5.	Fertilizers;	3102 to 3105.
6.	Sugar and industrial alcohol;	1701; 1703; 2207

Rules Applicable from April 1, 2014 – Non-Regulated Sectors		
Sl.	**Industry /Sector/ Product/Service**	**CTA Heading**
1.	Machinery and mechanical appliances used in defence, space and atomic energy sectors excluding any ancillary item or items; *Explanation.* – For the purposes of this sub-clause, any company which is engaged in any item or items supplied exclusively for use under this clause, shall be deemed to be covered under these rules.	8401 to 8402; 8801 to 8805; 8901 to 8908
2.	Turbo jets and turbo propellers;	8411

3.	Arms and ammunitions;	3601 to 3603; 9301 to 9306.
4.	Propellant powders; prepared explosives (other than propellant powders); safety fuses; detonating fuses; percussion or detonating caps; igniters; electric detonators;	3601 to 3603
5.	Radar apparatus, radio navigational aid apparatus and radio remote control apparatus;	8526
6.	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 percent or more by the Government or Government agencies;	8710
7.	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);	Not applicable.
8.	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);	Not applicable.
9.	Steel;	7201 to 7229; 7301 to 7326
10.	Roads and other infrastructure projects corresponding to para No.(1) (a) as specified in Schedule VI of the Companies Act, 2013;	Not applicable.
Rules Applicable from April 1, 2014 – Non-Regulated Sectors		
11.	Rubber and allied products being regulated by the Rubber Board constituted under the Rubber Act, 1947 (XXIV of 1947)	4001 to 4017
12.	Railway or tramway locomotives, rolling stock, railway or tramway fixtures and fittings, mechanical (including electro mechanical) traffic signalling equipment's of all kind;	8601 to 8608.
13.	Cement;	2523; 6811 to 6812

14	Ores and Mineral Products;	2502 to 2522; 2524 to 2526; 2528 to 2530; 2601 to 2617
15.	Mineral fuels (other than Petroleum), mineral oils etc.;	2701 to 2708
16	Base metals;	7401 to 7403; 7405 to 7413; 7419; 7501 to 7508; 7601 to 7614; 7801 to 7802; 7804; 7806; 7901 to 7905; 7907;8001; 8003; 8007; 8101 to 8113.
17	Inorganic chemicals, organic or inorganic compounds of precious metals, rare-earth metals of radioactive elements or isotopes, and Organic Chemicals;	2801 to 2853; 2901 to 2942; 3801 to 3807; 3402 to 3403; 3809 to 3824.
18.	Jute and Jute Products;	5303, 5310
19.	Edible Oil;	1507 to 1518
20	Construction Industry as per para No.(5) (a) as specified in Schedule VI of the Companies Act, 2013 (18 of2013)	Not applicable.
21.	Health services, namely functioning as or running hospitals, diagnostic centres, clinical centres or test laboratories;	Not applicable.
22.	Education services, other than such similar services falling under philanthropy or as part of social spend which do not form part of any business.	Not applicable.
23.	Production, import and supply or trading of following medical devices, namely:	
	Cardiac Stents, Drug Eluting Stents, Catheters, Intra Ocular Lenses, Bone Cements, Heart Valves, Orthopaedic Implants, Internal Prosthetic Replacements, Scalp Vein Set, Deep Brain Stimulator, Ventricular peripheral Shud, Spinal Implants, Automatic Impalpable Cardiac Deflobillator, Pacemaker (temporary and permanent), patent ductus arteriosus, atrial septal defect and ventricular septal defect closure device, Cardiac Re-synchronize Therapy, Urethra Spinicture Devices, Sling male or female, Prostate occlusion device, Urethral Stents	9018 to 9022
	Rules Applicable from April 1, 2015 – Non-Regulated Sectors	
1.	Coffee and tea;	0901 to 0902

2.	Milk powder;	0402
3.	Insecticides;	3808
4.	Plastics and Polymers;	3901 to 3914; 3916 and 3921; 3925
5.	Tyres and Tubes;	4011 to 4013
6.	Paper;	4801 to 4802
7	Textiles;	5004 to 5007; 5106 to 5113; 5205 to 5212; 5303; 5310; 5401 to 5408; 5501 to 5516
8.	Glass;	7003 to 7008, 7011, 7016
9.	Other machinery;	8403 to 8487
10	Electricals or electronic machinery;	8501 to 8507; 8511 to 8512; 8514 to 8515; 8517; 8525 to 8536; 8538 to 8547.

Appointment of Cost Auditor:

(a) **Procedure:**

The Cost Auditor is to be appointed on the recommendation of Audit Committee, where the company is required to have an audit committee. The Cost Auditor so appointed is required to give letter of consent to Board of Directors the Company shall inform to the Cost Auditor Concerned 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

Any casual vacancy in the office of a cost auditor, whether due to resignation, death or removal, shall be filled by the Board of Directors within thirty days of occurrence of such vacancy and the company shall inform the Central Government in Form CRA-2 within thirty days of such appointment of cost auditor.

(b) Who can be appointed cost auditor?

Only a Cost Accountant, as defined under section 2(28) of the Companies Act, 2013, can be appointed as a cost auditor.

Clause (b) of sub-section (1) of section 2 of the Cost and Works Accountants Act, 1959 defines "Cost Accountant". It 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 is in whole-time practice. Cost Accountant includes a Firm of Cost Accountants and a LLP of cost accountants.

(c) Eligibility criteria for appointment as a cost auditor

Eligibility Criteria under Section 141 of the Companies Act, 2013 read with Rule 10 of the Companies (Audit and Auditors) Rules, 2014 and Section 148 of the Companies Act, 2013. The following persons are not eligible for appointment as a cost auditor:

a) A body corporate. However, a Limited Liability partnership registered under the Limited Liability Partnership Act, 2008 can be appointed. [Section 141(3)(a)].

b) An officer or employee of the company. [Section 141(3)(b)].

c) A person who is a partner, or who is in the employment, of an officer or employee of the company. [Section 141(3)(c)].

d) A person who, or his relative or partner is holding any security of or interest in the company or any of its subsidiary or of its holding or associate company or a subsidiary of such holding company. [Section 141(3)(d)(i)].

e) Relatives of any partner of the firm holding any security of or interest in the company of face value exceeding Rs. 1 lakh. [Section 141(3)(d)(i) and Rule 10(1) of Companies (Audit and Auditors) Rules, 2014].

f) A person who is indebted to the company or its subsidiary, or its holding or associate company or a subsidiary or such holding company, for an amount exceeding Rs. 5 lakhs. [Section 141(3)(d)(ii) and Rule 10(2) of Companies (Audit and Auditors) Rules, 2014].

g) A person who has given any guarantee or provided any security in connection with the indebtedness of any third person to the company or its subsidiary, or its holding or associate company or a subsidiary of such holding company, for an amount exceeding Rs. 1 lakh. [Section 141(3)(d)(iii) and Rule 10(3) of Companies (Audit and Auditors) Rules, 2014].

h) A person or a firm who, whether directly or indirectly, has business relationship with the company or its subsidiary, or its holding or associate company or subsidiary of such holding company or associate company. [Section 141(3)(e) and Rule 10(4) of Companies (Audit and Auditors) Rules, 2014].

"Business Relationship" is defined in Rule 10(4) of Companies (Audit and Auditors) Rules, 2014 and the same shall be construed as any transaction entered into for a commercial purpose, except commercial transactions which are in the nature of professional services permitted to be rendered by a cost auditor or a cost audit firm under the Act and commercial transactions which are in the ordinary course of business of the company at arm's length price - like sale of products or services to the cost auditor, as customer, in the ordinary course of business, by companies engaged in the business of telecommunications, airlines, hospitals, hotels and such other similar businesses.

i) A person whose relative is a director or is in the employment of the company as a director or key managerial personnel of the company. [Section 141(3)(f)].

j) A person who is in the full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor if such person or persons is at the date of such appointment or reappointment holding appointment as auditor of more than twenty companies. [Section 141(3)(g)].

k) A person who has been convicted by a court for an offence involving fraud and a period of ten years has not elapsed from the date of such conviction. [Section 141(3)(h)].

l) Any person whose subsidiary or associate company or any other form of entity, is engaged as on date of appointment in consulting and providing specialised services to the company and its subsidiary companies: [Section 141(3)(i) and Section 144].

(a) accounting and book keeping services

(b) internal audit

(c) design and implementation of any financial information system

(d) actuarial services

(e) investment advisory services

(f) investment banking services

(g) rendering of outsourced financial services

(h) management services

(d) Is Rotation applicable to cost auditor?

The provisions for maintenance of cost accounting records and cost audit are governed by Section 148 of the Companies Act, 2013. The provisions of Section 148 clearly states that no person appointed under Section 139 as an auditor of the company shall be appointed for conducting audit of cost records of the company. Section 148 also provides that qualifications, disqualifications, rights, duties and obligations applicable to auditors (financial) shall apply to a cost auditor appointed under this section. The eligibility, qualifications and disqualifications are provided in Section 141 of the Act and powers and duties are provided in Section 143. Section 143(14) specifically states that the provisions of Section 143 shall mutatis mutandis apply to a cost auditor appointed under Section 148. There are no other provisions governing the appointment of a cost auditor.

Section 139(3) of the Act, applicable to appointment of auditors (financial), and Rule 6 of Companies (Audit and Auditors) Rules, 2014 deals with the provision of rotation of auditors and these provisions are applicable only to appointment of auditors (financial). The Act does not provide for rotation in case of appointment of cost auditors and the same is not applicable to a cost auditor. It may, however, be noted that though there is no statutory provision for rotation of cost auditors, individual companies may do so as a part of their policy, as is the practice with Public Sector Undertakings.

a) Authority for fixing Remuneration of a Cost Auditor

Rule 14 of the Companies (Audit and Auditors) Rules, 2014 has laid down the procedure of appointment and fixing the remuneration of a cost auditor. It states as follows:

Remuneration of the Cost Auditor: For the purpose of sub-section (3) of section 148,—

(a) in the case of companies which are required to constitute an audit committee—

(i) the Board shall appoint an individual, who is a cost accountant in practice, or a firm of cost accountants in practice, as cost auditor on the recommendations of the Audit committee, which shall also recommend remuneration for such cost auditor;

(ii) the remuneration recommended by the Audit Committee under (i) shall be considered and approved by the Board of Directors and ratified subsequently by the shareholders;

(b) in the case of other companies which are not required to constitute an audit committee, the Board shall appoint an individual who is a cost accountant in practice or a firm of cost accountants in practice as cost auditor and the remuneration of such cost auditor shall be ratified by shareholders subsequently.

Obligation to report offence of fraud

Sub-rule (7) of Rule 6 of the Companies (Cost Records and Audit) Rules 2014 states that "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".

As per sub-section (12) of section 143 of the Companies Act 2013, extract of which is given above, it is obligatory on the part of cost auditor to report offence of fraud which is being or has been committed in the company by its officers or employees, to the Central Government as per the prescribed procedure under the Rules.

As per the proviso to above sub-section, it has been stated that in case of a fraud involving lesser than the specified amount, the auditor shall report the matter to the audit committee constituted under section 177 or to the Board in other cases within such time and in such manner as may be prescribed.

Cost Audit Report

As per sub-rule (4) of Rule 6 of the Companies (Cost Records and Audit) Rules 2014 as amended, a Cost Auditor is required to submit the Cost Audit Report along with his or its reservations or qualifications or observations or suggestions, if any, in form CRA-3 to 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.

Form for filing Cost Audit Report with the Central Government

As per sub-rule (6) of Rule 6 of the Companies (Cost Records and Audit) Rules 2014 as amended, every company to whom cost auditor submits his or its report 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.

It is to be noted that the cost audit report is required to be filed in XBRL format.

Annexure -1: Consent letter by Cost Accountant to be appointed as Cost Auditor

Specimen Consent Letter by Cost Accountant proposed to be appointed as Cost Auditor by the Company

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The Board of Directors

……….. Limited,

Dear Sir,

Sub: Cost Audit of your Company for the year ending .

This has reference to your proposal to appoint / reappoint me / us as Cost Auditor of the Company for the financial year ending on . I/We shall be happy to accept the appointment / re-appointment as Cost Auditor of the Company, if so made by the Board of Directors of the Company, [on recommendation by the Audit Committee of the Board]*.

I / We would like to inform you that I / we do not suffer from any disqualifications as specified inter-alia under Section 141 of the Companies Act, 2013 (“the Act”) read with Sections 148 of the Act. I / We further confirm that the appointment, if made, will be within the limits prescribed under Section 141(3)(g) read with Section 148 of the Act.

I / We would also like to inform you that I am / the Partners of the firm are holding Certificate of Practice issued by the Institute of Cost Accountants of India and am / are in whole time practice. My / Our Permanent Account Number is and Registration No. of the Firm is .

I / We further certify that I am / we are an independent firm of Cost Accountants and am/ are at arm’s length relationship with the company.

I / We also confirm that there are no orders or proceedings which are pending against me/ our firm or any of our partners relating to professional matters of conduct before the Institute of Cost Accountants of India or any competent authority or any court.

Thanking you,

Yours faithfully,

For

Name:

Membership No. Sole Proprietor / Partner

* If applicable

Annexure -2: Specimen Resolution of for appointment of Cost Auditors

Extract from minutes of the meeting of the Board of Directors M/s Ltd. held at the office of the Company on _(date)_ at ---------- am / pm.

RESOLUTION NO. ---------------------

Company Secretary tabled the Companies (Cost Records and Audit) Rules, 2014 [GSR 425(E)] dated 30.6.2014 as amended by Companies (Cost Records and Audit) Amendment Rules, 2014 [GSR 01(E)] dated 31st December, 2014 issued by Ministry of Corporate Affairs (MCA), whereby the Company is required to arrange for audit of its cost records for the year .

The Chairman informed the Board that the Audit Committee has recommended for appointment of M/s , Cost Accountants, who have given their consent to act as Cost Auditors and laid on the table the consent letter received from them.

After discussions the Board decided to appoint the said Cost Auditors, and

"Resolved that, pursuant to section 148 (3) of the Companies Act, 2013 and rule 6(2) of the Companies (Cost records and Audit Rules) 2014 M/s , Cost Accountants (Registration No.) be and are hereby appointed as the Cost Auditors of the company to conduct audit of cost records made and maintained by the company pertaining to

…………………(products / services) for financial year commencing on , and ending on at a remuneration of Rs. (Rupees only) plus Service Tax & re-imbursement of out–of– pocket expenses.

Further Resolved that the said appointment of the Cost Auditor should be included as an Agenda item at the next General Meeting of the members of the Company for ratification of the remuneration payable to the Cost Auditors by the members of the Company.

Further Resolved, that the secretary or any one of the director of the company be and is hereby authorised to submit the necessary intimation in Form CRA-2 to the Central Government for appointment of Cost Auditors by the Company and to do all such other acts as may be necessary from time to time to make the Resolution effective."

The Board noted that none of the directors of the Company are interested in their appointment.

Annexure -3: Specimen agenda to be included in Notice to Shareholders for ratification of remuneration of Cost Auditor

Agenda Item No.

The Board of Directors of the Company on the recommendations of the Audit Committee have approved appointment of the following Cost Auditors of the Company for the financial year at a remuneration of Rs. (Rupees) per Cost Auditor plus applicable service tax and out-of-pocket expense, as per entitlement:

(a) Name of the cost auditor-1

(b) Name of the cost auditor-2

(c) Name of the cost auditor-3 (d) ……………

To approve and ratify the remuneration of the Cost Auditor(s) for the financial year ending and in this regard to consider and if thought fit, to pass with or without modification(s) the following as an Ordinary Resolution:

"RESOLVED THAT the Shareholders hereby ratify the actions of the Board of Directors pursuant to the provisions of Section 148(3) and other applicable provisions of the Companies Act, 2013 read with the Companies (Audit and Auditors) Rules, 2014, for approving recommendation of Audit Committee for remuneration at Rs. Plus applicable service tax and out of pocket expenses of M/s, Cost Auditor(s) to conduct the audit of the cost records of the Company for the financial year ending.

