# Guidance Note

# On

# Maintenance of Cost Records

# and

# Cost Audit

# of

## CONSTRUCTION INDUSTRY

July 2015

***PROFESSIONAL DEVELOPMENT COMMITTEE***

The Institute of Cost Accountants of India

(Statutory body under an Act of Parliament)

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## The Institute of Cost Accountants of India



Any mistake, error or discrepancy noticed may be informed to Senior Director (Professional Development), The Institute of Cost Accountants of India, CMA Bhawan, 3, Institutional Area, Lodhi Road, New Delhi - 110003, which will be taken care of in the next edition.

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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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# *ACKNOWLEDGMENTS*

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## The Institute of Cost Accountants of India (2014-15)


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## Objective and Scope

**Objective**

The objective of this Guidance Note is to guide the members of the Institute and other professionals on the aspects relating to maintenance of cost records and cost audit for construction activities.

The aim is to explain the extent, scope and methodology of preparation and maintenance of requisite cost accounting records by the companies so that they may follow a well-structured cost accounting system suited to the type, size & scale of operations that results in creating the intended cost accounting records leading to collection, assignment, apportionment and absorption of correct cost data to the relevant cost objects in the organization.

**Scope**

The scope of this Guidance Note is restricted to the following activities as defined in 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)*

## Chapter 1: Construction Industry and Related Issues

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

**Features of a construction contract / project are as follows:**

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

### Construction Project Models

### Public Private Partnership (PPP) Model

Project under PPP arrangement, i.e. development, financing, constructing, maintenance and operation, are implemented by a Private / Public Sector Company. Government selects such company for the implementation under a fixed time period.

The PPP Projects are usually in the following sectors:

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

**PPP Projects normally operate on the following basis:**

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

**BOO - Build Own Operate**

Private organization builds, owns and operates some facility or structure with some degree of encouragement from the government. Although the government doesn't provide direct funding in this model, it may offer other financial incentives such as tax-exempt status. The developer owns and operates the facility independently.

**BOLT - Build Own Lease Transfer**

Private organization conducts a large development project under contract to a public-sector partner, such as a government agency. A BOOT project is often seen as a way 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 is allowed to 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 in order 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 organization 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 sector 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 party 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 in connection with development of land and construction/ development of everything that is permanently attached to the land. These permanent fixtures to the land include buildings, fencing to the buildings and other fixtures such as plumbing, heating and lighting appliances.

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

Some commonly used models of Real estate development are:

- Green field development (Traditional model)
- Redevelopment model

Examples of Real estate development projects are:

- Housing, Land and Township Infrastructure Development

- Development of commercial real estate
- Development of Corporate IT parks

**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

**Constraints in the construction industry:**

The construction sector is largely unorganized and inefficient, which might have resulted from underdeveloped labour and organizations, improper planning and implementation leading to the time and cost overruns.

***Some of the potential causes of inefficiencies***

*Source: Mckinsey Report on Building India-Accelerating infrastructure projects*

- Poor quality of planning and engineering design
- Inappropriate contracts in use
- Pre-tendering approval process is slow and centralized
- 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

**Role of Government**

Different government agencies (The Ministry of Urban Development, The Ministry of Rural Development, The Confederation of Real Estate Developers Associations of India, The Builders Association of India, and The Construction Industry Development Council) involved in framing the several policies for development of the sector.

- The Government has framed several policies for the development of the sector
  - The Jawaharlal Nehru National Urban Renewal Mission
  - The National urban housing and habitat policy
  - Real estate investment trusts (REITS) & infrastructure investment trusts (INVITS)
  - Real estate regulation and development bill
  - Model estate affordable housing policy for urban areas
- 100% FDI through the automatic route is permitted in townships, housing, built-up infrastructure and construction-development projects (including, but not restricted to housing, commercial premises, hotels, resorts, hospitals, educational institutions, recreational facilities, city and regional level infrastructure).
- The Government of India in the Union Budget 2014-15, has announced a project to develop 'One Hundred Smart Cities' as satellite towns of larger cities by modernizing the existing mid-sized cities in the country.
- A new tax structure for real estate and infrastructure investments trusts.
- Each state in India offers additional incentives for investments and special incentive packages for mega projects.
- The major incentives and facilities available to SEZ developers include ***[Source: sezindia.nic.in]***:
  - Exemption from customs/excise duties for development of SEZs for authorized operations approved by the BOA.

- Income Tax exemption on income derived from the business of development of the SEZ in a block of 10 years, in 15 years under Section 80-IAB of the Income Tax Act.
- Exemption from Central Sales Tax (CST).
- Exemption from Service Tax (Section 7, 26 and the Second Schedule of the SEZ Act).

## Chapter 2: Legal and Regulatory Framework

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 labour 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 labours are employed and to every contractor who employs 20 or more labours.

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 course of the person's employment.

   **Salient Features of THE EMPLOYEE'S COMPENSATION (AMENDMENT) Bill, 2009:**
   ***[Bill No. 65-F of 2009]***

   i. The compensation payable on death from the injury, is minimum of; (i) Rs. 1,20,000 or (ii) 50% of the monthly wages of deceased multiplied by the relevant factor.
   ii. The compensation payable on Permanent Total Disablement from the injury, is minimum of (i) Rs. 1,40,000 or (ii) 60% of the monthly wages of deceased multiplied by the relevant factor.
   iii. For the purpose of claims settlement actual monthly wages have to be calculated without ceiling of Rs.4000.
   iv. The employee shall be reimbursed the actual (full) medical expenditure incurred by him for treatment of injuries caused during the course of employment.
   v. Time limit for disposal of cases relating to compensation introduced - The Commissioner shall dispose of the matter relating to compensation within 3 months of reference.

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.

**Key Amendments**: ***[Circular No. Actuary/18(2)2008/Vol.III/5905 (Dated 23 July 2014)]***

*i.* ***Provident Fund Scheme:***

The Central Government has amended the ceiling for contributions under the Employees' Provident Fund and Miscellaneous Provisions Act, 1952 (EPF Act) and the Employees' Provident Fund and Miscellaneous Provisions Scheme, 1952 (EPF Scheme) from INR 6,500 to INR 15,000, with effect from 1 September 2014.

The definition of 'excluded employee' has been amended whereby the members drawing wages exceeding INR 15,000 per month are excluded from the provisions of the PF Scheme. Accordingly, the wage ceiling for an employee to be eligible for the Provident Fund Scheme has been increased from INR 6,500 per month to INR 15,000 per month.

*ii.* ***Pension Scheme***

New members (joining on or after 1 September 2014) drawing wages exceeding INR 15,000 per month shall not be eligible to voluntarily contribute to the Pension Scheme. The maximum pensionable salary for the purpose of determining the monthly pension has been revised from INR 6,500 to INR 15,000 per month.

The pensionable salary shall be calculated on the average monthly pay for the contribution period of the last 60 months (earlier 12 months) preceding the date of exit from the membership.

The monthly pension for any existing or future member shall not be less than INR 1,000 for the financial year 2014-15.

*iii.* ***Insurance Scheme***

The contribution payable under the Insurance Scheme shall now be calculated on a monthly pay of INR 15,000, instead of INR 6,500.

In the event of death of a member (on or after 1 September 2014), the assurance benefits available under the Insurance Scheme has been increased by twenty percent (20%) in addition to the already admissible benefits.

**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.

**ESI Act, 1948 applicable to:**

- All factories working with aid of power where 10 or more workers are employed.
- All factories working without the aid of power where 20 or more workers are employed.

**ESI Act isn't applicable to**

- Seasonal Factories.
- Factories under the control of Government where employees are getting better benefits, Indian Army, Navy, Air Force.
- Factories working with the aid of power where less than 10 workers are employed.
- Factories working without the aid of power where less than 20 workers are employed.
- Mines.
- Employees drawing wages exceeding such amount as may be specified(Now Rs.10,000).

**6. The Employees' Liability Act, 1938**

This Act is to declare that certain defence shall not be raised in suits for damages in respect of injuries sustained by workmen.

Defence of common employment barred in certain cases. – Where personal injury is caused to a workman:

- by reason of the omission of the employer to maintain in good and safe condition any way, works, machinery or plant connected with or used in his trade or business, or by reason of any like omission on the part of any person in the service of the employer who has been entrusted by the employer with the duty of seeing that such way, works, machinery or plant are in good and safe condition.
- by reason of the negligence of any person in the service of the employer who has any superintendence entrusted to him, whilst in the exercise of such superintendence
- by reason of the negligence of any person in the service of the employer to whose orders or directions the workman at the time of the injury was bound to conform and did conform, where the injury resulted from his having so conformed; or
- by reason of the act or omission of any person in the service of the employer done or made—
    - in the normal performance of the duties of that person
    - in obedience to any rule or bye-law of the employer (not being a rule or bye-law which is required by or under any law for the time being in force to be approved) by any authority and which has been so approved
    - in obedience to particular instructions given by any other person to whom the employer has delegated authority in that behalf;] a suit for damages in respect of the injury instituted by the workman or by any person entitled in case of his death shall not fail by reason only of the fact that the workman was at the time of the injury a workman of, or in the service of, or engaged in the work of, the

employer.

7. **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.

8. **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.

9. **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.

10. **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 on the basis of 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).

11. **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 deductions 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.

    The power for hearing and deciding Claims under this Act has been vested at present with the Presiding Officer of a Labour Court.

12. **The Public Liability Insurance Act, 1991**
    This Act is to provide for public liability insurance for the purpose of providing immediate relief to the persons affected by accident occurring while handling any hazardous substance and for matters connected therewith or incidental thereto.

**13. 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.

**14. 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.

**15. 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.

**16. Maternity Benefit Act, 1961**

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

**Eligible for Maternity Benefit**

- Must work in the establishment for 80 days in 12 months before her date of Delivery.
- Women earning less than 15,000 may be offered ESI scheme by her employer and will not be eligible for maternity benefit and but will receive the maternity benefit under ESI scheme.

**17. 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/-.

**18. The Environment (Protection ) Act, 1986**

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

**Objectives of the Act**

- To co-ordinate the activities of the various regulatory agencies already in existence.
- Creation of an authority or authorities with adequate powers for environmental protection.
- Regulation of discharge of environmental pollutants and handling of hazardous substance.
- Speedy response in the event of accidents threatening environment and punishment to those who endanger human environment, safety and health.

**19. 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.

**20. 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.

**Privileges of a Registered Trade Union**

- Immunity from Criminal Prosecution: Registered Trade Union enjoys certain rights in furtherance of their trade dispute, e.g., right to go on strike and to persuade their members to abstain from work. The trade union shall not be liable to punishment if they goon lawful strike.
- Immunity from civil suit: No legal proceedings shall be maintainable in any civil court against any registered trade union due to trade dispute unless the acts interferes with the trade, business or employment.
- Rights to inspect books of trade union: The account books of a registered trade union and the list of members shall be open for inspection by an office bearer or members of the trade union at such time as may be provided for in the rules of the trade union.
- Rights of minors to membership of trade unions: Any person who has attained the age of fifteen years may be a member of the registered trade union, enjoy all the rights of a member and execute all instruments necessary to be executed.

**21. 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.

**22. Stamp duty and Registration**

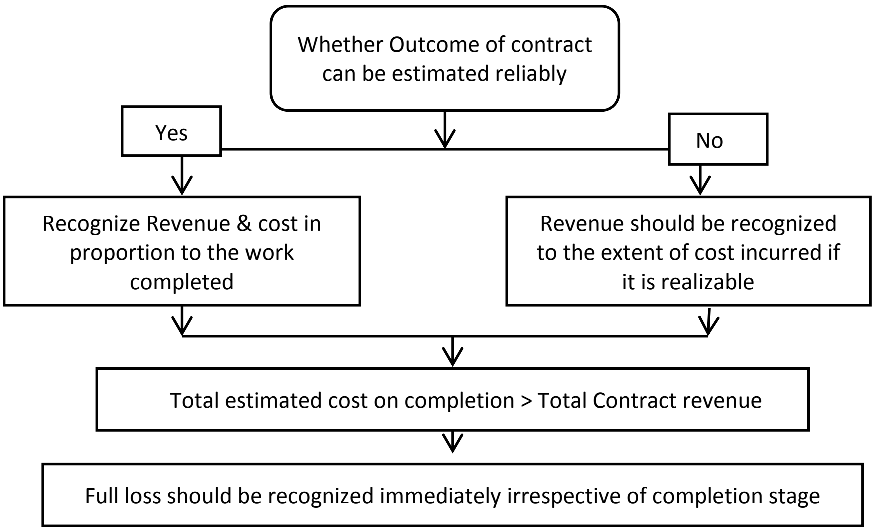
Stamp duty is a type of tax paid by the purchaser to the government treasury. States follows Indian stamp act 1899 or separate act framed by the states. The percentage of stamp duty levied also varies in different states.

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 has to be registered under the Indian Registration Act (1908).

## Chapter 3: Revenue/Operational cost of Construction industry

***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 on the basis of Accounting Standard -7. The revenue recognition for purposes of cost accounting records would follow the same principles.

**Figure: Recognition of Contract Revenue and Cost**




**Contract Revenue comprises of:**

- The initial amount of revenue as agreed in the contract.
- **Variations in contract work:** It is an instruction by the customer for a change in the scope of the work.
- **Claims:** It is an amount that the contractor seeks to collect from the customer or another party as reimbursement for costs not included in the contract price.
- **Incentive payments:** It is an additional payment to be paid to the contractor if the specified performance standards are met or exceeded.

**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.
- **Operating Revenue**
    - Revenue from land, plots and constructed properties.
    - Revenue from development charges.
    - Revenue from development rights (net).

  - Revenue from power generation.
  - Rental income.
  - Maintenance or other Service receipts.
  - Amount forfeited on properties.
  - Revenue from other activities of the Company.
- **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.

**<u>Application of principles of Accounting Standard 9 in respect of sale of goods to a real estate project:</u>**

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.

**Following conditions need to satisfy to identify the completion of revenue recognition process:**

- 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.

**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**

- Design development changes.
- Schedule adjustments.
- General administration changes (such as wage rates).
- Differing site conditions for those expected.
- Third party requirements imposed during construction.
- 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:

- Value of cost completed to date.
- Management discretion.
- 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).

<u>**Usage cost of common pool of Plant & Machinery:**</u>

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.

**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.
    - If 20 contracts are made with the different buyers and minimum 10% of the contract revenue is realized from each of the 15 contracts at the reporting date then revenue can be recognized for 15 contracts only.

## Chapter 4: Management Information System

Construction industry has evolved over the years and technology integration supports the industry in various activities. The construction industry is a highly fragmented industry. It needs to communicate on a large scale with other related businesses such as material and equipment suppliers, vendors, subcontractors and clients.

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.

The goal of ERP is to support one time entry of information at the point where it is created and to make it available to all the participants within the organization.

Information technology provides services to the construction sector in following phases of project cycle:

- Job costing & Accounting
- Estimating
- Project Management
- CRM Solutions
- Document Imaging and Storage

ERP provides a comprehensive suite of data screens and reports, to manage the Project flow and related engineering activities. A project can have any number of activities and sub-activities. Authorized officials can monitor each activity anytime.

**Indicative list of categories in ERP System of any construction industry**

**1. Project Engineering**

- Projects
- Activities
- Bill of Quantity
- Project BOM
- Work Orders
- Activity Progress

**2. Purchase Management**

- Supplier Master
- Supplier-Item
- Purchase Indent
- Purchase Order

**3. Inventory Management**

- Item Master
- Item – Project
- Goods Receipts
- Material Issues
- Material Returns
- Material Transfer
- Material Adjustment

**4. Sub-Contractor Management**

- Sub-Contractor
- Sub-Contractor Quotation

**5. Sales Management**

- Customer
- Invoice

**Key Support Areas**

ERP supports the management to:

- Check Project Status every day or weekly.
- Check Material Status at various sites.
- Decide on emergency Material Transfer.
- Check Engineer Status on each Project.
- Check Key activities' progress.
- Check Customer payments.

**MIS Reports in Project Management System (PMS) ERP**

The following are some of the reports ERP provides. In addition to the customized reports the user can generate reports in a standard format with option to provide the criteria for the report. Reports can be exported to an Excel file or saved as an image file.

- Bill of Quantity
- Bill Of Material
- Work Order
- Activity Progress Report
- Project Cost Monitoring report
- Sub-Contractor Payment statement
- Purchase Indent
- Purchase Order
- Goods Receipt Note

- Statement of material received
- Item Stock Ledger
- Project-wise Stock Statement
- Supplier-wise Bills Payable
- Project-wise Materials Issued
- Project-wise Materials Returned
- Project-wise Materials Transferred
- Invoice
- Details of Payment Due from Customers

**Benefits of ERP**

ERP provides the top management with the following benefits

- Complete control on project costs.
- Reduce Inventory Levels.
- Increase Material utilization.
- Complete projects faster.
- Monitor projects better.

## Chapter 5: Maintenance of Cost Accounting 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. 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-1 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.

**6. 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*".

**7. 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.

**8. Contents of CRA-1 in respect of maintenance of cost records:**

Form CRA-1 gives the following elements of cost for maintenance and treatment of items of cost in the books of account:

- Material Cost.
- Employee Cost.
- Utilities.
- Direct Expenses.
- Repairs and Maintenance.
- Fixed Assets and Depreciation.
- Overheads.
- Administrative Overheads.
- Transportation Cost.
- Royalty and Technical Knowhow.
- Research and Development Expenses.
- Quality Control Expenses
- Pollution Control Expenses.
- Service Department Expenses.
- Packing Expenses.
- Interest and Finance Charges.
- Other Cost items.
- Capacity determination.
- Work in Progress and Finished Goods Stock.

- Captive Consumption.
- By-products and joint products.
- Adjustment of Cost Variances.
- Reconciliation of cost and financial accounts.
- Related party transactions.
- Expenses or Incentives on exports.
- Production Records.
- Sales Records,
- Cost Statements,
- Statistical records.
- Records of physical verification.

