

GUIDANCE NOTE

on

Companies (Cost Records and Audit) Rules, 2014



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PROFESSIONAL DEVELOPMENT COMMITTEE

The Institute of Cost Accountants of India

(Statutory body under an Act of Parliament)

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CHAPTER - I

HISTORICAL BACKGROUND OF COST ACCOUNTING AND COST AUDIT

History of Cost Accounting and Cost Audit

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

1.2 The Institute of Cost and Works Accountants of India was set up in 1944 and was granted statutory recognition under the Cost and Works Accountants Act, 1959. The name of the Institute was changed to "The Institute of Cost Accountants of India" by The Cost and Works Accountants (Amendment) Act, 2011 (10 of 2012) and the Central Government vide S.O. 191(E) dated 30th January 2012 made the name change effected from 1st February 2012.

1.3 Immediately after India gained independence, large scale industrialization took place. Lots of concessions and facilities were given to the entrepreneurs to establish industrial undertakings for production of essential goods and services. These included land, & other infrastructure, power, finances, transport facilities, etc. The government in turn had a duty to ensure that ultimately the consumers are benefited in getting such goods and services at a fair price and they do not pay for any inefficiency of the manufacturers/producers.

1.4 In order to assess the productivity of industries which had direct bearing on the supply management system for the growth of Indian economy and as a service to the society, provisions relating to maintenance of cost accounting records under section 209(1)(d) of the Companies Act, 1956 were introduced in 1965. The

information on all input costs of products produced, machine utilization, unit selling prices and margins of individual products etc. was required to be maintained. Simultaneously, provisions relating to audit of cost records of companies were created by inserting section 233B in the Companies Act, 1956. These amendments were made on the basis of recommendations received from Vivian Bose Commission, Dutta Commission and Shastri Committee.

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

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

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

1.6 In his reply, the then Hon'ble Finance minister, Shri T.T. Krishnamachari while high lighting the absolute necessity of Cost Accounting and Cost Audit stated that

"while we have made it obligatory or rather semi-obligatory to employ Cost Accountant, it is our intention to ask certain industries to have a cost accountant's report."

1.7 The Institute of Cost and Works Accountants of India, renamed as Institute of Cost Accountants of India in the year 2012, was incorporated by the Act of Parliament only in 1959. Sufficient numbers of Cost Accountants were not available at that time. Even then Shri T.T. Krishnamachari, the then Finance Minister indicated the **future vision of the Government** as under:

"When we can have sufficient number of Cost Accountants so as to make it obligatory for every company, every producing concern every manufacturing concern, to have a cost accountant's report"(ibid. Column 3974). He also added "we are really making it possible for the Institution of Cost Accountants to grow so as to enable the Government some time later to make every manufacturing company employ a Cost Accountant and have a Cost Accountant's Report in this regard to the cost of product that it produces" (ibid. Column 3974/5).

1.8 Later, when the Companies Act, 1956 was replaced by the Companies Act, 2013, relevant provisions under sections 209(1)(d) [relating to cost records] and 233B [relating to cost audit] of the Companies Act, 1956 were replaced by consolidated provisions under section 148 of the Companies Act, 2013. The Companies Act, 2013 was notified in the Official Gazette on 30th August, 2013. Complete text of Section 148 of the Companies Act, 2013 is available at Annexure-I.

Necessity of Cost Accounting and Cost Audit

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

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

1.10 Cost audit is an innovation introduced for the first time in the world and in India with a view to regulate vital industries on healthy and sound lines. It is for making available cost-effective products and services to the customers; proper revenue realization to the Government's Treasury and ensuring adequate returns to other stakeholders like vendors, workers, distributors etc. Thus the concept and scope of cost audit in India is much wider as the definition lays emphasis on the evaluation of the efficiency of operations and the propriety of management actions and decisions, and executive programs and policies. In this sense, cost audit appears to be synonymous with efficiency audit.

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

1.12 Cost audit is based on the economic principle that resources should flow into the most remunerative channels. It ensures that every rupee invested in capital gives the optimum returns and the planning of investment between different functions and aspects is designed to give the optimum results. It measures the parameters indicating the effective efficiency in the utilization of financial, physical, human resources etc.

1.13 'Cost Audit' is not a routine exercise on verification or attestation of Cost Records and related documents. It brings out weaknesses in the internal working of a company and surfaces it out for the benefit of the top management and other agencies for necessary action. The framework of cost accounting and audit provides more accurate data as regards the cost of various items and quantity of

materials consumed thus helps in proper computation of variance and hence the productivity.

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

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

Relevance of Cost Audit

1.16 In the initial years, cost audit was taken as a tool for price mechanism for important industries in India. The main objective was to meet the Government requirements for regulating the prices in core & consumer industries like cement, sugar, textiles, vanaspati, formulations, automobiles, etc. The objective was to provide authentic data to the Government to regulate the demand and supply in the country through price mechanism.

1.17 Cost accounting, through the determination and allocation of costs to various products, provides a valuable service to the managements of companies in cost analysis and management control. In this way, it can help to improve efficiency in the use of materials, labour and plant, maximize production and realize greater profits. At the same time, cost analysis furnishes useful information in respect of such important matters as gross margin, differential costs, replacement costs, etc.

Cost analysis can be useful to the Regulators of public utilities and provide a basis for comparing claims and assessing the validity of issues arising out of international trade.

1.18 The liberalization of the economy has not changed the utility of cost audit. Rather, the necessity for and utility of properly documented cost data is felt now greater than ever before. In most parts of the world, free competition co-exists with relevant rules and regulations to ensure free trade and absence of unfair practices. It is imperative that in context of an economic environment, determined by increasing competition both domestically and internationally, efficiency and economy be brought about in the operations of the manufacturing sector to catalyze and facilitate the cost competitiveness of the manufacturing sector in India. It is equally necessary to enable the industry to address issues arising from unfair trade practices such as dumping, subsidies & cartels, etc. in the International Trade. Therefore, in the present competitive scenario of globalization, the cost audit reports have assumed greater importance and significance as the only source of reliable and authentic feedback to the government and its various departments and agencies.

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

1.20 Under Competition Law, which has come into force as legislation, the provisions selling below cost to ward off competition is penalized. This requires authentication of the cost data of the products marketed by industry and business houses to determine normative pricing. In fact, Competition Law to be effective against any anti-competition activity presupposes the availability of reliable and

authentic cost data. The cost audit reports are regularly used as evidence by the Directorate General of Investigation (DGI), setup under the Competition Commission of India (CCI), in its pursuit of cases relating to unwarranted increase in prices resorted to by the companies by forming cartels.

1.21 Transfer pricing issues have gained considerable momentum in the International scenario. The Companies (Cost Records and Audit) Rules, 2014 have considered this aspect and sought information for Transfer Price under Related Party transactions. The transfer pricing methods are based on "cost" or "arm's length price" throughout the world.

1.22 The formation of Audit Committee under section 177 of the Companies Act, 2013 and Clause 49 of the Listing Agreement of SEBI is a big leap in ensuring better corporate governance among the Indian Companies. Cost Auditor is permanent invitee to these meetings. The cost audit report serves as an effective tool of information in the hands of external Directors on the Board ensuring good corporate governance. The Shareholders value has to be improved by highlighting deficiencies in performance for a meaningful understanding under the corporate governance.

1.23 An independently verified & audited cost records and the resultant cost audit reports have become major source of information which is being effectively used by both Indirect and Direct Tax Authorities. Department of Revenue, Central Board of Excise & Customs has given credence to the Cost Accounting Standard-4 for determination of assessable value for goods produced for captive consumption. The Central Excise Authorities use cost audit reports for verifying claim of the companies relating to ex-factory prices of the excisable goods especially in the cases of inter-unit transfers and captive consumption cases. The cost audit reports are also used by the Income Tax Authorities in the assessment of Corporate Tax.

1.24 The cost audit reports take care of the Investors through its emphasis on the efficient and proper utilisation of funds deployed by the public in corporates. Other stakeholders such as banks and financial institutions find the reports very useful and purposeful to make continuous assessment of the financial health of an organization.

1.25 The Tariff Commission relies on authenticity of the cost audit reports and makes use of these reports extensively in its studies related to fixation of tariffs and in undertaking studies relating to inverted duty structure. Other stakeholders such as Telecom Regulatory Authority of India (TRAI), Central & State Electricity Regulatory Commissions, etc. make intensive use of the cost data contained in the cost audit reports.

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

CONCLUSION

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

1.28 In many countries, policy makers and financial administrators struggle to develop an appropriate regulatory framework with the objective to stimulate innovations and market penetration on the one side and ensure sound business practices or good corporate governance on the other side. Further regulatory mechanism should be applied in a manner, which would usher in investment and efficiency. Regulation itself is imperfect when the right regulatory mechanisms are not clearly defined. It is all the more imperfect when it is implemented without an adequate information base and sophistication.

1.29 These regulatory authorities, therefore, need proper and professional Information Management Systems, which are designed to dispense usable data in an efficient manner. This involves integration of heterogeneous information. Prescription of cost audit under Companies (Cost Records and Audit) Rules, 2014 is therefore the 'Just and Perfect' solution promulgated by the Regulatory Authorities.

CHAPTER - II

COMPANIES (COST RECORDS AND AUDIT) RULES, 2014

Companies (Cost Record and Audit) Rules, 2014

2.1 In exercise of the powers conferred by sub-sections (1) and (2) of section 469 and section 148 of the Companies Act, 2013 (18 of 2013), the Central Government, vide G.S.R. 425(E) dated 30th June, 2014, notified the Companies (Cost Records and Audit) Rules, 2014. Later, on 19th July 2014, Central Government constituted an Expert Committee to,

- a) Examine the Companies (Cost Records and Audit) Rules, 2014, including the prescribed classes of companies/industries/sectors, the threshold limits and recommend appropriate changes/modifications to be made thereunder keeping in view rational and relevant criteria to determine the basis of including or excluding class or classes of companies;
- b) Examine the current Cost Audit scenario in the country and to suggest measures to optimally utilize Cost Audit as an instrument of promoting transparency and efficiency in business and industry;
- c) Identify and suggest principles that should govern assignment of greater opportunities to Cost professionals;
- d) Suggest measures to enhance the utility of Cost Audit Reports to Government and other regulators/related agencies and the manner and extent of their filing;
- e) Study prevalent international practices relating to Cost Records in large economies and draw comparison to the current Indian scenario; and
- f) Look into and make suitable recommendations about issues incidental to the above.