Annexure -4: Suggestive list of Documents/Certificates/Records required from the Company for conduct of Cost Audit

1. A letter from the Company along with a set of completed cost statements for auditing the same.
2. Approved/ signed copy of Annexures and date of Board Meeting (circular resolution) approving the same.
3. Identification of cost centres/cost objects and cost drivers.
4. Cost Accounting Policy
5. Accounting and allocation and absorption of overheads.
6. Accounting for depreciation/amortization
7. Accounting for by-products/joint-products or services, scraps, wastage etc.
8. Basis for Inventory Valuation
9. Treatment of abnormal and non-recurring costs including classification of other non-cost items
10. Certified copy of returns from branches not visited by the cost auditor
11. A note on budgetary control system.
12. Reasons for decline in profitability and indicative break-even point.
13. Default on the payments due to the banks and institutions and penal interest levied.
14. Note on the steps required to strengthen the business of company under the competitive environment.
15. Export commitments versus actual export for the year – unexecuted export contracts.
16. Pricing Policy of the company for domestic and export sales and their comparative profitability.
17. Invitation to attend audit committee meeting and dates of audit committee meeting held during the year.
18. Profile of the person heading the costing department.
19. List of outside parties undertaking job-work for the Company and basis for fixing rates.
20. Details of foreign collaboration, technical know-how and royalty payments.
21. Details of the “other activities”, separately for manufacturing, services and others.
22. A copy of annual report and a copy of division/ factory wise profit and loss account and balance sheet.
23. Note on conformity with the Cost Auditing Standards, Cost Accounting Standards issued by the Institute of Cost Accountants of India.
24. Description and flow chart of the processes of manufacture for production, utilities and service departments.
25. Basis of calculation of installed capacity of the plant and machinery and working papers.
26. Standards of input materials, product-wise.

27. Standards of power, fuel and utilities.
28. Cost center wise fixed asset register and depreciation.
29. Analysis of Research and Development Expenses.
30. Analysis of Quality Control Expenses.
31. Analysis of Pollution Control Expenses.
32. Abnormal events – details and costs.
33. List of non-moving inventory and write off stock.
34. Basis of inventory valuation – financial and cost records.- Reasons for variations.
35. Note on Cost Accounting Policy of the company.
36. Policy of capitalisation of revenue expenses.
37. Related party transactions details.
38. Reconciliation of Indirect Taxes statement.
39. Reasons for significant variations in key figures

Annexure – 5: Form CRA-1

FORM CRA-1

(Pursuant to rule 5(1) of the Companies (Cost Records and Audit) Rules, 2014)

Particulars relating to the Items of Costs to be included in the Books of Accounts

1. Material Costs-

(a) Proper records shall be maintained showing separately all receipts, issues and balances both in quantities and cost of each item of raw material required for the production of goods or rendering of services under reference.

(b) The material receipt shall be valued at purchase price including duties and taxes, freight inwards, insurance, and other expenditure directly attributable to procurement (net of trade discounts, rebates, taxes and duties refundable or to be credited by the taxing authorities) that can be quantified with reasonable accuracy at the time of acquisition.

(c) Finance costs incurred in connection with the acquisition of materials shall not form part of material cost.

(d) Self-manufactured materials or captive consumption shall be valued including direct material cost, direct employee cost, direct expenses, factory overheads, share of administrative overheads relating to production but excluding share of other administrative overheads, finance cost and marketing overheads.

(e) Spare parts shall be recognised as property, plant and equipment when they meet the definition of property, plant and equipment and depreciated accordingly. Otherwise, such items shall be classified as inventory.

(f) Normal loss or spoilage of material prior to reaching the factory or at places where the services are provided shall be absorbed in the cost of balance materials net of amounts recoverable from suppliers, insurers, carriers or recoveries from disposal.

(g) Losses due to shrinkage or evaporation and gain due to elongation or absorption of moisture etc., before the material is received shall be absorbed in material cost to the extent they are normal, with corresponding adjustment in the quantity.

(h) The forex component of imported material cost shall be converted at the rate on the date of the transaction. Any subsequent change in the exchange rate till payment or otherwise shall not form part of the material cost.

(i) Any demurrage or detention charges, or penalty levied by transport or other authorities shall not form part of the cost of materials.

(j) Subsidy or grant or incentive and any such payment received or receivable with respect to any material cost shall be reduced from cost of the cost object in the financial year when such subsidy or grant or incentive and any such payment is recognised as income.

(k) Issues shall be valued using appropriate method as per the provisions contained in the accounting standard applicable for the time being in force. Where materials are accounted at standard cost, the price variances related to materials shall be treated as part of material cost.

(l) Any abnormal cost shall be excluded from the material cost.

(m) Wherever, material costs include transportation costs, determination of costs of transportation shall be governed by Para No. 9 on Determination of Cost of Transportation.
(n) Self-manufactured components and sub-assemblies or captive consumption shall be valued including direct material cost, direct employee cost, direct expenses, factory overheads, share of administrative overheads relating to production but excluding share of other administrative overheads, finance cost and marketing overheads.
(o) The material cost of normal scrap or defectives which are rejects shall be included in the material cost of goods manufactured. The material cost of actual scrap or defectives, not exceeding the normal shall be adjusted in the material cost of good production. Material Cost of abnormal scrap or defectives should not be included in material cost but treated as loss after giving credit to the realisable value of such scrap or defectives.
(p) Material costs shall be directly traced to a Cost object to the extent it is economically feasible or shall be assigned to the cost object on the basis of material quantity consumed or similar identifiable measure and valued as per above principles.
(q) Where the material costs are not directly traceable to the cost object, the same shall be assigned on a suitable basis like technical estimates.
(r) Where a material is processed or part manufactured by a third party according to specifications provided by the buyer, the processing or manufacturing charges payable to the third party shall be treated as part of the material cost.
(s) Wherever part of the manufacturing operations or activity is subcontracted, the subcontract charges related to materials shall be treated as direct expenses and assigned directly to the cost object.
(t) The cost of indirect materials shall be assigned to the various Cost objects based on a suitable basis such as actual usage or technical norms or a similar identifiable measure.
(u) The cost of materials like catalysts, dies, tools, moulds, patterns etc, which are relatable to production over a period of time shall be amortized over the production units benefited by such cost.
(v) The cost of indirect material with life exceeding one year shall be included in cost over the useful life of the material.

2. Employee Cost

a) Proper records shall be maintained in respect of employee costs in such a manner as to enable the company to book these expenses cost centre wise or department wise with reference to goods or services under reference and to furnish necessary particulars. Where the employees work in such a manner that it is not possible to identify them with any specific cost centre or service centre or department, the employees cost shall be apportioned to the cost centre or service centres or departments on equitable and reasonable basis and applied consistently.
b) Employee Cost shall be ascertained taking into account the gross pay including all allowances payable along with the cost to the employer of all the benefits, including the cost of retirement benefits charged in the financial statements in an accounting period. In case of companies to which Indian Accounting Standards apply, any re-measurement of such costs recognised in other comprehensive income shall not form part of the

employee cost. Bonus whether payable as a Statutory Minimum or on a sharing of surplus shall be treated as part of employee cost. Ex gratia payable in lieu of or in addition to Bonus shall also be treated as part of the employee cost.

c) Remuneration payable to Managerial Personnel including Executive Directors on the Board and other officers of a corporate body under a statute shall be considered as part of the Employee Cost of the year under reference whether the whole or part of the remuneration is computed as a percentage of profits. Remuneration paid to non-executive directors shall not form part of Employee Cost but shall form part of Administrative Overheads.
d) Separation costs related to voluntary retirement, retrenchment, termination etc. shall be amortised over the period benefitting from such costs.
e) Employee cost shall not include imputed costs.
f) Cost of Idle time is ascertained by the idle hours multiplied by the hourly rate applicable to the idle employee or a group of employees.
g) Where Employee cost is accounted at standard cost, variances due to normal reasons related to Employee cost shall be treated as part of Employee cost. Variances due to abnormal reasons shall be treated as part of abnormal cost.
h) Subsidy or grant or incentive and any such payment received or receivable with respect to any employee cost shall be reduced from cost of the cost object in the financial year when such subsidy or grant or incentive and any such payment is recognised as income.
i) Any abnormal cost where it is material and quantifiable shall not form part of the Employee cost.
j) Penalties, damages paid to statutory authorities or other third parties shall not form part of the Employee cost.
k) The cost of free housing, free conveyance and any other similar benefits provided to an employee shall be determined at the total cost of all resources consumed in providing such benefits.
l) Any recovery from the employee towards any benefit provided, namely, housing shall be reduced from the employee cost.
m) Any change in the cost accounting principles applied for the determination of the employee cost should be made only if it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an enterprise.
n) Where the Employee services are traceable to a cost object, such Employees' cost shall be assigned to the cost object on the basis such as time consumed or number of employees engaged etc. or similar identifiable measure.
o) While determining whether a particular Employee cost is chargeable to a separate cost object, the principle of materiality shall be adhered to.
p) Where the Employee costs are not directly traceable to the cost object, these may be assigned on suitable basis like estimates of time based on time study.
q) The amortised separation costs related to voluntary retirement, retrenchment, and termination etc. for the period shall be treated as indirect cost and assigned to the cost objects in an appropriate manner. However unamortised amount related to discontinued operations, shall not be treated as employee cost.

r) Recruitment costs, training cost and other such costs shall be treated as overheads and dealt with accordingly.
s) Overtime premium shall be assigned directly to the cost object or treated as overheads depending on the economic feasibility and the specific circumstance requiring such overtime.
t) Idle time cost shall be assigned direct to the cost object or treated as overheads depending on the economic feasibility and the specific circumstances causing such idle time.

3. Utilities

a) Proper records shall be maintained showing the quantity and cost of each major utility such as power, water, steam, effluent treatment, and other related utilities produced and consumed by the different cost centres in such detail as to have particulars for each utility separately.
b) Each type of utility shall be treated as a distinct cost object.
c) Cost of utilities purchased shall be measured at cost of purchase including duties and taxes, transportation cost, insurance and other expenditure directly attributable to procurement (net of trade discounts, rebates, taxes and duties refundable or to be credited) that can be quantified with reasonable accuracy at the time of acquisition.
d) Cost of self-generated utilities for own consumption shall comprise direct material cost, direct employee cost, direct expenses and factory overheads.
e) In case of Utilities generated for the purpose of inter unit transfers, the distribution cost incurred for such transfers shall be added to the cost of utilities determined as above.
f) Cost of Utilities generated for the intercompany transfers shall comprise direct material cost, direct employee cost, direct expenses, factory overheads, distribution cost and share of administrative overheads.
g) Cost of Utilities generated for the sale to outside parties shall comprise direct material cost, direct employee cost, direct expenses, factory overheads, distribution cost, share of administrative overheads and marketing overheads. The sale value of such utilities shall also include the margin.
h) Finance costs incurred in connection with the utilities shall not form part of cost of utilities.
i) The cost of utilities shall include the cost of distribution of such utilities. The cost of distribution will consist of the cost of delivery of utilities up to the point of consumption.
j) Cost of utilities shall not include imputed costs.
k) Where cost of utilities is accounted at standard cost, the price variances related to utilities shall be treated as part of cost of utilities and the portion of usage variances due to normal reasons shall be treated as part of cost of utilities. Usage variances due to abnormal reasons shall be treated as part of abnormal cost.
l) Subsidy or grant or incentive and any such payment received or receivable with respect to any cost of utilities shall be reduced from cost of the cost object in the financial year when such subsidy or grant or incentive and any such payment is recognised as income. The cost of production and distribution of utilities shall be determined based on the normal capacity or actual capacity utilization whichever is higher and unabsorbed cost, if any, shall be treated as abnormal cost. Cost of a Stand-by Utility shall include the committed costs of maintaining such a utility.

m) Any abnormal cost where it is material and quantifiable shall not form part of the cost of utilities.
n) Penalties, damages paid to statutory authorities or other third parties shall not form part of the cost of utilities.
o) Credits or recoveries relating to the utilities including cost of utilities provided to outside parties, material and quantifiable, shall be deducted from the total cost of utility to arrive at the net cost of utility.
p) Any change in the cost accounting principles applied for the measurement of the cost of utilities shall be made only if, it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an organisation.
q) While assigning cost of utilities, traceability to a cost object in an economically feasible manner shall be the guiding principle.
r) Where the cost of utilities is not directly traceable to cost object, it shall be assigned on the most appropriate basis.
s) The most appropriate basis of distribution of cost of a utility to the departments consuming services is to be derived from usage parameters.

4. Direct Expenses

a) Proper records shall be maintained in respect of direct expenses in such a manner as to enable company to book these expenses cost centre wise or cost abject or department wise with reference to goods or services under reference and to furnish necessary particulars.
b) Direct expenses incurred for the use of bought out resources shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of trade discounts, rebates, taxes and duties refundable or to be credited.
c) Other expenses shall be determined on the basis of amount incurred in connection therewith.
d) Direct Expenses paid or incurred in lump-sum or which are in the nature of 'one – time' payment, shall be amortised on the basis of the estimated output or benefit to be derived from such direct expenses.
e) If an item of Direct Expenses does not meet the test of materiality, it can be treated as part of overheads.
f) Finance costs incurred in connection with the self-generated or procured resources shall not form part of Direct Expenses. Direct Expenses shall not include imputed costs.
g) Where direct expenses are accounted at standard cost, variances due to normal reasons shall be treated as part of the Direct Expenses. Variances due to abnormal reasons shall not form part of the Direct Expenses.
h) Subsidy or grant or incentive and any such payment received or receivable with respect to any direct expenses shall be reduced from cost of the cost object in the financial year when such subsidy or grant or incentive and any such payment is recognised as income. Any abnormal portion of the direct expenses where it is material and quantifiable shall not form part of the Direct Expenses.

i) Penalties, damages paid to statutory authorities or other third parties shall not form part of the Direct Expenses.
j) Credits or recoveries relating to the Direct Expenses, material and quantifiable, shall be deducted to arrive at the net Direct Expenses.
k) Any change in the cost accounting principles applied for the measurement of the direct expenses should be made only if, it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an organisation.
l) Direct Expenses that are directly traceable to the cost object shall be assigned to that cost object.

5. Repairs and Maintenance

a) Proper records showing the expenditure incurred by the workshop, tool room and on repairs and maintenance in the various cost centres or departments shall be maintained under different heads.
b) Repairs and maintenance cost shall be the aggregate of direct and indirect cost relating to repairs and maintenance activity. Direct cost shall include the cost of materials, consumable stores, spares, manpower, equipment usage, utilities and other identifiable resources consumed in such activity. Indirect cost shall include the cost of resources common to various repairs and maintenance activities such as manpower, equipment usage and other costs allocable to such activities.
c) Cost of in-house repairs and maintenance activity shall include cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources used in such activity.
d) Cost of repairs and maintenance activity carried out by outside contractors inside the entity shall include charges payable to the contractor and cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other costs incurred by the entity for such jobs.
e) Cost of repairs and maintenance jobs carried out by contractor at its premises shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discount), taxes and duties refundable or to be credited. This cost shall also include the cost of other resources provided to the contractors.
f) Cost of repairs and maintenance jobs carried out by outside contractors shall include charges made by the contractor and cost of own materials, consumable stores, spares, manpower, equipment usage, utilities and other costs used in such jobs.
g) Each type of repairs and maintenance shall be treated as a distinct activity, if material and identifiable.
h) Cost of repairs and maintenance activity shall be measured for each major asset category separately.
i) Cost of spares replaced which do not enhance the future economic benefits from the existing asset beyond its previously assessed standard of performance shall be included under repairs and maintenance cost.
j) The cost of major overhaul shall be amortized on a rational basis.

k) Finance costs incurred in connection with the repairs and maintenance activities shall not form part of Repairs and maintenance costs.
l) Repairs and maintenance costs shall not include imputed costs.
m) Price variances related to repairs and maintenance, where standard costs are in use, shall be treated as part of repairs and maintenance cost. The portion of usage variances attributable to normal reasons shall be treated as part of repairs and maintenance cost. Usage variances attributable to abnormal reasons shall be excluded from repairs and maintenance cost.
n) Subsidy or grant or incentive and any such payment received or receivable with respect to repairs and maintenance activity shall be reduced from cost of the cost object in the financial year when such subsidy or grant or incentive and any such payment is recognised as income.
o) Any repairs and maintenance cost resulting from some abnormal circumstances, e.g., major fire, explosions, flood and similar events, if material and quantifiable, shall not form part of the repairs and maintenance cost.
p) Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the repairs and maintenance cost.
q) Credits or recoveries relating to the repairs and maintenance activity, material and quantifiable, shall be deducted to arrive at the net repairs and maintenance cost.
r) Any change in the cost accounting principles applied for the measurement of the repairs and maintenance cost should be made only if, it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an organisation.
s) Repairs and maintenance costs shall be traced to a cost object to the extent economically feasible.
t) Where the repairs and maintenance cost is not directly traceable to cost object, it shall be assigned based on either of the following the principles of (1) Cause and Effect - Cause is the process or operation or activity and effect is the incurrence of cost and (2) Benefits received – overheads are to be apportioned to the various cost objects in proportion to the benefits received by them.
u) If the repairs and maintenance cost (including the share of the cost of reciprocal exchange of services) is shared by several cost objects, the related cost shall be measured as an aggregate and distributed among the cost objects.