**9. Illustrative List of Cost Records:**

An illustrative list of Cost Records can be as follows:

**1. Production/Construction**

1.1. Raw Material consumption register/report;

1.2. Stage Completion Report;

1.3. Rejections/wastages/scrap report;

1.4. Report on stoppage of machines with reasons;

1.5. Idle time report with reasons;

1.6. Machine/Crane utilization report;

**2. Work-in-Progress and Work Completion**

2.1 Stage Completion Report;

2.2 Process stock register- cost centre-wise/ Site-wise;

2.2 Work Completion Register, different site-wise.

**3. Raw Materials and Stores Accounting**

3.1 Goods received register;

3.2 Bin cards;

3.3 Materials/stores ledgers;

3.4 Packing Materials.

**4. Employee Cost**

4.1 Attendance registers/ sheets;

4.2 Wages/salary sheets;

4.3 Leave and gratuity payments.

4.4 Idle time analysis.

**5. Repairs and Maintenance**

5.1 Works order register / card showing material and spares consumed and labour utilized;

5.2 Procedure followed for routine maintenance;

5.3 Machine wise maintenance history;

5.4 Details major breakdowns & Repairs;

5.5 Details of Abnormal Repairs & Reconditioning activities.

**6. Utilities (Water, Steam, Power, Air, Effluent Treatment etc.)**

6.1 Records of input and output;

6.2 Record of cost centre-wise allocation of outputs.

**7. Overheads**

7.1 Details construction hours, labour hours, machine hours and other bases for allocation to facilitate distribution of overheads;

7.2 Overheads Keys.

**8. Cost Accounts**

8.1 Overheads analysis register;

8.2 Cost centre-wise assets register;

8.3 Site-wise Completion Register;

8.4 Annexures and proforma as per rules, if any;

8.5 Reconciliation of profit/loss as per cost records and financial records. The Reconciliation Statement between cost accounts and financial accounts can also be treated as a Costing Profit & Loss Account. This statement shall normally start with the margin arrived at as per cost accounts and all other items of expenses not considered for determination of cost or incomes not considered for arriving at the margin as per cost accounts would get reflected.

**9. Sales**

9.1 Building/Product-wise Sales analysis

9.2 Marketing/ Market Research Cost

**10. Check List to ensure proper maintenance of cost records**

(1) Study and examine the chart of accounts with special reference to the system of cost methods adopted by the company.

(2) Study the basic raw materials and packing materials, and stores required for the construction and their sources.

(3) Examine whether cost centres are split-up into Site-wise/ Building wise or on other basis & service functions

(4) The licensed capacity and installed capacity should be ascertained. The licensed capacity will be based on permissions granted by the relevant authorities/ agencies. Any addition to licensed capacity during the preceding two years should also be ascertained. In case of construction Industry licensed capacity and installed capacity may not be applicable but these are to be given for power generation activity.

(5) Examine the adequacy of internal checks and control.

(6) Before starting the assignment, meet the various important executives of the company and note down the functions, responsibilities and powers delegated to each.

(7) Obtain an understanding of the business and the Construction processes involved, the flow of the process, till completion of activity.

(8) Obtain the Annual Reports of the company for the past two years and make a note of the important points contained in the Directors' Report to the shareholders on the various financial, operation and technical matters.

(9) Study the books/records containing production records etc., statistics maintained by the Site Offices/ other Offices in compliance with the applicable Regulatory Mechanism.

(10) Compare actual work completion with reference to the installed capacity, wherever applicable.

(11) Prepare a complete quantitative analysis beginning with input materials (both direct and indirect), corresponding work completion at each stage, scrap and wastages generated, quantity transferred for captive consumption and the stage from which such transfer is taking place and final reconciliation with that of sales and stocks in respect of each types of Activity.

(12) Study the Cost Accounting System and also financial accounting system being followed by the company. Examine whether the same system is followed in case the Company is engaged in different types of construction/ Project Activities at different locations.

(13) Make proper identification of various Cost and service cost centres and check whether the expenditure is initially booked to these cost centres correctly.

(14) Check whether the valuation of material, utilities, overheads and booking of expenses to different cost centres/service centres are in accordance with the principles enunciated in CRA-1 of the Rules and relevant cost accounting standards and generally accepted cost accounting principles (GACAP) issued by the Institute of Cost Accountants of India. Also make a checklist of points mentioned in CRA-1 and mark which of these are not applicable to the company by mentioning which are applicable and implemented and also reasons for not implementing the other points.

(15) Check proper consumption records of the utilities at various sites, cost and service centres are properly maintained and allocation of the costs is based on an equitable basis to the various consuming cost centres. In respect of supplies made to or received from other sites of the company, ensure that the transfers are made at cost of items/generation of the utilities and that the method followed is consistent.

(16) Ascertain any abnormal reasons for low progress of work and/or high usage of services/ utilities and high down time at the site. Find out whether these have been properly recorded and reported separately.

(17) Verify whether consistency is maintained with regard to cost accumulation, cost analysis, cost allocation and apportionment, cost treatment and costing procedures adopted for inventory valuation from period to period.

(18) Examine the records maintained for inter-site/company transfers.

(19) Ascertain if any Royalty/Technical Services Fee has been paid to Collaborator/Technology Suppliers. If it is one-time lump sum payment, check whether the charge to the relevant cost

centres and is spread over the period for which benefit is to be derived out of the payment and the same is equitable and reasonable.

(20) Examine whether there is any Royalty agreement and check its effect on cost of operation/ Service and allocation of the cost to the relevant Activity.

(21) Examine the practice followed for maintaining quality and related Quality Control Expenses. Check the amount incurred on quality control, quality audit etc. and their treatment in the cost of Activity.

(22) Examine whether the company is complying with the various legal provisions with respect to pollution control and the expenses incurred therefor and whether absorption of such cost in the Activity is done equitably and consistently.

(23) Cost of Operation/ Service should be derived for domestic sale and export sale separately.

(24) Verify the reconciliation statement between the profit/loss as per the cost accounts and as per the financial accounts. Also examine the variations and reasons thereof.

(25) Examine whether the data maintained in the cost record are reconciled with the relevant returns submitted by the company to government authorities.

(26) Where a system of standard costing is used, it should be ensured that such costs are converted into actual for the purpose of determining the figures required to comply with the requirements of the Companies (Cost Records and Audit) Rules 2014. The method of adjustment of variances to arrive at the actual cost from the standard cost should be examined.

(27) Examine that cost statements have been prepared as per requirements the Companies (Cost Records and Audit) Rules 2014.

(28) Examine whether there are any abnormal features affecting construction during the year, e.g., strikes, lock-outs, major breakdowns in the plant/ Machinery, substantial power cuts, serious accidents, etc., and what is their impact on the cost of operation/ Services.

(29) Examine if there are any special expenses, which have been directly allocated to construction under reference, and what is the total amount as also the incidence per unit of Activity.

**11. Cost Records, Cost Statements and Reconciliation Statements are to be preserved**

As per Section 128(5) of the Companies Act 2013, the books of account of every company relating to a period of not less than eight financial years immediately preceding a financial year, or where the company had been in existence for a period less than eight years, in respect of all the preceding years together with the vouchers relevant to any entry in such books of account shall be kept in good order.

Accordingly, all such cost records, cost statements and reconciliation statements, maintained under these rules, relating to a period of not less than eight financial years immediately preceding a financial year or where the company had been in existence for a period less than eight years, in respect of all the preceding years are to be kept in good order.

**12. Cost Accounting Standards and GACAP**

The Institute of Cost Accountants of India has issued Generally Accepted Cost Accounting Principles (GACAP) on 20th October, 2011 and 22 Cost Accounting Standards (CAS) to be applied in maintenance of cost accounting records and for being applied for the preparation and certification of General Purpose Cost Accounting Statements. The summary of Cost Accounting Standards issued by the Institute of Cost Accountants of India is as follows:

| CAS No | Title | Objective |
|---|---|---|
| CAS1 | Classification of Cost | For preparation of Cost Statements |
| CAS2 (Revised 2012) | Capacity Determination | To bring uniformity and consistency in the principles and methods of determination of capacity with reasonable accuracy. |
| CAS3 (Revised 2011) | Overheads | To bring uniformity and consistency in the principles and methods of determining the Overheads with reasonable accuracy. |
| CAS4 | Cost of Production for Captive Consumption | To determine the assessable value of excisable goods used for captive consumption. |
| CAS5 | Average (equalized) Cost of Transportation | To determine averaged/equalized transportation cost |
| CAS6 | Material Cost | To bring uniformity and consistency in the principles and methods of determining the material cost with reasonable accuracy in an economically feasible manner. |
| CAS7 | Employee Cost | To bring uniformity and consistency in the principles and methods of determining the Employee cost with reasonable accuracy. |
| CAS8 | Cost of Utilities | To bring uniformity and consistency in the principles and methods of determining the Cost of Utilities with reasonable accuracy. |
| CAS9 | Packing Material Cost | To bring uniformity and consistency in the principles and methods of determining the Packing Material Cost with reasonable accuracy. |
| CAS10 | Direct Expenses | To bring uniformity and consistency in the principles and methods of determining the Direct Expenses with reasonable accuracy. |
| CAS11 | Administrative Overheads | To bring uniformity and consistency in the principles and methods of determining the Administrative Overheads with reasonable accuracy. |
| CAS12 | Repairs And Maintenance Cost | To bring uniformity and consistency in the principles and methods of determining the Repairs and Maintenance Cost with reasonable accuracy. |
| CAS13 | Cost of Service Cost Centre | To bring uniformity and consistency in the principles and methods of determining the Cost of Service Cost Centre with reasonable accuracy. |
| CAS14 | Pollution Control Cost | To bring uniformity and consistency in the principles and methods of determining the Pollution Control Costs with reasonable accuracy. |
| CAS15 | Selling and Distribution Overheads | To bring uniformity and consistency in the principles and methods of determining the Selling and Distribution Overheads with reasonable accuracy. |
| CAS16 | Depreciation and Amortisation | To bring uniformity and consistency in the principles and methods of determining the Depreciation and Amortisation with reasonable accuracy. |

| | | |
|---|---|---|
| CAS17 | Interest and Financing Charges. | To bring uniformity and consistency in the principles, methods of determining and assigning the Interest and Financing Charges with reasonable accuracy. |
| CAS18 | Research and Development Costs | To bring uniformity and consistency in the principles and methods of determining the Research, and Development Costs with reasonable accuracy and presentation of the same. |
| CAS19 | Joint Costs | To bring uniformity and consistency in the principles and methods of determining the Joint Costs. |
| CAS20 | Royalty and Technical Know-How Fee | To bring uniformity and consistency in the principles and methods of determining the amount of Royalty and Technical Know-how Fee with reasonable accuracy. |
| CAS21 | Quality Control | To bring uniformity, consistency in the principles, methods of determining and assigning Quality Control cost with reasonable accuracy. |
| CAS22 | Manufacturing Cost | To bring uniformity and consistency in the principles and methods of determining the Manufacturing Cost of excisable goods |

**Brief of Cost Accounting Standards (CAS)**

**(1) CAS 1 on "Classification of Cost"**

**(i)** ***Cost:*** Cost is a measurement, in monetary terms, of the amount of resources used for the purpose of production of goods or rendering services. (Para 4.1)

**(ii)** *Manufacturing of goods* ***or*** ***rendering services*** involves consumption of resources. Cost is measured by the sacrifice made in terms of resources or price paid to acquire goods and services. The type of cost is often referred in the costing system depends on the purpose for which cost is incurred. For example material cost is the price of materials acquired for manufacturing a product. (Para 4.2)

**(iii)** ***Cost Centre (or Cost Object):*** Any unit of Cost Accounting selected with a view to accumulating all cost under that unit. The unit may be a product, a service, division, department, section, a group of plant and machinery, a group of employees or a combination of several units. This may also be a budget centre. (Para 4.3) Cost Centre or Cost Object is the logical sub-unit for collection of cost.

**(iv)** **Cost unit:** is a form of measurement of volume of production or *service*. This unit is generally adopted on the basis of convenience and practice in the industry concerned. (Para 4.5) for example Per Unit Cost of Student (Course wise).

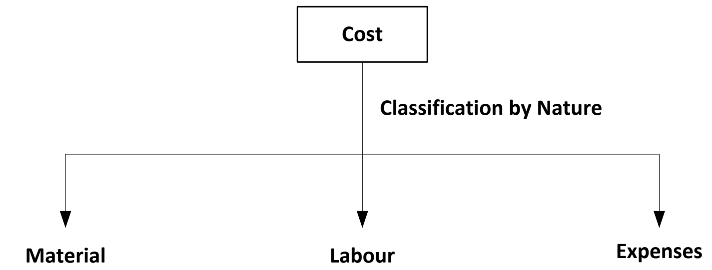
**(v)** **Classification of Costs**

i. Nature of expense
ii. Relation to object - traceability
iii. Functions / activities
iv. Behaviour fixed, semi-variable or variable
v. Management decision making
vi. Production Process

vii. Time period

**i. By Nature of expense:**

Costs should be gathered together in their natural groupings such as material, labour and other expenses. Items of costs differ on the basis of their nature. The elements of cost can be classified in the following three categories: i) Material ii) Labour iii) Expenses




(a) ***Material Cost:*** *Material Cost is the cost of material of any nature used for the purpose of production of a product or a service. (Para 6.1.2)*

Material cost includes cost of procurement, freight inwards, taxes & duties, insurance etc. directly attributable to the acquisition. Trade discounts, rebates, duty drawbacks, refunds on account of MODVAT, CENVAT, sales tax and other similar items are deducted in determining the costs of material. *(Para 6.1.3)*

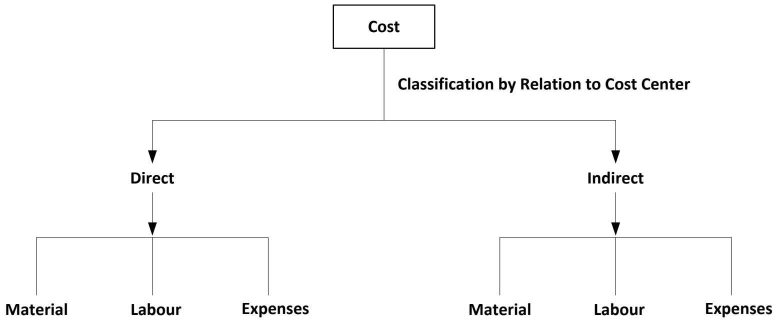
(b) ***Labour Cost**:* means the payment made to the employees, permanent or temporary, for their services. (*Para 6.1.4*)

Labour cost includes salaries and wages paid to permanent employees, temporary employees and also to employees of the contractor. Here, salaries and wages include all fringe benefits like Provident Fund contribution, Gratuity, ESI, overtime, incentives, bonus , ex-gratia, leave encashment, wages for holidays and idle time etc. (Para 6.1.5)

(c) ***Expenses**:* These are other than material cost or labour cost, which are involved in an activity. (*Para 6.1.6*)

Expenses include expenditure on account of utilities, payment for bought out services, job processing charges, etc. (*Para 6.1.7*)

**ii. By Relation to Cost Centre:** Classification should be on the basis of method of allocation of cost to a cost unit. If expenditure can be allocated to a cost centre or cost object in an economically feasible way then it is called direct otherwise the cost component will be termed as indirect. According to this criteria for classification, material cost is divided into direct material cost and indirect material cost, labour cost into direct labour cost and indirect labour cost and expenses into direct expenses and indirect expenses. Indirect cost is also known as overhead. (*Para 6.2.1)*




**(a)** **Direct cost** has three components - direct material cost, direct labour cost and direct expenses and indirect cost has three components- indirect material, indirect labour cost and indirect expenses. Sum of all direct costs is called prime cost. *(Para 6.2.2)*

**(b)** ***Direct material Cost*** is the cost of material which can be directly allocated to a cost centre or a cost object in a economically feasible way. (*Para 6.2.3)*

**(c)** ***Direct Labour Cost*** is the cost of wages of those workers who are readily identified or linked with a cost centre or cost object. (*Para 6.2.4)*

**(d)** ***Direct Expenses*** are the expenses other than direct material or direct labour which can be identified or linked with the cost centre or cost object. Examples Direct expenses relating to particular course or programme/seminar, consultancy etc. (*Para 6.2.4)*

**(e)** ***Indirect Material*** is the cost of material which cannot be directly allocable to a particular cost centre or cost object. (*Para 6.2.8)*

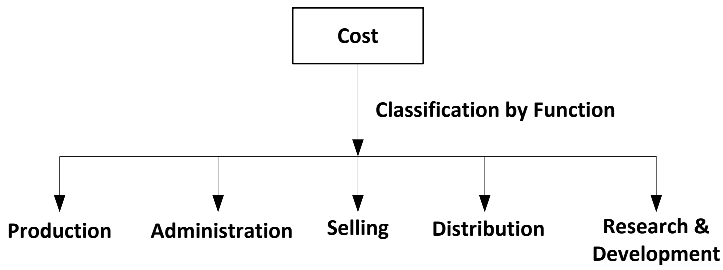
***(f)*** ***Indirect labour* cost** is the wages of the employees which are not directly allocable to a particular cost centre. (*Para 6.2.10)*

**(g)** ***Indirect expenses*** are the expenses other than of the nature of material or labour and cannot be directly allocable to a particular cost centres. (*Para 6.2.12)*

**iii. By functions/activities:**

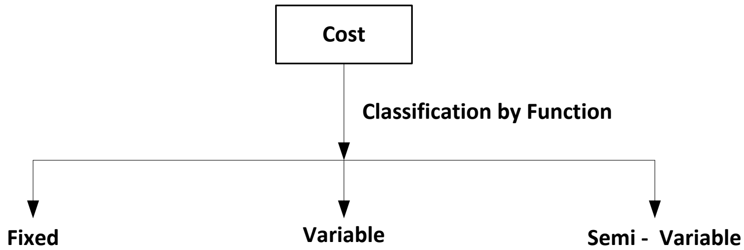
Costs should be classified according to the major functions for which the elements are used into the following four major functions:

(a) Production;
(b) Administration;
(c) Selling;
(d) Distribution; and
(e) Research & Development Expenditure.
*(Para 6.3.1)*



**iv. By Behaviour**

Costs are classified based on behaviour as fixed cost, variable cost and semi-variable cost depending upon response to the changes in the activity levels. *(Para 6.4.1)*




**(a)** ***Fixed Cost*** is the cost which does not vary with the change in the volume of activity in the short run. These costs are not affected by temporary fluctuation in activity of an enterprise. These are also known as period costs. *(Para 6.4.2)*

Examples for fixed cost: salaries, rent, audit fees, depreciation etc.