2.2 Based on the recommendations made by the Expert Committee, the Central Government, vide G.S.R. No. 01(E) dated 31st December, 2014, issued Companies

(Cost Records and Audit) Amendment Rules, 2014. Full text of the Rules, as amended till date, is given at Annexure-II. Various clauses are discussed in the succeeding paragraph.

2.3 It may be noted that with the notification of the Companies (Cost Records and Audit) Rules, 2014, following Rules have been superseded.

- a) Companies (Cost Accounting Records) Rules, 2011;
- b) Companies (Cost Audit Report) Rules, 2011;
- c) Cost Accounting Records (Telecommunication Industry) Rules, 2011;
- d) Cost Accounting Records (Petroleum Industry) Rules, 2011;
- e) Cost Accounting Records (Electricity Industry) Rules, 2011;
- f) Cost Accounting Records (Sugar Industry) Rules, 2011;
- g) Cost Accounting Records (Fertilizer Industry) Rules, 2011; and
- h) Cost Accounting Records (Pharmaceutical Industry) Rules, 2011

Definitions given/used in the Rules

2.4 Relevant definitions as given either in Rule 2 or in the Act are reproduced below:

- (a) "Act" means the Companies Act, 2013 (18 of 2013);
- (b) "Central Excise Tariff Act Heading" means the heading as referred to in the Additional Notes in the First Schedule to the Central Excise Tariff Act, 1985[5 of 1986];
- (c) "Cost Accountant in practice" means a cost accountant as defined in clause (b) of sub-section (1) of section 2 of the Cost and Works Accountants Act, 1959 (23 of 1959), who holds a valid certificate of practice under sub-section (1) of section 6 of that Act and who is deemed to be in practice under sub-section (2) of section 2 thereof, and includes a firm or limited liability partnership of cost accountants;

- (d) "cost auditor" means a Cost Accountant in practice, as defined in clause (b), who is appointed by the Board;
- (e) "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;
- (f) "cost records" means books of account relating to utilisation of materials, labour and other items of cost as applicable to the production of goods or provision of services as provided in section 148 of the Act and these rules;
- (g) "form" means a form annexed to these rules;
- (h) "institute" means the Institute of Cost Accountants of India constituted under the Cost and Works Accountants Act, 1959 (23 of 1959);
- (i) "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 [Section 2(57) of the Act];
- (j) "revenue" means total Revenue of the company, i.e., total operating revenue plus other incomes as depicted in the Statement of Profit & Loss Accounts as per Schedule III of the Act.
- (k) "turnover" means 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 [Section 2(91) of the Act];

It includes any turnover from job work or loan license operations as well as any export benefits received but exclude all duties and taxes. It can be considered as the total operating revenue of the company.

Application of Cost Records (Rule 3)

2.5 As per Rule 3, 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, specified in the Table below, 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, namely:-

(A) Regulated Sectors

Sno.	Industry/Sector/ Product/Service	CETA Heading(wherever applicable)
1.	Telecommunication services made available to users by means of any transmission or reception of signs, signals, writing, images and sounds or intelligence of any nature (other than broadcasting services) and regulated by the Telecom Regulatory Authority of India under the Telecom Regulatory Authority of India Act, 1997 (24 of 1997);	Not applicable
2.	Generation, transmission, distribution and supply of electricity regulated by the relevant regulatory body or authority under the Electricity Act, 2003 (36 of 2003), other than for captive generation (referred to in the Electricity Rules, 2005);	
3.	Petroleum products regulated by the Petroleum and Natural Gas Regulatory Board under the Petroleum and Natural Gas Regulatory Board Act, 2006 (19 of 2006);	2709 to 2715;
4.	Drugs and pharmaceuticals	2901 to 2942; 3001 to 3006.

Sno.	Industry/Sector/ Product/Service	CETA Heading(wherever applicable)
5.	Fertilisers;	3102 to 3105.
6.	Sugar and industrial alcohol;	1701; 1703; 2207

(B) Non-regulated Sectors

Sno.	Industry/ Sector/ Product/ Service	CETA Heading (wherever applicable)
1.	Machinery and mechanical appliances used in defence, space and atomic energy sectors excluding ancillary item or items; Explanation - For the purposes of this sub- clause any company which is engaged in any item or items supplied exclusively for use under this clause, shall be deemed to be covered under these rules.	8401 to 8402; 8801 to 8805; 8901 to 8908
2.	Turbo jets and turbo propellers;	8411
3.	Arms and ammunitions;	3601 to 3603; 9301 to 9306.
4.	Propellant powders; prepared explosives (other than propellant powders); safety fuses; detonating fuses; percussion or detonating caps; ignitors; electric detonators;	3601 to 3603
5.	Radar apparatus, radio navigational aid apparatus and radio remote control apparatus;	8526
6.	Tanks and other armoured fighting vehicles, motorized, whether or not fitted with weapons and parts of such vehicles, that are funded (investment made in the company) to the extent of ninety per cent, or more by the Government or Government agencies;	8710
7.	Port services of stevedoring, pilotage, hauling, mooring, re-	Not applicable.

Sno.	Industry/ Sector/ Product/ Service	CETA Heading (wherever applicable)
	mooring, hooking, measuring, loading and unloading services rendered by a Port in relation to a vessel or goods regulated by the Tariff Authority for Major Ports under section 111 of the Major Port Trusts Act, 1963 (38 of 1963);	
8.	Aeronautical services of air traffic management, aircraft operations, ground safety services, ground handling, cargo facilities and supplying fuel rendered by airports and regulated by the Airports Economic Regulatory Authority under the Airports Economic Regulatory Authority of India Act, 2008 (27 of 2008);	Not applicable.
9.	Steel;	7201 to 7229; 7301 to 7326
10.	Roads and other infrastructure projects corresponding to para No.(1) (a) as specified in Schedule VI of the Companies Act, 2013;	Not applicable.
11.	Rubber and allied products being regulated by the Rubber Board constituted under the Rubber Act, 1947 (XXIV of 1947)	4001 to 4017
12.	Coffee and tea;	0901 to 0902
13.	Railway or tramway locomotives, rolling stock, railway or tramway fixtures and fittings, mechanical (including electro mechanical) traffic signalling equipment's of all kind;	8601 to 8608.
14.	Cement;	2523; 6811 to 6812
15.	Ores and Mineral Products;	2502 to 2522; 2524 to 2526; 2528 to 2530; 2601 to 2617
16.	Mineral fuels (other than Petroleum), mineral oils etc.;	2701 to 2708
17.	Base metals;	7401 to 7403; 7405 to

Sno.	Industry/ Sector/ Product/ Service	CETA Heading (wherever applicable)
		7413; 7419; 7501 to 7508; 7601 to 7614; 7801 to 7802; 7804; 7806; 7901 to 7905; 7907; 8001; 8003; 8007; 8101 to 8113.
18.	Inorganic chemicals, organic or inorganic compounds of precious metals, rare-earth metals of radioactive elements or isotopes, and Organic Chemicals;	2801 to 2853; 2901; 2942; 3801 to 3807; 3402 to 3403; 3809 to 3824.
19.	Jute and Jute Products;	5303, 5310
20.	Edible Oil;	1507 to 1518
21.	Construction Industry as per para No.(5) (a) as specified in Schedule VI of the Companies Act, 2013 (18 of 2013)	Not applicable.
22.	Health services, namely functioning as or running hospitals, diagnostic centres, clinical centres or test laboratories;	Not applicable.
23.	Education services, other than such similar services falling under philanthropy or as part of social spend which do not form part of any business.	Not applicable.
24.	Milk powder;	0402
25.	Insecticides;	3808
26.	Plastics and Polymers;	3901 to 3914; 3916 and 3921; 3925
27.	Tyres and Tubes;	4011 to 4013
28.	Paper;	4801 to 4802
29.	Textiles;	5004 to 5007; 5106 to

Sno.	Industry/ Sector/ Product/ Service	CETA Heading (wherever applicable)
		5113; 5205 to 5212; 5303; 5310; 5401 to 5408; 5501 to 5516
30.	Glass;	7003 to 7008, 7011, 7016
31.	Other machinery;	8403 to 8487
32.	Electricals or electronic machinery;	8501 to 8507; 8511 to 8512; 8514 to 8515; 8517; 8525 to 8536; 8538 to 8547.
33.	Production, import and supply or trading of following medical devices, namely, (i) Cardiac stents;(ii) Drug eluting stents;(iii) Catheters;(iv) Intra ocular lenses;(v) Bone cements;(vi) Heart valves;(vii) Orthopaedic implants; (viii) Internal prosthetic replacements;(ix) Scalp vein set;(x) Deep brain stimulator; (xi) Ventricular peripheral shud;(xii) Spinal implants;(xiii) Automatic palpable cardiac deflobillator;(xiv) Pacemaker (temporary and permanent);(xv) Patent ductus arteriosus, atrial septal defect and ventricular septal defect closure device;(xvi) Cardiac re-synchronize therapy;(xvii) Urethra spincture devices; (xviii) Sling male or female;(xix) Prostate occlusion device; and(xx) Urethral stents;	9018 to 9022

Notes

- a) Nothing contained in serial number 33 of Table B of Rule 3 shall apply to foreign companies having only liaison offices.
- b) Nothing contained in Rule 3 shall apply 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 (27 of 2006).

- c) Every product covered under the CETA Codes is covered under the Rules irrespective of the description of the sector.

Applicability of Rules for maintenance of cost accounting records

2.6 These Rules apply to every company, including foreign companies defined in clause (42) of section 2 of the Act, engaged in the production of the goods or providing services, specified in Tables A and B, having an overall turnover from all its products and services of rupees thirty five crore or more during the immediately preceding financial year, shall be required to maintain cost accounting records.