6. Fixed Assets and Depreciation

a) Proper and adequate records shall be maintained for assets used for production of goods or rendering of services under reference in respect of which depreciation has to be provided for. These records shall, inter-alia, indicate grouping of assets under each good or service, the cost of acquisition of each item of asset including installation charges, date of acquisition and rate of depreciation.
b) The depreciation and amortisation shall be the amount recognised as an expense for the year in the financial statements, which shall be measured as per the provisions contained in Schedule ll of the Companies Act, 2013 and the accounting standards applicable for the

time being in force. The amount of Depreciation and Amortisation not recognised as expense in the financial statements shall be treated as a non-cost item.

c) Depreciation on an asset which is temporarily retired from production of goods and services shall be considered as abnormal cost for the period when the asset is not in use.
d) Impairment loss on assets shall be excluded from cost of production.
e) Spare parts, stand-by equipment and servicing equipment shall be recognised as property, plant and equipment when they meet the definition of property, plant and equipment and depreciated accordingly. Otherwise, such items shall be classified as inventory.
f) Depreciation shall be traced to the cost object to the extent economically feasible.
g) Where the depreciation is not directly traceable to cost object, it shall be assigned based on either of the following two principles, namely;
    i) Cause and Effect - Cause is the process or operation or activity and effect is the incurrence of cost and
    ii) Benefits received – overheads are to be apportioned to the various cost objects in proportion to the benefits received by them.

7. Overheads

a) Proper records shall be maintained for various items of indirect expenses comprising overheads pertaining to goods or services under reference. These expenses shall be analysed, classified and grouped according to functions.
b) Overheads representing procurement of resources shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discounts), taxes and duties refundable or to be credited.
c) Overheads other than those referred to above shall be determined on the basis of cost incurred in connection therewith.
d) Any abnormal cost where it is material and quantifiable shall not form part of the overheads.
e) Finance costs incurred in connection with procured or self-generated resources shall not form part of overheads.
f) Overheads shall not include imputed cost.
g) Overhead variances attributable to normal reasons shall be treated as part of overheads. Overhead variances attributable to abnormal reasons shall be excluded from overheads.
h) Subsidy or grant or incentive and any such payment received or receivable with respect to overheads shall be reduced from cost of the cost object in the financial year when such subsidy or grant or incentive and any such payment is recognised as income.
i) Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the overheads.
j) Credits or recoveries relating to the overheads, material and quantifiable, shall be deducted from the total overhead to arrive at the net overheads. Where the recovery exceeds the total overheads, the balance recovery shall be treated as other income.

k) Any change in the cost accounting principles applied for the measurement of the overheads shall be made only if, it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an entity.
l) While assigning overheads, traceability to a cost object in an economically feasible manner shall be the guiding principle. The cost which can be traced directly to a cost object shall be directly assigned.
m) Overheads shall be classified according to functions, viz., works, administration, selling & distribution, head office, corporate etc.
n) Assignment of overheads to the cost objects shall be based on either of the following two principles; (1) Cause and Effect - Cause is the process or operation or activity and effect is the incurrence of cost and (2) Benefits received – overheads are to be apportioned to the various cost objects in proportion to the benefits received by them.
o) The variable production overheads shall be absorbed to products or services based on actual capacity utilisation.
p) The fixed production overheads shall be absorbed based on the normal capacity.
q) Assignment of Administration Overheads shall be in accordance with para no. 8.
r) Marketing Overheads that can be identified to a product or service shall be assigned to that product or service.
s) Marketing Overheads that cannot be identified to a product or service shall be assigned to the products or services on the most appropriate basis.

8. Administrative Overheads

a) Administrative overheads shall be the aggregate of cost of resources consumed in activities relating to general management and administration of an organisation.
b) In case of leased assets, if the lease is an operating lease, the entire rentals shall be included in the administrative overheads. If the lease is a financial lease, the finance cost portion shall be segregated and treated as part of finance costs.
c) The cost of software (developed in house, purchased, licensed or customised), including up-gradation cost shall be amortised over its estimated useful life.
d) The cost of administrative services procured from outside shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discount), taxes and duties refundable or to be credited.
e) Subsidy or grant or incentive and any such payment received or receivable with respect to any administrative overheads shall be reduced from cost of the cost object in the financial year when such subsidy or grant or incentive and any such payment is recognised as income.
f) Administrative overheads shall not include any abnormal administrative cost.
g) Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the administrative overheads.
h) Credits or recoveries relating to the administrative overheads including those rendered without any consideration, material and quantifiable, shall be deducted to arrive at the net administrative overheads.

i) Any change in the cost accounting principles applied for the measurement of the administrative overheads should be made only if it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an organisation.

j) While assigning administrative overheads, traceability to a cost object in an economically feasible manner shall be the guiding principle.

k) Assignment of administrative overheads to the cost objects shall be based on either of the following two principles; namely

(i) Cause and Effect - Cause is the process or operation or activity and effect is the incurrence of cost.

(ii) Benefits received – overheads are to be apportioned to the various cost objects in proportion to the benefits received by them.

9. Transportation Cost

a) Proper records shall be maintained for recording the actual cost of transportation showing each element of cost such as freight, cartage, transit insurance and others after adjustment for recovery of transportation cost. Abnormal costs relating to transportation, if any, are to be identified and recorded for exclusion of computation of average transportation cost.

b) In case of a manufacturer having his own transport fleet, proper records shall be maintained to determine the actual operating cost of vehicles showing details of various elements of cost such as salaries and wages of driver, cleaners and others, cost of fuel, lubricant grease, amortized cost of tyres and battery, repairs and maintenance, depreciation of the vehicles, distance covered and trips made, goods hauled and transported to the depot.

c) In case of hired transport charges incurred for despatch of goods, complete details shall be recorded as to date of despatch, type of transport used, description of the goods, destination of buyer, name of consignee, challan number, quantity of goods in terms of weight or volume, distance involved, amount paid and other related details.

d) Records shall be maintained separately for inward and outward transportation cost specifying the details particulars of goods despatched, name of supplier or recipient, amount of freight etc.

e) Separate records shall be maintained for identification of transportation cost towards inward movement of material (procurement) and transportation cost of outward movement of goods removed or sold for both home consumption and export.

f) Records for transportation cost from factory to depot and thereafter shall be maintained separately.

g) Records for transportation cost for carrying any material or product to job-workers place and back shall be maintained separately so as include the same in the transaction value of the product.

h) Records for transportation cost for goods involved exclusively for trading activities shall be maintained separately and the same shall not be included for claiming any deduction for calculating assessable value excisable goods cleared for home consumption.

i) Records of transportation cost directly allocable to a particular category of products shall be maintained separately so that allocation can be made.

j) For common transportation cost both for own fleet or hired ones, proper records for basis of apportionment shall be maintained.
k) Records for transportation cost for exempted goods, excisable goods cleared for export shall be maintained separately.
l) Separate records of cost for mode of transportation other than road like ship or air are to be maintained, which shall be included in total cost of transportation.
m) Inward transportation costs shall form the part of the cost of procurement of materials which are to be identified for proper allocation or apportionment to the materials or products.
n) Outward transportation cost shall form the part of the cost of sale and shall be allocated or apportioned to the materials and goods on a suitable basis.
o) The following basis shall be used, in order of priority, for apportionment of outward transportation cost depending upon the nature of products, unit of measurement followed and type of transport used:
    i) Weight
    ii) Volume of goods
    iii) Tonne-Km
    iv) Unit or Equivalent unit
    v) Value of goods
    vi) Percentage of usage of space
p) Once a basis of apportionment is adopted, the same shall be followed consistently.
q) For determining the transportation cost per unit, distance shall be factored in to arrive at weighted average cost.
r) Abnormal and non-recurring cost shall not be a part of transportation cost.

10. Royalty and Technical Know-how

a) Adequate records shall be maintained showing royalty and or or technical know-how fee including other recurring or non-recurring payments of similar nature, if any, made for the goods or services under reference to collaborators or technology suppliers in terms of agreements entered into with them.
b) Royalty and Technical Know-how Fee paid or incurred in lump-sum or which are in the nature of 'one–time' payment, shall be amortised on the basis of the estimated output or benefit to be derived from the related asset. Amortisation of the amount of Royalty or Technical Know-how fee paid for which the benefit is ensued in the current or future periods shall be determined based on the production or service volumes estimated for the period over which the asset is expected to benefit the entity.
c) Amount of the Royalty and Technical Know-how Fee shall not include finance costs and imputed costs.
d) Any Subsidy or Grant or Incentive or any such payment received or receivable with respect to amount of Royalty and Technical Know-how fee shall be reduced to measure the amount of royalty and technical know- how fee. In case of companies to which Indian Accounting Standards apply, any such Grants recognized as deferred income shall be reduced from the royalty and technical know-how fee in the financial year when such deferred income is recognised as income.

e) Penalties, damages paid to statutory authorities or other third parties shall not form part of the amount of Royalty and Technical Know-how fee.
f) Credits or recoveries relating to the amount Royalty and Technical Know-how fee, material and quantifiable, shall be deducted to arrive at the net amount of Royalty and Technical Know-how fee.
g) Any change in the cost accounting principles applied for the measurement of the amount of Royalty and Technical Know-how Fee should be made only if, it is required by law or for compliance with the requirements of a cost accounting standard, or a change would result in a more appropriate preparation or presentation of cost statements of an organisation.
h) Royalty and Technical Know-how fee that is directly traceable to a cost object shall be assigned to that cost object. In case such fee is not directly traceable to a cost object then it shall be assigned on any of the following basis:
   i) Units produced
   ii) Units sold
   iii) Sales value
i) The amount of Royalty fee paid for mining rights shall form part of the cost of material.
j) The amount of Royalty and Technical Know-how fee shall be assigned on the nature or purpose of such fee. The amount of royalty and technical know-how fee related to product or process know how shall be treated as cost of production; if it is related to trademarks or brands shall be treated as cost of sales.

11. Research and Development Expenses

a) Research, and Development Costs shall include all the costs that are directly traceable to research and or or development activities or that can be assigned to research and development activities strictly on the basis of a) cause and effect or b) benefits received. Such costs shall include the following elements:
   i. The cost of materials and services consumed in Research and Development activities.
   ii. Cost of bought out materials and hired services as per invoice or agreed price including duties and taxes directly attributable thereto net of trade discounts, rebates, taxes and duties refundable or to be credited.
   iii. The salaries, wages and other related costs of personnel engaged in Research, and Development activities;
   iv. The depreciation of equipment and facilities, and other tangible assets, and amortisation of intangible assets to the extent that they are used for Research, and Development activities;
   v. Overhead costs, other than general administrative costs, related to Research and Development activities.

vi. Costs incurred for carrying out Research, and Development activities by other entities and charged to the entity; and

vii. Expenditure incurred in securing copyrights or licences

viii. Expenditure incurred for developing computer software

ix. Costs incurred for the design of tools, jigs, moulds and dies

x. Other costs that can be directly attributed to Research, and Development activities and can be identified with specific projects.

b) Subsidy or grant or incentive and any such payment received or receivable with respect to research and development activity shall be reduced from cost of the cost object in the financial year when such subsidy or grant or incentive and any such payment is recognised as income. Any abnormal cost where it is material and quantifiable shall not form part of the Research and Development Cost.

c) Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the Research, and Development Cost.

d) Research and Development costs shall not include imputed costs.

e) Credits or recoveries relating to Research, and Development cost, if material and quantifiable, including from the sale of output produced from the Research and Development activity shall be deducted from the Research and Development cost.

f) Research and Development costs attributable to a specific cost object shall be assigned to that cost object directly. Research & development costs that are not attributable to a specific product or process shall not form part of the product cost.

g) Development cost which results in the creation of an intangible asset shall be amortised over its useful life. Assignment of Development Costs shall be based on the principle of "benefits received".

h) Research and Development Costs incurred for the development and improvement of an existing process or product shall be included in the cost of production. In case the Research and Development activity related to the improvement of an existing process or product continues for more than one accounting period, the cost of the same shall be accumulated and amortised over the estimated period of use of the improved process or estimated period over which the improved product will be produced by the entity after the commencement of commercial production, as the case may be, if the improved process or product is distinctly different from the existing process or product and the product is marketed as a new product. The amount allocated to a particular period shall be included in the cost of production of that period. If the expenditure is only to improve the quality of the existing product or minor modifications in attributes, the principle shall not be applied.

i) Development costs attributable to a saleable service namely; providing technical know-how to outside parties shall be accumulated separately and treated as cost of providing the service.

12. Quality Control Expenses

a) Adequate records shall be maintained to indicate the expenses incurred in respect of quality control department or cost centre or service centre for goods or services under reference. Where these services are also utilized for other goods or services of the company, the basis of apportionment to goods or services under reference and to other goods or services shall be on equitable and reasonable basis and applied consistently.

b) Quality Control cost incurred in-house shall be the aggregate of the cost of resources consumed in the Quality Control activities of the entity. The cost of resources procured from outside shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discounts), taxes and duties refundable or to be credited by the Tax Authorities. Such cost shall include: Cost of conformance to quality: (a) prevention cost; and (b) appraisal cost.

c) Identification of Quality Control costs shall be based on traceability in an economically feasible manner.

d) Quality Control costs other than those referred to above shall be determined on the basis of amount incurred in connection therewith.

e) Finance costs incurred in connection with the self-generated or procured resources shall not form part of Quality Control cost.

~~f)~~ Quality Control costs shall not include imputed costs.

g) Subsidy or grant or incentive and any such payment received or receivable with respect to any quality control cost shall be reduced from cost of the cost object in the financial year when such subsidy or grant or incentive and any such payment is recognised as income.

h) Any abnormal portion of the Quality Control cost where it is material and quantifiable shall not form part of the Cost of Quality Control.

i) Penalties, damages paid to statutory authorities or other third parties shall not form part of the Quality Control cost.

j) Any change in the cost accounting principles applied for the measurement of the Quality Control cost shall be made only if, it is required by law or for compliance with the requirements of a cost accounting standard, or a change would result in a more appropriate preparation or presentation of cost statements of an organisation.

k) Quality Control cost that is directly traceable to the cost object shall be assigned to that cost object. Assignment of Quality Control cost to the cost objects shall be based on benefits received by them on the principles, namely;
(i) Cause and Effect - Cause is the process or operation or activity and effect is the incurrence of cost and
(ii) Benefits received – overheads are to be apportioned to the various cost objects in proportion to the benefits received by them.