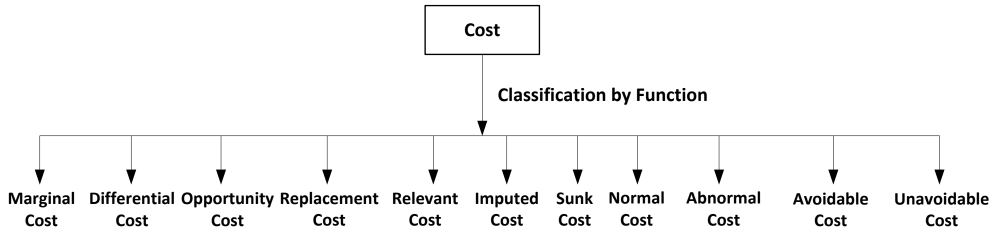
**(b)** ***Variable Cost*** is the cost of elements which tends to directly vary with the volume of activity. Variable cost has two parts - (a) Variable direct cost; and (b) Variable indirect costs. Variable indirect costs are termed as variable overhead. *(Para 6.4.4)*

Examples of variable cost are materials consumed, direct labour, sales commission, utilities, freight, packing, etc.

**(c)** ***Semi Variable Costs*** contain both fixed and variable elements. They are partly affected by fluctuation in the level of activity. *(Para 6.4.6)*

**v. For Management Decision Making**

Costs are classified for the purpose of management decision making under different circumstances as under:




**(a)** ***Marginal cost*** is the aggregate of variable costs, i.e. prime cost plus variable overhead. Marginal cost per unit is the change in the amount at any given volume of output by which the aggregate cost changes if the volume of output is increased or decreased by one unit. (Para 6.5.2)

Marginal cost is used in Marginal Costing system. For determining marginal cost, semi-variable costs, if any, are segregated into fixed and variable cost. Then, variable costs plus the variable part of semi-variable costs is the total marginal cost for the volume of production in consideration (Para 6.5.2)

| A. Production | | 45,000 units |
|---|---|---|
| B. Cost | Fixed Cost (Rs. Lakhs) | Variable Cost Rs. lakhs |
| 1 Material Cost | - | 4.50 |
| 2 Labour Cost | - | 2.45 |

| | | |
|---|---|---|
| 3 Fixed Cost<br>4 Variable Production<br>& Selling Overhead<br>5 Semi-variable cost<br>(after segregation fixed<br>and variable part) | 4.80<br><br>-<br>3.20 | -<br><br>2.30<br>2.00 |
| C. Total Margin cost | | 11.25 |
| D. Marginal Cost unit | | Rs. 25.00 |

**(b)** ***Differential Cost*** is the change in cost due to change in activity from one level to another. (*Para 6.5.4)*

**(c)** ***Opportunity Cost*** is the value of the alternatives foregone by adopting a particular strategy or employing resources in specific manner. (*Para 6.5.7)*

It is the return expected from an investment other than the present one. The opportunity cost is considered for selection of a project or justification of investment, studying viability of an investment option. Example: A machine is currently being used to produce product P. It can also be used to produce product Q which can fetch Rs 60,000 profit. Then the opportunity cost of using the machine is Rs 60000. (*Para 6.5.8)*

**(d)** ***Replacement Cost*** is the cost of an asset in the current market for the purpose of replacement. (*Para 6.5.9)*

Replacement cost is generally used for determining the optimum time of replacement of an equipment or machine in consideration of maintenance cost of the existing one and its productive capacity. (*Para 6.5.10)*

**(e)** **Relevant Costs** are costs relevant for a specific purpose or situation. (*Para 6.5.11)*

In the context of decision making relating to a specific issue, only those costs which are relevant are considered. A particular cost item may be relevant in a decision making and may be irrelevant in some other decision making situation. For example, present depreciated cost of machine is relevant in case of decision of its sale but it is irrelevant in case of decision of its replacement. (*Para 6.5.12)*

**(f)** ***Imputed Costs*** are hypothetical or notional costs, not involving cash outlay, computed only for the purpose of decision making. (*Para 6.5.13)*

In economics, 'imputed' indicates an ascribed or estimated value when there is no criteria of absolute monetary value for such purpose. In national income estimation wages of housewives are imputed. Similarly, in farming operations, the wages or salaries of owner are imputed. Imputed costs are similar to opportunity costs. Interest on internally generated fund, which is not actually paid, is an example of imputed cost. (*Para 6.5.14)*

**(g)** ***Sunk Costs*** are historical costs which are incurred i.e. 'sunk' in the past and are not relevant to the particular decision making problem being considered. (*Para 6.5.15)*

Sunk costs are those that have been incurred for a project and which will not be recovered if the project is terminated. While considering the replacement of a plant, the depreciated book value of the old asset is irrelevant as the amount is a sunk cost which is to be written off at the time of replacement. (*Para 6.5.16)*

***(h)*** ***Normal Cost*** is a cost that is normally incurred at a given level of output in the conditions in which that level of output is achieved. (*Para 6.5.17)*

Normal cost includes those items of cost which occur in the normal situation of production process or in the normal environment of the business. The normal idle time is to be included in the ascertainment of normal cost. (*Para 6.5.18)*

***(i)*** ***Abnormal Cost*** is an unusual or a typical cost whose occurrence is usually irregular and unexpected and due to some abnormal situation of the production. (*Para 6.5.19)*

Abnormal cost arises due to idle time for some heavy break down or abnormal process loss. They are not considered in the cost of production for decision making and charged to profit & loss account. (*Para 6.5.20)*

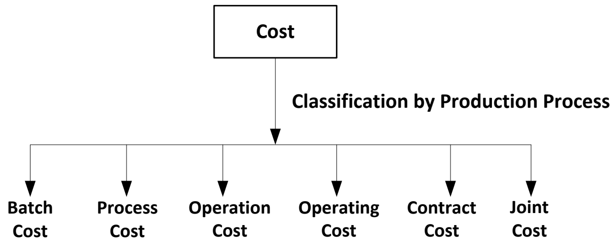
***(j)*** ***Avoidable Costs*** are those costs which under given conditions of performance efficiency should not have been incurred. (*Para 6.5.21)*

Avoidable costs are logically associated with some activity or situation and are ascertained by the difference of actual cost with the happening of the situation and the normal cost. When spoilage occurs in manufacture in excess of normal limit, the resulting cost of spoilage is avoidable cost. Cost variances which are controllable may be termed as avoidable cost. (*Para 6.5.22)*

***(k)*** ***Unavoidable Costs*** are inescapable costs which are essentially to be incurred, within the limits or norms provided for. It is the cost that must be incurred under a programme of business restriction. It is fixed in nature and inescapable. (*Para 6.5.23)*

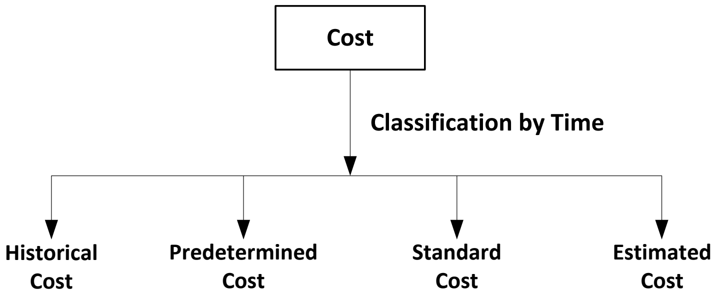
**vi. By nature of production process**

Costs are also classified on the basis of nature of production or manufacturing process.




**vii. Classification by time**

**(a)** A cost item is related to a specific period of time and cost can be classified according to the system of assessment and specific purpose as indicated in the following ways: *(Para 6.7.1)*




**(b)** ***Historical Costs*** are the actual costs of acquiring assets or producing goods or services. *(Para 6.7.2)*

They are 'post-mortem' costs ascertained after they have been incurred and they represent the cost of actual operational performance. Historical costing system follows a system of accounting to which all values (in revenue and capital accounts) are based on costs actually incurred or as relevant from time to time. *(Para 6.7.3)*

**(c)** ***Pre-determined Costs*** for a product are computed in advance of production, on the basis of a specification of all the factors affecting cost and cost data. Pre-determined costs may be either standard or estimated. *(Para 6.7.4)*

**(d)** ***Standard Costs****:* A predetermined norm applied as a scale of reference for assessing actual cost, whether these are more or less. The standard cost serves as a basis of cost control and as a measure of productive efficiency when ultimately posed with an actual cost. It provides management with a medium by which the effectiveness of current results is measured and responsibility of deviation placed. (*Para 6.7.5*)

Standard costs are used to compare the actual costs with the standard cost with a view to determine the variances, if any, and analyse the causes of variances and take proper measure to control them. *(Para 6.7.6)*

**(e)** ***Estimated Costs*** of a product are prepared in advance prior to the performance of operations or even before the acceptance of sale orders. *(Para 6.7.7)*

Estimated cost is found with specific reference to product in question, and activity level of the plant. It has no link with actual and hence it is assumed to be less accurate than the standard cost. *(Para 6.7.8)*

**(2) CAS 3 on "Overheads"**

***1.*** ***Overheads*** comprise indirect materials, indirect employee costs and indirect expenses which are not directly identifiable or allocable to a cost object in an economically feasible way. Last words in this definition 'in an economically feasible way' have been deleted in CAS -10 and 11.

***2.*** ***Overheads are to be classified*** on the basis of functions to which the overheads are related (Refer to 'Classification of cost' – CAS-1), viz. production overheads, administrative overheads, selling overheads, distribution overheads.

Overheads may also be classified on the basis of behaviour such as variable overheads, semi-variable overheads and fixed overheads.

**(a)** ***Variable overheads:*** They comprise expenses which vary in proportion to the change of volume of production. For example, cost of utilities etc.

**(b)** ***Fixed overheads***: They comprise expenses whose values do not change with the change in volume of production such as salaries, rent, etc.

**(c)** ***Semi*****-variable overheads:** These are partly affected by change in the production volume. They are further segregated into variable overheads and fixed overheads.

Any items of overhead arising out of an abnormal situation in business activity should not be treated as overheads. They are charged to Costing Profit and Loss Account. Items not related to business activities such as donation, loss/profit on sale of assets, etc. are also not to be treated as overheads.

Borrowing cost and other financial charges including foreign exchange fluctuations will not form the part of overheads. (Para 4.1)

3. ***Collection of overheads:*** Collection of overheads means the pooling of indirect items of expenses from books of account and supportive/corroborative records in logical groups having regards to their nature and purpose.

Overheads are collected on the basis of pre-planned groupings, called cost pools. Homogeneity of the cost components in respect of their behaviour and character is to be considered in developing the cost pool.

Variable and fixed overheads should be collected in separate cost pools under a cost centre. A great degree of homogeneity in the cost pools are to be maintained to make the apportionment of overheads more rational and scientific. A cost pool for maintenance expenses will help in apportioning them to different cost centres which use the maintenance service. (Para 4.2)

4. ***Allocation of overheads:*** Allocation of overheads is assigning a whole item of cost directly to a cost centre.

An item of expense which can be directly related to a cost centre is to be allocated to the cost centre. For example, depreciation of a particular machine should be allocated to a particular cost centre if the machine is directly attached to the cost centre. (Para 4.3)

5. ***Apportionment of overhead:*** Apportionment of overhead is distribution of overheads to more than one cost centre on some equitable basis.

When the indirect costs are common to different cost centres, these are to be apportioned to the cost centres on an equitable basis. For example, the expenditure on general repair and maintenance pertaining to a department can be allocated to that department but has to be apportioned to various machines (cost centres) in the department. If the department is involved in the production of a single product, the whole repair & maintenance of the department may be allocated to the product. (Para 4.4)

6. ***Primary and Secondary Distribution of Overheads:*** In case of multi-product environment, there are common service cost centres which are providing services to the various production cost centres and ***<u>other service cost centres</u>***. The costs of services are required to be apportioned to the relevant cost centres. First step to be followed is to apportion the overheads to different cost centres and then the second step is to apportion the costs of service cost centres to production cost centres on an equitable basis. The first step is termed as primary distribution and the second step is termed as secondary distribution of overheads. (Para 4.5)

7. ***Absorption of overheads:*** Absorption of overheads is charging of overheads from cost centres to products or services by means of absorption rates for each cost center which is calculated as follows (Para 4.6)

***<u>Overhead Absorption Rate =</u>*** Total overheads of the cost centre / Total quantum of base

The base (denominator) is selected on the basis of type of cost centre and its contribution to the products ***<u>or services</u>***. For example, machine hours, labour hours, quantity produced, etc.

***<u>Overhead absorbed =</u>*** Overhead absorption rate X units of base in product or service

***8. Disclosure:***

8.1 Once the basis of collection, allocation, apportionment and absorption for different cost centres are selected, the same shall be followed consistently and uniformly.

8.2 Change in basis for collection, allocation, apportionment and absorption can be adopted only when it is compelled by the change in circumstances like change in technology, refinement and improvement in the basis etc. and the change would provide more scientific approach.

In case of such changes, proper disclosure in cost records is essential.

8.3 Any change in basis for collection, allocation, apportionment and absorption which has a material effect on the cost of the product should be disclosed in the cost statements. Where the effect of such change is not ascertainable wholly or partly, the fact should be indicated in the cost statement.

**(3) CAS 5 on Determination of Average (Equalized) Cost of Transportation**

***1. Cost of Transportation***: It comprises the cost of freight, cartage, transit insurance and cost of operating fleet and other incidental charges whether incurred internally or paid to an outside agency for transportation of goods but does not include detention and demurrage charges.

***2.*** Maintenance of records for ascertaining Transportation Cost

2.1 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.

2.2 In case of company is having its 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 for picking up/ drop the students/ faculties.

2.3 In case of hired transport charges incurred for students/ faculties, type of transport used (in case of more than one transport vehicles)

2.4 Records of transportation cost directly allocable to a particular category of students/ faculties should be maintained separately so that allocation can be made accordingly.

2.5 For common transportation cost, both for own fleet and hired ones, proper records for basis of apportionment should be maintained.

**(4) CAS 7 on Employee Cost (Para 4)**

**1. *Employee Cost:*** The aggregate of all kinds of consideration paid, payable and provisions made for future payments for the services rendered by employees of an enterprise (including temporary, part time and contract employees). Consideration includes wages, salary, contractual payments and benefits, as applicable or any payment made on behalf of employee. This is also known as Labour Cost.

***Explanation:***

(i) Contract employees include employees directly engaged by the employer on contract basis but does not include employees of any contractor engaged in the organisation.

(ii) Compensation paid to employees for the past period on account of any dispute/ court orders shall not form part of Employee Cost

(iii) Short provisions of prior period made up in current period shall not form part of the employee cost in the current period.

Employee cost includes payment made in cash or kind. For example:

- Salaries, wages, allowances and bonus/incentives
- Contribution to provident and other funds
- Employee welfare
- Other benefits
- Employee cost – Future benefits
- Gratuity
- Leave encashment
- Other retirement/separation benefits
- VRS/ other deferred employee cost
- Other future benefits

**Benefits generally include:**

- Paid holidays.
- Leave with pay.
- Statutory provisions for insurance against accident or health scheme.
- Statutory provisions for workman's compensation.
- Medical benefits to the Employees and dependents.
- Free or subsidised food.
- Free or subsidised housing.
- Free or subsidised education to children.
- Free or subsidised canteen, crèches and recreational facilities.
- Free or subsidised conveyance.
- Leave travel concession.
- Any other free or subsidised facility.
- Cost of Employees' stock option.

2. ***Direct Employee Cost****:* The cost of employees which can be attributed to a Cost Object in an economically feasible way.
3. ***Indirect Employee Cost:*** The cost which cannot be directly attributed to a particular cost object.
4. ***Idle time***: The difference between the time for which the employees are paid and the employees' time booked against the cost object.

The time for which the employees are paid includes holidays, paid leave and other allowable time-offs such as lunch, tea breaks.

5. ***Abnormal Idle time:*** An unusual or atypical employee idle time occurrence of which is usually irregular and unexpected or due to some abnormal situations. E.g. Idle time due to a strike, lockout or an accident

6. ***Overtime:*** Overtime is the time spent beyond the normal working hours which is usually paid at a Premium higher rate than the normal time rate. The extra amount beyond the normal wages and salaries paid is called overtime premium.

7. **Principles of Measurement**

7.1 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.

7.2 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.

7.3 Remuneration payable to Managerial Personnel including Executive Directors on the Board and other officers of a corporate body under a statute will be considered as part of the Employee

Explanation: Remuneration paid to non-executive directors shall not form part of Employee Cost but shall form part of Administrative Overheads.

7.4 Separation costs related to voluntary retirement, retrenchment, termination etc. shall be amortised over the period benefitting from such costs.

7.5 Employee cost shall not include imputed costs.

7.6 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.

7.7 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.

7.8 Any Subsidy, Grant, Incentive or any such payment received or receivable with respect to any Employee cost shall be reduced for ascertainment of cost of the cost object to which such amounts are related.

7.9 Any abnormal cost where it is material and quantifiable shall not form part of the Employee cost.

7.10 Penalties, damages paid to statutory authorities or other third parties shall not form part of the Employee cost.

7.11 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.

7.12 Any recovery from the employee towards any benefit provided e.g. housing shall be reduced from the employee cost.

7.13 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 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.

**8. Presentation**

8.1 Direct Employee costs shall be presented as a separate cost head in the cost statement.

8.2 Indirect Employee costs shall be presented in cost statements as a part of overheads relating to respective functions e.g. manufacturing, administration, marketing etc.

8.3 The cost statement shall furnish the resources consumed on account of Employee cost, category wise such as wages salaries to permanent, temporary, part time and contract employees piece rate payments, overtime payments, Employee benefits (category wise) etc. wherever such items form a material part of the total Employee cost.

**9. Disclosures**

9.1 The cost statements shall disclose the following:

1. Employee cost attributable to capital works or jobs in the nature of deferred revenue expenditure indicating the method followed in determining the cost of such capital work.
2. Separation costs payable to employees.
3. Any abnormal cost excluded from Employee cost.
4. Penalties and damages paid etc. excluded from Employee cost.
5. Any Subsidy, Grant, Incentive and any such payment reduced from Employee cost.
6. The Employee cost paid to related parties.
7. Employee cost incurred in foreign exchange.

9.2 Any change in the cost accounting principles and methods applied for the measurement and assignment of the Employee Cost during the period covered by the cost statement which has a material effect on the Employee Cost. Where the effect of such change is not ascertainable wholly or partly the fact shall be indicated.

9.3 Disclosures shall be made only where material, significant and quantifiable.

9.4 Disclosures shall be made in the body of the Cost Statement or as a foot note or as a separate schedule.

**(5) CAS-8 on Direct Expenses**

**1. 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 and direct employee cost (Para 4).

**2. Direct Expenses based on Standard Cost**

In some cases direct expenses are charged based on standard cost. Standard costs are used to compare the actual costs with the standard cost with a view to determine the variances, if any, and analyze the causes of variances and take proper measure to control them.