2.7 However, foreign companies having only liaison office in India and engaged in production, import and supply or trading of medical devices listed in serial number 33 of Table B are exempted. Foreign company in this context means any company or body corporate incorporated outside India which as a place of business in India whether by itself or through an agent, physically or through electronic mode; and conducts any business activity in India in any other manner [refer section 2(42) of the Act]. Further, companies which are classified as a micro enterprise or a small enterprise including as per the turnover criteria under sub-section (9) of section 7 of the Micro, Small and Medium Enterprises Development Act, 2006 (27 of 2006) are also excluded from the purview of these Rules.

2.8 Further, the criteria of meeting the turnover is relevant only in the first year when the rules become applicable to the company on account of turnover being in excess of Rs. 35 crore in the immediately preceding financial year. The condition of having a turnover of Rs. 35 crore or more in the preceding financial year is not relevant when a company is already covered under the cost accounting records rules. Once the maintenance of cost records becomes applicable, it would be maintained on a continuous basis in the subsequent years also.

2.9 Serial 8 of Table B covers the following aeronautical services, as defined in The Airports Economic Regulatory Authority of India Act, 2008, subject to the prescribed threshold limits. However, all airports and aircraft operations belonging to or subject to the control of the Armed Forces or paramilitary Forces are excluded from the scope of these Rules.

- a) For navigation, surveillance, and supportive communication thereto for air traffic management;
- b) For the landing, housing or parking of an aircraft or any other ground facility offered in connection with aircraft operations at an airport;
- c) For ground safety services at an airport;
- d) For ground handling services relating to aircraft, passengers and cargo at an airport;
- e) For the cargo facility at an airport;
- f) For supplying fuel to the aircraft at an airport;

2.10 Serial 10 of Table B covers companies engaged in "roads and other infrastructure projects" and the term 'roads and other infrastructure projects' shall be as per paragraph number 1(a) of Schedule VI of the Act. Para no. 1(a) of Schedule VI provides as

"Transportation (including inter modal transportation), includes the roads, national highways, state highways, major district roads, other district roads and village roads, including toll roads, bridges, highways, road transport providers and other road-related services"

2.11 Serial 21 of Table B covers companies engaged in "construction industry" to maintain cost records, subject to the prescribed threshold criteria. The Rule states that the term 'construction industry' shall be as per paragraph number 5(a) of Schedule VI of the Act. Para no. 5(a) of Schedule VI provides as

"Industrial, commercial and social development and maintenance, including the real estate development, including an industrial part or special economic zone"

2.12 All companies engaged in construction business either as contractors or as sub-contractors, who meet with the threshold limits laid down in the Companies (Cost Records and Audit) Rules, 2014 and undertake jobs with the use of own materials [whether self-manufactured/produced or procured from outside] shall be required to maintain cost records and get cost audit conducted as per the provisions of these Rules. These Rules would also apply for construction activities undertaken under BOT/BOOT mode, or the projects undertaken as EPC contractor or the projects undertaken abroad by a company incorporated in India. For general information of all stakeholders, the Institute has issued a "Guidance Note on Maintenance of Cost Records & Cost Audit in Construction Industry" which is available on the following web address:

http://icmai.in/ProfessionalDevelopment/Download_GN.php

2.13 Serial 22 of Table B covers companies engaged in *"Health services, namely functioning as or running hospitals, diagnostic centers, clinical centers or test laboratories"*. This means any company engaged in providing Health services through functioning as or running hospitals, diagnostic centers, clinical centers, test laboratories, physiotherapy centers and post-operative/treatment centers is covered within the ambit of the Companies (Cost Records and Audit) Rules, 2014. However, companies running hospitals exclusively for its own employees are excluded. But, in addition to own employees, if such hospitals are also providing health services to outsiders on chargeable basis, then such hospitals are covered within the ambit of these Rules.

2.14 Serial 23 of Table B covers companies engaged in *"Education services, other than such similar services falling under philanthropy or as part of social spend which do not form part of any business"*. This means any company imparting training

or education by means of any mode is covered under these rules. It includes all auxiliary services provided by such companies to their faculty, students & staff, as inbuilt part of their operations, such as study material, internet facilities, photocopying, transportation, catering, house-keeping etc. However, if such services are provided by a separate independent company, then such company shall be outside the purview of these rules.

2.15 Any company engaged in the production of prescribed goods shall be covered under Companies (Cost Records and Audit) Rules, 2014 only after it commences its commercial operations.

2.16 Cost records are required to be maintained even in case of products that are manufactured for 100% captive consumption. However, cost audit for intermediate products would be applicable only if these are included in the category of coverage under the notified rules and also the final product(s) is not subject to cost audit. Further, if the product is partly consumed and partly sold, or if the product is 100% captively consumed for production of such other product(s) which is not covered under these Rules, then cost audit would be applicable for such product(s) that are produced for part captive consumption.

Maintenance of Cost Accounting Records

2.17 Rule 5 of the Companies (Cost Records and Audit) Rules, 2014 that deals with the provision of Maintenance of Records, states that -

(1) Every company under these rules including all units and branches thereof, shall, in respect of each of its financial year commencing on or after the 1st day of April, 2014, maintain cost records in form CRA-1.

Provided that in case of company covered in serial number 12 and serial numbers 24 to 32 of item (B) of rule 3, the requirement under this rule shall

apply in respect of each of its financial years commencing on or after 1st day of April, 2015.

- (2) The cost records referred to in sub-rule (1) shall be maintained on regular basis in such manner as to facilitate calculation of per unit cost of production or cost of operations, cost of sales and margin for each of its products and activities for every financial year on monthly or quarterly or half-yearly or annual basis.*
- (3) The cost records shall be maintained in such manner so as to enable the company to exercise, as far as possible, control over the various operations and costs to achieve optimum economies in utilisation of resources and these records shall also provide necessary data which is required to be furnished under these rules.*

Notes:

2.18 Companies (Cost Records and Audit) Rules, 2014 apply for each financial year commencing on or after April 1, 2014. However, in case of companies engaged in an activity covered in serial number 12 and serial numbers 24 to 32 of item (B) of rule 3, the applicability of these Rules is in respect of each of its financial years commencing on or after April 1, 2015.

2.19 In respect of companies whose financial year commenced on any date prior to April 1, 2014, the erstwhile Companies (Cost Accounting Records) Rules, 2011 will continue to be applicable till it commences its next financial year on or after April 1, 2014. Companies following calendar year will come under the application of the Rules from January 1, 2015.

2.20 The Rules require companies to maintain the cost records on a regular basis so that they can 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. Such records are required to be

maintained for all units and branches of the company. No formats have been prescribed. The cost records are required to be maintained in accordance with CRA-1 prescribed in the Rules.

2.21 The Rules have no specific mention of maintenance of cost records in accordance with the Cost Accounting Standards (CAS) and Generally Accepted Cost Accounting Principles (GACAP) issued by the Institute of Cost Accountants of India. However, CRA-1 prescribed in the Rules is in complete synchronization with the Cost Accounting Standards. In addition, the cost auditor conducting cost audit is required to comply with the cost auditing standards issued by the Institute of Cost Accountants of India with the approval of the Central Government. It may be noted that the Central Government has granted its approval to four [CAS-1 to 4] cost auditing standards. As the cost auditing standards require compliance to the cost accounting standards, hence, the cost auditor is required to make his observations on any departure from compliance with the cost accounting standards.

2.22 As specified in the Companies (Cost Records and Audit) Rules, 2014, the basic purpose of maintenance of cost records is to enable the company to exercise, as far as possible, control over its operations and costs with a view to achieve optimum economies in utilization of resources; and also provide necessary data which is required to be furnished under these rules.

2.23 There cannot be any exhaustive list of cost records. Any record of the company showing recognition details of all incomes and measurement, allocation and absorption details of all expenses, for each cost center / product / activity separately, both in quantitative and value terms, constitute & form part of cost records. Such records should be maintained in a structured manner on a regular basis. Similarly, in a SAP/ERP environment, the control modules that are capable of generating such data/information that enables the company to separately capture all costs allocable or to be apportioned to each product or activity, constitute & form part of cost records.

2.24 The cost records and cost statements, maintained under these Rules are required to be reconciled with the audited financial statements for the financial year specifically indicating expenses or incomes not considered in the cost records or statements to ensure accuracy and to reconcile the profit of all products/services with the overall profit of the company. The variations, if any, are to be clearly indicated and explained. It is to be noted that the Rules prescribe reconciliation of cost books with the financial records irrespective of the fact whether the products of the company are under cost audit or not.

2.25 As per section 2(13) of the Act, "books of account" include cost records and section 128(5) provides that books of account of every company, together with the vouchers relevant to any entry in such books of account, shall be kept in good order, 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. Since cost records form part of the books of account, preservation of such records are required to comply with the provisions of section 128(5) as above.

Penal provisions

2.26 The responsibility of maintaining cost records vests with the Company. Section 148(8) of the Act provides that if any default is made in complying with the provisions of Section 148, 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) provides that the company shall be punishable with fine which shall not be less than twenty-five thousand rupees but which may extend to five lakh rupees and every officer of the company who is in default shall be punishable with imprisonment for a term which may extend to one year or with fine which shall not be less than ten thousand rupees but which may extend to one lakh rupees, or with both.

2.27 Section 148(8) provides that 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. These are produced as follows:

Sub-section (2): 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 wilfully with the intention to deceive the company or its shareholders or creditors or tax authorities, he shall be punishable with imprisonment for a term which may extend to one year and with fine which shall not be less than one lakh rupees but which may extend to twenty-five lakh rupees.

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

- a. refund the remuneration received by him to the company; and
- b. 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.

Sub-section (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.

CHAPTER - III

INTRODUCTION TO COST AUDIT

Audit, Audit Risk and Cost Audit

3.1 Few relevant terms as defined in various cost auditing standards are reproduced below:

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

Audit Risk: Audit risk is the risk that the cost auditor expresses an inappropriate audit opinion on the cost statements that are materially misstated. Audit risk is a function of the risk of material misstatement and detection risk.

1. The risk of material misstatement has two components viz. Inherent Risk and Control risk.
 - (i) 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.
 - (ii) 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.

2. 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.

Cost Audit: Cost audit is an independent examination of cost statements, cost records and other related information of an entity including a non-profit entity, when such an examination is conducted with a view to expressing an opinion thereon.