13. Pollution Control Expenses

a) Adequate records shall be maintained to indicate the expenses incurred in respect of pollution control. The basis of apportionment to goods or services under reference and to other goods or services shall be on equitable and reasonable basis and applied consistently.

b) Pollution Control costs shall be the aggregate of direct and indirect cost relating to Pollution Control activity. Direct cost shall include the cost of materials, consumable stores, spares, manpower, equipment usage, utilities, resources for testing & certification and other identifiable resources consumed in activities such as waste processing, disposal, remediation and others. Indirect cost shall include the cost of resources common to various Pollution Control activities such as Pollution Control Registration and such like expenses.

c) Costs of Pollution Control which are internal to the entity should be accounted for when incurred. They should be measured at the historical cost of resources consumed.
d) Future remediation or disposal costs which are expected to be incurred with reasonable certainty as part of Onerous Contract or Constructive Obligation, legally enforceable shall be estimated and accounted based on the quantum of pollution generated in each period and the associated cost of remediation or disposal in future.
e) Contingent future remediation or disposal costs e.g. those likely to arise on account of future legislative changes on pollution control shall not be treated as cost until the incidence of such costs become reasonably certain and can be measured.
f) External costs of pollution which are generally the costs imposed on external parties including social costs are difficult to estimate with reasonable accuracy and are excluded from general purpose cost statements.
g) Social costs of pollution are measured by economic models of cost measurement. The cost by way of compensation by the polluting entity either under future legislation or under social pressure cannot be quantified by traditional models of cost measurement. They are best kept out of general purpose cost statements.
h) Cost of in-house Pollution Control activity shall include cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources used in such activity.
i) Cost of Pollution Control activity carried out by outside contractors inside the entity shall include charges payable to the contractor and cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other costs incurred by the entity for such jobs.
j) Cost of Pollution Control jobs carried out by contractor at its premises shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discount), taxes and duties refundable or to be credited. This cost shall also include the cost of other resources provided to the contractors.
k) Cost of Pollution Control jobs carried out by outside contractors shall include charges made by the contractor and cost of own materials, consumable stores, spares, manpower, equipment usage, utilities and other costs used in such jobs.
l) Each type of Pollution Control e.g. water, air, soil pollution shall be treated as a distinct activity, if material and identifiable.
m) Finance costs incurred in connection with the Pollution Control activities shall not form part of Pollution Control costs.
n) Pollution Control costs shall not include imputed costs.
o) Price variances related to Pollution Control, where standard costs are in use, shall be treated as part of Pollution Control cost. The portion of usage variances attributable to

normal reasons shall be treated as part of Pollution Control cost. Usage variances attributable to abnormal reasons shall be excluded from Pollution Control cost.

p) Subsidy or grant or incentive and any such payment received or receivable with respect to pollution control activity shall be reduced from cost of the cost object in the financial year when such subsidy or grant or incentive and any such payment is recognised as income.
q) Any Pollution Control cost resulting from abnormal circumstances, if material and quantifiable, shall not form part of the Pollution Control cost.
r) Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the Pollution Control cost.
s) Credits or recoveries relating to the Pollution Control activity, material and quantifiable, shall be deducted to arrive at the net Pollution Control cost.
t) Research and development cost to develop new process, new products or use of new materials to avoid or mitigate pollution shall be treated as research and development costs and not included under pollution control costs. Development costs incurred for commercial development of such product, process or material shall be included in pollution control costs.
u) Any change in the cost accounting principles applied for the measurement of the Pollution Control cost should be made only if, it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an organisation.
v) Pollution Control costs shall be traced to a cost object to the extent economically feasible.
w) Direct costs of pollution control such as treatment and disposal of waste shall be assigned directly to the product, where traceable economically.
x) Where these costs are not directly traceable to the product but are traceable to a process which causes pollution, the costs shall be assigned to the products passing through the process based on the quantity of the pollutant generated by the product.
y) Where the Pollution Control cost is not directly traceable to cost object, it shall be treated as overhead and assigned based on either of the following two principles, namely;
   (1) Cause and Effect - Cause is the process or operation or activity and effect is the incurrence of cost and
   (2) Benefits received – overheads are to be apportioned to the various cost objects in proportion to the benefits received by them.

14. Service Department Expenses

a) Proper records shall be maintained in respect of Service Departments, i.e., cost centres which primarily provides auxiliary services across the enterprise, to indicate expenses incurred in respect of each such service cost centre like engineering, work shop, designing, laboratory, safety, transport, computer cell, welfare etc.
b) Each identifiable service cost centre shall be treated as a distinct cost object for measurement of the cost of services subject to the principle of materiality.
c) Cost of service cost centre shall be the aggregate of direct and indirect cost attributable to services being rendered by such cost centre.
d) Cost of in-house services shall include cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources used in such service.
e) Cost of other resources shall include related overheads.

f) Cost of services rendered by contractors within the facilities of the entity shall include charges payable to the contractor and cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources provided to the contractors for such services.
g) Cost of services rendered by contractors at their premises shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discount), taxes and duties refundable or to be credited. This cost shall also include the cost of resources provided to the contractors.
h) Cost of services for the purpose of inter unit transfers shall also include distribution costs incurred for such transfers.
i) Cost of services for the purpose of inter-company transfers shall also include distribution cost incurred for such transfers and administrative overheads.
j) Cost of services rendered to outside parties shall also include distribution cost incurred for such transfers, administrative overheads and marketing overheads.
k) Finance costs incurred in connection with the Service Cost Centre shall not form part of the cost of Service Cost Centre.
l) The cost of service cost centre shall not include imputed costs.
m) Where the cost of service cost centre is accounted at standard cost, the price and usage variances related to the services cost Centre shall be treated as part of cost of services. Usage variances due to abnormal reasons shall be treated as part of abnormal cost.
n) Subsidy or grant or incentive and any such payment received or receivable with respect to any service cost centre shall be reduced from cost of the cost object in the financial year when such subsidy or grant or incentive and any such payment is recognised as income.
o) The cost of production and distribution of the service shall be determined based on the normal capacity or actual capacity utilization whichever is higher and unabsorbed cost, if any, shall be treated as abnormal cost. Cost of a Stand-by service shall include the committed costs of maintaining such a facility for the service.
p) Any abnormal cost where it is material and quantifiable shall not form part of the cost of the service cost centre.
q) Penalties, damages paid to statutory authorities or other third parties shall not form part of the cost of the service cost centre.
r) Credits or recoveries relating to the service cost centre including charges for services rendered to outside parties, material and quantifiable, shall be reduced from the total cost of that service cost centre.
s) Any change in the cost accounting principles applied for the measurement of the cost of Service Cost Centre shall be made, only if it is required by law or for compliance with the requirements of a cost accounting standard, or a change would result in a more appropriate preparation or presentation of cost statements of an enterprise.
t) While assigning cost of services, traceability to a cost object in an economically feasible manner shall be the guiding principle.
u) Where the cost of services rendered by a service cost centre is not directly traceable to a cost object, it shall be assigned on the most appropriate basis.
v) The most appropriate basis of distribution of cost of a service cost centre to the cost centres consuming services is to be derived from logical parameters which could be

related to the usage of the service rendered. The parameter shall be equitable, reasonable and consistent.

15. Packing Expenses

a) Proper records shall be maintained separately for domestic and export packing showing the quantity and cost of various packing materials and other expenses incurred on primary and or or secondary packing indicating the basis of valuation.
b) The packing material receipts should be valued at purchase price including duties and taxes, freight inwards, insurance, and other expenditure directly attributable to procurement (net of trade discounts, rebates, taxes and duties refundable or to be credited) that can be quantified at the time of acquisition.
c) Finance costs directly incurred in connection with the acquisition of Packing Material shall not form part of Packing Material Cost.
d) Self-manufactured packing materials shall be valued including direct material cost, direct employee cost, direct expenses, job charges, factory overheads including share of administrative overheads comprising factory management and administration and share of research and development cost incurred for development and improvement of existing process or product.
e) Normal loss or spoilage of packing material prior to receipt in the factory shall be absorbed in the cost of balance materials net of amounts recoverable from suppliers, insurers, carriers or recoveries from disposal.
f) The forex component of imported packing material cost shall be converted at the rate on the date of the transaction. Any subsequent change in the exchange rate till payment or otherwise shall not form part of the packing material cost.
g) Any demurrage, detention charges or penalty levied by the transport agency or any authority shall not form part of the cost of packing materials.
h) Subsidy or grant or incentive and any such payment received or receivable with respect to packing material shall be reduced from cost of the cost object in the financial year when such subsidy or grant or incentive and any such payment is recognised as income.
i) Issue of packing materials shall be valued using appropriate method as per the provisions contained in the accounting standard applicable for the time being in force.
j) Wherever, packing material costs include transportation costs, determination of costs of transportation shall be governed by Cost Accounting Standard on determination of average (equalized) cost of transportation.
k) Packing Material Costs shall not include imputed costs.
l) Where packing materials are accounted at standard cost, the price variances related to such materials shall be treated as part of packing material cost and the portion of usage variances due to normal reasons shall be treated as part of packing material cost. Usage variances due to abnormal reasons shall be treated as part of abnormal cost.
m) The normal loss arising from the issue or consumption of packing materials shall be included in the packing materials cost.
n) Any abnormal cost where it is material and quantifiable shall be excluded from the packing material cost.

o) The credits or recoveries in the nature of normal scrap arising from packing materials if any, should be deducted from the total cost of packing materials to arrive at the net cost of packing materials.
p) Packing material costs shall be directly traced to a cost object to the extent it is economically feasible.
q) Where the packing material costs are not directly traceable to the cost object, these may be assigned on the basis of quantity consumed or similar measures like technical estimates.
r) The packing material cost of reusable packing shall be assigned to the cost object taking into account the number of times or the period over which it is expected to be reused.
s) Cost of primary packing materials shall form part of the cost of production.
t) Cost of secondary packing materials shall form part of distribution overheads.

16. Finance Costs

a) Finance Costs are costs incurred by an enterprise in connection with the borrowing of fund or other costs which in effect represent payment for the use of non- equity fund.
b) Finance Costs incurred shall be identified for:
    i) acquisition or construction or production of qualifying assets including fixed assets; and
    ii) Other finance costs for production of goods or operations or services rendered which cannot be classified as qualifying assets.
c) Finance Costs directly attributable to the acquisition or construction orproduction of a qualifying asset shall be included in the cost of the asset.
d) Finance Costs shall not include imputed costs.
e) Subsidy or grant or incentive and any such payment received or receivable with respect to finance costs shall be reduced from cost of the cost object in the financial year when such subsidy or grant or incentive and any such payment is recognised as income.
f) Penal Interest for delayed payment, Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the Finance Costs. In case the company delays the payment of Statutory dues beyond the stipulated date, interest paid for delayed payment shall not be treated as penal interest.
g) Interest paid for or received on investment shall not form part of the other financing charges for production of goods or operations or services rendered;
h) Assignment of Finance Costs to the cost objects shall be based on either of the following two principles, namely;
   (1) Cause and Effect - Cause is the process or operation or activity and effect is the incurrence of cost and
   (2) Benefits received – to be apportioned to the various cost objects in proportion to the benefits received by them.

17. Any other item of Cost. - Proper records shall be maintained for any other item of cost being indispensable and considered necessary for inclusion in cost records for calculating cost of production of goods or rendering of services, cost of sales, margin in total and per unit of the goods or services under reference.

18. Capacity Determination

a) Capacity shall be determined in terms of units of production or services or equivalent machine or man hours.

b) Installed capacity is determined based on:

  i) Manufacturers' Technical specifications
  ii) Capacities of individual or interrelated production centres.
  iii) Operational constraints or capacity of critical machines or
  iv) Number of shifts

c) In case manufacturers' technical specifications are not available, the estimates by technical experts on capacity under ideal conditions shall be considered for determination of installed capacity. In case any production facility is added or discarded the installed capacity shall be reassessed from the date of such addition or discard. In case the same is reassessed as per direction of the Government, it shall be in accordance with the principles laid down in the said directives. In case of improvement in the production process, the installed capacity shall be reassessed from the date of such improvement.

d) Normal capacity shall be determined vis-a-vis installed capacity after carrying out following adjustments:

  i) Holidays, normal shut down days and normal idle time,
  ii) Normal time lost in batch change over,
  iii) Time lost due to preventive maintenance and normal break downs of equipment,
  iv) Loss in efficiency due to ageing of the equipment, or
  v) Number of shifts.

e) Capacity utilization is actual production measured as a percentage of installed capacity.

19. Work-in-Progress and Finished Stock

The method followed for determining the cost of work-in-progress and finished stock of the goods and for services under delivery or in-process shall be appropriate and shall be indicated in the cost records so as to reveal the cost element that have been taken into account in such computation. All conversion costs incurred in bringing the inventories to their present location and condition shall be taken into account while computing the cost of work-in-progress and finished stock. The method adopted for determining the cost of work-in progress and finished goods shall be followed consistently.

20. Captive Consumption

If the goods or services under reference are used for captive consumption, proper records shall be maintained showing the quantity and cost of each such goods or services transferred to other departments or cost centres or units of the company for self-consumption and sold to outside parties separately.

21. By-Products and Joint Products

a) Proper Records shall be maintained for each item of by-product, if any, produced showing the receipt, issues and balances, both in quantity and value. The basis adopted for valuation of by-product for giving credit to the respective process shall be equitable and consistent and should be indicated in cost records. Records showing the expenses incurred on further processing, if any, as well as actual sales realization of by-product shall be maintained. The proper records shall be maintained in respect of credits or recoveries from the disposal of by-products.

b) The cost up to the point of separation of products or services shall be apportioned to joint products or services on reasonable and equitable basis and shall be applied consistently. The basis on which such joint costs are apportioned to different products or services arising from the process shall be indicated in the cost records. Proper records shall be maintained in respect of credits or recoveries from the disposal of joint products or services.

22. Adjustment of Cost Variances

Where the company maintains cost records on any basis other than actual such as standard costing, the records shall indicate the procedure followed by the company in working out the cost of the goods or services under such system. The cost variances shall be shown against separate heads and analysed into material, labour, overheads and further segregated into quantity, price and efficiency variances. The method followed for adjusting the cost variances in determining the actual cost of the goods or services shall be indicated clearly in the cost records. The reasons for the variances shall be duly explained in the cost records and statements.

23. Reconciliation of Cost and Financial Accounts

The cost statements shall be reconciled with the financial statements for the financial year specifically indicating the expenses or incomes not considered in the cost records or statements so as to ensure accuracy and to adjust the profit of the goods or services under reference with the overall profit of the company. The variations, if any, shall be clearly indicated and explained.

24. Related Party Transactions

a) Related Party means related party as defined under sub-section 76 of section 2 of the Companies Act, 2013 (18 of 2013).

b) "Normal" Price means price charged for comparable and similar products in the ordinary course of trade and commerce where the price charged in the sole consideration of sale and such sale is not made to a related party. Normal price can be construed to be a price at which two unrelated and non-desperate parties would agree to a transaction and where such transaction is not clouded due to the proximity of the parties to the transaction and free from influence though the parties may have shared interest.

c) The basis adopted to determine Normal price should be classified as under:

i) Comparable uncontrolled price method
ii) Resale price method;
iii) Cost plus method;
iv) Profit split method;
v) Transactional net margin method;
vi) Any other method, to be specified.

d) In respect of related party transactions or supplies made or services rendered by a company to a company termed "related party relationship" and vice-a-versa, records shall be maintained showing contracts entered into, agreements or understanding reached in respect of -
   (i) purchase and sale of raw materials, finished good(s), rendering of service(s), process materials and rejected goods including scraps, etc.;
   (ii) utilisation of plant facilities and technical know-how;
   (iii) supply of utilities and any other services;
   (iv) administrative, technical, managerial or any other consultancy services;
   (v) purchase and sale of capital goods including plant and machinery; and
   (vi) any other payment related to the production of goods or rendering of services under reference.

e) These records shall also indicate the basis followed for arriving at the rates charged or paid for such goods or services so as to enable determination of the reasonableness of such rates in so far as they are in any way related to goods or services under reference.