Standards may be fixed for certain direct expenses such as job charges for loading, and unloading, packing charges of goods, Annual maintenance contract for certain equipment.

**3. Principles for Measurement**

(i) Identification of Direct Expenses should be based on traceability in an economically feasible manner.

(ii) Measurement of direct expenses depends upon identification and traceability to cost object in an economically feasible manner. If an expense can be identified with a cost object/ product and is sufficient materiality in amount, it is treated as Direct Expenses. For tracing of direct expenses to a cost object, it requires an exercise to analyse the cost involved, benefit to accrue and over-riding requirement to identify direct expenses with the cost object.

(iii) Direct Expenses incurred for the use of bought out resources should 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.

(iv) Direct Expenses paid or incurred in lump-sum or which are in the nature of 'one-time' payment, should be amortised on the basis of the estimated output or benefit to be derived from such direct expenses.

(v) If an item of Direct Expenses does not meet the test of materiality, it can be treated as part of overheads.

If an item of expense is to be treated as Direct Expense or Indirect Expense, it should be determined in terms materiality of an item. Materiality depends on the size and nature of item judged in particular circumstances. An item of expense / information is considered material if its misstatement (i.e. omission or erroneous statement) could influence the economic decisions of users based on the cost statement. For example Royalty is a material item from the point of view of information. It should be shown as a separate item in the cost records and not aggregated with overhead even though it may not be significant in term of the total cost of the product/service. In another case, AMC charges/job charges can be identified with the cost object but if not being material and significant in value, it may be treated as overhead.

(vi) Finance Costs incurred in connection with the self-generated or procured resources should not form part of Direct Expenses.

(vii) Direct Expenses should not include imputed costs.

(viii) Where direct expenses are accounted at standard cost, variances due to normal reasons should be treated as part of the Direct Expenses. Variances due to abnormal reasons should not form part of the Direct Expenses.

(ix) Any subsidy/grant/incentive or any such payment received/receivable with respect to any Direct Expenses should be reduced for ascertainment of the cost of the cost object to which such amounts are related.

(x) Any abnormal portion of the direct expenses where it is material and quantifiable should not form part of the Direct Expenses.

(xi) Penalties, damages paid to statutory authorities or other third parties should not form part of the Direct Expenses.

Example:

- Penalty for delay in depositing Provident Fund contribution with the Provident Commissioner.

- Penalties / Damages are an abnormal cost and do not form part of the Direct Expenses it is charged to profit & Loss account.

(xii) Credits/recoveries relating to the direct expenses, material and quantifiable, should be deducted to arrive at the net direct expenses.

(xiii) 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 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 organization.

**(6) CAS-11 on Administrative Overheads**

1. **Administrative Overheads:** Cost of all activities relating to general management and administration of an organisation.

These are indirect Costs that are incurred in support of programs, outputs or other operating activities. These include cost of functions such as senior management, information systems, finance and accounting, which usually cannot be assigned on a cause and effect basis. Other support costs that may be assigned on that basis such as purchasing (procurement), personnel (human resources), insurance and property logistics, are sometimes also included in this term.

For example,

- Salaries of administrative and accounts staff
- Directors' Fees
- General office expenses like rent, lighting, rates and taxes, telephone, printing and stationery, postage etc.
- Bank Charges
- Audit Fees
- Legal Expenses
- Depreciation
- Repair and Maintenance of office building etc.

**2. Principles of Measurement**

(i) Administrative overheads should be the aggregate of cost of resources consumed in activities relating to general management and administration of an organization.

(ii) In case of leased assets, if the lease is an operating lease, the entire rentals should be included in the administrative overheads. If the lease is a financial lease, the finance cost portion should be segregated and treated as part of finance cost.

(iii) The cost of software which is developed in-house, purchased, licensed or which is customized and it includes up-gradation cost shall have to be amortized over its estimated useful life.

When hardware requires up-gradation along with software up-gradation, then compatible estimated lives be used for the two sets of cost.

(iv) The cost of administrative services procured from outside should be determined at the value of 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.

(v) If the subsidy or grant including any incentive or any amount of similar nature which is received or is receivable with respect to any administrative overheads should be reduced for ascertainment of cost of the cost object to which such amounts are related.

(vi) The administrative overhead will not include any abnormal administrative cost.

Example: Expense incurred in a situation of natural calamity is an abnormal expense and should not be included in administrative overheads.

(vii) Fines, penalties, damages and similar levies which are paid to statutory authorities or other third parties should not form part of the administrative overheads.

(viii) Credits and recoveries relating to the administrative overheads including those rendered without any consideration which is of material value and are quantifiable should be deducted to arrive at the net administrative overheads.

(ix) 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 for any compliance with the requirements of any standard or a change would result in a more appropriate preparation or presentation of cost statements/ cost records of an organization.

**(7) CAS-12 on Repairs and Maintenance**

**1.** ***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 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. Major overhaul is a periodic (generally more than one year) repair work carried out to substantially restore the asset to intended working condition and the cost of such repair work is expensed off in the year of incurrence.

***2. Principles of Measurement***

(i) The cost of Repairs and Maintenance is the aggregate of direct and indirect cost relating to repairs and maintenance activity.

Direct cost includes the cost of materials, consumable stores, spares, manpower, equipment usage, utilities and other identifiable resources consumed in such activity. Indirect cost includes the cost of resources common to various repairs and maintenance activities such as manpower, equipment usage and other costs allocable to such activities.

(ii) Cost of in-house repairs and maintenance activity should include cost of materials, consumable stores, spares, manpower, equipment usage, utilities and other resources used in such activity.

(iii) Cost of Repairs and maintenance activity carried out by outside contractors inside the entity should 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.

(iv) Cost of repairs and maintenance jobs carried out by contractor at its premises should 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 should also include the cost of other resources provided to the contractors.

(v) Cost of repairs and maintenance jobs carried out by outside contractors will include charges made by the contractor and cost of raw materials, consumable stores, spares, manpower, equipment usage, utilities and other costs in such jobs.

(vi) Each type of repairs and maintenance is treated as a distinct activity, if material is identifiable.

For example, routine or preventive maintenance, planned (predictive or corrective) maintenance and breakdown maintenance should be identified separately.

(vii) Cost of spares replaced which do not enhance the future economic benefits from the existing asset beyond its previously assessed standard of performance will be included under repairs and maintenance cost.

(viii) High value spare when replaced by a new spare and if it is reconditioned, which is expected to result in future economic benefits, the same should be taken into stock. Major overhaul is a periodic (generally more than one year) repair work carried out to substantially restore the asset to intended working condition and the cost of such repair work is expensed off in the year of incurrence and would form part of Repairs & Maintenance Cost.

(ix) Finance Costs incurred in connection with the repairs and maintenance activities should not form part of Repairs and Maintenance Cost.

(x) Repairs and maintenance costs should not include imputed costs.

(xi) Price variances related to repairs and maintenance, where standard costs are in use, should be treated as part of repairs and maintenance cost. The portion of usage variances attributable to normal reasons should be treated as part of repairs and maintenance cost. Usage variances attributable to abnormal reasons should be excluded from repairs and maintenance cost.

(xii) Subsidy/Grant/Incentive or amount of similar nature received/receivable with respect to repairs and maintenance activity, if any, should be reduced for ascertainment of the cost of the cost object to which such amounts are related.

(xiii) Any repairs and maintenance cost resulting from some abnormal circumstances, if material and quantifiable, should not form part of the repairs and maintenance cost.

(xiv) Fines, penalties, damages and similar levies paid to statutory authorities or other third parties should not form part of the repairs and maintenance cost.

(xv) Credits/recoveries relating to the repairs and maintenance activity, material and quantifiable, should be deducted to arrive at the net repairs and maintenance cost.

(xvi) 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 for compliance with the requirements of a law or a change would result in a more appropriate preparation or presentation of cost statements/cost records of an organization.

**(8) CAS-12 on Cost of Service Cost Centre**

**1.** ***Service Cost Centre:*** The cost centre which primarily provides auxiliary services across the enterprise.

The cost centre which provides services to Production, *Operation or other Service Cost Centre* but not directly engaged in manufacturing process or operation is a service cost centre. A service cost centre renders services to other cost centers / other units and in some cases to outside parties.

Examples of service cost centers are Engineering, Workshop, Research &Development, Quality Control, Quality Assurance, Laboratory, Welfare Services, Safety, Transport, Pollution Control, Computer Cell, Dispensary, School, Crèche, Township, Security etc.

**2. *Principles of Measurement***

(i) Each identifiable service cost centre should be treated as a distinct cost object for measurement of the cost of services subject to the principle of materiality.

(ii) Cost of service cost centre should be the aggregate of direct and indirect cost attributable to services being rendered by such cost centre.

(iii) Cost of in-house services should include cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources used in such service. Cost of other resources should include related overheads.

(iv) Cost of services rendered by contractors within the facilities of the entity should 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.

(v) Cost of services rendered by contractors at their premises should 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 should also include the cost of resources provided to the contractors.

(vi) Cost of services for the purpose of inter unit transfers should also include distribution costs incurred for such transfers.

(vii) Cost of services for the purpose of inter-company transfers shall also include distribution cost incurred for such transfers and administrative overheads.

(viii) Cost of services rendered to outside parties shall also include distribution cost incurred for such transfers, administrative overheads and marketing overheads.

(ix) Finance costs incurred in connection with the Service Cost Centre shall not form part of the cost of Service Cost Centre.

(x) The cost of service cost centre shall not include imputed costs.

(xi) 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.

(xii) Any Subsidy / Grant / Incentive or any such payment received / receivable with respect to any service cost centre shall be reduced for ascertainment of the cost to which such amounts are related.

(xiii) Cost of a Stand-by service shall include the committed costs of maintaining such a facility for the service.

(xiv) Any abnormal cost where it is material and quantifiable shall not form part of the cost of the service cost centre.

(xv) Penalties, damages paid to statutory authorities or other third parties shall not form part of the cost of the service cost centre.

(xvi) Credits/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.

(xvii) 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.

**(9) CAS-14 on Pollution Control Cost**

**1. Definition (Para 4)**

**(i) Air pollutant:** Air Pollutant means any solid, liquid or gaseous substance (including noise) present in the atmosphere in such concentration as may be or tend to be injurious to human beings or other living creatures or plants or property or environment. [Section 2 (a) of the Air (Prevention and Control of Pollution) Act, 1981]

**(ii) Air Pollution:** Air pollution means the presence in the atmosphere of any air pollutant. **[**Section 2 (b) of the Air (Prevention and Control of Pollution) Act, 1981]

**(iii) Environment:** Environment includes water, air and land and the inter-relationship which exists among and between water, air and land, and human beings, other living creatures, plants, micro-organism and property.

**(iv) Environmental Pollutant:** Environmental Pollutant means any solid, liquid or gaseous substance present in such concentration as may be, or tend to be, injurious to environment.

**(v) Environment Pollution:** Environmental pollution means the presence in the environment of any environmental pollutant.

**(vi) Pollution Control:** 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.

**(vii) Soil Pollutant:** Soil Pollutant is a substance such as cadmium, copper, arsenic, mercury, oil and organic solvent, which is the source of soil contamination.

**(viii) Soil Pollution:** Soil pollution means the presence of any soil pollutant(s) in the soil which is harmful to the living beings when it crosses its threshold concentration level.

**(ix) Water pollution:** Pollution means such contamination of water or such alteration of the physical, chemical or biological properties of water or such discharge of any sewage or trade effluent or of any other liquid, gaseous or solid substance into water (whether directly or indirectly) as may, or is likely to, create a nuisance or render such water harmful or injurious to public health or safety, or to domestic, commercial, industrial, agricultural or other legitimate uses, or to the life and health of animals or plants or of aquatic organisms.

**2. Principles of Measurement**

(i) Pollution Control costs shall be the aggregate of direct and indirect cost relating to Pollution Control activity.

(ii) Direct cost includes 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 includes the cost of resources common to various Pollution Control activities such as Pollution Control Registration and such like expenses.

(iii) 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.

(iv) 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.

For example future disposal costs of solid waste generated during the current period should be estimated on, say, a per tonne basis.

(v) 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.

(vi) 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.

(vii) 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.

(viii) 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.

(ix) 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.

(x) Each type of Pollution Control e.g. water, air, soil pollution shall be treated as a distinct activity, if material and identifiable.

(xi) Finance costs incurred in connection with the Pollution Control activities shall not form part of Pollution Control costs.

(xii) Pollution Control costs shall not include imputed costs.

(xiii) 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.

(xiv) Subsidy / Grant / Incentive or amount of similar nature received / receivable with respect to Pollution Control activity, if any, shall be reduced for ascertainment of the cost of the cost object to which such amounts are related.

(xv) Any Pollution Control cost resulting from abnormal circumstances, if material and quantifiable, shall not form part of the Pollution Control cost.

(xvi) Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the Pollution Control cost.

(xvii) Credits / recoveries relating to the Pollution Control activity, material and quantifiable, shall be deducted to arrive at the net Pollution Control cost.

(xviii) 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 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.

**(10) CAS-15 on Selling and Distribution Overheads**

1. ***Distribution costs or Distribution overheads:*** Distribution Overheads are the costs incurred in handling a product or service from the time it is ready for delivery until it reaches the ultimate consumer.
2. ***Selling Overheads:*** Selling Overheads, also known as Selling Costs, are the expenses related to sale of products and include all Indirect Expenses in sales management for the organization.

   ***For Example:***

   (i) Salaries of sales personnel

   (ii) Travelling expenses of sales personnel

   (iii) Sales and brand promotion expenses including advertisement, publicity, sponsorships, endorsements and similar other expenses.
3. ***Marketing Overheads:*** Marketing Overheads comprises Selling Overheads and Distribution Overheads.
4. ***Principles of Measurement***

   (i) Selling and Distribution Overheads shall be the aggregate of the cost of resources consumed in the selling and distribution 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.

(ii) Selling and Distribution Overheads, the benefits of which are expected to be derived over a long period, shall be amortised on a rational basis.

(iii) Selling and distribution overheads shall not include imputed cost.

(iv) Any Subsidy / Grant / Incentive or any such payment received / receivable with respect to any Selling and Distribution Overheads shall be reduced from the cost of the sales of the cost object.

(v) Any abnormal cost relating to selling and distribution activity shall be excluded from the Selling and Distribution Overheads.

(vi) Penalties and damages paid to statutory authorities or other third parties shall not form part of the Selling and Distribution Overheads.

(vii) Credits / recoveries relating to the Selling and Distribution Overheads including those rendered without any consideration, material and quantifiable, shall be deducted to arrive at the net Selling and Distribution Overheads.

(viii) Any change in the cost accounting principles applied for the measurement of the Selling and Distribution Overheads 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 entity.

**(11) CAS-16 on Depreciation and Amortisation**

1. Definitions

(i) *Amortisation:* Amortisation is the systematic allocation of the depreciable amount of an intangible asset over its useful life.

It refers to expensing the acquisition cost minus the residual value of intangible assets such as Franchise, Patents and Trademarks or Copyrights in a systematic manner over their estimated useful economic life so as to reflect their consumption in the production of goods and services.

(ii) *Asset:* The terms Asset, Fixed Asset and Intangible Asset will have the same meaning as in the Accounting Standards notified by the Central Government under the Companies (Accounting Standards) Rules, 2006.

An asset is a resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise. In case of some assets which are acquired for safety or environmental reasons, the acquisition of such assets may not provide future economic benefits directly but may be necessary for an entity to obtain the future economic benefits from other assets. Such items also qualify for recognition as assets.

(iii) *Depreciation:* Depreciation is a measure of the wearing out, consumption or other loss of value of a depreciable asset arising from use, efflux of time or obsolescence through technology and market changes. Depreciation is allocated so as to charge a fair proportion of the depreciable amount in each accounting period during the estimated useful life of the asset.

Depreciable amount of a depreciable asset is its historical cost, or other amount substituted for historical cost in the financial statements, less the estimated residual value.

Depreciable fixed and Intangible assets are assets which:

(a) are expected to be used during more than one accounting period;

(b) have a limited useful life; and

(c) are held by an enterprise for use in the production or supply of goods and services, for rental to others, or for administrative purposes and not for the purpose of sale in the ordinary course of business.

Land is not a depreciable asset as it does not have a defined useful life.

(iv) *Residual (salvage) value:* Residual value is the amount which an enterprise expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.

*Useful life of asset* is either

(a) the period over which a depreciable asset is expected to be used by the enterprise; or

(b) the number of production or similar units expected to be obtained from the use of the asset by the entity

***2. Principles of Measurement***

(i) Depreciation and Amortisation shall be measured based on the depreciable amount and the useful life.

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 and:

I. residual value can be determined by reference to that market; and

II. it is probable that such a market will exist at the end of the asset's useful life.

III. The residual value of a fixed asset shall be considered as zero if the entity is unable to estimate the same with reasonable accuracy.

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.

(ii) While estimating the useful life of a depreciable asset, consideration shall be given to the following factors:

(a) Expected physical wear and tear;

(b) Obsolescence; and

(c) Legal or other limits on the use of the asset.

(iii) The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights, but may be shorter depending on the period over which the entity expects to use the asset.

The useful life of an intangible asset, in any situation, shall not exceed 10 years from the date it is available for use.

(iv) Depreciation shall be considered from the time when a depreciable asset is first put into use.

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.

(v) Depreciation of any addition or extension to an existing depreciable asset which becomes an integral part of that asset shall be based on the remaining useful life of that asset.

(vi) Depreciation of any addition or extension to an existing depreciable asset which retains a separate identity and is capable of being used after the expiry of the useful life of that asset shall be based on the estimated useful life of that addition or extension.

The impact of higher depreciation due to revaluation of assets shall not be assigned to cost object.

(vii) Impairment loss on assets shall be excluded from cost of production.

(viii) The method of depreciation used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

(ix) An entity can use any of the methods of depreciation to assign depreciable amount of an asset on a systematic basis over its useful life.

For example:

a) Straight-line method;
b) Diminishing balance method; and
c) Units of production method.

(x) The method of amortisation of intangible asset shall reflect the pattern in which the economic benefits accrue to entity.

(xi) The methods and rates of depreciation applied shall be reviewed at least annually and, if there has been a change in the expected pattern of consumption or loss of future economic benefits, the method applied shall be changed to reflect the changed pattern.