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

Risk Assessment: The audit procedures performed to obtain an understanding of the entity and its environment, including the entity's internal control, to identify and assess the risks of material misstatement, whether due to fraud or error, at the overall cost statement level and at the assertion level including items of cost, cost heads and disclosure thereof.

Cost Audit Report: Cost Audit Report means the report duly audited and signed by the cost auditor on an independent examination of the cost statements, cost records and other related information of an entity including a non-profit entity, expressing his opinion thereon. It includes any statement, qualifications, observations, etc. attached to the cost audit report, or that is required by law or regulation.

Cost Records: Cost Records means books of account relating to utilization of materials, labour and other items of cost, to facilitate calculation of true and fair cost of production or cost of operations, cost of sales, and margin for each product or service or activity, produced or provided by an entity including a non-profit entity, for any period, in compliance with the Cost Accounting Standards issued by the Institute of Cost Accountants of India.

Cost Reporting Framework: Cost Reporting Framework means the framework adopted by the management and, where appropriate, by those charged with governance, in the preparation of the cost statements that is acceptable in view of the nature of the entity and the objective of the cost report, or that is required by law or regulation.

Cost Statements: Cost Statements, in relation to an entity, includes plant-wise, factory-wise or service centre-wise --

- (i) quantitative details of capacity, production, trade purchases, sales and stocks;
- (ii) quantitative, rates and value details of consumption of materials, utilities, and other inputs;
- (iii) cost sheet showing element-wise, total as well as per unit, cost of production of goods or provision of services, cost of sales and margin for each product or service;
- (iv) reconciliation of profits, or in case of an entity carrying on any activity not for profit, of surplus, as per cost accounts and as per financial accounts;
- (v) reconciliation of indirect taxes showing details of total clearances of goods/services, assessable value, duties/taxes paid, CENVAT or VAT or Service Tax credit utilized, duties/taxes recovered and interest/penalty paid;

- (vi) statement of value addition and distribution of earnings; and
- (vii) details of purchases and sales of goods and services with related parties showing transfer price vis-à-vis normal price; and
- (viii) any explanatory note annexed to, or forming part of, any document referred to in (i) to (vii) above.

Features of Auditing & Cost Audit

3.2 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.

3.3 Cost Audit in this Guidance Note refers to the cost audit notified under Section 148 of the Companies Act, 2013. Such audit, in addition to the features of auditing mentioned above, has the following additional features:

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

Cost Audit under the Companies Act, 2013

3.4 Section 148, sub-section (2) of the Companies Act, 2013 deals with the provisions relating to cost audit. The Companies (Cost Records and Audit) Rules, 2014 prescribes Rules both for maintenance of cost accounting records and cost

audit. Rule 4 contains the products/services/sectors covered under cost audit and threshold limits. Every company meeting the criteria of Rule 3 and Rule 4 of the Rules are required to appoint cost auditor and get cost audit conducted. Rule 4 reads as under:

(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.

(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.

(3) The requirement for cost audit under these rules shall not apply to a company which is covered in rule 3, and whose revenue from exports, in foreign exchange, exceeds seventy five per cent of its total revenue; or which is operating from a special economic zone.

Applicability of Cost Audit

3.5 In case the following conditions are fulfilled, the company will be covered under cost audit in respect of only its Table A products.

- a) A company is engaged only in the activities specified under Table A of Rule 3 and the overall turnover of the company for all products and services is at least Rs.50 crore or more.

- b) In addition to Table A activities, the company is also engaged in other products/sectors/services that are not covered under Rule 3. Then overall turnover of the company for all products and services should be at least Rs.50 crore or above, and aggregate turnover of the products and/or services covered under Table A and Table B of Rule 3 should be at least Rs. 25 crore.

3.6 In case the following conditions are fulfilled, the company will be covered under cost audit in respect of only its Table B products.

- a) A company is engaged only in the activities specified under Table B of Rule 3 and the overall turnover of the company for all products and services is at least Rs.100 crore or more.
- b) In addition to Table A activities, the company is also engaged in other products/sectors/services that are not covered under Rule 3. Then overall turnover of the company for all products and services should be at least Rs.100 crore or above, and aggregate turnover of the products and/or services covered under Table A and Table B of Rule 3 should be at least Rs. 35 crore.

Exemptions from Cost Audit

3.7 Rule 4(3) states that *"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"*. It means the products covered under Rule 3 will be exempted from cost audit if the turnover of these products (falling under Table-A and/or Table-B of Rule 3) constitutes 75% of total revenue of the company. Therefore, there is no exemption from cost audit for products/services on the basis of 75% export turnover of products/services that do not even come under the purview of Rule 3.

3.8 As per provisions of Rule 4(3)(ii) of the Companies (Cost Records and Audit) Rules, 2014, the unit(s) located in the special economic zone would be outside the purview of cost audit and the company would not be required to include particulars of such unit in its cost audit report. The other units of the company located outside the special economic zone would be covered under cost audit subject to the prescribed threshold limits. Further, the companies operating in special economic zone or companies having units located both within and outside special economic zones are required to maintain cost accounting records for all its units including the one(s) located in the special economic zone.

CHAPTER - IV

COST AUDITOR

Appointment of Cost Auditor

4.1 Companies (Cost Records and Audit) Rules, 2014 provide that every company engaged in activities specified in rule 3 and covered thereunder and meeting with the thresholds limits laid down in rule 4, is required to appoint a cost auditor. Provisions relating their appointment etc. are further specified under rule 6 that provides as under:

(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, alongwith 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.

(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 alongwith full information and explanation on every reservation or qualification contained therein, in form CRA-4 alongwith 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.

4.2 For appointment of cost auditor, the following points need consideration:

- a) The Act provides same qualifications/disqualifications and duties and responsibilities for cost auditors as that of a financial auditor. Hence, it is imperative that the manner and procedure of appointment is also made same as provided under Chapter X of the Act.
- b) The company should get a letter of consent from the proposed cost auditor and a declaration that the cost auditor do not suffer from any disqualifications as specified inter-alia under Section 141 of the Companies Act, 2013 read with Section 148 of the Act and that the appointment will be within the limits prescribed under Section 141(3)(g) read with Section 148 of the Act.
- c) The proposed cost auditor should also give a declaration to the effect that the cost auditor or the firm of cost accountants are independent Cost

Accountants and are at arm's length relationship with the company. A sample letter of consent is attached as **Annexure-1**.

- d) Every company required to appoint a cost auditor shall inform the cost auditor concerned of his or its appointment or reappointment. [Rule 6(2)]

4.3 Vide Rule 10.11 of the Companies (Audit and Auditors) Rules, 2014, it has been prescribed that in the case of companies which are required to constitute an audit committee under section 177, the audit committee shall take into consideration the qualifications and experience of the person appointed by the Board as cost auditor and recommend to the Board a suitable remuneration to be paid to the cost auditor; and the remuneration recommended by the Audit Committee shall be considered and approved by the Board of Directors and ratified subsequently by the shareholders. In the case of those companies which are not required to constitute an audit committee, the Board shall consider and approve the remuneration of the Cost Auditor which shall be ratified by shareholders subsequently.

4.4 From the above procedure, it would be apparent that though a company gets one hundred and eighty days from the commencement of the financial year to appoint a cost auditor, in view of the fact that the remuneration of the cost auditor is required to be ratified by the shareholder, the appointment is required to be done much ahead of the annual general meeting of the company to enable the company to include the issue as agenda item of the general meeting.

4.5 The provisions of Section 148 states that no person appointed under Section 139 as an auditor of the company shall be appointed for conducting audit of cost records of the company. Section 148 also provides that qualifications, disqualifications, rights, duties and obligations applicable to auditors (financial) shall apply to a cost auditor appointed under this section. The eligibility, qualifications and disqualifications are provided in Section 141 of the Act and powers and duties are provided in Section 143. Section 143(14) specifically states

that the provisions of Section 143 shall *mutatis mutandis* apply to a cost auditor appointed under Section 148. There are no other provisions governing the appointment of a cost auditor. Section 139(3) of the Act, applicable to appointment of auditors (financial), and Rule 6 of Companies (Audit and Auditors) Rules, 2014 deals with the provision of rotation of auditors and these provisions are applicable only to appointment of auditors appointed under section 139. So far, neither the Act nor the rules made thereunder clearly provide for rotation in case of appointment of cost auditors and hence, the aforesaid provisions are not applicable to a cost auditor.

4.6 It is also to be noted that Form CRA-2 (notice of appointment of cost auditor) is required to be filed 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.

4.7 Draft Certificate by the Cost Auditor proposed to be appointed for his independence and having arm's length relationship with the company and draft Board agenda and Board Resolution for his appointment are given below. These may, however, be modified after the proposed cost auditing standard on the "Agreeing the Terms of Cost Audit Engagement" is issued with the approval of the Central Government.

4.8 As per provisions of section 148(3), the Board of Directors of a Company can appoint a cost auditor. As per the revised procedure as mentioned above, the Audit Committee will recommend to the Board of Directors for appointment of the Cost Auditor. In those companies where constitution of an Audit Committee is not required by law, the functions of the "Audit Committee" as per the procedure will be discharged by the "Board of Directors itself.

Draft Letter of Consent from the Cost Auditor

Ref. No. _____

Date: _____

The Board of Directors,
_____ Company Limited,

Dear Sir,

Sub: **Cost Audit of your Company for the year ending.**

This has reference to your proposal to appoint us **Cost Auditor** of your Company for the financial year ending on _____.

I/We shall be happy to accept the appointment/ re-appointment as Cost Auditor of your Company, if so made by your Board of Directors.

We would like to inform you that we are free from any disqualifications as specified under Section 141 of the Companies Act, 2013 read with Section 148 of the Act. We would like to further inform you that the appointment, if made, will be within the limits prescribed under Section 141(3)(g) read with Section 148 of the Act.

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

We further certify that we are an independent firm of Cost Accountants and are at arm's length relationship with the company. Further, we confirm that there are no orders or proceedings which are pending against 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,

For M/s _____

Cost Accountants, Partner

The Draft Board Agenda Paper

The Board may note that the Company is covered under cost audit for the product (s)/services _____ (mention the name of products / services) for the Financial Year _____, by virtue of Companies (Cost Records and Audit) Rules, 2014. Accordingly, it is proposed to appoint a single cost auditor to conduct the audit for all the products/services [OR to appoint separate cost auditors] for the units _____ (mention name of units) or products _____ (mention name of the products).