25. Expenses or Incentives on Exports

a) Proper records showing the expenses incurred on the export sales, if any, of the goods or services under reference shall be separately maintained so that the cost of export sales can be determined correctly. Separate cost statements shall be prepared for goods or services exported giving details of export expenses incurred or incentive earned.
b) Proper records shall be maintained giving details of export commitments license-wise and the fulfilment of these commitments giving the reasons for non-compliance, if any. In case, duty free imports are made, the cost statements shall reflect this fact. If the duty free imports have been made after actual production, the statement shall reflect this fact also.

26. Production Records

Quantitative records of all finished goods (packed or unpacked) or services rendered showing production, issues for sales and balances of different type of the goods or services under reference, shall be maintained. The quantitative details of production of goods or services rendered shall be maintained separately for self-produced, third party on job work, loan license basis etc.

27. Sales Records

Separate details of sales shall be maintained for domestic sales at control price, domestic sales at market price, export sales under advance license, export sales under other obligations, export sales at market price, and sales to related party or inter unit transfer. In case of services, details of domestic delivery or sales at control price, domestic delivery or sales at market price, export delivery or sales under advance license, export delivery or sales under other obligations, export delivery or sales under market price, and delivery or sales to related party or inter unit transfer. Such details shall be maintained separately for each plant or unit wise or service centre wise for total as well as per unit sales realization.

28. Cost Statements

a) Cost statements (monthly, quarterly and annually) showing quantitative information in respect of each good or service under reference shall be prepared showing details of available capacity, actual production, production as per excise records, capacity utilization (in-house), stock purchased for trading, stock and other adjustments, quantity available for sale, wastage and actual sale during current financial year and previous year.
b) Such statements shall also include details in respect of all major items of costs constituting cost of production of goods and services, cost of sales of goods or services and margin in total as well as per unit of the goods and services. The goods or services emerging from a process, which forms raw material or an input material or service for a subsequent process, shall be valued at the cost of production or cost of service up to the previous stage.
c) Cost statements (monthly, quarterly and annually) in respect of reconciliation of indirect taxes showing details of total clearances of goods or services, assessable value, duties or taxes paid, CENVAT or VAT or Service Tax credit utilized, duties or taxes recovered and interest or penalty paid.
d) If the company is operating more than one plant, factory or service centre, separate cost statements as specified above shall be prepared in respect of each plant. Factory or service centre.
e) Any other statement or information considered necessary for suitable presentation of costs and profitability of goods or services produced by the company shall also be prepared.

29. Statistical Records

a) The records regarding available machine hours or direct labour hours in different production departments and actually utilized shall be maintained for production of goods or rendering of services under reference and shortfall suitably analysed. Suitable records for computation of idle time of machines or labor shall also be maintained and analysed.
b) Proper records shall be maintained to enable company to identify the capital employed, net fixed assets and working capital separately for the production of goods or rendering of services under reference and other goods or services to the extent such elements are separately identifiable. Non-identifiable items shall be allocated on a suitable and reasonable basis to different goods or services. Fresh investments on fixed assets for

production of goods or rendering of services under reference that have not contributed to the production of goods or rendering of services during the relevant period or year shall be indicated in cost records. The records shall, in addition, show assets added as replacement and those added for increasing existing capacity.

30. Records of Physical Verification

Records for physical verification may be maintained in respect of all items held in the stock such as raw material, process materials, packing materials, consumables, stores, machinery spares, chemicals, fuels, finished goods and fixed assets etc. Reasons for shortages or surplus arising out of such verifications and the method followed for adjusting the same in the cost of the goods or services shall be indicated in the records.

Annexure 6- Filing in XBRL Format

Introduction

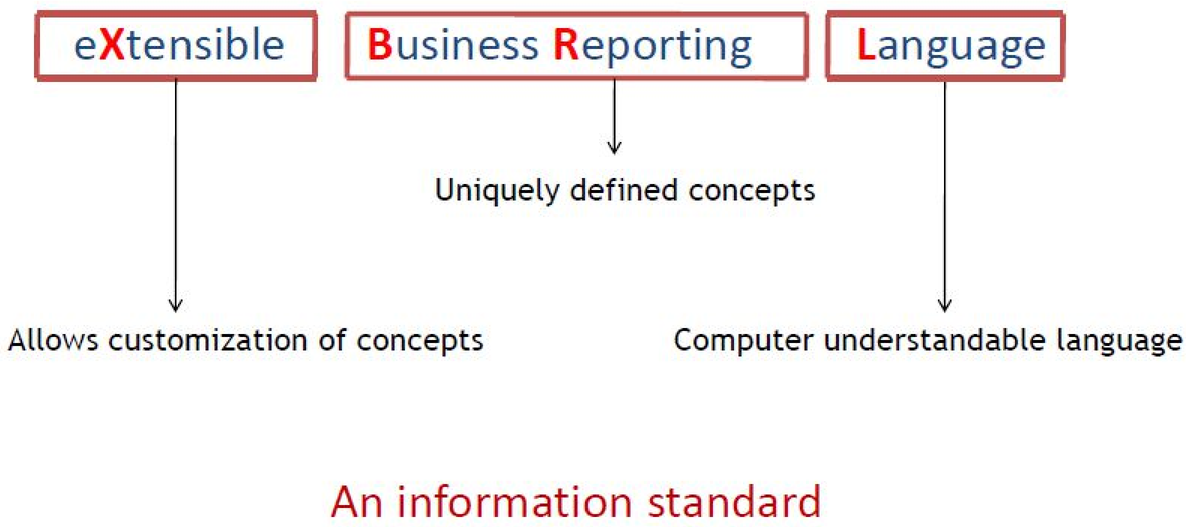
The Companies covered under the Companies (Cost Records and Audit) Rules 2014, are required to file

CRA 3- Cost Audit Report in XBRL format using costing taxonomy 2015 developed by the Institute of Cost Accountants of India.

The costing taxonomy 2015 defines each and every elements contained in the Annexure to Cost Audit Report (Form CRA-3). The costing taxonomy contains validation checks to be called validation tools. These tools check the correctness of computation of additions and subtractions within the tables. The costing taxonomy would allow data with three decimal places. A care must be taken to round off every figure at the time of preparation of cost audit report in any spread sheet format. Unless every data is rounded off properly, spread sheet like Excel will store data with maximum decimal places though due to the formatting of the cell, the user will see the figure in 2 or three places of decimal. This will lead to inaccurate calculation of sum total and give rise to rounding off errors and the data will not get validated.

XBRL (eXtensible Business Reporting Language)

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



Source: IRIS

The initial goal of XBRL was to provide an XML-based framework that the global business information supply chain will use to create, exchange, and analyze business reporting information including, but not limited to, regulatory filings such as annual and quarterly financial statements, general ledger information, and audit schedules.

XBRL is freely licensed and facilitates the automatic exchange and reliable extraction of business information among various software applications anywhere in the world.

A standard set of XML-type tags can be used to create instance documents that can then be presented in a variety of formats. XBRL is not trying to set new accounting standards; it is attempting to standardise the XML-based tags that are used in business reporting so that the business reports prepared by organisations can be more easily compared and collated for regulatory and other purposes.

The introduction of XBRL tags enables automated processing of business information by computer software, cutting out laborious and costly processes of manual re-entry and comparison. Computers can treat XBRL data "intelligently"; they can recognise the information in a XBRL document, select it, analyse it, store it, exchange it with other computers and present it automatically in a variety of ways as per the requirements of the users. XBRL greatly increases the speed of handling of business data, reduces the chance of error and permits automatic checking of information.

Companies can use XBRL to save costs and streamline their processes for collecting and reporting business information. Consumers of business data, including investors, analysts, financial institutions and regulators, can receive, find, compare and analyse data much more rapidly and efficiently if it is in XBRL format. XBRL can handle data in different languages and accounting standards. It can flexibly be adapted to meet different requirements and uses. Data can be transformed into XBRL by suitable mapping tools or it can be generated in XBRL by appropriate software. The main features of XBRL are:

- XBRL combines hierarchical xml data with relationships and references between the data points.
- It uses Xlink technology of linking xml files.
- It links the data xml files with various other files containing definitions, presentation, calculation, references relationships.
- XBRL data files are a set of xml and xsd files.

XBRL: Key Benefits

In a nutshell, XBRL significantly increases the quality and efficiency of the information supply chain. This is achieved through the principle of assigning XBRL “bar codes” or tags to each information element that enables standardization and transparency to the data while offering tremendous ease of use through interoperability, with data flowing into analyst’s proprietary applications.

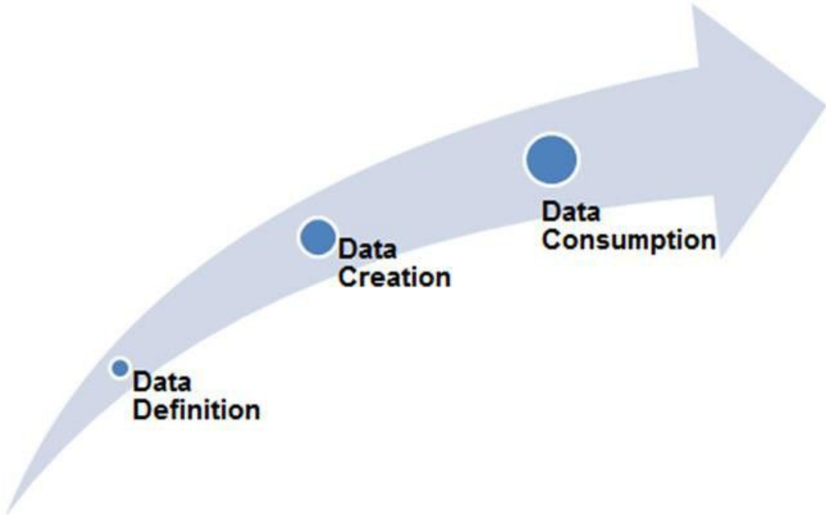
Every fact that is disclosed has a unique XBRL tag associated to it, which acts like a barcode. This XBRL tag explains the nature of data, the context of data and its relationships with other data. The advantage XBRL data has over other reporting formats is:

- It is system-understandable
- Data becomes platform independent
- Flows smoothly across the software applications.

XBRL is rapidly being adopted worldwide as a de facto business reporting standard. Following are some of the key benefits of XBRL -

1. **Accurate and Quality Data** – XBRL validates the data based on the rules and relationships defined amongst the data elements, which results in obtaining clean and valid data.
2. **Seamless Integration** – The XBRL data carries along with it, the additional attributes and facts, which makes the data self-explanatory. And thus the data remains no longer dependent on any application or platform for interpretation and processing. The XBRL data can be easily integrated into any other software system.
3. **Efficient Business Processing** – As XBRL cuts down the time spent on less efficient processes like re-keying and re-arranging data, the entire business process now becomes more efficient and productive. XBRL streamlines the preparation of business reports for internal and external decision making.
4. **Easy location of data** – All the information is identified with a unique XBRL tag and this makes locating the data from a vast information repository or from a voluminous report very easy and quick. Since related information is linked (like facts and relevant footnotes), retrieving of information is very easy.
5. **Real-time data** – Because of automation and creation of accurate and valid data, the processing of data becomes much faster and so does its dissemination. Thus the information seekers can access the data in real-time.
6. **Better Coverage by Analyst community** – The time required for analysis is quite high because the data is first rekeyed, validated and arranged according to the needs. Since all these activities are no longer required in XBRL based framework and hence the analyst have time to focus on the analysis of data.

   There are three main stages in XBRL cycle –



1. **Data definition:** Defines the standards and describes how a certain set of data is structured. This is mainly concerned with the creation of the taxonomy.
2. **Data creation:** This involves the generation of data files based on taxonomy and is mainly concerned with creation of instance documents
3. **Data consumption:** This involves viewing and using the XBRL data.

XBRL document

XBRL document is made up in two parts:

- **Taxonomy:** Taxonomy is the core parts of XBRL which sets up standard structures and definitions for reporting requirements. Taxonomy is defined as vocabulary of all the business and costing concepts, along with their properties and interrelationships. Taxonomies are based on the reporting framework as applicable to the companies in a region or a country.
- **Instance document:** Instance document contains the facts and related information corresponding to the concepts defined in the taxonomy.

  The XBRL instance document consists of the actual facts, values and information pertaining to the entity along with the contextual details like period, unit of measurement, footnotes etc. An instance document can have data for multiple periods or for multiple entities. An instance document contains the "code" for the tags and the structure that belongs to the tagged data. Instance documents are built from a combination of XML specifications and XBRL, structured to produce Cost statements. The document provides data plus structure for machine recognition, and human readability.

Sample Instance Document


```
<in-cost:OtherIncomesOfCompany decimals="2" contextRef="D2012" unitRef="INR">3278.31</in-cost:OtherIncomesOfCompany>
<in-cost:EarningsAvailableForDistribution decimals="2" contextRef="D2012" unitRef="INR">17170.16</in-cost:EarningsAvailableForDistribution>
<in-cost:ToEmployeesAsSalariesWagesRetirementBenefitsAndOthers decimals="2" contextRef="D2012" unitRef="INR">3057.03</in-cost:ToEmployeesAsSalariesWagesRe
<in-cost:ToShareholdersAsDividend decimals="2" contextRef="D2012" unitRef="INR">1646.16</in-cost:ToShareholdersAsDividend>
<in-cost:ToGovernmentAsTaxes decimals="2" contextRef="D2012" unitRef="INR">2443.02</in-cost:ToGovernmentAsTaxes>
<in-cost:OtherDistributionOfEarnings decimals="2" contextRef="D2012" unitRef="INR">725.67</in-cost:OtherDistributionOfEarnings>
<in-cost:DistributionOfEarnings decimals="2" contextRef="D2012" unitRef="INR">17170.16</in-cost:DistributionOfEarnings>
<in-cost:WhetherCostAuditorsReportHasBeenQualifiedOrHasAnyReservationsOrContainsAdverseRemarks contextRef="D2012">false</in-cost:WhetherCostAuditorsReport
<in-cost:CostOfSalesOfCompany decimals="2" contextRef="D2012" unitRef="INR">92414.04</in-cost:CostOfSalesOfCompany>
<in-cost:NetRevenueFromOperationsOfCompany decimals="2" contextRef="D2012" unitRef="INR">101920.06</in-cost:NetRevenueFromOperationsOfCompany>
<in-cost:ProfitBeforeTax decimals="2" contextRef="D2012" unitRef="INR">11278.44</in-cost:ProfitBeforeTax>
<in-cost:ProfitBeforeTaxToCapitalEmployed decimals="4" contextRef="D2012" unitRef="INR">0.1239</in-cost:ProfitBeforeTaxToCapitalEmployed>
<in-cost:ProfitBeforeTaxToNetWorth decimals="4" contextRef="D2012" unitRef="INR">0.2373</in-cost:ProfitBeforeTaxToNetWorth>
<in-cost:ProfitBeforeTaxToNetRevenueFromOperationsOfCompany decimals="4" contextRef="D2012" unitRef="INR">0.1107</in-cost:ProfitBeforeTaxToNetRevenueFromO
<in-cost:ProfitBeforeTaxToValueAddedOfCompany decimals="4" contextRef="D2012" unitRef="INR">0.8119</in-cost:ProfitBeforeTaxToValueAddedOfCompany>
<in-cost:DebtEquityRatio decimals="4" contextRef="D2012" unitRef="INR">0.2803</in-cost:DebtEquityRatio>
<in-cost:CurrentAssetsToCurrentLiabilities decimals="4" contextRef="D2012" unitRef="INR">1.4573</in-cost:CurrentAssetsToCurrentLiabilities>
<in-cost:ValueAddedToNetRevenueFromOperationsOfCompany decimals="4" contextRef="D2012" unitRef="INR">0.1363</in-cost:ValueAddedToNetRevenueFromOperationsO
<in-cost:ProfitLossForAuditedProductOrActivityGroups decimals="0" contextRef="D2012" unitRef="INR">562241021</in-cost:ProfitLossForAuditedProductOrActivit
<in-cost:ProfitLossForUnauditedProductOrActivityGroups decimals="0" contextRef="D2012" unitRef="INR">278633430</in-cost:ProfitLossForUnauditedProductOrAct
<in-cost:OvervaluationOfClosingStockInFinancialAccounts decimals="0" contextRef="D2012" unitRef="INR">50434810</in-cost:OvervaluationOfClosingStockInFinan
<in-cost:ProfitLossAsPerFinancialAccounts decimals="0" contextRef="D2012" unitRef="INR">1127844495</in-cost:ProfitLossAsPerFinancialAccounts>
<in-cost:NameOfProductOrActivityGroup contextRef="D2012_P1">Iron &amp; Non-Alloy Steel</in-cost:NameOfProductOrActivityGroup>
<in-cost:ProductOrActivityGroupCode contextRef="D2012_P1">4002</in-cost:ProductOrActivityGroupCode>
```


The process of creating instance document would be based on whether the data is in structured or unstructured format.