(xii) Spares purchased specifically for a particular asset, or class of assets, and which would become redundant if that asset or class of asset was retired or use of that asset was discontinued, shall form part of that asset. The depreciable amount of such spares shall be allocated over the useful life of the asset.

Cost of small assets shall be written off in the period in which they were purchased as per the accounting policy of the entity.

(xiii) Depreciation of an asset shall not be considered in case cumulative depreciation exceeds the original cost of the asset, net of residual value.

**(12) CAS-17 on Interest and Financing Charges**

1. ***Interest and Financing charges:*** 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.

Examples are:

(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.1

The terms Interest and financing charges, finance costs, and borrowing costs are used interchangeably.

**2. *Net current asset:*** Net current asset is the excess of current assets over current liabilities.

*Current Liabilities* shall include short term borrowings and that part of long term borrowings which are classified as current liabilities.

*Short term borrowing* is the borrowing which is repayable within one year from the date of disbursal as per Loan Agreement.

*Long term borrowing* is the borrowing which is repayable after one year from the date of disbursal as per Loan Agreement.

***3. Principles of Measurement***

(i) Interest and Financing Charges incurred shall be identified for:

(a) acquisition / construction/ production of qualifying assets including fixed assets; and

(b) Other finance costs for production of goods/ operations or *services rendered* which cannot be classified as qualifying assets.

(ii) Interest and Financing Charges directly attributable to the acquisition /construction/ production of a qualifying asset shall be included in the cost of the asset.

(iii) Interest and Financing Charges shall not include imputed costs.

(iv) Subsidy / Grant / Incentive or amount of similar nature received / receivable with respect to Interest and Financing Charges if any, shall be reduced to ascertain the net interest and financing charges.

(v) 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.

(vi) Interest paid for or received on investment shall not form part of the other financing charges for production of goods / operations or *services rendered*;

**(13) CAS 18 Research and Development Costs**

**1. *Research:*** Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

**2. *Development:*** Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services prior to the commencement of commercial production or use.

***3. Principles of Measurement***

(i) Research and Development Costs shall include all the costs that are directly traceable to research and/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.

(ii) Subsidy / Grant / Incentive or amount of similar nature received / receivable with respect to Research and Development Activity, if any, shall be reduced from the cost of such Research and Development Activity.

(iii) Any abnormal cost where it is material and quantifiable shall not form part of the Research and Development Cost.

(iv) Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the Research, and Development Cost.

(v) The amortisation of an intangible asset arising from the development activity shall be treated as set out in the CAS 16 relating to Depreciation and Amortisation.

(vi) Research and Development costs shall not include imputed costs.

(vii) Credits/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.

**(14) CAS-20 Royalty and Technical Know-how Fee**

**1.** ***Royalty*** is a compensation/ periodic payments for the use of asset (tangible and/or intangible) to the owner for use of his asset in the production, selling and distribution by an entity.
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.
The terms Assets, tangible assets and intangible assets will have the same meaning as in the Accounting Standards notified by the Central Government under the Companies (Accounting Standards) Rules, 2006.

**2.** ***Technical Know-how Fee:*** Technical Know-how Fee is a lump sum or periodical amount payable to provider of technical Know-how in the form of design, drawings, training of personnel, or practical knowledge, skills or experience.

***3. Principles of Measurement***

(i) 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.

Examples: 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 */service volumes* estimated for the period over which the asset is expected to benefit the entity.

(ii) Amount of the Royalty and Technical Know-how Fee shall not include finance costs and imputed costs.

(iii) Any Subsidy/Grant/Incentive or any such payment received/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.

(iv) Penalties, damages paid to statutory authorities or other third parties shall not form part of the amount of Royalty and Technical Know-how fee.

(v) Credits/ 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 Knowhow fee.

(vi) 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.

**(15) CAS-21 on Quality Control**

1. ***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.
2. ***Quality Control cost:*** This represents Cost of resources consumed towards quality control procedures.
3. ***Principles of Measurement***

(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. 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.

(ii) Identification of Quality Control costs shall be based on traceability in an economically feasible manner.

(iii) Finance costs incurred in connection with the self-generated or procured resources shall not form part of Quality Control cost.

(iv) Quality Control costs shall not include imputed costs.

(v) Any Subsidy/Grant/Incentive or any such payment received/receivable with respect to any Quality Control cost shall be reduced for ascertainment of the cost of the cost object to which such amounts are related.

(vi) Any abnormal portion of the Quality Control cost where it is material and quantifiable shall not form part of the Cost of Quality Control.

(vii) Penalties, damages paid to statutory authorities or other third parties shall not form part of the Quality Control cost.

(viii) 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.

**Chapter 6: Cost Audit and Appointment of Cost Auditor**

Section 148 of the Companies Act 2013 contains the provisions relating to maintenance of cost records, appointment of cost auditor and cost audit. Sub-section (2) of Section 148 states:

"*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*".

Pursuant to section 148, Central Government notified the Companies (Cost Records and Audit) Rules 2014 on 30th June 2014 vide GSR 425(E) dated 1st July 2014. These Rules were amended by Central Government by the Companies (Cost Records and Audit) Amendment Rules 2014 on 31st December 2014 vide GSR 1(E) dated 1st January 2015. These Rules *inter-alia* define the class of companies and turnover limits for maintenance of cost records and cost audit by the class of companies defined in Table-A (*applicable to Regulated Sector*) and Table-B (*applicable to Non-Regulated Sector*).

Table-B (*applicable to Non-Regulated Sector*) under Rule 3, the following activities relating to infrastructure sector are covered for audit of Cost Records:

*(iii) 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;*

*(iv) 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)*

**What is Cost Audit?**

During the Rajya Sabha Debate on the Companies Amendment Bill, 1965, **Smt. Tara Ramchandra Sathe (MP for Maharashtra)** stated as under:

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

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

**Audit, Audit Risk and Cost Audit**

1. As defined by Cost Audit and Assurance Standard (CAAS 101) on "**Planning an Audit of Cost Statements**":

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

**2. Audit Risk:**

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

a. **Inherent risk –** the susceptibility of an assertion about the measurement, assignment or disclosure of cost to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.

b. **Control risk –** the risk that a misstatement that could occur in an assertion about the measurement, assignment or disclosure of cost and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal, operational and management control.

c. **Detection risk –** the risk that the procedures followed by the cost auditor to reduce audit risk to an acceptable low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements.

**3. Features of Auditing:**

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

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

(a) It is an independent appraisal of functions established within the organization to examine and evaluate its activities and therefore the auditor should not have any interest in the area under audit, which may be regarded as impairing his objectivity and is incompatible with his integrity.

(b) It is to be conducted by those who have the necessary professional qualifications and satisfy the specific legal requirements, if any.

(c) It involves making such tests and enquiry into the area covered by audit as the auditor may find necessary to form an opinion, while exercising due professional care and diligence.

(d) The opinion of the auditor should cover those aspects which are required to be covered under professional norms as well as the law which governs the audit.

(e) The opinion should indicate whether the statements, which are covered by audit, disclose all material matters relevant for the purpose of proper presentation and the specific requirements of law, which may be applicable to that presentation.

**4. Definition of Cost Audit:**

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

**5. Features of Cost Audit:**

Cost Audit in this Guidance Note refers to the cost audit ordered under Section 148(2) of the Companies Act, 2013. The additional features of the cost audit, in addition to the features mentioned above are as follows:

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

(ii) Assessing that the books and records maintained by company are in conformity with provisions of the section 128 read with section 148(1) of the Companies Act 2013 and Companies (cost records and audit) Rules 2014.

(iii) Assessing that the books and records maintained by the Company are in conformity with CRA-1 annexed to Companies (Cost Records and Audit) Rules 2014, as amended and the Cost Accounting Standards (CAS) & Generally Accepted Cost Accounting Standards (GACAPS) issued by the Institute of Cost and Works Accountants of India.

(iv) Assessing that there is a system of internal audit, internal checks and control exists in the company and is adequate and commensurate to its nature and size of its business.

(v) Assessing that the Company keeps detailed unit-wise and product/ activity-wise cost statements and schedules thereto and certified by the cost auditor(s).

(vi) Assessing that the company has the cost accounting policy and costing system and to assess whether it is adequate to calculate per unit cost of services, cost of sales and margin for each of its courses and activities under review.

(vii) Assessing and evaluation of the operating and other efficiencies of the company under audit with special reference to its activities under review.

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

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

These include:

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

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

(i) The cost reporting framework generally prescribed by the Cost Audit Report Rules on which the cost information to be audited has been prepared, including need for reconciliation with financial reporting framework.

(ii) The specific requirements of construction activities as per cost accounting record rules.

(iii) Reliance that can be placed on the work of financial auditors and internal auditors for example their attendance in physical verification of assets and stock.

(iv) State of IT implementation, whether the entity is using an ERP system or internally developed systems and the reliance that can be placed on them.

(v) Statutory timelines for cost reporting which can be modified by managements for early completion.

(vi) Timelines for Board/ audit committee meetings which can set the time limits for completion of audit work.

(vii) Resources required and available in terms of manpower, equipment and others and the assignment of these to specific parts of the work.

(viii) Cost Accounting Policy and Cost Accounting System of the Company.

(ix) Cost behaviour in the past two years.

(x) Services that are covered under the cost audit and not covered under the cost audit.

(xi) Related Party Transactions, applying arm's length principle.

(xii) Monthly statements and reports generated by the company.

(xiii) Organisation chart with details of responsibilities of different persons connected with each area of audit.

(xiv) Budgetary & other Controls in existence, including efficiency parameters.

(xv) Reconciliation of Indirect Taxes (Service Tax, Cess & Others)

(xvi) Follow up based on earlier cost audit reports.

**9. Planning would include:**

(a) Acquiring knowledge of the company's activities, business process, financial and cost accounting policies & systems;

(b) Establishing the expected degree of reliance to be placed on internal control;

(c) Determining and programming the nature, timing and extent of the audit procedures to be performed;

(d) Coordinating with the client with regard to the work to be performed;

(e) Deciding Audit Team of persons having adequate training, experience and competence in conducting audit. The nature, extent and timing of the direction and supervision of audit team members and review of their work vary depending on, among others, the size and complexity of the entity, risk assessment results and the capabilities and competence of the individual team members performing the audit work.

(f) For a first year audit, the planning activities may expand to cover consultations with the previous auditor, review of previous year's audit working papers if made available and previous years' transactions having an impact on current year's cost.

(g) Briefing the personnel on the requirements, coverage and documentation of audit evidence.

(h) Deciding on areas of audit, quantum to be covered, types of checks and techniques to be used, methodology of collection of facts and on recording the progress of audit;

(i) Ascertaining the nature, timing and extend of manpower required to conduct the audit.

(j) Laying down time targets for completion of different segments of audit converting them into audit milestones.

**10. Contents of Audit Plan:**

The audit plan may include the following contents:

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

Note: For details, the readers may refer *Cost Audit and Assurance Standard (CAAS 101) on "**Planning an Audit of Cost Statements***" issued by the Institute of Cost Accountants of India.

**11. Knowledge of the Company's Business:**

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

i) Brief history of the company and its business activities;
ii) Corporate Structure, subsidiaries and other affiliates;
iii) Details of key personnel;
iv) Details of related parties;
v) Details of any foreign collaboration and agreement;
vi) Annual reports and accounts for the last three years;
vii) Internal control systems and Internal audit reports;
viii) Budget of the relevant financial year;
ix) Inter unit and inter-company transactions policy;
x) Pricing policies – domestic and foreign students;
xi) Main services and auxiliary services;
xii) Business process flow charts

xiii) In-take as prescribed by relevant authorities with respect to various courses and changes made during last three years;

xiv) Identification of cost centres, and service cost centres;

xv) Cost accounting policy;

xvi) Details of cost accounting and related records;

xvii) Cost accounting manual, if any

xviii) Cost Accounting Standards, Generally Accepted Cost Accounting Principles, Cost Audit and Assurance Standards and other relevant publications of the Institute of Cost Accountants of India;

xix) Relevant publications of Industry Associations, trade journals;

xx) Visits to the company's premises and facilities;

xxi) Current Government legislation with respect to Cost Accounting Records and Cost Audit

xxii) Government rules, regulations and directives affecting the company's business;

xxiii) Current business developments affecting the company;

xxiv) Existence of parties in whom directors or persons who are substantial owners of the entity are interested and with whom transactions are likely;

xxv) Recent or impending changes in information technology/ERP systems/ SAP

xxvi) Publicity methods

xxvii) Scope and timing of the examination

xxviii) Assistance of company's personnel in data preparation.

**12. Documentation:**

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

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

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

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

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

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

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

(i) Conformance of audit procedures performed with legal and regulatory requirements;

(ii) Conformance to cost audit and assurance standards;

(iii) The results of audit procedures performed;

(iv) The audit evidence obtained;

(v) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

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

**12.4 Contents or Form of Documentation:**

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

**12.5 Records & Other Materials:**

Another area which would in the long run improve the audit productivity is the working paper management. The essential aspect of such management is quick retrieval of information from his files. Such retrieval is possible only with a sound filing system. This would depend on the style of each individual but the following remarks may be helpful.

Normally auditors organise their papers into:

(i) Permanent file

(ii) Working file

(iii) Correspondence and administrative file.

**(1) Permanent file:**

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

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

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

**(a) Statutory material**

i) Relevant provisions of the Companies Act, 2013

ii) Copy of the Companies (Cost Records and Audit) Rules, 2014

iii) Notifications/ Circulars/S.Os issued by the Ministry of Corporate Affairs relevant to Cost Audit and clarifications etc.

iv) Cost Accounting Standards(CAS) issued by the Institute of Cost Accountants of India

v) Generally Accepted Cost Accounting Principles (GACAP) issued by the Institute of Cost Accountants of India.

**(b) The rules and regulations of the company**

i) Memorandum of Association.

ii) Articles of Association.

iii) Certificate of Incorporation / Commencement of Business.

iv) Registration documents under various statutory bodies including Tax authorities.

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

i) Letter of engagement and Board Resolution for appointment of the auditor including letter confirming filing of e-Form by the Company with the Central Government

ii) Record of communication with the retiring auditor

iii) Royalty Agreement / Professional & Technical collaboration

iv) Copies of important legal documents/contracts

v) Norms prescribed by various authorities relating to industry

vi) ISO Certification, if any

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

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

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

**(g)** An outline history of the company

**(h)** Analysis of significant ratios and trends

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

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

**(k) Business structure within a group and associated companies** - List of all holding, subsidiary and associate of company in India and abroad.

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

**(2) Current File**

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

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

**(3) Working file :**

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

Working papers ordinarily include the following:

(i) Business Process Flow Chart
(ii) Idle Time of Teaching and Non-Teaching Staff
(iii) Root Cause analysis of Down Time

(iv) Details of Business Process modifications carried out and their impact on cost of services
(v) Capital Expenditure incurred during the year and its impact on intake of students and other activities of the company
(vi) Cost Centre-wise allocation of expenses and system there on, Reconciliation with Financial Accounts
(vii) Non-moving Assets and Stocks etc.

**(4) Correspondence and administrative file:**

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

**A) Report Writing:**

The report writing is essential skill which a cost auditor should systematically develop. The Report should clearly bring out the auditor's observations and professional in its presentation. Further, the report should be written by using the professional care and language should be simple and unambiguous. Certification of figures is only a part of the report. Other aspects are the analysis, critical review of the systems in vogue in the company, identification of areas where improvement could be made by the Company and give suggestions for improvement for the identified areas.

***A Good Audit Report should satisfy the following criteria:***

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

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

*Note: For more details, the readers may refer "Cost Audit and Assurance Standard (CAAS 102) on "**Cost Audit Documentation"** issued by the Institute of Cost Accountants of India.*

**13. Provisions of Companies (Cost Records and Audit) Rules 2014 relating to Cost Audit**

The following are provisions relating to Cost Audit as contained in the Companies (Cost Records and Audit) Rules 2014, as amended:

**Rule 4:**

**Applicability for cost audit** ***:-****(1) Every company specified in item (A) of rule 3 shall get its cost records audited in accordance with these rules if the overall annual turnover of the company from all its products and services during the immediately preceding financial year is rupees fifty crore or more and the aggregate turnover of the individual product or products or service or services for which cost records are required to be maintained under rule 3 is rupees twenty five crore or more*. [**This sub-section is applicable to Regulated Sector- Table-A**].

(2) *Every company specified in item (B) of rule 3 shall get its cost records audited in accordance with these rules if the overall annual turnover of the company from all its products and services during the immediately preceding financial year is rupees one hundred crore or more and the aggregate turnover of the individual product or products or service or services for which cost records are required to be maintained under rule 3 is rupees thirty five crore or more.* [**This sub-section is applicable to Non-Regulated Sector- Table-B**].

*(3) The requirement for cost audit under these rules shall not apply to a company which is covered in rule 3, and-*

*(i) whose revenue from exports, in foreign exchange, exceeds seventy five per cent of its total revenue; or*

*(ii) which is operating from a special economic zone.*

**Rule 6:**

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

*(2) Every company referred to in sub-rule (1) shall inform the cost auditor concerned of his or its appointment as such and file a notice of such appointment with the Central Government within a period of thirty days of the Board meeting in which such appointment is made or within a period of one hundred and eighty days of the commencement of the financial year, whichever is earlier, through electronic mode, in form CRA-2, along with the fee as specified in Companies (Registration Offices and Fees) Rules, 2014*.

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

(3A) *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*.

*(4) Every cost auditor, who conducts an audit of the cost records of a company, shall submit the cost audit report along with his or its reservations or qualifications or observations or suggestions, if any, in form CRA-3*.

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

*(6) Every company covered under these rules shall, within a period of thirty days from the date of receipt of a copy of the cost audit report, furnish the Central Government with such report along with full information and explanation on every reservation or qualification contained therein, in formCRA-4alongwith fees specified in the Companies (Registration Offices and Fees) Rules, 2014.*

*(7) The provisions of sub-section (12) of section 143 of the Act and the relevant rules made thereunder shall apply mutatis mutandis to a cost auditor during performance of his functions under section 148 of the Act and these rules.*

***Note on the above Rule 6:*** It may be noted that the provisions of Rule 6 are related to appointment of Cost Auditor by the companies which are covered for cost audit as per Rule 4.

**14. Appointment of Cost Auditor**

The companies covered under Rule 4 as above are required to conduct audit of cost records and under Rule 6 as above are required to appoint cost auditor.

***The Provisions relating to the Section 148(2) read with Companies (cost records and audit) Rules 2014, as amended are summarized below:***

(1) Audit of the cost records can be conducted only when class of companies as defined in Table-A and Table-B of Rule 3 of the Companies (Cost Records and Audit) Rules 2014 are covered to conduct the cost audit.