M/s _____ & Co. have given their consent to conduct the cost audit and have submitted necessary certificates in respect of their eligibility to be appointed as Cost Auditor as prescribed under Companies Act, 2013 and Rules made thereunder and freedom from any disqualifications prescribed therein. The Board is requested to pass the following resolution [Attach draft Board Resolution]:

Certified Copy of Board Resolution - For Appointment of Cost Auditor

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

The Board was informed that pursuant to Rule 6(1) of the Companies (Cost Records and Audit) Rules, 2014 read with Section 148(2) of the Companies Act, 2013, the company is required to appoint cost auditors for the financial year commencing on _____ to conduct audit of cost records of the company in respect of _____.

Audit Committee of Directors at its meeting held on _____ recommended the name of _____ for appointment as cost auditor for the year ending _____ at a remuneration of Rs. _____ (Rupees _____) plus service taxes exclusive of reimbursement of travelling and other incidental expenses.

"RESOLVED THAT as recommended by Audit Committee of the Board of Directors, M/s _____, Cost Accountants, be hereby appointed as cost auditors of the company for financial year ending _____ at a remuneration of Rs. _____ (Rupees _____) plus service taxes exclusive of reimbursement of travelling and other incidental expenses.

RESOLVED FURTHER THAT the Mr. _____ / Mr. _____ / Company Secretary be and is hereby authorised to do or caused to be done in the name and at the cost of the Company, all such administrative functions as may be needed to give full effect and force to the foregoing resolution.

RESOLVED FURTHER THAT a copy of the foregoing Resolutions, certified to be true under the hands of the _____ and _____, be filed with the Central Government along with Form CRA-2."

Disqualifications for Appointments as Cost Auditor

4.9 Disqualifications of auditors have been prescribed under section 141(3) of the Act. As per section 148(5), these are also applicable to the cost auditor. These are to read with the Companies (Audit and Auditors) Rules, 2014.

Section 141(3) of the Act

The following persons shall not be eligible for appointment as an auditor [*also as cost auditor*] of a company, namely:-

- (a) a body corporate other than a limited liability partnership registered under the Limited Liability Partnership Act, 2008 (6 of 2009);
- (b) an officer or employee of the company;
- (c) a person who is a partner, or who is in the employment, of an officer or employee of the company;
- (d) a person who, or his relative or partner—
 - (i) is holding any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company;

Provided that the relative may hold security or interest in the company of face value not exceeding one thousand rupees or such sum as may be prescribed;

[As per Rule 10 of the Companies (Audit and Auditors) Rules, 2014, a relative of an auditor may hold securities in the company of face value not exceeding rupees one lakh:

Provided that the condition under this sub-rule shall, wherever relevant, be also applicable in the case of a company not having share capital or other securities:

Provided further that in the event of acquiring any security or interest by a relative, above the threshold prescribed, the corrective action to maintain the limits as

specified above shall be taken by the auditor within sixty days of such acquisition or interest.]

- (ii) is indebted to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, in excess of such amount as may be prescribed; or

[As per Rule 10 of the Companies (Audit and Auditors) Rules, 2014, a person who or whose relative or partner is indebted to the company or its subsidiary or its holding or associate company or a subsidiary of such holding company, in excess of rupees five lakh shall not be eligible for appointment.]

- (iii) has given a 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 such amount as may be prescribed;

[As per Rule 10 of the Companies (Audit and Auditors) Rules, 2014, a person who or whose relative or partner has given a 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, in excess of one lakh rupees shall not be eligible for appointment.]

- (e) 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 of such nature as may be prescribed;

[As per Rule 10 of the Companies (Audit and Auditors) Rules, 2014, the term "business relationship" shall be construed as any transaction entered into for a commercial purpose, except-

(i) commercial transactions which are in the nature of professional services permitted to be rendered by an auditor or audit firm under the Act and the Chartered Accountants Act, 1949 and the rules or the regulations made under those Acts;

(ii) 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 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.]

(f) a person whose relative is a director or is in the employment of the company as a director or key managerial personnel;

(g) a person who is in full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor, if such persons or partner is at the date of such appointment or reappointment holding appointment as auditor of more than twenty companies;

[As per MCA notification no. 464(E) dated 5.6.2015, after the words "twenty companies", the words "other than one person companies, dormant companies, small companies and private companies having paid-up share capital less than one hundred crore rupees" have been inserted.]

(h) a person who has been convicted by a court of an offence involving fraud and a period of ten years has not elapsed from the date of such conviction;

(i) any person whose subsidiary or associate company or any other form of entity, is engaged as on the date of appointment in consulting and specialised services as provided in section 144.

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

Limits on number of Audits

4.11 Among others, one of the disqualification for appointment as an auditor of a company, as specified in clause (g) of section 141(3) read with notification no. 464(E) dated 5.6.2015 states that

"a person who is in full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor, if such persons or partner is at the date of such appointment or reappointment holding appointment as auditor of

more than twenty companies other than one person companies, dormant companies, small companies and private companies having paid-up share capital less than one hundred crore rupees."

4.12 In view of this, a cost auditor can be appointed in a maximum of twenty companies that are not one person companies, dormant companies, small companies and private companies having paid-up share capital less than one hundred crore rupees.

Formal Letter of Appointment of Cost Auditor by Company

4.13 After obtaining approval of the Board of Directors, the Company will be required to issue a formal letter of appointment to the cost auditor. This may be modified after the proposed cost auditing standard on the "Agreeing the Terms of Cost Audit Engagement" is issued with the approval of the Central Government.

Information of appointment of Cost Auditor to the Central Government

4.14 Rule 6(2) provides that 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**, alongwith the fee as specified in Companies (Registration Offices and Fees) Rules, 2014.

Draft Letter of Appointment to Cost Auditor

Ref. No. _____

Date: _____

M/s _____

Cost Accountant,

Dear Sir,

**Re: Appointment for conducting Cost Audit of _____ Limited for
the year ended _____**

We are glad to inform you that the Board of Directors of the Company at its meeting held on _____ appointed/reappointed you as Cost Auditor of the Company for the financial year _____ for audit of Cost Accounting Records in respect of _____ maintained by the Company at a fee of Rs. _____ plus service tax and reimbursement of out-of-pocket expenses.

The Company has filed Form CRA-2 vide SRN No. _____ dated _____.

We are enclosing herewith a copy of the Form CRA-2 filed by the company and the acknowledgement received.

Kindly acknowledge receipt.

Thanking you,

Yours faithfully,

_____ Limited

Authorised Signatory

Communication to Previous Cost Auditor

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

Draft of Communication to the Previous Cost Auditor

Date

To,

Dear Sir,

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

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

Thanking You,

Yours faithfully,

For M/s.

Cost Accountant

M.No.

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

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

Turnover in Rupees Crore	Fee for Cost Audit	Fee for Compliance Report (Rupees)
Below 5	20,000	
5-10	40,000	
10-20	50,000	
20 - 50	75,000	25,000
50-75	1,00,000	35,000
75 -100	1,25,000	50,000
100 - 150	1,75,000	75,000
150 - 250	2,50,000	1,00,000
250 - 500	4,00,000	1,50,000
500 - 750	5,00,000	2,00,000
750 - 1000	6,00,000	2,50,000
1000 - 2500	7,00,000	3,50,000
2500 - 5000	8,50,000	4,50,000
5000 - 20000	10,00,000	5,00,000
20000 and above	Negotiable	Negotiable

Costing Assignments

Monthly Retainership: Rs.10,000 - 15,000 for the first visit and Rs.2,500 - 5,000 for each subsequent visit of around two hours during the month.

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

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

Certificate Work:

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

Designing Systems of Cost and Management Accounting (Minimum Fees)

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

Finance Applications and Feasibility Reports:

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

Charges for providing Services of Juniors

a) Cost Accountant (Qualified Assistant)	Rs. 1,000 per hour
b) Cost Assistant (Intermediate)	Rs. 750 per hour
c) Cost Assistant - Trainee	Rs. 500 per hour

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

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

Cost Auditor not to render certain services

4.16 Section 144 of the Act provides that an auditor of a company can provide only such other services as are approved by the Board of Directors of the audit committee, as the case may be, but such services shall not include any of the following services (whether such services are rendered directly or indirectly to the company or its holding company or subsidiary company. The same provision applies to the cost auditor also. The restricted services are:

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

CHAPTER - V

COST AUDIT REPORT

Cost Audit Report

5.1 Under the Companies Act, 2013 every cost auditor, who conducts an audit of the cost records of the company, is required to forward his Report along with his reservations, qualifications or observations & suggestions to the Board of Directors of the Company in Form CRA-3 within a period of one hundred and eighty days from the closure of the financial year to which the report relates.

5.2 On receipt of the cost audit report from the cost auditor, it is the responsibility of the company to furnish the Central Government a copy of the report in XBRL Format within a period of thirty days from the date of receipt of a copy of the cost audit report. The report in XBRL Format is required to be submitted in Form CRA-4 alongwith fees specified in the Companies (Registration Offices and Fees) Rules, 2014. The company is also required to furnish full information and explanation on every reservation or qualification contained in the report at the time of submission of Form CRA-4.

5.3 Every cost audit report pertaining to any financial year commencing on or after April 1, 2014 shall be in Form CRA-3 and conform to the Companies (Cost Records and Audit) Rules, 2014.

5.4 If, after considering the cost audit report submitted by the company along with the information and explanation furnished by the company, the Central Government is of the opinion that any further information or explanation is necessary, it may call for such further information and explanation and the company shall furnish the same within such time as may be specified by that Government.

5.5 All such companies that were covered under the erstwhile Companies (Cost Accounting Records) Rules, 2011 and met the threshold limits prescribed therein were required to get the cost audit of their companies audited for the financial years commencing prior to April 1, 2014 under the 2011 Rules. In case a company did not comply with such requirement, it would also be filing its report in XBRL Mode under the Costing Taxonomy 2012. The Validation Tool of MCA caters to filing of reports under both the Costing Taxonomies 2012 and 2015.