The structured data already being in a fixed format, the conversion process can be automated by using applications which can read the structured data and convert them into XBRL instances. In addition, XBRL applications can read the raw output from accounting systems, which can then be integrated with the application to directly create XBRL documents.

However, for unstructured data, the approach would be different. There would be a need for XBRL authoring tool and an XBRL specialist, who can analyse the unstructured documents, use an appropriate taxonomy and customize the same if required and generate the instance document

Understanding XBRL Taxonomy

Taxonomy further can be divided into two components:

- Schema
- Link bases.

Schema: The purpose of XBRL schemas is to define taxonomy elements (concepts) and give each concept a name and define its characteristics. For every concept to be included in the schema, the following attributes are to be defined –

Element Name: It specifies the name of the concept which is defined.

Element ID: This attribute makes the concept defined unique. To make it unique, a prefix is attached to the element name which creates a reference point for the concept, for example, ‘in-cost_ QuantitySoldOfManufacturedAndTradedProduct‘, which shows that the item ‘QuantitySoldOfManufacturedAndTradedProduct‘ is from the in-cost taxonomy. It is not necessary to present this attribute explicitly in the taxonomy.

Data Type: This attribute defines the type of the fact that will be reported against the specified element. The most common data types that appear in costing statements are

- Monetary
- String
- Date
- Decimal
- Pure
- Percent
- Textblock

Abstract: It helps to determine if the element carries any value against it. The abstract attribute can be either true or false. Abstract elements (the elements for which abstract=true), do not hold any value but are used as a place holders to bind the elements. The elements which have abstract=false, will hold a value in instance document.

Period Type: This helps in determining the nature of the element and defines the flow and stock concept of accounting with regard to every element in the taxonomy. Here the elements are distinguished into _Instant & _Duration where _Instant refers to the stock concept (E.g.: Assets & Liabilities as on a particular date) and _Duration refers to the flow concept (E.g.: Cost of Production, or Operation, Net Revenue from Operations etc. are from reporting period start date to reporting period end date).

Substitution Group: It defines the association of elements with other elements in the schema. For substitution group set to item, it means that the element is not associated to any other item in the schema and is not grouped with other elements in any way.

Balance Type: This attribute states the balance type of the concept that is being defined in the schema. The elements which are monetary item types are given a balance type of debit or credit depending on the nature of the concept.

These are the basic attributes that needs to be defined. In addition if there are any user-specific attributes or other XML attributes, they can also be used for the concepts. This is the extensible part of XBRL.

Linkbases: The purpose of XBRL linkbases is to combine labels and references to the concepts as well as define relationships between those concepts. The different kinds of linkbases (each having a special purpose) are:

Presentation linkbase: Business reports are in general organized into identifiable data structures e.g. Cost Audit Report. The presentation linkbase stores information about relationships between elements in order to properly organize the taxonomy content. This enables a taxonomy user to view a representation or the display format of the elements.

Calculation linkbase: The calculation linkbase defines basic calculation validation rules (addition/subtraction), which must apply for all instances of the taxonomy.

Label linkbase: This linkbase defines all the labels for the various elements in the taxonomy as they appear in the presentation format. This linkbase enables business data labels to be defined in multiple languages. The labels are stored and linked to their respective elements in a label linkbase.

Reference linkbase: Most of the elements appearing in taxonomies refer to particular concepts defined by various authorities / boards. The reference linkbase stores the relationships between elements and the references e.g. Annexure to CRA-3; Part B; Paragraph: 2.

Definition linkbase: The definition linkbase stores other pre-defined or self-defined relationships between elements.

Formula linkbase: One of the latest specifications developed by XBRL International. This linkbase can be used to build any kind of advanced and user defined mathematical and logical relationships between concepts.

Rendering

Rendering refers to viewing and consuming the XBRL data and is the last mile in the XBRL implementation life cycle. XBRL data, being system readable and platform independent, can be viewed in any application, be it Word, Spreadsheet, PDF, Web or proprietary tools. Recently, XBRL International has released new specification for rendering on web, which is called as Inline XBRL or iXBRL.

Apart from viewing the data, the intuitive nature of XBRL data, makes it amenable for further processing and analytics. XBRL data can be easily integrated and populated into valuation models and be used for external and internal reporting. Business rules around XBRL data can be built, which can be then used for compliance checks, MIS, monitoring & control, audit trails etc.

Costing Taxonomy

Costing Taxonomy is a dictionary of all cost elements required in the cost audit report. The costing taxonomy contains the properties and interrelationships of all these cost elements for the purposes of capturing the required reporting data in XBRL format.

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

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

Business Rules

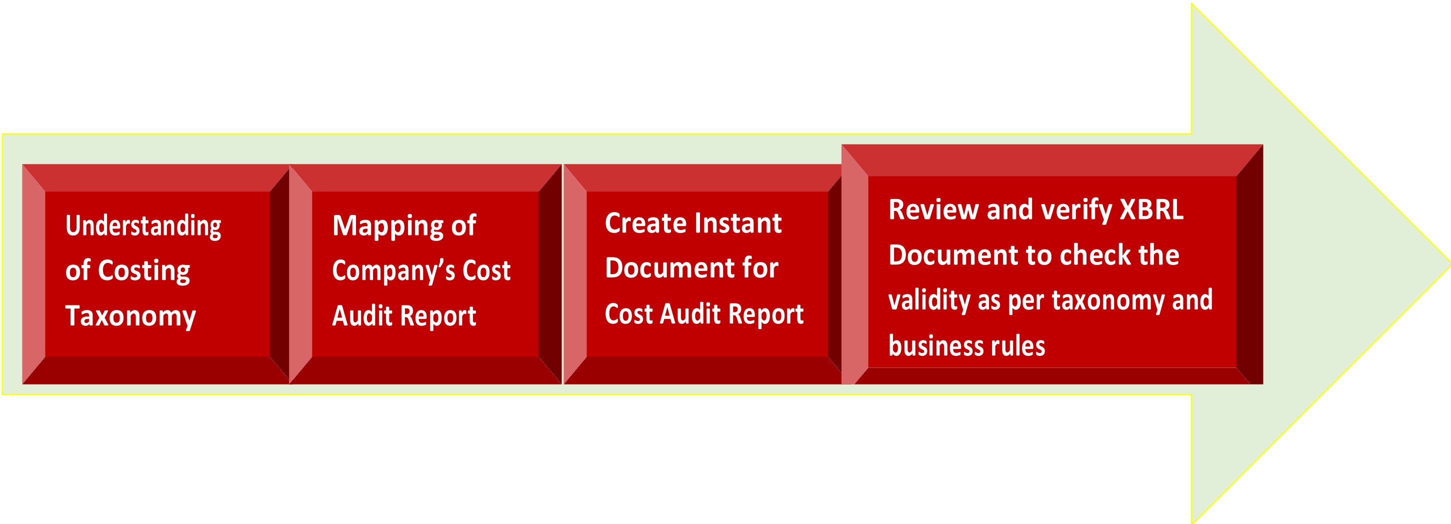
Business Rules are for understanding the mandatory/ non-mandatory fields in the taxonomy. As per Companies (Cost Records and Audit) Rules 2014, few disclosures are to be mandatorily “tagged” with costing taxonomy element. A list of such mandatory “tagging” is provided in the Business Rule that is associated with the taxonomy. Further, Business Rules indicates the disclosures that are to be mandatorily reported for preparation of a Valid XBRL instance document.

However, it is to be noted that Business Rules are the minimum set of rules which are required to be complied by a company in its XBRL instance document of the cost audit report.

Instance document of Cost Audit Report

Instance document contains the facts and related information corresponding to the concepts defined in the costing taxonomy relating to CRA-3: Annexure to Cost Audit Report. The file so created in XBRL format using the costing elements is called "Instance Document" and is to be attached with the e-Form (CRA-4). The Instance Document should contain information for both current as well as previous financial year.

Steps involved in creating XBRL instance documents for the Cost Audit Report



Step 1: Before creating XBRL document, the costing taxonomy and the tags available in the costing taxonomy need to be understood. This understanding of costing taxonomy makes mapping process easy and efficient. The easiest way to learn about the structure and content of the costing taxonomy is to navigate the costing taxonomy.

Step 2: Mapping of organization's Cost Audit Report to corresponding elements in the taxonomy. The process of mapping includes matching of information given in report to elements included in the taxonomy. Users should only consider taxonomy ELRs, relationships and concepts that are relevant to their specific reports.

Step 3: Once the elements of the report are mapped with the taxonomy elements or tags, the next step is to create the instance document. An instance document is a XML file that contains the actual facts, values and information pertaining to the organization along with the contextual details like period, unit of measurement; footnotes etc. generated using tags from the XBRL costing taxonomy. Instance document needs to be created for Cost Audit Report of the company using the elements defined in the costing taxonomy.

Step 4: Once the instance document has been prepared, it needs to be ensured that the instance document is a valid instance document and all the required information has been correctly captured in the instance document. The instance document needs to be validated against the taxonomy as well as the specified business rules for the taxonomy using the validation tool available on the website of MCA.

Conversion of cost audit report into the XBRL format

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

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

Important Points for filling up Annexure to Cost Audit Report

- The Costing Taxonomy is designed based on Dimensional Modeling technique i.e. via tables (hypercube) and axes (explicit dimensions and implicit/typed dimension). The non-dimensional elements are generally referred as line items. In this technique each such axis can be connected to any set of line items (reportable concepts) via a table, thereby creating a dimensional structure.

  Costing taxonomy uses hierarchies and dimensional modeling. No tuples are defined in Costing taxonomy.

There are two types of dimensions which are used in the costing taxonomy viz. Explicit Dimensions and Typed Dimensions.

- o **Explicit Dimensions:** Explicit Dimensions are used where the items corresponding to which information (line items) needs to be reported are predefined in the taxonomy. Each dimension can be connected to more than one primary item creating dimensional structures. Dimensions are used for modeling of particular concepts that frequently repeat when reporting certain facts. The axes of such dimensions have relationships with line items.

  Illustration: Reconciliation of Indirect Taxes [text block] by the means of axes. Line items can be reported for various members (domain members) of the axis Types of indirect taxes of company [axis], which are linked by the table Types of indirect taxes of company [table].
- o **Typed Dimensions:** Typed/implicit Dimensions are used where the items corresponding to which information (line items) needs to be reported are not predefined in the taxonomy. Typed dimensions imply that allows user to define

the domain members as per their requirements. It is a similar to concept of user-defined fields.

Illustration: The Manufactured Product or Service [text block] by the means of axes. Line items can be reported for various members (domain members) of the axis Products or Services [axis], which are linked by the table Manufactured Product or Service [table]. Preparers of the Annexure to Cost Audit Report can report the line item Name of Products or Services, for the member, on the axis Products or Services [axis].In case of Typed dimension the domain members has to be specified by the user and any number of members can be added by the user without extending the taxonomy.

- **Extended Link Roles:** The various elements in the taxonomy are grouped using extended link roles (ELR) or extended links as per the logical groupings of concepts defined in the Companies (Cost Records and Audit) Rules 2014.
- Filing of cost audit report in PDF format as an attachment to the e-Form under the XBRL mode, is not possible, the company is required to file the "data" contained in the cost audit report. This data will be filed in XML format with proper tagging and the XML file will be attached to the e- Form.
- It should be kept in mind that there are validation checks built into the taxonomy and validation tools. These tools check the correctness of computation of additions and subtractions within the tables. The costing taxonomy allows data with three decimal places. Care must be taken to round off every figure at the time of preparation of cost audit report in any spread sheet format. Unless every data is rounded off properly, spread sheet like Excel will store data with maximum decimal places though due to the formatting of the cell, the user will see the figure in 2 or three places of decimal. This will lead to inaccurate calculation of sum total and give rise to rounding off errors and the data will not get validated.
- This Guidance Note does not intend to educate the users on the basics of XBRL. Thus, the user is expected to be familiar with the basics of XBRL. While the costing taxonomy has specific elements relating to cost audit report as given in the Companies (cost records and audit) Rules 2014. Also, the Guidance Note is not specific to the MCA filings and one needs to refer to other materials released/to be released specific to MCA in order to file with them. Before starting preparation of the Instance document for Cost Audit Report, the users of this Guidance Note are requested to read and understand the following documents:
    - Costing taxonomy issued by MCA for understanding each elements of taxonomy (particularly as contained in excel file).
    - Business Rules relating to costing taxonomy, issued by MCA for understanding the mandatory/non-mandatory fields in the taxonomy.
    - Costing Taxonomy Architecture Guide for understanding basic structure of taxonomy.
    - Scope and Level of tagging for understanding the requirements of tagging issued

by MCA.

  - Filing Manual for understanding the approach for validation and pre-scrutiny of instance documents issued by MCA.
  - Preparer's Guide for referring to the sample instance documents created for the better understanding of costing taxonomy.
  - FAQs on Costing Taxonomy

- No extensions are allowed in the Costing Taxonomy. The tagging is required to be done with the elements already defined in the Costing Taxonomy and additional elements cannot be added.
- The Cost Audit Report approved by the Board should be used as source for creation of the XBRL instance.
- It has to be ensured that the XBRL Cost Audit Report instance document generated is as per the costing taxonomy defined by MCA. Please ensure the following in the instance document:
  - **Completeness:** All the required information is reported. Please refer to Business Rules to ensure that all mandatory items are reported.
  - **Mapping:** The elements tagged should be consistent with the meaning of the associated cost concepts in the Cost Audit Report and Compliance Report.
  - **Accuracy:** The amounts, dates, other attributes (for example, Monetary units), and relationships (order and calculations) in the instance document should be consistent with the Cost Audit Report and Compliance Report.
  - **Structure:** XBRL instances are structured in accordance with the costing taxonomy.
- The instance document prepared should conform to the business rules framed by MCA for preparation and filing of the Cost Audit Report in XBRL mode.
- If a company manufacture multiple products or units or rendered multiple services across the country and has appointed multiple cost auditors, the Cost Audit Reports prepared by each individual cost auditor needs to be consolidated and only one XBRL instance document of the Cost Audit Report per company needs to be prepared. This is then filed with the Central Government by the company.
- The XBRL Instance Document of Cost Audit Report is to be prepared on the basis of audited/certified cost data and other statements of the company.
- There is a necessity of a report to be prepared for the approval of the Board of Directors in hardcopy containing all the data that is filed with signatures of the cost auditor and the company representatives. The cost auditors should take a human readable printout of the final instance document rendered by the tool to create the Instance Document and the same should be preserved duly certified by the cost auditor and the Director and Company Secretary or any 2 Directors of the company before uploading the requisite files on the MCA21 Portal.