(2) The cost audit under section 148(2) shall be conducted by a *Cost Accountant in practice* who shall be appointed by the Board of Directors on such remuneration as may be determined by the members in the Annual General Meeting.

(3) The Board of Directors shall, within one hundred and eighty days of the commencement of every financial year, appoint a cost auditor.

(4) The cost audit cannot be conducted by a person appointed under section 139 of the Companies Act 2013 i.e. by a financial auditor appointed under the said section.

(5) The auditor conducting the cost audit shall comply with the cost auditing standards issued by the Institute of Cost Accountants of India.

(6) An audit conducted under section 148(2) shall be in addition to the audit conducted under section 143 (financial audit).

(7) The provisions of section 143 of the Companies Act 2013 (relating to qualifications, disqualifications, rights, duties and obligations as applicable to financial auditor) shall *mutatis mutandis* apply to the cost accountant in practice conducting cost audit under section 148.

(8) 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.

(9) The cost auditor is to submit his report to the Board of Directors, in the form CRA-3 and within a period of one hundred and eighty days from the closure of the financial year to which the report relates and the Board of directors shall consider and examine such report particularly any reservation or qualification contained therein

(10)The cost auditor appointed as such shall continue in such capacity till the expiry of one hundred and eighty days from the closure of the financial year or till he submits the cost audit report, for the financial year for which he has been appointed.

(11) The company shall within 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 formCRA-4 along with fees specified in the Companies (Registration Offices and Fees) Rules, 2014.

(12)Penal provisions as applicable to company, every officer of the company and cost auditor are as follows:

(iii) 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;

**Section 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.*

(iv) 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.

**Section 147(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 wit*h fine which shall not be less than one lakh rupees but which may extend to twenty-five lakh rupees.*

**Section 147(3)**

*Where an auditor has been convicted under sub-section (2) of section 148, 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 persons for loss arising out of incorrect or misleading statements of particulars made in his audit report.*

**Section 147(*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.*

15. **Who can be appointed as Cost Auditor?** "*Cost Audito*r" means an auditor appointed to conduct an audit of cost records, under sub-section (2) of section 148 of the Companies Act 2013. 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.

16. **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]:

   (i) accounting and book keeping services
   (ii) internal audit
   (iii) design and implementation of any financial information system
   (iv) actuarial services
   (v) investment advisory services
   (vi) investment banking services
   (vii) rendering of outsourced financial services
   (viii) management services

**17. Procedure for appointment of Cost Auditor**

The cost auditor is to be appointed by the Board of Directors on the recommendation of the Audit Committee, where the company is required to have an Audit Committee. The cost auditor proposed to be appointed is required to give a letter of consent to the Board of Directors**.** The company shall inform the cost auditor concerned of his or its appointment as such and file a notice of such appointment with the Central Government within a period of thirty days of the Board meeting in which such appointment is made or within a period of one hundred and eighty days of the commencement of the financial year, whichever is earlier, through electronic mode, in form CRA-2 along with the fee as specified in Companies (Registration Offices and Fees) Rules, 2014.

A single Form CRA-2 is required to be filed providing details of the sectors/industries covered under cost audit and details of cost auditor. For Companies appointing multiple cost auditors, only one single Form CRA-2 is required to be filed.

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.

**Note:** *Specimen "Letter of Consent to the Board of Directors" and "Board Resolution for appointment of cost auditor" are given in Annexure-2 and Annexure-3 respectively to this Guidance Note.*

**18. 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:

***19. 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.*

**Note:** *Specimen Agenda to be included in the Notice of Shareholders' Meeting for ratification of remuneration of Cost Auditor is given in Annexure-4 to this Guidance Note.*

**20. 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.

**21. Authentication of Cost Audit Report**

As per definition provided vide section clause 2(d) of Companies (cost records and audit) Rules 2014, "cost audit report" means the report duly audited and signed by the cost auditor including attachment, annexure, qualifications or observations etc. to cost audit report.

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

Though, there is no specific provision regarding initialing each page of Cost Audit Report in the Companies (cost records and audit) Rules 2014, but it is advisable that the cost auditor authenticates each page.

***Note: Frequently Asked Questions (FAQs) issued by the Institute of Cost Accountants of India on Maintenance of Cost Records and Cost Audit may please be referred for more clarifications on the Companies (Cost Records and Audit) Rules 2014. These FAQs are available on the Institute website at: www.icmai.in***

## Chapter 7: Overview of Contract Document of Construction Industry

Construction projects have become larger and more complex and yet still maintain a high drive for quality. As a result 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 in itself. But every construction project also consists of repeatable components that can be described in standardised 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. So standardizations of items/ resources used are very much required for the purpose of 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. In LSTK projects contractor has to arrive BOQs at the beginning of the contract. Lump sum turnkey (LSTK) is a combination of the business-contract concepts of lump sum and turnkey. LSTK combines two concepts i.e. Lump Sum and Turnkey. The LS (lump sum) part refers to the payment of a fixed sum for the delivery under e.g. an EPC contract. The financial risk lies with the contractor. TK (turnkey) specifies that the scope of work includes start-up of the facility to a level of operational status. Ultimately the scope of work will define just exactly what is needed.

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)**

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 on account of 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.

**2. 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. Financial Bid***

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.

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

- **Technical Evaluation:** A comparative statement of all the Tenders should be prepared and credentials of the tenderers should also be analyzed, 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 atleast 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 braches.

**4. 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 on the basis of 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. <u>Security Deposit (SO):</u>**

- 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 favor 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 canceled 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 instalments as per the terms of the contract. The first instalment of such advance may be released by the Principal to the contractor on his request. The second and subsequent instalments may be released by the Principal after the contractor furnishes a proof of the satisfactory utilization of the earlier instalment to the entire satisfaction of the Principal.

Before any instalment of advance is released, the contractor may be required to execute a Bank Guarantee Bond from Scheduled/Nationalized Bank for the amount of 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 upto 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 mobilisation 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 upto the date of recovery of the instalment.

**H. <u>Bid Prices:</u>**

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 labor, 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 labor, 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 the purpose of 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 particular 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 upto this quarter: (A)

b) Gross value of work done upto 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 Subsequent to 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 has to sign the contract with the accepting authority. The contract generally consist 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, on account of 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 on the basis of recorded measurements, submitted by the contractor on monthly basis or such other period fixed or on achieving value of work done or completion of particular stage of work done as may be specified either in Terms and Conditions of the Contract or mutual 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 take action 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 upto 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 on account 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 mutual 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 in connection with 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.

**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

## Chapter 8: Annexure 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 on 31st December, 2014 vide GSR 1(E) dated 1st January 2015. 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 | Absolute/thousands/lacs/crores |
| 11 | Reporting currency of entity | INR |
| 12 | Number of cost auditors for reporting period | |
| 13 | Date of board of directors meeting in which annexure to cost audit report was approved | |
| 14 | Whether cost auditors report has been qualified or has any reservations or contains adverse remarks | |
| 15 | Consolidated qualifications, reservations or adverse remarks of all cost auditors | |
| 16 | Consolidated observations or suggestions of all cost auditors | |
| 17 | Whether company has related party transactions for sale or purchase of goods or services | |

**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:** 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. **Reporting currency of entity:** The currency of reporting is Indian Rupees (INR).
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 4 digit CETA Code | |
| 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 CETA heading**: Give name of the applicable product(s) for which cost audit has been done [with their respective CETA headings] or service(s). The Cost Audit Report for Manufactured Products is to be as per CETA heading and without mentioning the CETA 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 30$^{th}$ 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 12$^{th}$ 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. <u>Cost Accounting Policy</u>

(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 observation 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 with regard to adequacy or otherwise of the Budgetary Control System of the single auditor should be given.

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

| **Name of Product(s) /Service(s)** | | ***CETA Heading*** | **Whether Covered** | **Net Operational Revenue (net of taxes, duties etc.)** |
|---|---|---|---|---|

| | UOM | (Wherever applicable) | under Cost Audit<br><br>Yes / No | Current Year<br><br>Rs. | Previous Year<br><br>Rs. |
|---|---|---|---|---|---|
| 1. | | | | | |
| 2. | | | | | |
| 3. | | | | | |
| 4. | | | | | |
| ……… | | | | | |
| Total Net revenue from Operations | | | | | |
| Other Incomes of Company | | | | | |
| Total revenue as per Financial Accounts | | | | | |
| Extra Ordinary Income, if any | | | | | |
| Total Revenue including Extra Ordinary Income, if any | | | | | |
| Turnover as per Excise/Service Tax Records | | | | | |
| Note: Explain the difference, if any, between Turnover as per Annual Accounts 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 Measurement** | **Current Year** | **Previous 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 Records** | | | |
| **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 the 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***

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

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.

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

***(ii)*** ***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.

***(iii)*** ***Total available Capacity:*** This shall be sum of "Total Installed Capacity" and "Capacity enhanced during the year"

***(v) Actual Services Provided***

***(i)*** ***Own Services:*** Provide details of own services rendered by the company.

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

***(iii)*** ***Outsourced Services:*** Provide details of outsourced services with an outside agency.

***(iv)*** ***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**

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

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

***(iii)*** ***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 2A) | | | | |
| 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 | Interest & Financing Charges | | | | |

| | | | | | |
|---|---|---|---|---|---|
| 25 | Cost of Sales (23 + 24) | | | | |
| 26 | Net Sales Realization (Net of Taxes and Duties) | | | | |
| 27 | Margin [Profit/(Loss) as per Cost Accounts] (26 - 25) | | | | |
| | **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 variances, if any. | | | | |

| **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)** | | | |
| **Description of Material** | **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. | | | | | | | |

| **2C. Details of Industry Specific Operating Expenses** | | |
|---|---|---|
| **Name of Service** | | |
| **Service Code (if applicable)** | | |
| **Description of Industry Specific Operating Expenses** | **Current Year** | **Previous Year** |
| | **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**

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

(ii) 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.

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

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

**V. Employees Cost**

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

(ii) 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.

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

(iv) 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.

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

**VI. Direct Expenses**

(i) 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.

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

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

(iv) 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. Interest & Financing Charges**

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) | | |
| | h) | | |
| | i) | | |
| | j) | | |
| 3 | Less: Expenses not considered in cost accounts (specify details) | | |
| | a) | | |
| | b) | | |
| | c) | | |
| | d) | | |
| | e) | | |
| | f) | | |
| | g) | | |
| | h) | | |
| | i) | | |
| | j) | | |
| 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 | | |
| 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 | | | |

**<u>Details of Incomes not considered in Cost</u>**

| **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 Account:** 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: Extra Ordinary Income | | |
| 10 | Earnings available for distribution | | |
| | **Distribution of Earnings to:** | | |
| 1 | Employees as salaries & wages, retirement benefits, etc. | | |
| 2 | Shareholders as dividend | | |

| | | | |
|---|---|---|---|
| 3 | Company as retained funds | | |
| 4 | Government as taxes (specify) | | |
| 5 | Extra Ordinary Expenses | | |
| 6 | Others, if any (specify) | | |
| 7 | Total distribution of earnings | | |

(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) **Extra Ordinary Expenses**: 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.

**4. 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 Assets | | | |
| | (b) Net 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 | Months | | |
| 2 | Stores & Spares to Consumption | Months | | |
| 3 | Finished Goods Stock to Cost of Sales | Months | | |

Notes:

1. 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.
2. 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 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 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).

**5. 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 (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”.

**6. 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 Goods | | | | | |
| 12 | Cenvat/VAT Credit Utilised - Input Services | | | | | |
| 13 | Cenvat/VAT Credit Utilised - Others | | | | | |
| 14 | Total (10 to 13) | | | | | |
| 15 | Paid through PLA/Cash | | | | | |
| 16 | Total Duties/Taxes Paid (14 + 15) | | | | | |
| 17 | Duties/Taxes Recovered | | | | | |
| 18 | Difference between Duties/Taxes Paid and Recovered | | | | | |
| 19 | Interest/Penalty/Fines Paid | | | | | |
| 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.

## Chapter 9: Cost Build-up for a Construction Company
## A Practical Approach

A cost accountant should study the client's organizational set-up and the processes involved in construction activity till its completion. The entire process should be classified under different construction sites/cost centres, Utilities (Water, Steam, and Power etc.), Construction Overheads, Administration Overheads, and Selling & Distribution Overheads. The expenses booked under different expenses heads under an audited Profit & Loss Account can be taken as the base for allocation of expenses. It is assumed that the activity/cost centre for which an expense is incurred is captured at the time of incurrence.

In a computerized or ERP environment, a company would be capturing data under different cost/activity centres. In such a situation, cost build-up is usually done on the basis of predetermined rates. However, use of predetermined standard rates for assignment and allocation of costs would give rise to variances and these would have to be adjusted to the respective cost elements periodically to arrive at the actual cost of operation/activities. However, even in such an environment, all transactions affecting the financial profit & loss account of the company may not be captured in a manner that would also be reflected in the cost module in the periodic cost runs. In such a situation, it would be necessary to build a cost structure considering all items of expenses and incomes in the lines as explained below.

Expenses directly identifiable to a cost centre should be allocated to that centre/utility. 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. Three different ways to allocate costs such as (a) Specific identification method, (b) Relative value method and (c) Area methods or other value methods have been explained earlier in this Guidance Note. Expenses of common nature, not directly identifiable to any of the construction Activity/ cost centre or utility centre should be accumulated under the different Overheads depending on its nature of incidence.

**An illustrative list of expense items is given below.**

- *Materials Consumed*
    - Consumption of RCC Raw Materials
    - Consumption of Finishing Materials
    - Consumption of Electrical Materials
    - Consumption of Furniture & Fixture Materials
    - Consumption of Equipment Materials
    - Consumption of Hard Ware Materials
    - Consumption of Gardening  Materials
    - Consumption of Miscellaneous Materials
    - Consumption of Plum Materials
- *Employee Benefits*
    - Salaries, Wages, Bonus etc.

  - Contribution to Provident & Other Funds
  - Staff Welfare Expenses
- *Power & Fuel*
  - Electricity
  - Fuel
  - Water Charges
- *Consumable Stores and Spares*
- *Site Expenses*
- *Repairs and Maintenance*
  - Plant & Machinery
  - Buildings
  - Others
- *Rent*
- *Insurance*
- *Rates & Taxes*
- *Payment to Auditors*
- *Travelling & Conveyance*
- *Communication Expenses*
- *Printing & Stationery*
- *Bank Charges*
- *Security Force Expenses*
- *Sales Promotion Expenses*
- *Handling Expenses*
- *Miscellaneous Expenses*
- *Transportation Charges*
- *Quality Control*
- *Royalty or Technical Know-how*
- *Technical Assistant Fees*
- *Lease Rent*
- *Research and Development*
- *Packing Expenses*
- *Borrowing Charges*
- *Loss on Assets Sold, Lost or Written Off*
- *Exchange Rate Fluctuations*
- *Provision for Doubtful Debts, Advances, Claims & Obsolescence*
- *Depreciation*
- *Total Expenses*

***Classification of Overheads***:

As explained above, expenses which cannot be directly allocated to a cost centre, like, insurance, rent, rates & taxes, telephone, fax, printing & stationery, postage etc., should be classified under the three overheads according to its nature and source.

**Allocation/Apportion /Absorption**

- Allocation: An expense which can be directly related to a cost centre is to be allocated to that cost centre.
- Apportionment: Overheads which are common to different cost centres, these are to be apportioned to the cost centres on rational or equitable basis.
- Absorption: Absorption of overheads is charging of overheads from cost centres to product or services by means of absorption rate for each cost centre.

**Absorption of overheads**

For absorption, overheads can be further classified in two categories, fixed and variable overhead.

- <u>Fixed Construction Overhead:</u>
  All the indirect expenses whose values do not change with the change of volume of construction.

  **Example:**

  - Rent
  - Salary
  - Insurance

  Fixed construction overheads and other items of fixed cost shall be absorbed in the construction cost on the basis of normal capacity or actual capacity whichever is higher.

- <u>Variable Construction Overhead:</u>

  All the indirect expenses whose value varies in proportion to the change in volume of construction.

  **Example:**

  - Cost of utilities
  - Labor cost

  Variable construction overhead shall be absorbed in the construction cost on the basis of actual capacity.

**Capacity**

- <u>Normal Capacity:</u> Normal capacity has been defined as the stage of construction expected to be achieved on an average over a number of period or hours under normal circumstances, taking into account the loss of capacity resulting from planned maintenance/ stoppage of work planned.

  **To arrive at normal capacity the following factors may be considered:**

  - The level of activity over the period of the normal business cycle and seasonal variations;
  - The budgeted level of activity for the year under review and for the ensuing years; and,
  - The level of activity achieved for the year under review and in the previous year.

  In practice, a normal level of activity is established by reference to the budgeted or expected level of activity over several years in relation to the installed capacity. It is suggested that, wherever applicable, the normal capacity of individual cost centre/ Activity be determined in relation to the installed capacity of the primary machine/labour hours of the cost centre.

- Actual Capacity: Actual capacity is the volume of production/Construction achieved in a specified period.

  Actual capacity can be calculated by reducing abnormal idle time from normal capacity.

**Administration Overheads:**

Administration Overheads are to be apportioned to the cost objects on a suitable basis. In smaller organizations or single unit companies, where there may not be a clear distinction of management functions, the cost of management may be allocated on suitable basis on various. However, in large organizations, where the activities are categorized under different strategic business units or divisions, there necessarily is a corporate entity vested with the function of corporate management decisions. Such overheads should be classified under corporate expenses forming part of the total Administration Overheads.

**Selling & Distribution Overheads:**

The selling & distribution function is clearly overheads incurred, which are related to the selling activity of the organization.

**Realizable Value of Scrap:**

The construction process may generate scrap/wastes. This may fetch some value after being sold as scrap or waste. The actual value realized on such sale should be credited to the cost of construction.

**Job Processing Charges:**

The actual job work charges, if any, including freight, insurance and handling should form a part of the cost of construction. The job work charges should be classified as a part of Direct Charges and is to be allocated to the cost object for which the job work has been incurred.

**Treatment of subsidy, grant received on any item or expenses: The amount of subsidy or grant** received form govt. on any item or expense shall be reduced from the cost of item or expense while calculating construction/project cost.

**Abnormal and non-recurring cost: -** Expenses which are abnormal or non-recurring in nature and purely financial shall not part of construction cost of the project.