Cost Auditor to be furnished with the cost accounting records

5.6 Section 148(5) provides that it shall be the duty of the company to give all assistance and facilities to the cost auditor appointed under section 148 for auditing the cost records of the company. Every officer of a company is responsible to make available to the cost auditor, such cost accounting records, cost statements, other books and documents and Annexure to the Report, duly completed, as would be required for conducting the cost audit and shall render necessary assistance to the cost auditor to enable him to complete the cost audit and submit his report within the specified time limit. The Companies (Cost Records and Audit) Rules, 2014 have not prescribed any time period within which a company is required to make available records, books and documents to the cost auditor. The cost auditor should plan his audit assignment in consultation with the management of the company keeping in mind the time period within which he is required to submit the report to the Board.

Form of Cost Audit Report

5.7 According to Rule 6(4), every cost auditor, who conducts an audit of the cost records of a company, shall submit the cost audit report along with his or its reservations or qualifications or observations or suggestions, if any, in Form CRA-3. The contents of Form CRA-3 are given in Annexure-V. The cost audit report in Form CRA-3 will be for the company as a whole. There is no provision of submission

of unit-wise or product-wise report to the company either by a single cost auditor or separate cost audit reports in respect of different units or products when more than one cost auditor is appointed by the company.

5.8 With respect to providing previous year figures, companies that got covered under the purview of cost audit in respect of any of its products or services for the first time with the introduction of the Companies (Cost Records and Audit) Rules, 2014 shall not be required to provide audited previous year figures in the cost audit report for the first year of audit. In all other cases, it would be necessary to provide previous year figures.

Time limit for submission of Cost Audit Report

5.9 Every cost auditor is required to complete his audit and forward the cost audit report to the Board of Directors of the company within 180 days from the close of the company's financial year to which the report relates. The time period within which the cost audit report is to be submitted is 180 days and not 6 months. Hence, for a company closing its financial year on 31st March, the report is required to be submitted by 27th September.

5.10 Since the Board of Directors is required to approve the Annexure to the Cost Audit Report and authorize one of the Directors and the Company Secretary (two Directors in the absence of a Company Secretary) to sign the same, the Board should also consider the Cost Audit Report in a duly convened meeting.

Delayed submission of cost audit report

5.11 Maintenance of cost accounting records is a continuous process. No time limit has been prescribed in the Rules for "submission" of records to cost auditor. The time limit of 180 days as prescribed in the Rules is for submission of cost audit report. Neither the Act nor the Rules provide for any extension of time for submission of the cost audit report by a cost auditor. In case financial accounts are

yet to be adopted in the AGM, the cost auditor should file his report based on the provisional accounts and mention this fact in his observations. However, in case there are other circumstances which prevents a cost auditor to complete his report within the stipulated period of 180 days, the cost auditor should intimate the same to the MCA giving details of the circumstances under which he is unable to submit the report within the due date.

Authentication of Annexure & filing of Cost Audit Report

5.12 The Annexure to the cost audit report prescribed in Form CRA-3 is required to be approved by the Board of Directors. The Annexures, duly audited by the cost auditor, is also required to 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 is required to be signed by at least two Directors.

5.13 According to Section 148(6), it is the responsibility of the company to furnish the Central Government with a copy of the cost audit report within thirty days from the date of receipt of the report from the cost auditor along with full information and explanation on every reservation or qualification contained in the report.

5.14 The MCA has mandated filing of cost audit report in XBRL Mode and the required Costing Taxonomy 2015, Business Rules and the Validation Tool has already been notified by the Central Government for this purpose.

5.15 The Instance Document so created is required to be attached to Form CRA-4 notified by the Central Government and filed on the MCA Portal by the company. Form CRA-4 is required to be digitally signed by the Company Secretary or one director of the company duly authorized for the purpose. There is no provision of attaching digital signature of the cost auditor in Form CRA-4.

Important features of Cost Audit Report

5.16 The structure of cost audit report, as prescribed, is given below. The Notes below the format of cost audit report are important and must be read by the cost auditor before making his report. These are:

(1) Delete words not applicable - meaning the non relevant words / portions of the draft report must be deleted.

(2) If as a result of the examination of the books of account, the Cost Auditor desires to point out any material deficiency or give a qualified report, he/she shall indicate the same against the relevant para (i) to (vi) in the prescribed form of the Cost Audit Report giving details of discrepancies he/she has come across - meaning all qualifications of the cost auditor should be made against each sub-para.

(3) The report, suggestions, observations and conclusions given by the Cost Auditor under this paragraph shall be based on verified data, reference to which shall be made here and shall, wherever practicable, be included after the company has been afforded an opportunity to comment on them - meaning all observations and suggestions of the cost auditor may be made under para 2 of the report. This may also include general qualifications of the cost auditor.

5.17 Where a firm of cost accountants or LLP is appointed as cost auditors, the Cost Audit Report shall be signed by any one of the partners of the firm responsible for the conduct of cost audit in his own hand along with his membership number, for and on behalf of the firm. In case where an individual is appointed as cost auditor, the Cost Audit Report shall be signed by the individual cost auditor in his own hand along with his membership number.

5.18 In case of a company having more than one cost auditor, it would be necessary for the company to appoint/designate one cost auditor as the lead cost auditor for consolidation of the report. The individual cost auditors appointed for

specific units/products would be required to audit and provide certified statements in respect of the products/services audited by them, alongwith their cost audit report as per Form CRA-3. The lead auditor would be responsible for consolidating the reports of individual cost auditors, containing therein observations/suggestions/qualifications of all and would mention in Part A-1. The consolidated report so prepared would be submitted to the Board of Directors for their consideration and onward filing with the Central Government by the Company in XBRL Mode in Form CRA-4.

Form CRA-3

[Pursuant to Rule 6(4) of the Companies (Cost Records and Audit) Rules, 2014]

FORM OF THE COST AUDIT REPORT

I/We,..... having been appointed as Cost Auditor(s) under Section 148(3) of the Companies Act, 2013 (18 of 2013) of(mention name of the company) having its registered office at (mention registered office address of the company) (hereinafter referred to as the company), have audited the Cost Records maintained under section 148 of the said Act, in compliance with the cost auditing standards, in respect of the.....[mention name (s) of Product(s) / service(s)] for the period/year..... (mention the financial year) maintained by the company and report, in addition to my/our observations and suggestions in para 2.

- (i) I/We have/have not obtained all the information and explanations, which to the best of my/our knowledge and belief were necessary for the purpose of this audit.
- (ii) In my/our opinion, proper cost records, as per Rule 5 of the Companies (Cost Records and Audit) Amendment Rules, 2014 have/have not been maintained by the company in respect of product(s)/service(s) under reference.
- (iii) In my/our opinion, proper returns adequate for the purpose of the Cost Audit have/have not been received from the branches not visited by me/us.
- (iv) In my/our opinion and to the best of my/our information, the said books and records give/do not give the information required by the Companies Act, 2013, in the manner so required.
- (v) In my/our opinion, the company has/does not have adequate system of internal audit of cost records which to my/our opinion is commensurate to its nature and size of its business.
- (vi) In my/our opinion, information, statements in the annexure to this cost audit report gives/does not give a true and fair view of the cost of production of product(s)/rendering of service(s), cost of sales, margin and other information relating to product(s)/service(s) under reference.
- (vii) Detailed unit-wise and product/service-wise cost statements and schedules thereto in respect of the product/service under reference of the company duly audited and certified by me/us are/are not kept in the company.

2. Observations and suggestions, if any, of the Cost Auditor, relevant to the cost audit.

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

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

General Information

- a) Dates of the reporting financial year or previous financial year should be as per the actual and follow the principle laid in the XBRL check list.
- b) Level of rounding off, if used in the cost statements, should be clearly indicated.
- c) Reporting currency of the company is always Indian Rupees [INR]
- d) Date of board of directors meeting in which annexure to cost audit report was approved must be either equal to or less than the date of the cost audit report.
- e) Indicate if the report contains any related party transactions for sale or purchase of goods or services.

General Details of Cost Auditors

- a) Indicate if the cost auditor is a lead auditor.
- b) Category is sole proprietor or firm or LLP.
- c) Membership number of the member signing the report - should be of the member who is actually signing the report that may not be the same as indicated in Form CRA-2.
- d) Give SRN number of either Form 23C or CRA-2, as applicable.
- e) Give details of the number of audit committee meetings attended. Indicate '0', if nil.

Cost Accounting Policy

5.19 As prescribed under the Rules, the cost auditor is required to describe the company's cost accounting policy under all the following areas, keeping in mind the requirements of cost accounting standards. The cost auditor must give details of any changes that have taken place in the cost accounting policy of the company for the product(s)/service(s) under audit during the current financial year as compared to the previous financial year. The cost auditor is also required to give

his observations regarding adequacy or otherwise of the Budgetary Control System, if any, followed by the company.

- a) Identification of cost centers/cost objects and cost drivers.
- b) Accounting for material cost including packing materials, stores and spares etc., employee cost, utilities and other relevant cost components.
- c) Accounting, allocation and absorption of overheads
- d) Accounting for Depreciation/Amortization
- e) Accounting for by-products/joint-products, scraps, wastage etc.
- f) Basis for Inventory Valuation
- g) Methodology for valuation of Inter-Unit/Inter Company and Related Party transactions.
- h) Treatment of abnormal and non-recurring costs including classification of other non-cost items.
- i) Other relevant cost accounting policy adopted by the Company

CHAPTER - VI

FORM OF THE COST AUDIT REPORT [FORM CRA-3]

[Pursuant to Rule 6(4) of the Companies (Cost Records and Audit) Rules, 2014]

6.1 As per the Companies (Cost Records and Audit) Rules, 2014 the cost audit report is to be prepared in Form CRA-3 introduced therein. The opening para of cost audit report in Form CRA-3 reads as under:

"I/We,..... having been appointed as Cost Auditor(s) under Section 148(3) of the Companies Act, 2013 (18 of 2013) of(mention name of the company) having its registered office at (mention registered office address of the company) (hereinafter referred to as the company), have audited the Cost Records maintained under section 148 of the said Act, in compliance with the cost auditing standards, in respect of the.....[mention name (s) of Product(s) / service(s)] for the period/year..... (mention the financial year) maintained by the company and report, in addition to my/our observations and suggestions in para 2."