- The amounts reported in instance document should have the appropriate sign based on the nature of the value in the Cost Audit Report, balance attribute, etc. of the element.
- The instance document prepared must conform to all the calculations included in the calculation linkbase.
- The level of rounding off used in cost statements is to be defined at one place and it is applicable to all the Paras of the Cost Audit Report.
- The financial year is required to be defined giving the start date and end date of the financial year.
- The first previous year is also required to be defined by giving the start date and end date of the financial year. In case first previous year figures are not being given in the instance document, a valid reason for not providing the data needs to be specified.
- The period information (for both instant and duration i.e. start Date/end Date) and should be expressed as YYYY-MM-DD. However, this would depend on the tool being used and the way the tool has been configured to capture the data.
- In the non-mandatory field/element 'Null value' is accepted. Nil, null, zero and blank values mean the nil attribute of XML Schema is used to allow facts to be reported with a "null value" which indicates that the content is nil and will be accepted without any value to against the element.
- Costing Taxonomy contains "Notes" under each and every para to Annexure to Cost Audit Report for giving observations or suggestions, if any by the cost auditor.
- The individual elements of the Costing Taxonomy are explained below:

Costing Taxonomy

Annexure to the Cost Audit Report

Part-A

1. **General Information**

Sl.	Label	Action
	[100100] General information	
1	Corporate identity number or foreign company registration	This is a mandatory field. Valid CIN/ FCRN. Should be same as entered in
2	Name of company	This is a mandatory field. Name should be based on CIN or FCRN as applicable.
3	Address of registered office or of principal place of business in India of	This is a mandatory field.
4	Address of corporate office of company	This is a mandatory field.

5	Email address of company	This is a mandatory field.
6	Current financial year [abstract]	
7	Date of start of reporting period	This is mandatory. Should be greater than or equal to date of incorporation in case of Indian company or date of establishment of place of business in case of foreign company. Should be less than or equal to system date. Should be same as entered in
8	Date of end of reporting period	This is mandatory. Should be less than or equal to system date. Should be greater than or equal to Start Date Of Reporting Period. Difference between start date and end date should not be greater than 18 months. Should be same as entered in XBRL
9	Duration in months of reporting period	Difference between "Date of start of reporting period" and "Date of end of
10	First previous financial year [abstract]	
11	Date of start of first previous financial year	This is mandatory. Should be less than system date as well as Start Date Of Reporting Period. Should be greater than or equal to date of incorporation in case of Indian company or date of establishment of place of business in case of foreign company. Difference between start date and end date should not be greater than 18 months. Should be same as entered in XBRL Form." This should not be mandatory if new
12	Date of end of first previous financial year	Mandatory if Date of Start of First Previous Financial Year' is entered and vice-a-versa. Should be less than system date. Difference between date entered in 'Date of Start of First Previous Financial Year' and this date should not be greater than 18 months. Should be one day less than 'Date of Start of Reporting Period'. This should not be mandatory if new company filing the report
13	Duration in months of previous financial year	Difference between "Date of start of first previous financial year" and "Date of end of first previous financial year"

14	Level of rounding used in cost statements	This is mandatory.
15	Reporting currency of entity	This is a mandatory field. Value should be INR.
16	Number of cost auditor(s) for reporting period	This is mandatory. Details of at least this number of distinct cost auditors should be provided in the Details of Cost Auditor Table in ELR - [100300] Cost audit report. For this, distinct Cost Auditors shall be checked based on element Membership Number Of Member Signing Report.
17	Date of board of directors' meeting in which annexure to cost audit report was approved	This is mandatory. Should be less than or equal to system date. Should be greater than Date of End of Reporting Period
18	Whether cost auditors report has been qualified or has any reservations or contains adverse	This is mandatory.
19	Consolidated qualifications, reservations or adverse remarks of all cost auditors [text block]	This is mandatory if "yes" is selected in field 'Whether Cost Auditors Report has been qualified or has any reservations or contains adverse remarks'
20	Consolidated observations or suggestions of all cost auditors [text block]	This is mandatory.
21	Explanation of company to every reservation or qualification of cost auditors [text block]	This is mandatory if "yes" is selected in field 'Whether Cost Auditors Report has been qualified or has any reservations or contains adverse remarks'
22	Whether company has related party transactions for sale or purchase of goods or services	This is mandatory.

2. **General Details of Cost Auditor**

Sl.	**Label**	**Action**
	[100300] General details of cost auditor	
1	Details of cost auditor [table]	This table is mandatory
2	General details of cost auditor [axis]	

3	Whether cost auditor is lead auditor	This is mandatory
4	Category of cost auditor	
5	Firm's registration number	This is mandatory
6	Name of cost auditor or cost auditors firm	This is mandatory
7	Permanent account number of cost auditor or cost auditors firm	This is mandatory
8	Address of cost auditor or cost auditors firm	This is mandatory
9	Email id of cost auditor or cost auditors firm	This is mandatory
10	Membership number of member signing report	Should be a valid membership number as per the Institute of Cost Accountants of India records.
11	Name of member signing report	Name of member should be based on Membership Number of Member Signing Report in any order as per Institute of Cost Accountants of India records.
12	Name of product or industry	
13	SRN number of form 23C/form CRA-2	Should be a valid SRN of Form 23C/Form CRA-2 and should belong to the company. Status of SRN should be approved as the beginning of financial year. SRNs of Form 23C/Form CRA-2 entered for the same dimensional member should be unique.
14	SRN number of form 23C/form CRA-2-Additional 1	Should be a valid SRN of Form 23C/Form CRA-2 and should belong to the company. Status of SRN should be approved as the beginning of financial year. SRNs of Form 23C/Form CRA-2 entered for the same dimensional member should be unique. Additional SRNs of Form 23C/Form CRA-2 should be entered in sequential order (i.e. 1, 2..... 4) This validation is applicable to all the additional SRNs of Form 23C/Form CRA-2 (i.e. 1 to 4)

15	SRN number of form 23C/form CRA-2-Additional 2	
16	SRN number of form 23C/form CRA-2-Additional 3	
17	SRN number of form 23C/form CRA-2-Additional 4	
18	Number of audit committee meeting attended by cost auditor during year	Should be greater than or equal to zero.
19	Date of signing cost audit report and annexure by cost auditor	Should be less than or equal to system date. Should be greater than or equal to 'Date of Board of Directors meeting in which Annexure to Cost Audit Report was approved'
20	Place of signing cost audit report and annexure by cost auditor	
21	Disclosure of cost auditors qualifications or adverse remarks in cost auditors report [abstract]	
22	Disclosure regarding audit of cost records in conformity with Cost Auditing Standards [text block]	Mandatory if "Date of Start of Reporting Period" is more than 31/03/2014
23	Disclosure relating to availability of information and explanation for purpose of cost audit [text block]	Mandatory if "Date of Start of Reporting Period" is more than 31/03/2014
24	Disclosure relating to maintenance of cost records as per rule 5 of the companies cost records and audit rules 2014 [text block]	Mandatory if "Date of Start of Reporting Period" is more than 31/03/2014
25	Disclosure relating to availability of cost records of branches not visited [text block]	Mandatory if "Date of Start of Reporting Period" is more than 31/03/2014
26	Disclosure regarding availability of information as per companies act 2013 [text block]	Mandatory if "Date of Start of Reporting Period" is more than 31/03/2014
27	Disclosure relating to adequacy of internal audit of cost records [text block]	Mandatory if "Date of Start of Reporting Period" is more than 31/03/2014
28	Disclosure relating to true and fair view of cost of production or service cost of sales margin and other information [text block]	Mandatory if "Date of Start of Reporting Period" is more than 31/03/2014

29	Disclosure relating to availability of audited and certified cost statements and schedules for each unit and each product or service [text block]	Mandatory if "Date of Start of Reporting Period" is more than 31/03/2014
30	Disclosure relating to submission of performance appraisal report [text block]	Mandatory if "Date of Start of Reporting Period" is more than 31/03/2014. ***As this Performance Appraisal Report is not introduced by the Ministry of Corporate Affairs (MCA) as on date, this element will be applicable only when it is notified by the MCA. However, as and when notification is issued by MCA, this element shall be mandatory from the date of its applicability.***
31	Cost auditors observations or suggestions [text block]	This is mandatory.

Part-B

3. Cost Accounting Policy

Sl.	Label	Action
	[100310] Cost accounting policy	
1	Cost accounting policy [abstract]	All elements in this abstract are mandatory.
2	Cost accounting policy [text block]	
3	Disclosure regarding identification of cost centres, cost objects and cost drivers [text block]	
4	Disclosure regarding accounting for material cost including packing materials, stores and spares, employee cost, utilities and other relevant cost components [text block]	
5	Disclosure regarding accounting, allocation and absorption of overheads [text block]	
6	Disclosure regarding accounting for depreciation or amortization [text	

7	Disclosure regarding accounting for by products, joint products and scraps or wastage [text block]	
8	Disclosure regarding basis of inventory valuation [text block]	
9	Disclosure regarding valuation of inter unit or intercompany and related party transaction [text block]	
10	Disclosure regarding treatment of abnormal and non-recurring costs including classification of non-cost items [text block]	
11	Disclosure regarding other relevant cost accounting policy [text block]	
12	Disclosure regarding changes in cost accounting policy during reporting period [text block]	
13	Disclosure regarding adequacy of budgetary control system [text block]	

4. PRODUCT/SERVICE DETAILS (for the company as a whole)

SL. No	**Label**	**Action**
	[100320] Manufactured product or service	
1	Manufactured product or service [abstract]	
2	Details of manufactured product or service [abstract]	
3	Manufactured product or service [table]	This table is mandatory.
4	Identification of manufactured product or service [axis]	

5	Select sector for classifying manufactured product or service	If "Select sector for classifying manufactured product or service" is "Manufactured Product" then the information will be provided for tables of "quantitative information, Abridged cost statements" for manufactured product. If "Select sector for classifying manufactured product or service " is "Service" then the information will be provided for tables of "quantitative information, Abridged cost statements" for
6	Whether previous year figures are reported	It is mandatory field.
7	Details for not reporting previous year figures [text block]	This is mandatory in case No is selected in field 'Whether Previous Year Figures are reported'
8	General information of manufactured product or service [abstract]	
9	Name of manufactured product or service	This is mandatory
10	CETA code of manufactured product	Should be a valid manufactured product code. CETA code will be 4 digits.
11	Subheading of CETA code	Maximum 4 digits, Null to be accepted
12	Service code	Service code will be 6 digits. Null is allowed in case of service
13	Subheading of service code	Maximum 4 digits, Null to be accepted
14	Unit of measurement for manufactured product or service	This may be null in case of "service"
15	Net operational revenue of manufactured product or service	This is mandatory field. Should be equal to summation of value for all dimensional members in element 'Net operational revenue of manufactured product or service' above.
16	Whether manufactured product or service covered under cost audit	Yes should be selected in at least one dimensional member.
17	Other operating incomes of company	

18	Net operational revenue of manufactured product or service	-
19	Other incomes of company	This is mandatory field.
20	Total revenue as per financial accounts	This is mandatory field.
21	Extraordinary income	
22	Total revenue including extraordinary income	This is mandatory field.
23	Turnover as per excise or service tax records	This is mandatory field.
24	Notes to manufactured product or service [text block]	

Part-C

FOR SERVICE ECTOR

1. **Quantitative Information (for each service separately)**

SL. No.	Label	Action
	[100341] Quantitative information of service	
1		If "Select sector for classifying manufactured product or service “is "Service" then mandatory to provide information for this table. "Whether covered under cost audit" is "Yes" then mandatory.
2	Quantitative information of service [abstract]	
3	Manufactured product or service [table]	Details of all distinct service for which "Yes" is selected in 'Whether manufactured product or service covered under cost audit' in '[100320] Manufactured Product or Service’ should be at least provided for current year.
4	Identification of manufactured product or service [axis]	
5	Name of service	This is mandatory

6	Service code	Service code will be 6 digits. Null is allowed in case of service
7	Subheading of service code	Maximum 4 digits, Null to be accepted
8	Unit of measurement for service	Null accepted
9	Available capacity of service [abstract]	
10	Installed capacity on start of reporting period	
11	Capacity enhanced during reporting period	
12	Available capacity of service	
13	Actual service provided [abstract]	
14	Own services	
15	Services under contractual arrangement	
16	Outsourced services	
17	Total actual service provided	
18	Total services provided as per service tax records	
19	In house capacity utilization (%)	
20	Actual service rendered [abstract]	
21	Domestic service rendered	
22	Export service rendered	
23	Total actual service rendered	

24	Notes to quantitative information for service [text block]	

2. Abridged Cost Statement (For Each Service Separately)

Sl	Label	Action
	[100342] Abridged cost statement of service	
1		If "Select sector for classifying manufactured product or service " is "Service" then mandatory to provide information for this table
2	Abridged cost statement of service [abstract]	
3	Manufactured product or service [table]	Details of all distinct service for which "Yes" is selected in 'Whether manufactured product or service covered under cost audit' in '[100320] Manufactured Product or Service ' should be at least provided for current year.
4	Identification of manufactured product or service [axis]	
5	Name of service	This is mandatory
6	Service code	Service code will be 6 digits. Null is allowed in case of service
7	Subheading of service code	Maximum 4 digits, Null to be accepted
8	Quantitative details of service [abstract]	
9	Unit of measurement for service	
10	Total actual service provided	
11	Captive consumption	
12	Other quantitative adjustments	
13	Total actual service rendered	

14	Cost details of service [abstract]	
15	Cost of materials consumed	
16	Cost of utilities consumed	
17	Cost of direct employees	
18	Cost of direct expenses	
19	Cost of stores and spares consumed	
20	Cost of repairs and maintenance	
21	Cost of quality control	
22	Cost of research and development	
23	Cost of technical knowhow fee or royalty	
24	Cost of depreciation or amortization	
25	Cost of other overheads	
26	Cost of industry specific operating expenses	
27	Total inputs and conversion cost for service	
28	Credits for recoveries	
29	Total cost of service provided	
30	Cost of outsourced or contractual services	
31	Total cost of service available	
32	Cost of self or captive consumption	
33	Cost of other adjustments	
34	Cost of services sold	
35	Cost of administrative overheads	
36	Cost of selling and distribution overheads	
37	Cost of service before interest	
38	Cost of interest and financing charges	
39	Cost of sales of service	

40	Net sales realization of service	
41	Amount of margin of service as per cost accounts	
42	Cost per unit details of service [abstract]	Elements in this abstract from 'Cost Per Unit Of Materials Consumed' to 'Per Unit Margin as Per Cost Accounts' shall be mandatory to enter if their corresponding amount entered in this ELR is greater than zero and vice-a-versa. This validation shall not be applicable to- (i) Cost of Self or Captive Consumption Cost of Other Adjustments
43	Cost per unit of materials consumed	
44	Cost per unit of utilities consumed	
45	Cost per unit of direct employees	
46	Cost per unit of direct expenses	
47	Cost per unit of stores and spares consumed	
48	Cost per unit of repairs and maintenance	
49	Cost per unit of quality control	
50	Cost per unit of research and development	
51	Cost per unit of technical knowhow fee or royalty	
52	Cost per unit of depreciation or amortization	
53	Cost per unit of other overheads	
54	Cost per unit of industry specific operating expenses	
55	Cost per unit of total inputs and conversion cost for service	
56	Cost per unit of credits for recoveries	
57	Cost per unit of service provided	

58	Cost per unit of outsourced or contractual services	
59	Cost per unit of service available	
60	Cost per unit of other adjustments	
61	Per unit cost of services sold	
62	Cost per unit of administrative overheads	
63	Cost per unit of selling and distribution overheads	
64	Per unit cost of services sold before interest	
65	Cost per unit of interest and financing charges	
66	Per unit cost of services sold of service	
67	Per unit net sales realization of service	
68	Per unit margin as per cost accounts of service	
69	Notes to abridged cost statement of service [text block]	

2A. Details of Material Consumed

Sl..	**Label**	**Action**
	[100342a] Abridged cost statement-Details of material consumed	
1	Abridged cost statement of service [abstract]	