<u>Abnormal expenses:-</u>

- Abnormally high rejection
- Defective work or high spoilage etc.
- Abnormal idle time
- Abnormal underutilization of plant facilities
- Losses due to abnormal situation

<u>Purely financial expenses:-</u>

- Loss on sale of investment
- Stamp duty
- Discount on bonds and debentures
- Fines and penalties
- Loss on investments
- Loss on foreign exchange fluctuation
- Bad debts

- Donations
- Preliminary expenses written off
- Prior period expenses

Trading loss etc.

**Secondary Allocation:**

1. In construction since utilities like water, power etc. are provided at site and easily identifiable with the specific project, the cost of the utilities which are directly identifiable should be charged directly and any other utilities which are commonly used at adjoining or other sites, the costs should be accumulated and allocated to different projects or cost centers on the basis of units consumed by the user project or cost centre by crediting the respective utility centre.
2. The Construction/Production Overheads including apportioned share of service utilities should then be apportioned to the Construction Activities/ cost centers on a suitable basis.
3. The total expenses of individual cost centers including the allocated service utility expenses and apportioned share of Construction/Production Overheads should be classified under Direct Charges (Variable) and Conversion Charges (Fixed) of that production cost centre.
4. The Direct Charges would include such expenses, which are allocated to a centre but are variable in nature. Examples are Piece Rate Wages, Incentives, Allocated share of Water, Power etc.
5. The total of expenses less the Direct Charges would constitute Conversion Charges.
6. The Direct and Conversion Charges arrived at as above will then be absorbed in the Construction Activities based on the basis of absorption costing method. In this connection it should be kept in mind that conversion cost will be based on stage completion of each activity and should include only those costs that are associated with the activity completed and is corollary to the principle that expenditure should be included to the extent to which it has been incurred in bringing the Activity to its present location and condition.
7. The allocation of fixed construction/production overheads (conversion charges) for their inclusion in the costs of conversion is to be based on the normal capacity of that Activity. In other words, the idle capacity cost should not be a part of the cost of operation/ service. The idle capacity is the difference between the practical capacity and the actual capacity utilized.
8. Normal capacity has been defined as the stage of construction expected to be achieved on an average over a number of period or hours under normal circumstances, taking into account the loss of capacity resulting from planned maintenance/ stoppage of work planned.
9. To arrive at normal capacity the following factors may be considered:
   a) The level of activity over the period of the normal business cycle and seasonal variations;
   b) The budgeted level of activity for the year under review and for the ensuing years; and,
   c) The level of activity achieved for the year under review and in the previous year.

In practice, a normal level of activity is established by reference to the budgeted or expected level of activity over several years in relation to the installed capacity. It is suggested that, wherever applicable, the normal capacity of individual cost centre/ Activity be determined in relation to the installed capacity of the primary machine/labour hours of the cost centre.

The proportion of overheads allocated to a unit of production is not increased as a consequence of low production or idle plant, and overheads which are not allocated are recognized as an expense in the period in which they are incurred.

The normal capacity thus determined should be expressed in terms of, say, hours or days or by any other suitable method normally adopted by the industry. As explained earlier, the normal capacity of individual cost centers should be determined in line with above principles and the rate of absorption of conversion charges to cost object should be determined. The conversion charges of a cost centre is then to be apportioned to the cost object through that cost centre for the number of hours or days or other method adopted by the industry, as applicable, multiplied by the rate. The unabsorbed portion of conversion charges, if any, is to be treated as a charge against profits and not as a part of the cost of production.

The Direct Charges being variable with the level of activity, should be absorbed in full based on the actual hours or days or other method adopted, as the case may be. Consequently, there would be no question of unabsorbed direct charges.

**Realizable Value of Scrap:**

The construction process may generate scrap/wastes. This may fetch some value after being sold as scrap or waste. The actual value realized on such sale should be credited to the cost of construction.

**Job Processing Charges:**

The actual job work charges, if any, including freight, insurance and handling should form a part of the cost of construction. The job work charges should be classified as a part of Direct Charges and is to be allocated to the cost object for which the job work has been incurred.

**Administration Overheads:**

Administration Overheads are to be apportioned to the cost objects on a suitable basis. In smaller organizations or single unit companies, where there may not be a clear distinction of management functions, the cost of management may be allocated on suitable basis on various. However, in large organizations, where the activities are categorized under different strategic business units or divisions, there necessarily is a corporate entity vested with the function of corporate management decisions. Such overheads should be classified under corporate expenses forming part of the total Administration Overheads.

**Selling & Distribution Overheads:**

The selling & distribution function is clearly overheads incurred, which are related to the selling activity of the organization.

**A flow of cost build up starting with the financial accounts is given below:**

| S.no | Particulars | Nature | Total | Project-A | Project-B | Project-C | Project-D | COH | AOH | S&D |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 |
| 1 | Material Consumed | Variable | 520,000 | 110,000 | 125,000 | 135,000 | 150,000 | | | |
| 1 | Salaries & Wages | Fixed | 95,500 | 11,500 | 13,000 | 12,000 | 14,000 | 15,000 | 20,000 | 10,000 |
| 2 | Incentive Wages | Variable | 6,600 | 1,100 | 1,300 | 1,300 | 1,400 | 1,500 | | |
| 3 | Stores & Spares | Variable | 11,800 | 2,200 | 2,800 | 3,100 | 1,700 | 2,000 | | |
| 4 | Repairs & Maintenance | Variable | 8,400 | 1,100 | 1,550 | 2,100 | 1,150 | 2,500 | | |
| 5 | Insurance | Fixed | 2,450 | 125 | 175 | 225 | 275 | 500 | 550 | 600 |
| 6 | Depreciation | Fixed | 8,060 | 1,130 | 1,150 | 1,230 | 1,250 | 1,000 | 1,100 | 1,200 |
| **7** | **Total (1 to 6)** | | **652,810** | **127,155** | **144,975** | **154,955** | **169,775** | **22,500** | **21,650** | **11,800** |
| | Apportionment of Construction Overheads | | | | | | | | | |
| | Variable Overhead | 6,000 | | 1,299 | 1,515 | 1,423 | 1,763 | | | |
| | Fixed Overhead | 16,500 | | 3,458 | 4,035 | 3,788 | 4,694 | | | |
| 8 | Construction Overheads | 22,500 | - | 4,757 | 5,550 | 5,211 | 6,457 | -21,975 | | |
| **9** | **Total Project & Dev. Cost (7 + 8)** | | **652,810** | **131,912** | **150,525** | **160,166** | **176,232** | **525** | **21,650** | **11,800** |
| 10 | Administration Overheads | | | | | | | | | |
| | | | | | | | | | | |
| | Allocation on the basis of P&D Cost | | - | 4,615 | 5,266 | 5,603 | 6,165 | 0 | -21,650 | - |
| **11** | **Total (9 + 10)** | | **652,810** | **136,527** | **155,792** | **165,769** | **182,397** | **525** | **0** | **11,800** |
| 12 | Apportionment of S&D Overheads | | | | | | | | | |
| | Administration Overheads | | | | | | | | | |
| | | | | | | | | | | |
| | Allocation on the basis of sales realisation from the project | | | 2,515 | 2,870 | 3,054 | 3,360 | | | -11,800 |
| **14** | **Total (11+12)** | | **652,810** | **139,043** | **158,662** | **168,823** | **185,757** | **525** | **0** | **0** |
| **15** | Sales realisation from the project | | 2,000,000 | 300,000 | 500,000 | 600,000 | 600,000 | | | |

Note:

1) Any suitable method can be used to apportion the administrative and selling distribution overhead among the projects.

2) Rs. 525 is under absorption of fixed construction overhead and will be shown as reconciliation item in the reconciliation statement.

## Calculation of Overhead Absorption Rates

| | Particulars | Total | Project-A | Project-B | Project-C | Project-D |
|---|---|---|---|---|---|---|
| 16 | No. of Workers on Site | 460 | 100 | 120 | 110 | 130 |
| 17 | No. of Working Days | 330 | 330 | 330 | 330 | 330 |
| 18 | No. of Shifts | 1 | 1 | 1 | 1 | 1 |
| 19 | No. of Hours in a shift | 8 | 8 | 8 | 8 | 8 |
| 20 | Gross Available Hours | 1,214,400 | 264,000 | 316,800 | 290,400 | 343,200 |
| 21 | Less: Normal Down Time (%) | 18% | 15% | 20% | 20% | 15% |
| 22 | Less, Normal Down Time (Hours) (10*21) | 212,520 | 39,600 | 63,360 | 58,080 | 51,480 |
| 23 | Net Available Hours (20 - 22) | 1,001,880 | 224,400 | 253,440 | 232,320 | 291,720 |
| | | | | | | |
| 24 | Hours Worked/Utilised | 970,000 | 210,000 | 245,000 | 230,000 | 285,000 |
| | | | | | | |
| 25 | Capacity Utilisation (%) (24/23) | 96.82% | 93.58% | 96.67% | 99.00% | 97.70% |
| | | | | | | |
| | Hourly Rate (Rs./Hour) | | | | | |
| 26 | Variable Overheads (13/24) | 0.01 | | | | |
| 27 | Fixed Overheads (14/23) | 0.02 | | | | |

***Note:***

*Variable overhead can be absorbed on the basis of actual capacity (actual hours worked)*

*Fixed overhead can be absorbed on the basis of normal capacity and actual capacity whichever is higher*

**Statements showing Quantitative Information, Cost Information etc.**

| S.no. | Particulars | Unit of measurement | Current year | Previous year |
|---|---|---|---|---|
| 1 | Installed Capacity | | | |
| 2 | Quantity Constructed | | | |
| 3 | Capacity Utilization (%) | | | |
| 4 | Quantity Purchased, if any | | | |
| 5 | Self-consumption including losses (to be specified) | | | |
| 6 | Net Units Available | | | |

**Cost Information**

| | | Current Year | | Previous Year | |
|---|---|---|---|---|---|
| **S. No.** | **Particulars** | **Amount (Rs.)** | **Rate per Unit (Rs.)** | **Amount (Rs.)** | **Rate per Unit (Rs.)** |
| 1 | Materials Consumed:<br>(a) Indigenous<br>(b) Imported<br>(c) Self-Manufactured/ Produced | | | | |
| 2 | Process Materials/ Chemicals (Specify) | | | | |
| 3 | Utilities (Specify) | | | | |
| 4 | Direct Employees Cost | | | | |
| 5 | Direct Expenses (Specify) | | | | |
| 6 | Consumable Stores & Spares | | | | |
| 7 | Repairs & Maintenance | | | | |
| 8 | Lease Rent (if any) | | | | |
| 9 | Depreciation/Amortization | | | | |
| 10 | Other Overheads | | | | |
| 11 | Sub-Total (1 to 10) | | | | |
| 12 | Less: Credits for Recoveries, if any | | | | |
| 13 | Total Cost (11 - 12) | | | | |
| 14 | Apportionment (from Cost Centres)<br>1. Project-A<br>2. Project-B<br>3. Project-C<br>4. Project-D | | | | |
| 15 | **Total** | | | | |

**Statement showing Cost of Project-A**

| S.no. | Particulars | Quantity | Rate | Amount | Cost per Unit (Rs.) | |
|---|---|---|---|---|---|---|
| | | | Rs. | Rs. | Current Year | Previous Year |
| 1. | **Raw Material**<br>(a) Indigenous<br>(b) Imported | | | | | |
| 2. | Process Material/Chemicals (specify) | | | | | |
| 3. | Utilities (specify details) | | | | | |
| 4. | Direct Employee Cost | | | | | |
| 5. | Direct Expenses (Specify) | | | | | |
| 6. | Consumable Stores & Spares | | | | | |
| 7. | Repairs and Maintenance | | | | | |
| 8. | Quality Control Expenses | | | | | |
| 9. | Research and Development | | | | | |
| 10. | Technical Know-how/Royalty | | | | | |
| 11. | Depreciation/Amortization | | | | | |
| 12. | Other Production Overheads | | | | | |
| 13. | Add/(Less) Stock Adjustments | | | | | |
| 14. | Total | | | | | |
| 15. | Less Credit for Wastage or By-products (Specify) | | | | | |
| 16. | **Total Cost** | | | | | |

| S.no. | Products | Basis of apportionment of Cost | Actual Quantity | Amount (Rs.) |
|---|---|---|---|---|
| | | | | |

| S.no. | Products | Basis of apportionment of Cost | Actual Quantity | Amount (Rs.) |
|---|---|---|---|---|
| | **Total Cost Apportioned to:** | | | |
| | i) Sales | | | |
| | ii) Transferred to Project-B | | | |
| | **Total** | | | |

**Statement showing Cost of Operation and Sales**

| S.no. | Particulars | Quantity | Rate | Amount | Cost per Unit (Rs.) | |
|---|---|---|---|---|---|---|
| | | | Rs. | Rs. | Current Year | Previous Year |
| 1 | Materials Consumed (specify details) | | | | | |
| | a) Indigenous Purchased | | | | | |
| | b) Imported | | | | | |
| | c) Transferred from Project A | | | | | |
| 2 | Process Materials/Chemicals (specify) | | | | | |
| 3 | Utilities (specify details) | | | | | |
| 4 | Direct Employees Cost | | | | | |
| 5 | Direct Expenses | | | | | |
| 6 | Consumable Stores & Spares | | | | | |
| 7 | Repairs & Maintenance | | | | | |
| 8 | Quality Control Expenses | | | | | |
| 9 | Research & Development Expenses | | | | | |
| 10 | Technical know-how Fee / Royalty, if any | | | | | |
| 11 | Depreciation/Amortization | | | | | |
| 12 | Other Overheads | | | | | |
| 13 | Total (Cost 1 to 12) | | | | | |
| 14 | Less: Self/Captive Consumption | | | | | |
| 15 | Other Adjustments (if any) | | | | | |
| 16 | Cost of Operation (13 – 14 + 15) | | | | | |
| 17 | Administrative Overheads | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| 18 | Selling & Distribution Overheads | | | | | |
| 19 | Interest & Financing Charges | | | | | |
| 20 | Cost of Sales (16 + 17 to 19) | | | | | |
| 21 | Net Sales Realization (Net of Taxes and Duties) | | | | | |
| 22 | Margin [Profit/(Loss) as per Cost Accounts] (27 - 26) | | | | | |

## Chapter 10: Preparation of Annexure to Cost Audit Report for filing in XBRL Format

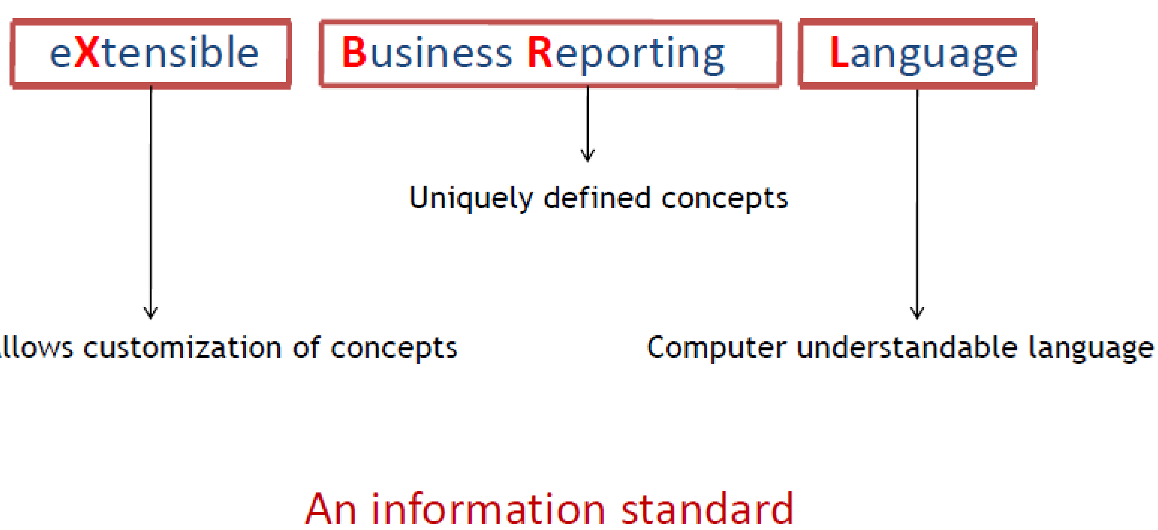
### Introduction

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.

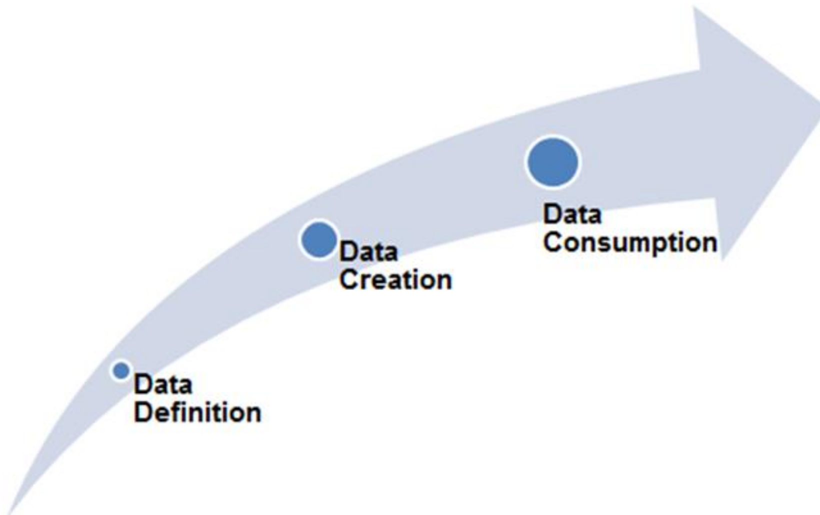
Every fact that is disclosed has a unique XBRL tag associated to it, which acts like a barcode. This XBRL tag explains the nature of data, the context of data and its relationships with other data. The advantage XBRL data has over other reporting formats is:

- 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**

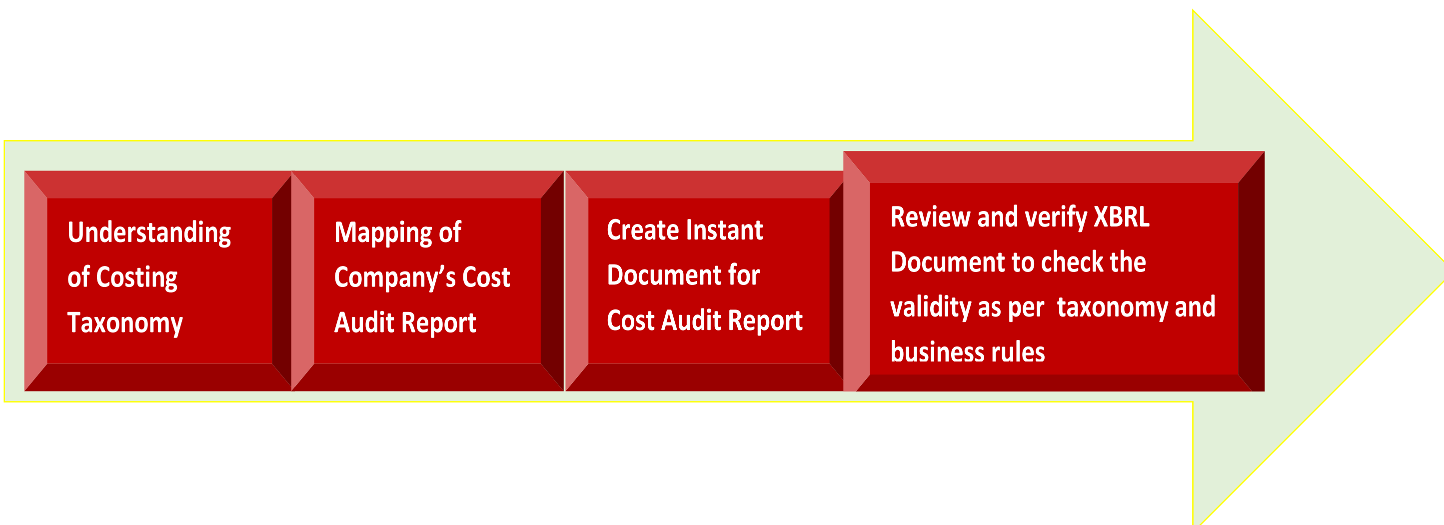
Business Rules are for understanding the mandatory/ non-mandatory fields in the taxonomy. As per Companies (Cost Records and Audit) Rules 2014, few disclosures are to be mandatorily “tagged” with costing taxonomy element. A list of such mandatory “tagging” is provided in the Business Rule that is associated 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.