Comments:

6.2 **Explanations for the First Paragraph of the Cost Audit Report in Form CRA-3:** The opening paragraph of the new form of the cost audit report in Form CRA-3 requires the auditor to state:

- The name of the "Cost Auditor"
- That he/they have been appointed as "Cost Auditor" under Section 148 of the Companies Act, 2013.

- Name of the Company
 - Registered office address of the Company.
 - That he/they have audited the books of account prescribed under sub-section (1) of Section 148 of the said Act, and other relevant records in respect of the (mention name/s of products/ services) for the period/year..... (mention the financial year) maintained by the Company.
 - That the cost auditor reports on matters required by para (i) to (viii) of the opening paragraph in addition to his observations and suggestions in para 2 of the main cost audit report.
- (i) *I/We have/have not obtained all the information and explanations, which to the best of my/our knowledge and belief were necessary for the purpose of this audit.*
- (ii) *In my/our opinion, proper cost records, as per Rule 5 of the Companies (Cost Records and Audit) Amendment Rules, 2014 have/have not been maintained by the company in respect of product(s)/service(s) under reference.*
- (iii) *In my/our opinion, proper returns adequate for the purpose of the Cost Audit have/have not been received from the branches not visited by me/us.*
- (iv) *In my/our opinion and to the best of my/our information, the said books and records give/do not give the information required by the Companies Act, 2013, in the manner so required.*
- (v) *In my/our opinion, the company has/does not have adequate system of internal audit of cost records which to my/our opinion is commensurate to its nature and size of its business.*

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

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

6.3 As per Note 1 below the main report in Form CRA-3, the cost auditor should delete words not applicable in "I/We", "have/had" and in "my/our". Note 2 below the main report in Form CRA-3 states that "If as a result of the examination of the books of account, the Cost Auditor desires to point out any material deficiency or give a qualified report, he shall indicate the same against the relevant paras (i) to (viii) only in the prescribed form of the Cost Audit Report giving details of discrepancies he has come across." Accordingly, if the cost auditor wishes to point out a material discrepancy or give a qualified report in this regard, he should clearly indicate the same against item (i) to (viii) itself in Form CRA-3.

Materiality

6.4 Material items may mean to include those items the knowledge and information of which could individually or collectively, influence the judgment and economic decision of the user of the Cost Statements. The proposed cost auditing standard on "Materiality in Planning and Performing a Cost Audit" defines "Performance Materiality" as the materiality level or levels set by the cost auditor for the cost statements as a whole or for particular items of cost, to reduce the audit risk. It further defines the "Professional Judgment" being the application of relevant training, knowledge and experience, within the context provided by cost auditing standards, cost accounting standards and ethical requirements, in making

informed decision about the courses of action that are appropriate in the circumstances of the audit engagement.

6.5 The standard describes the materiality in the context of cost audit as under:

- i) Cost reporting frameworks are generally based on the concept of materiality in the preparation and presentation of cost statements. In this context, materiality generally explains that:
 - a) Misstatements, including omissions, are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the decisions taken on the basis of the cost statements;
 - b) Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and
 - c) Judgments about matters that are material to users of the cost statements are based on a consideration of the common cost information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.
- ii) Such a discussion provides a frame of reference to the cost auditor in determining materiality for the cost audit.
- iii) The cost auditor's determination of materiality is a matter of professional judgment, and is affected by the cost auditor's perception of the cost information needs of users of the cost statements. In this context, it is reasonable for the cost auditor to assume that users:
 - a) Have a reasonable knowledge of business and economic activities and cost accounting and a willingness to study the information in the cost statements with reasonable diligence;
 - b) Understand that cost statements are prepared, presented and audited to

levels of materiality;

- c) Recognize the uncertainties inherent in the measurement of costs based on the use of estimates, judgment and the consideration of event taken place during the audit period ; and
 - d) Make reasonable decisions on the basis of the information in the cost statements.
- iv) The concept of materiality is applied by the cost auditor both in planning and performing the cost audit, and in evaluating the effect of identified misstatements on the cost statements and in forming the opinion in the cost auditor's report.
- v) In planning the audit, the cost auditor makes judgments about the size of misstatements that will be considered material. These judgments provide a basis for:
- a) Determining the nature, timing and extent of risk assessment procedures;
 - b) Identifying and assessing the risks of material misstatement; and
 - c) Determining the nature, timing and extent of further cost audit procedures.

6.6 The materiality, determined when planning the audit, does not necessarily establish an amount below which uncorrected misstatements, individually or in the aggregate, will always be evaluated as immaterial. The circumstances related to some misstatements may cause the cost auditor to evaluate them as material even if they are below materiality. Although it is not practicable to design audit procedures to detect misstatements that could be material solely because of their nature, the cost auditor considers not only the size but also the nature of uncorrected misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the cost statements.

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

6.8 It is not possible to lay down precisely either in terms of specific items or in terms of amounts, what would be considered as material in all circumstances. Value judgments are the usual and often the only means of determining relative importance: they are based on such factors as the relative size and general characteristic of the item and the assumed responsibilities of management to shareholders, employees, Financial Institutions, lenders and creditors, Government and the public at large.

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

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

Powers and Duties of the Cost Auditor

6.10 Section 148(5) of the Companies Act, 2013 states that the Cost Auditor shall have the same powers as the auditor of the Company has under Section 143 of the Companies Act. Thus, the cost auditor has the power to require from the officers of the Company such information and explanations as he may think necessary for the performance of his duties as a cost auditor.

6.11 Further, the duties of the cost accountants appointed to conduct an audit of cost accounts of the company flow directly from the provisions contained under section 148 of the Companies Act, 2013. As such they should, in strict compliance therewith and in compliance with the Companies (Cost Records and Audit) Rules, 2014 in force, ensure that full and complete details of cost accounts are furnished in their cost audit reports.

Qualifications

6.12 In the next few paragraph, the cost auditor is guided as to when to qualify the report; where to make qualifications; how to qualify a report; and quantifying the effect of qualification.

6.13 ***When to Qualify the Report:*** The circumstances when to qualify the report are indicated below:

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

6.14 Where to make Qualifications: Given below are illustrations about where to make qualifications:

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

6.15 How to Qualify a Report: Guidance regarding how to qualify a report is given hereunder:

- a) Merely making a factual statement without taking exception thereto does not tantamount to qualification.
- b) Whenever the auditor wants to qualify, he should use the words 'subject to' in the beginning of the remark which imply that it is a qualification.
- c) Reference may be made to Sec 143 (3) of the Companies Act, 2013 which says that the auditor's report shall also state:

Clause (f) - the observations or comments of the auditors on financial transactions or matters which have any adverse effect on the functioning of the company;

Clause (h) - any qualification, reservation or adverse remark relating to the maintenance of accounts and other matters connected therewith;

Clause (i) - whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls;

6.16 As mentioned under point no. 3 to Notes of Form CRA-3 to Cost Audit Report of the Companies (Cost Records and Audit) Rules, 2014 that the report, suggestions, observations and conclusions given by the Cost Auditor under this paragraph shall be based on verified data, reference to which shall be made here and shall, wherever practicable, be included after the company has been afforded an opportunity to comment on them.

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

6.18 The Cost Auditors is expected to follow the directions as above while furnishing the cost audit report to the Board of Directors.

Opinions

6.19 Many items under this Paragraphs 1 (Form CRA-3) require, a Cost Auditor to express his opinion. Paragraph 1(ii), (iii), (iv), (v), (vi) & (vii) and Paragraph 2 of Form of the Cost Audit Report is in the nature of opinions. An opinion expressed by a Cost auditor may be un-qualified, qualified or adverse. A Cost auditor may also disclaim the opinion. While qualifying the report it is important for a cost auditor to appreciate as to which of the various items require a qualification and whether

they are in the nature of "statements of facts" or in the nature of "opinion". The cost auditor has to provide an independent opinion and his opinion may be guided by various factors.

6.20 Based on the test checks performed by the cost auditor as deemed necessary, he may form an opinion as to whether proper cost accounting records have been maintained so as to give true and fair view of the cost of production/operations, cost of sales, and margin of all the product/activities of the Company.

6.21 **Un-qualified Opinion:** Un-qualified opinion means an opinion given by cost auditor without any reservation. If the auditor makes a statutory affirmation without reservation he is said to have given an unqualified opinion. For example:

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

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

"The cost accounting system existing in the company is adequate to determine correctly the cost of sales of the product subject to, system for establishing and allocating the export expenses to various Units/ product lines_____."

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

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

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

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

6.25 It is suggested that while drafting the Paragraph, a cost auditor should clearly make a distinction as to what type of opinion he wants to express.

Proper Returns from Branches

6.26 The Cost auditor has to validate whether proper returns adequate for the purpose of cost audit has been received by him from all branches of the Company not visited by him. It would be pertinent to mention that the concept of branch auditor is not prevailing in cases of cost audit and therefore, the cost auditor himself has to visit the branches if there is any materiality of activity.

Proper Books and Records

6.27 The Cost auditor has to state that in his opinion and to best of his information, the books and records give the information in the manner so required by the Companies Act, 2013. Section 148 (1) of the Companies Act 2013, defines

the meaning as to what proper books of account constitute. Cost Auditor may refer this section for his information.

Internal Audit of Cost Records

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

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

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

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

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

Professional Misconduct:

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

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

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

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

Quality Review Board of the Institute of Cost Accountants of India

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

their notification no. S.O. 1693(E) dated 3rd October 2007 constituted QRB of the Institute of Cost Accountants of India for promoting "Quality" considerations in rendering various professional (*both statutory and non-statutory*) services by the Members of the Institute. The Board was reconstituted by the Ministry of Corporate Affairs vide notification no. GSR 69(E) dated February 6, 2012. The constitution has been further amended vide notification nos. GSR 645(E) dated 15.9.2014 and GSR 907(E) dated 30.11.2015.

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

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

Note: *Members of the Institute may please note that the Cost Audit and Assurance Standards Board in its 11th meeting held on 5th October 2012 decided that pending development of the Standards on "Quality Control" the 'Guidance*

Manual for Audit Quality' issued by the Institute shall prevail in respect of all services rendered by the Cost Accountants.