2	Details of material consumed of service [table]	This table should be mandatory for both current and previous year if 'Cost of Materials Consumed' in any member is greater than zero in 'Service [table]' under '[100341] Abridged cost statement of service ' for both the years respectively. If table is provided then at least one child member in Details of Material Consumed of Service Axis should be provided for both the years respectively.
3	Identification of manufactured product or service [axis]	
4	Details of material consumed of service [axis]	
5	Details of material consumed of service domain	
6	Material consumed 1 [member]	
7	Material consumed 2 [member]	
8	Material consumed 3 [member]	
9	Material consumed 4 [member]	
10	Material consumed 5 [member]	
11	Material consumed 6 [member]	
12	Material consumed 7 [member]	
13	Material consumed 8 [member]	
14	Material consumed 9 [member]	
15	Material consumed 10 [member]	
16	Name of service	This is mandatory
17	Service code	Service code will be 6 digits. Null is allowed in case of service
18	Subheading of service code	Maximum 4 digits, Null to be accepted
19	Details of materials consumed of service [abstract]	
20	Description of material	

21	Nature of material consumed	
22	Unit of material consumed	
23	Quantity of material consumed	
24	Rate of material consumed	
25	Cost of materials consumed	Summation of value entered in all dimensional members for a particular service should be equal to summation of 'Cost of Materials Consumed' for all dimensional members entered in 'Service [table]' in '[100341] Abridged cost statement service ' for that service. This validation shall be applicable in case of current year.
26	Notes to details of materials consumed [text block]	

2B. Details of Utilities Consumed

Sl..	Label	Action
	[100342b] Abridged cost statement-Details of utilities	
1	Abridged cost statement of service [abstract]	
2	Details of utilities of service [table]	This table should be mandatory for both current and previous year if 'Cost of Utilities Consumed' for any member is greater than zero in 'Service [table]' in '[100341] Abridged cost statement of service' for the current year. If table is provided then at least one child member in Details of Utilities of Service Axis should be provided.
3	Identification of manufactured product or service [axis]	

4	Details of utilities of service [axis]	
5	Details of utilities of service domain	
6	Utility 1 [member]	
7	Utility 2 [member]	
8	Utility 3 [member]	
9	Utility 4 [member]	
10	Utility 5 [member]	
11	Utility 6 [member]	
12	Utility 7 [member]	
13	Utility 8 [member]	
14	Utility 9 [member]	
15	Utility 10 [member]	
16	Name of service	This is mandatory
17	Service code	Service code will be 6 digits. Null is allowed in case of service
18	Subheading of service code	Maximum 4 digits, Null to be accepted
19	Details of utilities for service [abstract]	
20	Description of utilities consumed	
21	Unit of utilities consumed	
22	Quantity of utilities consumed	
23	Rate of utilities consumed	
24	Cost of utilities consumed	Summation of value entered in all dimensional members for a particular service should be equal to summation of 'Cost of Utility' for all dimensional members entered in 'Service Table' in '[100341] Abridged cost statement of service' for that service. This validation shall be applicable in case of current year.
25	Notes to utilities [text block]	

2C. Details of Industry Specific Operating Expenses

Sl.	Label	Action
	[100342c] Abridged cost statement-Details of industry specific operating expenses	
1	Abridged cost statement of service [abstract]	
2	Details of industry specific elements of operating expenses [table]	This table should be mandatory for the current year in case 'Cost Of Industry Specific Operating Expenses' for any member is greater than zero in Serviceable' in '[100341] Abridged cost statement of service' for the current year. If table is provided then at least one child member in Details Of Industry Specific Elements Of Operating Expenses Axis should be provided.
3	Identification of manufactured product or service [axis]	
4	Details of industry specific elements of operating expenses [axis]	
5	Details of industry specific elements of operating expenses domain	
6	Industry specific expenses 1 [member]	
7	Industry specific expenses 2 [member]	
8	Industry specific expenses 3 [member]	
9	Industry specific expenses 4 [member]	
10	Industry specific expenses 5 [member]	
11	Industry specific expenses 6 [member]	
12	Industry specific expenses 7 [member]	
13	Industry specific expenses 8 [member]	

14	Industry specific expenses 9 [member]	
15	Industry specific expenses 10 [member]	
16	Name of service	This is mandatory
17	Service code	Service code will be 6 digits. Null is allowed in case of service
18	Subheading of service code	Maximum 4 digits, Null to be accepted
19	Details of industry specific elements of operating expenses [abstract]	
20	Description of industry specific elements of operating expenses	
21	Cost of industry specific operating expenses	Summation of value entered in all dimensional members for a particular service should be equal to summation of 'Cost of Industry Specific Operating Expenses' for all dimensional members entered in 'Service Table' in '[100341] Abridged cost statement of service' for that service . This validation shall be applicable in case of current year.
22	Notes to details of industry specific operating expenses [text block]	

Part-D

1. Product And Service Profitability Statement (for audited products/services)

SL. No.	Label	Action
	[100350] Product and service profitability statement of manufactured product or service	If "Whether manufactured product or service covered under cost audit" is "Yes" then that number of products or services should be mentioned for table "[100351] Product and Service Profitability Statement of manufactured product or service"

1	Product and service profitability statement of manufactured product or service [abstract]	
2	Manufactured product or service [table]	This table is mandatory.
3	Identification of manufactured product or service [axis]	
4	Name of manufactured product or service	This is mandatory
5	CETA code of manufactured product	Should be a valid manufactured product code. CETA code will be 4 digits.
6	Subheading of CETA code	Maximum 4 digits, Null to be accepted
7	Service code	Service code will be 6 digits. Null is allowed in case of service
8	Subheading of service code	Maximum 4 digits, Null to be accepted
9	Details of manufactured product and service profitability statement [abstract]	
10	Sales	Value of 'Sales' in '[100350] Product and service profitability statement of manufactured product or service' should be equal to value of 'Net sales realization of product' in '[100340] Abridged cost statement of manufactured product ' in case of manufactured product. Value of 'Sales' in '[100350] Product and service profitability statement of manufactured product or service' should be equal to value of 'Net sales realization of service' in '[100342] Abridged cost statement of service' in case of service.

11	Cost of sales	Value of 'Cost of sales' in '[100350] Product and service profitability statement of manufactured product or service' should be equal to value of 'Cost of sales of product' in '[100340] Abridged cost statement of manufactured product' in case of manufactured product. Value of 'Cost of sales' in '[100350] Product and service profitability statement of manufactured product or service' should be equal to value of 'Cost of sales of service' in '[100342] Abridged cost statement of service' in case of service.
12	Margin	Value of 'Margin' in '[100350] Product and service profitability statement of manufactured product or service' should be equal to value of 'Amount of margin of product as per cost accounts' in '[100340] Abridged cost statement of manufactured product' in case of manufactured product. Value of 'Margin' in '[100350] Product and service profitability statement of manufactured product or service' should be equal to value of 'Amount of margin of service as per cost accounts' in '[100342] Abridged cost statement of service' in case of service.
13	Notes to manufactured product and service profitability statement [text block]	

2. Profit Reconciliation (for company as a whole)

Sl..	**Label**	**Action**
	[100360] Profit reconciliation	This ELR shall also be applicable for previous year.
1	Profit reconciliation of company as whole [abstract]	
2	Profit (loss) as per cost accounts [abstract]	
3	Profit (loss) for audited product or services	

4	Profit (loss) for unaudited product or services	
5	Amount of incomes not considered in cost accounts	
6	Amount of expenses not considered in cost accounts	
7	Difference in stock valuation as per cost and financial records	
8	Other adjustments	
9	Profit (loss) as per financial accounts	This is a mandatory field in case of current year. If "Whether previous year reported" is "Yes" for at least one member then both current and previous year information is
10	Notes to profit reconciliation [text block]	

2A. Details of Incomes not considered

Sl.	Label	Action
	[100360a] Profit reconciliation-Details of incomes not considered	This is a mandatory field in case of current year. If "Whether previous year reported" is "Yes" for at least one member then both current and previous year information is mandatory.
1	Profit reconciliation of company as whole [abstract]	
2	Details of incomes not considered in cost accounts [table]	Table is mandatory if Amount of Incomes not considered in Cost Accounts is greater than zero in [100360] Profit reconciliation
3	Details of incomes not considered in cost accounts [axis]	
4	Name of incomes not considered in cost accounts	

5	Amount of incomes not considered in cost accounts	Summation of all dimensional members should be equal to 'Amount of Incomes not considered in Cost Accounts' in [100360] Profit reconciliation

2B. Details of expenses not considered

SL. No.	Label	Action
	[100360b] Profit reconciliation-Details of expenses not considered	This is a mandatory. If "Whether previous year reported" is "Yes" for at least one member then both current and previous year information is mandatory.
1	Profit reconciliation of company as whole [abstract]	
2	Details of expenses not considered in cost accounts [table]	Table is mandatory if Amount of Expenses not considered in Cost Accounts is greater than zero in [100360] Profit reconciliation
3	Details of expenses not considered in cost accounts [axis]	
4	Name of expenses not considered in cost accounts	
5	Amount of expenses not considered in cost accounts	Summation of all dimensional members should be equal to 'Amount Of Expenses not Considered in Cost Accounts' in in [100360] Profit reconciliation

3. Value Addition and Distribution of Earnings (for the company as a whole)

SL. No.	Label	Action
	[100370] Value addition and distribution of earnings	This is a mandatory. If "Whether previous year reported" is "Yes" for at least one member then both current and previous year information is mandatory.

1	Value addition and distribution of earnings (company as whole) [abstract]	
2	Earnings available for distribution [abstract]	
3	Gross revenue from operations of company	This is mandatory.
4	Excise and other duties of company	
5	Net revenue from operations of company for value addition	This is mandatory.
6	Export incentives of company	
7	Adjustments in work-in-progress and finished stocks of company	
8	Cost of bought out inputs of company [abstract]	
9	Cost of materials consumed of company	
10	Cost of process materials or chemicals of company	
11	Cost of stores and spares consumed of company	
12	Cost of utilities of company	
13	Cost of other bought out inputs of company	
14	Total cost of bought out inputs of company	This is mandatory.
15	Value added of company	This is mandatory.
16	Other incomes of company	
17	Extraordinary income	
18	Earnings available for distribution	This is mandatory.
19	Distribution of earnings [abstract]	
20	To employees as salaries, wages, retirement benefits and others	This is mandatory.

21	To shareholders as dividend	
22	Funds retained by company	
23	To government as taxes	
24	Extraordinary expenses	
25	Other distribution of earnings	
26	Total distribution of earnings	This is a mandatory field. Should be equal to Earnings available for distribution
27	Notes to value addition and distribution of earnings [text block]	

4. **Financial Position and Ratio Analysis (**for the company as a whole)

Sl.	Label	Action
	[100400] Financial position and ratio analysis	This is a mandatory. If "Whether previous year reported" is "Yes" for at least one member then both current and previous year information is mandatory.
1	Financial position and ratio analysis (company as whole) [abstract]	
2	Financial position of company [abstract]	
3	Share capital	It is a mandatory field (for Indian Company) It should be equal to zero in case of company not having share capital Should be >= 1 lakh in case of Private company (other than Sec. 8 co.) having share capital Should be >= 5 lakh in case of Public company (other than Sec. 8 co.) having share capital.
4	Reserves and surplus	This is a mandatory field.
5	Long-term borrowings	This is a mandatory field. Should be greater than equal to zero.

6	Fixed assets [abstract]	
7	Gross fixed assets	This is a mandatory field. Should be greater than equal to zero.
8	Net fixed assets	This is a mandatory field. Should be greater than equal to zero. Should be less than or equal to 'Gross tangible assets'
9	Current assets [abstract]	
10	Current assets	This is a mandatory field. Should be greater than equal to zero.
11	Current liabilities	This is a mandatory field. Should be greater than equal to zero.
12	Net current assets	This is a mandatory field.
13	Capital employed	This is a mandatory field. Should be greater than equal to zero.
14	Net worth	This is a mandatory field.
15	Financial performance of company [abstract]	
16	Value added of company	This is a mandatory field.
17	Net revenue from operations of company	This is a mandatory field.
18	Profit before tax	This is a mandatory field.
19	Profitability ratios of company [abstract]	
20	Profit before tax to capital employed (%)	
21	Profit before tax to net worth (%)	
22	Profit before tax to value added of company (%)	
23	Profit before tax to net revenue from operations of company (%)	
24	Other financial ratios of company [abstract]	
25	Debt equity ratio	
26	Current assets to current liabilities	

27	Value added to net revenue from operations of company (%)	
28	Working capital ratios of company [abstract]	
29	Raw materials stock to consumption of company (in months)	
30	Stores and spares stock to consumption of company (in months)	
31	Finished goods stock to sales of company (in months)	
32	Notes to financial position and ratio analysis [text block]	

Related Party Transactions (for the company as a whole)

SL. No.	Label	Action
	Related party transactions [abstract]	
1	Description of related party transactions [table]	This table is mandatory in case Yes is selected in field 'Whether Company has Related Party Transactions for Sale or Purchase of Goods or Services'. In case table is provided, at least one child member in 'Nature Of Related Party Transactions Axis' should be provided.
2	Name of related party [axis]	
3	Identification details for product or service [axis]	
4	Nature of related party transactions [axis]	
5	Nature of related party transactions domain	This parent member is exempt from parent-child validation
6	Sale of product [member]	
7	Purchase of product [member]	

8	Services received [member]	
9	Services rendered [member]	
10	Details of related party [abstract]	
11	Name of related party	Name should be based on CIN of related party, if entered
12	CIN of related party	Either 'Permanent Account Number of Related Party' or 'CIN of Related Party' is mandatory if country is India. Should be valid CIN. Should be different from CIN of filing company (Corporate Identity Number).
13	Permanent account number of related party	Either 'Permanent Account Number of Related Party' or 'CIN Of Related Party' is mandatory if country is India. Should be valid PAN as per Income Tax PAN format.
14	Identification number of foreign related party in country of incorporation or residence	
15	Nature of issuing authority in country of incorporation or residence	
16	Country of related party	
17	Details of related party transactions [abstract]	
18	Name of product or service	This is mandatory
19	Product or service code	Should be a valid Product or service code. This can be null
20	Aggregate quantity of related party transaction	This can be null
21	Average transfer price of related party transaction	Mandatory in case of all transactions
22	Aggregate amount of transaction	Mandatory in case of all transactions
23	Average normal price of related party transaction	Mandatory

24	Basis adopted to determine normal price of related party transaction	Mandatory
25	Description of other basis adopted to determine normal price	Mandatory if 'Any other method' is selected in above field.
26	Notes to related party transaction [text block]	

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

Sl.	Label	Action
	[100420] Reconciliation of indirect taxes	
1	Reconciliation of indirect taxes [abstract]	
2	Types of indirect taxes of company [table]	This is a mandatory table. In case table is provided, then at least one child member in Types of Indirect Taxes of Company Axis should be provided.
3	Types of indirect taxes of company [axis]	
4	Types of indirect taxes of company domain	This parent member is exempt from parent-child validation.
5	Assessable value [member]	
6	Excise duty [member]	
7	Service tax [member]	
8	Cess and others [member]	
9	Value added tax [member]	
10	Duties taxes payable of company [abstract]	
11	Excise duty payable of company [abstract]	
12	Excise duty payable for domestic clearances	
13	Excise duty payable for export clearances	
14	Excise duty payable on stock transfers	

15	Excise duty payable on other clearances	
16	Total excise duty payable by company	
17	Service tax payable by company	
18	Value added tax and central sales tax payable by company	
19	Other state taxes payable by company	
20	Total duties taxes payable by company	
21	Duties taxes paid by company [abstract]	
22	Cenvat utilised [abstract]	
23	Input credits utilised	
24	Capital goods credits utilised	
25	Input services credits utilised	
26	Other credits utilised	
27	Total credits utilised by company	
28	Indirect taxes paid through PLA or cash	
29	Duties taxes paid by company	
30	Duties taxes recovered by company	
31	Difference between duties taxes paid and recovered	
32	Interest penalty fines paid by company	
33	Notes to reconciliation of indirect taxes [text block]	