- **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].

- **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. The list of ELR definitions in the Costing Taxonomy are:

| **Extended Link Role definition** | **Used On** |
|---|---|
| [100100] General information | presentationLinkbaseRef |
| [100300] General details of cost auditor | presentationLinkbaseRef , definitionLinkbaseRef |
| [100300a]General details of cost auditor for period prior to 01-APR-2014 | presentationLinkbaseRef , definitionLinkbaseRef |
| [100310] Cost accounting policy | presentationLinkbaseRef |
| [100320] Manufactured product or service | presentationLinkbaseRef , calculationLinkbaseRef , definitionLinkbaseRef |

| | |
|---|---|
| [100330] Quantitative information of manufactured product | presentationLinkbaseRef , calculationLinkbaseRef , definitionLinkbaseRef |
| [100340] Abridged cost statement of manufactured product | presentationLinkbaseRef , calculationLinkbaseRef , definitionLinkbaseRef |
| [100340a] Abridged cost statement-Details of material consumed | presentationLinkbaseRef , definitionLinkbaseRef |
| [100340b] Abridged cost statement-Details of utilities | presentationLinkbaseRef , definitionLinkbaseRef |
| [100340c] Abridged cost statement-Details of industry specific operating expenses | presentationLinkbaseRef , definitionLinkbaseRef |
| [100341] Quantitative information of service | presentationLinkbaseRef , calculationLinkbaseRef , definitionLinkbaseRef |
| [100342] Abridged cost statement of service | presentationLinkbaseRef , calculationLinkbaseRef , definitionLinkbaseRef |
| [100342a] Abridged cost statement-Details of material consumed | presentationLinkbaseRef , definitionLinkbaseRef |
| [100342b] Abridged cost statement-Details of utilities | presentationLinkbaseRef , definitionLinkbaseRef |
| [100342c] Abridged cost statement-Details of industry specific operating expenses | presentationLinkbaseRef , definitionLinkbaseRef |
| [100350] Product and service profitability statement of manufactured product or service | presentationLinkbaseRef , definitionLinkbaseRef |
| [100360] Profit reconciliation | presentationLinkbaseRef , calculationLinkbaseRef |
| [100360a] Profit reconciliation-Details of incomes not considered | presentationLinkbaseRef , definitionLinkbaseRef |
| [100360b] Profit reconciliation-Details of expenses not considered | presentationLinkbaseRef , definitionLinkbaseRef |
| [100370] Value addition and distribution of earnings | presentationLinkbaseRef , calculationLinkbaseRef |
| [100400] Financial position and ratio analysis | presentationLinkbaseRef , calculationLinkbaseRef |
| [100410] Related party transactions | presentationLinkbaseRef , definitionLinkbaseRef |
| [100420] Reconciliation of indirect taxes | presentationLinkbaseRef , calculationLinkbaseRef , definitionLinkbaseRef |
| [100421] Reconciliation of indirect taxes/not-all | definitionLinkbaseRef |
| [100421a] Reconciliation of indirect taxes/not-all | definitionLinkbaseRef |

| | |
|---|---|
| [100421b] Reconciliation of indirect taxes/not-all | definitionLinkbaseRef |
| [100421c] Reconciliation of indirect taxes/not-all | definitionLinkbaseRef |
| [100421d] Reconciliation of indirect taxes/not-all | definitionLinkbaseRef |

- 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. No. | Label | Action |
|---|---|---|
| | **[100100] General information** | |
| 1 | Corporate identity number or foreign company registration number | This is a mandatory field. Valid CIN/ FCRN. Should be same as entered in the form. |
| 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 company | 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 XBRL Form. |

| SL. No. | Label | Action |
|---|---|---|
| 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 Form. |
| 9 | Duration in months of reporting period | Difference between "Date of start of reporting period" and "Date of end of reporting period" |
| 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 company filing the report for first time. |
| 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 for first time. |
| 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. |

| SL. No. | Label | Action |
|---|---|---|
| 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 remarks | 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. No. | 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 |

| SL. No. | Label | Action |
|---|---|---|
| 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 | |

| SL. No. | Label | Action |
|---|---|---|
| 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.<br>***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.*** |

| SL. No. | Label | Action |
|---|---|---|
| 31 | Cost auditors observations or suggestions [text block] | This is mandatory. |

**Part-B**

**3. Cost Accounting Policy**

| SL. No. | 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 block] | |
| 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] | |

| SL. No. | Label | Action |
|---|---|---|
| 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 service. |
| 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 |

| SL. No. | Label | Action |
|---|---|---|
| 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 SECTOR

### 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] | |

| SL. No. | Label | Action |
|---|---|---|
| 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. No. | 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 | |

| SL. No. | Label | Action |
|---|---|---|
| 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-<br>(i) Cost of Self or Captive Consumption<br>(ii) 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 | |

| SL. No. | Label | Action |
|---|---|---|
| 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. No. | Label | Action |
|---|---|---|
| | **[100342a] Abridged cost statement-Details of material consumed** | |
| 1 | Abridged cost statement of service [abstract] | |

| SL. No. | Label | Action |
|---|---|---|
| 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 | |

| SL. No. | Label | Action |
|---|---|---|
| 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. No. | 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.<br>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] | |

| SL. No. | Label | Action |
|---|---|---|
| 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. No. | 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.<br><br>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] | |

| SL. No. | Label | Action |
|---|---|---|
| 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.<br>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. |

| SL. No. | Label | Action |
|---|---|---|
| 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 .<br>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.<br>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. No. | 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 mandatory. |
| 10 | Notes to profit reconciliation [text block] | |

**2A. Details of Incomes not considered**

| SL. No. | 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] | |

| SL. No. | Label | Action |
|---|---|---|
| 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] | |

| SL. No. | Label | Action |
|---|---|---|
| 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 |

| SL. No. | Label | Action |
|---|---|---|
| 27 | Notes to value addition and distribution of earnings [text block] | |

**4. Financial Position and Ratio Analysis (**for the company as a whole)

| SL. No. | 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)<br>It should be equal to zero in case of company not having share capital<br>Should be >= 1 lakh in case of Private company (other than Sec. 8 co.) having share capital<br>Should be >= 5 lakh in case of Public company (other than Sec. 8 co.) having share capital.<br>Should be greater than zero in case of Section 8 company.<br><br>Status of the company (Pvt/Public/Section 8) to be checked as on Date of end of reporting period |
| 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. |

| SL. No. | Label | Action |
|---|---|---|
| 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] | |

**5. 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'.<br><br>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.<br><br>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 | |

| SL. No. | Label | Action |
|---|---|---|
| 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] | |

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

| SL. No. | 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.<br><br>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] | |

| SL. No. | Label | Action |
|---|---|---|
| 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] | |

**Annexure-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 or input services (including all direct charges) 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 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) Spares which are specific to an item of equipment shall not be taken to inventory, but shall be capitalized with the cost of the specific equipment. Cost of capital spares and or insurance spares, whether procured with the equipment or subsequently, shall be amortised over a period, not exceeding the useful life of the equipment.

(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 shall be reduced from cost for ascertainment of the cost of the cost object to which such amounts are related.

(k) Issues shall be valued using appropriate assumptions on cost flow, e.g. First-in-First-out, Last-in-First-out, Weighted Average Rate. The method of valuation shall be followed on a consistent basis.

(l) Where materials are accounted at standard cost, the price variances related to materials shall be treated as part of material cost.

(m) Any abnormal cost shall be excluded from the material cost.

(n) Wherever, material costs include transportation costs, determination of costs of transportation shall be governed by Para No. 9 on Determination of Cost of Transportation.

(o) Self-manufactured components and sub-assemblies 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.

(p) 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.

(q) 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.

(r) Where the material costs are not directly traceable to the cost object, the same shall be assigned on a suitable basis like technical estimates.

(s) 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.

(t) 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.

(u) 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.

(v) 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.

(w) 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.

c) 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.

d) 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.

e) Separation costs related to voluntary retirement, retrenchment, termination etc. shall be amortised over the period benefitting from such costs.

f) Employee cost shall not include imputed costs.

g) 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.

h) 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.

i) Any Subsidy, Grant, Incentive or any such payment received or receivable with respect to any Employee cost shall be reduced for ascertainment of cost of the cost object to which such amounts are related.

j) Any abnormal cost where it is material and quantifiable shall not form part of the Employee cost.

k) Penalties, damages paid to statutory authorities or other third parties shall not form part of the Employee cost.

l) 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.

m) Any recovery from the employee towards any benefit provided, namely, housing shall be reduced from the employee cost.

n) 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 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.

o) 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.

p) While determining whether a particular Employee cost is chargeable to a separate cost object, the principle of materiality shall be adhered to.

q) 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.

r) 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.

s) Recruitment costs, training cost and other such costs shall be treated as overheads and dealt with accordingly.

t) 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.

u) 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, etc. 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) Any Subsidy or Grant or Incentive or any such payment received or receivable with respect to any cost of utilities shall be reduced for ascertainment of the cost to which such amounts are related.

m) 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.

n) Any abnormal cost where it is material and quantifiable shall not form part of the cost of utilities.

o) Penalties, damages paid to statutory authorities or other third parties shall not form part of the cost of utilities.

p) 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.

q) 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 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.

r) While assigning cost of utilities, traceability to a cost object in an economically feasible manner shall be the guiding principle.

s) Where the cost of utilities is not directly traceable to cost object, it shall be assigned on the most appropriate basis.

t) 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) Any Subsidy or Grant or Incentive or any such payment received or receivable with respect to any Direct Expenses shall be reduced for ascertainment of the cost of the cost object to which such amounts are related.

i) Any abnormal portion of the direct expenses where it is material and quantifiable shall not form part of the Direct Expenses.

j) Penalties, damages paid to statutory authorities or other third parties shall not form part of the Direct Expenses.

k) Credits or recoveries relating to the Direct Expenses, material and quantifiable, shall be deducted to arrive at the net Direct Expenses.

l) 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 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.

m) 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) High value spare, when replaced by a new spare and is reconditioned, which is expected to result in future economic benefits, the same shall be taken into stock. Such a spare shall be valued at an amount that measures its service potential in relation to a new spare which amount shall not exceed the cost of reconditioning the spare. 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.

k) The cost of major overhaul shall be amortized on a rational basis.

l) Finance costs incurred in connection with the repairs and maintenance activities shall not form part of Repairs and maintenance costs.

m) Repairs and maintenance costs shall not include imputed costs.

n) 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.

o) Subsidy or Grant or Incentive or amount of similar nature received or receivable with respect to repairs and maintenance activity, if any, shall be reduced for ascertainment of the cost of the cost object to which such amounts are related.

p) 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.

q) Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the repairs and maintenance cost.

r) 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.

s) 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 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.

t) Repairs and maintenance costs shall be traced to a cost object to the extent economically feasible.

u) 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.

v) 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) Depreciation and Amortisation shall be measured based on the depreciable amount and the useful life. The residual value of an intangible asset shall be assumed to be zero unless:

   i) there is a commitment by a third party to purchase the asset at the end of its useful life; or

   ii) there is an active market for the asset and:

      a. residual value can be determined by reference to that market; and

      b. it is probable that such a market will exist at the end of the asset's useful life.

      c. The residual value of a fixed asset shall be considered as zero if the entity is unable to estimate the same with reasonable accuracy.

c) 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.

d) In case of regulated industry the amount of depreciation shall be the same as prescribed by the concerned regulator.

e) While estimating the useful life of a depreciable asset, consideration shall be given to the following factors:

    i) Expected physical wear and tear;

    ii) Obsolescence; and

    iii) Legal or other limits on the use of the asset.

f) The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights, but may be shorter depending on the period over which the entity expects to use the asset.

g) If the contractual or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost. The useful life of a re-acquired right recognised as an intangible asset in a business combination is the remaining contractual period of the contract in which the right was granted and shall not include renewal periods.

h) The useful life of an intangible asset, in any situation, shall not exceed 10 years from the date it is available for use.

i) Depreciation shall be considered from the time when a depreciable asset is first put into use. An asset which is used only when the need arises but is always held ready for use. Example: fire extinguisher, stand by generator, safety equipment shall be considered to be an asset in use. Depreciable assets will be considered to be put into use when commercial production of goods and services commences.

j) 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.

k) Depreciation of any addition or extension to an existing depreciable asset which becomes an integral part of that asset shall be based on the remaining useful life of that asset.

l) Depreciation of any addition or extension to an existing depreciable asset which retains a separate identity and is capable of being used after the expiry of the useful life of that asset shall be based on the estimated useful life of that addition or extension.

m) The impact of higher depreciation due to revaluation of assets shall not be assigned to cost object.

n) Impairment loss on assets shall be excluded from cost of production.

o) The method of depreciation used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

p) An entity can use any of the methods of depreciation to assign depreciable amount of an asset on a systematic basis over its useful life, viz., Straight-line method; Diminishing balance method; and Units of production method.

q) The method of amortisation of intangible asset shall reflect the pattern in which the economic benefits accrue to entity.

r) The methods and rates of depreciation applied shall be reviewed at least annually and, if there has been a change in the expected pattern of consumption or loss of future economic benefits, the method applied shall be changed to reflect the changed pattern.

s) Spares purchased specifically for a particular asset, or class of assets, and which would become redundant if that asset or class of asset was retired or use of that asset was discontinued, shall form part of that asset. The depreciable amount of such spares shall be allocated over the useful life of the asset.

t) Cost of small assets shall be written off in the period in which they were purchased as per the accounting policy of the entity.

u) Depreciation of an asset shall not be considered in case cumulative depreciation exceeds the original cost of the asset, net of residual value.

v) Where depreciation for an addition of an asset is measured on the basis of the number of days for which the asset was used for the preparation and presentation of financial statements, depreciation of the asset for assigning to cost of object shall be measured in relation to the period, the asset actually utilized.

w) Depreciation shall be traced to the cost object to the extent economically feasible.

x) 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) Any subsidy or Grant or Incentive or amount of similar nature received or receivable with respect to overheads shall be reduced for ascertainment of the cost of the cost object to which such amounts are related.

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 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 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) Any Subsidy or Grant or Incentive or any amount of similar nature received or receivable with respect to any Administrative overheads shall be reduced for ascertainment of the cost of the cost object to which such amounts are related.

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 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.

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;

(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.

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 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 or amount of similar nature received or receivable with respect to Research and Development Activity, if any, shall be reduced from the cost of such Research and Development Activity.

c) Any abnormal cost where it is material and quantifiable shall not form part of the Research and Development Cost.

d) Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the Research, and Development Cost.

e) Research and Development costs shall not include imputed costs.

f) 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.

g) 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.

h) 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".

i) 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.

j) 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) Any Subsidy or Grant or Incentive or any such payment received or receivable with respect to any Quality Control cost shall be reduced for ascertainment of the cost of the cost object to which such amounts are related.

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;

(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.

**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 or amount of similar nature received or receivable with respect to Pollution Control activity, if any, shall be reduced for ascertainment of the cost of the cost object to which such amounts are related.

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 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.

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) Any Subsidy or Grant or Incentive or any such payment received or receivable with respect to any service cost centre shall be reduced for ascertainment of the cost to which such amounts are related.

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) Any Subsidy or Grant or Incentive or any such payment received or receivable with respect to packing material shall be reduced for ascertainment of the cost to which such amounts are related.

i) Issue of packing materials shall be valued using appropriate assumptions on cost flow, namely; First In First Out, Last In First Out, Weighted Average Rate. The method of valuation shall be followed on a consistent basis.

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. Interest & Financing Charges**

a) 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.

b) Interest and Financing 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.

c) Interest and Financing Charges directly attributable to the acquisition or construction or production of a qualifying asset shall be included in the cost of the asset.

d) Interest and Financing Charges shall not include imputed costs.

e) Subsidy or Grant or Incentive or amount of similar nature received or receivable with respect to Interest and Financing Charges, if any, shall be reduced to ascertain the net interest and financing charges.

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 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.

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 Interest and Financing Charges 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 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) Proper records shall be maintained 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 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.

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-2**

**Specimen Consent Letter by Cost Accountant proposed to be appointed as Cost Auditor by the Company**

Date:

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 AAMFS4683D 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-3**

**Specimen Resolution of Board of Directors – 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) dated 30.6.2014 as amended by Companies (Cost Records and Audit) Amendment Rules, 2014 (GSR 01) 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 2014-15.

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 1st April, 2014 and ending on 31st March, 2015 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-4**

**Specimen Agenda to be included in the Notice of Shareholders' Meeting 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 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 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 _________ .