For more details readers may refer Institute publication on "Guidance Manual for Audit Quality", which can be downloaded from the following link:<http://www.qrbicwai.in/qrb/docs/QRB-MANUAL-FINAL.pdf>

Comments on Paragraph 2

6.35 Observation and Suggestions (Refer Paragraph 2 to Cost Audit Report Rules): The cost auditor is required to give observations and suggestions, if any, relevant to the Cost audit. The report, suggestions, observations and conclusions given by the Cost Auditor under this paragraph should be based on verified data. These should be made here and wherever practicable be included after the Company has been given an opportunity to comment on or explain them.

6.36 This Para is 'open ended'. It expects concrete, real, tangible observations and value added suggestions from the Cost Auditor. For example the Cost Auditor may recommend increase in crushing capacity in case of a sugar mill, or installation of oxygen bottling plant in case of vanaspati industry and so on. Hence the Note 3 to Paragraph 2 as above contemplates the following course of action:

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

CHAPTER - VII

ANNEXURE TO COST AUDIT REPORT IN XBRL (e-FORM CRA-3)

Introduction

7.1 In exercise of the powers conferred by sub-sections (1) and (2) of section 469 read with section 398 of the Companies Act, 2013 (18 of 2013), and in supersession of the Companies (Filing of Documents and Forms in Extensible Business Reporting Language) Rules, 2011, except as respects things done or omitted to be done before such supersession, the Central Government has notified the Companies (Filing of Documents and Forms in Extensible Business Reporting language) Rules, 2015. This notification was issued on 9th September, 2015.

7.2 Rule 4 of these rules prescribe that a company required to furnish cost audit report and other documents to the Central Government under sub-section (6) of section 148 of the Act and rules made thereunder shall file such report and other documents using the XBRL taxonomy given in Annexure-III for the financial years commencing on or after 1st April, 2014 in e-form CRA-4 specified under the Companies (Cost Records and Audit) Rules, 2014.

7.3 As per above, these rules prescribe filing of Cost Audit Report (Form CRA-3) alongwith Form CRA-4 in XBRL format using Costing Taxonomy - 2015 notified by the Ministry of Corporate Affairs. After filling up the paras, the company may file the Cost Audit Report so prepared and approved by the Board of Directors in compliance to provisions contained in the Companies (Cost Records and Audit) Rules, 2014 read with the Companies (Filing of Documents and Forms in Extensible Business Reporting language) Rules, 2015.

7.4 Under the XBRL mode, a cost auditor and the company are required to file the "data" contained in the cost audit report in XBRL mode using costing taxonomy notified by the Ministry of Corporate Affairs. This data will be filed in XBRL

format with proper tagging of elements defined in the costing taxonomy. The file so created in XBRL mode called "**Instance Document**" is to be attached with the e-Form.

7.5 The costing taxonomy defines each and every elements contained in the cost audit report. The readers may note that there are validation checks built into the taxonomy called validation tools. These tools check the correctness of computation of additions and subtractions within the tables. The costing taxonomy allows data with three decimal places. 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 two 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.

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

http://icmai.in/upload/Institute/Updates/Architectural_Training_Guidance_Manual.pdf.

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

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

XBRL (eXtensible Business Reporting Language)

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

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

Benefit of having cost related data in XBRL format

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

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

Costing Taxonomy

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

7.14 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.

7.15 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

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

Conversion of Cost Audit Report into the XBRL format

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

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

Instance document

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

7.19 Form CRA-3 prescribes the format of the cost audit report and Annexure to the cost audit report divided under Parts A to D which is required to be converted into XBRL Instance Document by using the Costing Taxonomy 2015 notified by MCA. A complete Guide titled ***Architecture, Training & Guidance Manual for Filing of Cost Audit Report in XBRL FORMAT*** is available on the Institute's website that can be downloaded using the following web link. As mentioned therein, before preparation of the Instance document for Cost Audit Report, the members are requested to read and understand the following documents:

- a) *Costing Taxonomy 2015* issued by MCA for understanding each elements of taxonomy (particularly as contained in excel file).
- b) Business Rules relating to Costing Taxonomy 2015, issued by MCA for understanding all the validations as required for preparing the Cost Audit Report as per the taxonomy.
- c) Scope and Level of *tagging* for understanding the requirements of *tagging* issued by MCA.
- d) Filing Manual issued by MCA for understanding the approach for *validation*, *understanding errors* and *pre-scrutiny of instance documents*.

e) Preparer's Guide for referring to the sample *instance* documents created for the better understanding of costing taxonomy.

f) FAQs on Costing Taxonomy 2015

http://icmai.in/ProfessionalDevelopment/Download_GN_download.php

Instructions for filling up Annexure to Cost Audit Report

7.20 The para-wise requirements under Form CRA-3 of The Companies (Cost Records and Audit) Rules 2014 and the relevant taxonomy details are described below:

A. General information: ELR [100100]

- 1 **Corporate identity number or foreign company registration number:** This is a mandatory field. A valid CIN/FCRN Number of the Company (as per MCA Database) should be provided.
- 2 **Name of company:** This is a mandatory field. Name of the Company based on CIN or FCRN as applicable and as per MCA Database should be provided.
- 3 **Address of registered office or of principal place of business in India of company:** This is a mandatory field. The registered office address of the company is to be provided. 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:** This is a mandatory field. The corporate office address of the company should be provided. In case this address is same as registered office, then registered office address as per MCA Database should be provided.
- 5 **Email address of company:** This is a mandatory field. Email address of the company should be given as per MCA Database.

6 Current Financial Year

6a. Date of start of reporting period: This is a mandatory field. The date of beginning of reporting financial year in dd/mm/yyyy format should be given. It 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. It should be less than or equal to system date. It should be same as entered in XBRL Form. The financial year should be same for which the financial accounts have been/ are prepared and the cost auditor is appointed for audit of the cost records.

6b. Date of end of reporting period: This is a mandatory field. The date of end of reporting financial year in dd/mm/yyyy format should be given. It should be less than or equal to system date. It 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. It should be same as entered in XBRL Form.

8 Duration in months of reporting period: The duration of cost audit report should be given e.g. if reporting period starts from 1st April 2014 to 31st March 2015, the duration will be twelve months. However, if the company got the extension for its financial year for filing of its financial statements upto 30th June 2015, the duration of cost audit report shall be fifteen months. It should be remembered that the period of filing the cost audit report and financial statements should be of the same duration.

9 First Previous Financial Year

9a. Date of start of first previous financial year: The beginning date of the immediately preceding financial year in dd/mm/yyyy format should be given. This is a mandatory field. It should be less than system date as well as start date of reporting period. It 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. It should be same as entered in XBRL Form." It is not mandatory if is filing the report for first time.

9b. Date of end of first previous financial year: The end date of the immediately preceding financial year in dd/mm/yyyy format should be given. It is mandatory, if date of start of first previous financial year is entered and vice-a-versa. It should be less than system date. Difference between date entered in 'dateofstartoffirstprevious' and this date should not be greater than 18 months. It should be one day less than 'dateofstartofreportingperiod'. **It is not mandatory, if company is filing the report for first time.**

- 11 **Duration in months of previous financial year:** The duration for the previous year must be given as per example given above under "Duration in months of reporting period". It is difference between "date of start of first previous financial year" and "date of end of first previous financial year"
- 12 **Level of rounding used in cost statements:** It is a mandatory field. Level of rounding off used for the report should be in Actual/Thousands/Lakhs/Millions/ Crores/ Billions 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:** It is a mandatory field. The currency of reporting should be stated here. The value should be INR.
- 12 **Number of cost auditor(s) for reporting period:** It is a mandatory field. Detail of at least one cost auditor is to be provided here. The details of cost auditors are checked by the system based on database provided by the Institute of Cost Accountants of India to MCA. The cost auditor who is signing the cost audit report should give his/her membership number for verification by the system. Number of cost auditors as are appointed by the company for its units/ plants is to be given under this sub-para. It is to be noted that only one

cost audit report needs to be filed by a company irrespective of number of products/services/units for which cost auditors are appointed. It may further be noted that the Rules vide para 2 to Part-A of the CRA-3 require to indicate Lead Auditor responsible for consolidating the Cost Audit Report. 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 the same cost auditor may be designated as Lead Auditor to consolidate the Cost Audit Reports of all products/ Units of the company. Further, the Company may also designate any of the cost auditors as Lead Auditor out of the multiple cost auditors appointed by the company for audit of the cost records of all its units/ plants/ products/ services.

- 13 ***Date of board of directors meeting in which annexure to cost audit report was approved:*** It is a mandatory field. Date of meeting of Board of Directors approving the annexure to cost audit report should be in dd/mm/yyyy format. It should be less than or equal to system date. It should be greater than date of end of reporting period.
- 14 ***Whether cost auditors report has been qualified or has any reservations or contains adverse remarks:*** It is a mandatory field. 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:*** It is a mandatory field if "yes" is selected in the field '*whether cost auditors report has been qualified or has any reservations or contains adverse remarks*'. Summary of qualifications, reservations or adverse remarks of all

cost auditors are to be given by the Lead Auditor. 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:** It is a mandatory field. 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, B-1, B-2, B-2A, B-2B, B-2C, 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 auditing the Para numbers A-3, D-2, D-3, D-4, D-5, D-6 and consolidated Para numbers A-4, B-1, B-2, B-2A, B-2B, B-2C, 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 **Explanation of the company to every reservation or qualification of cost auditors:** This is a mandatory field if "yes" is selected in the field 'whether

cost auditors report has been qualified or has any reservations or contains adverse remarks'. Explanation of the company to each reservation/qualification of cost auditors must be given in the text block.

- 18 **Whether company has related party transactions for sale or purchase of goods or services:** Yes or No should be indicated. If yes is selected, then Part D-5 of the Annexure to the cost audit report is mandatory. The details of Related Party Transactions should be for those transactions which have been asked vide Note.1 of Part D-5 of annexures to cost audit report i.e. separate details for each related party and each purchase / sale of products and services received / rendered.

B. General details of cost auditor: ELR [100300]

- 1 **Details of cost auditors:** The table is mandatory. Details of all cost auditors are required to be provided here in a table. The structure of the table has to be visualized where the first column contains the narration of the requirements and the data/information is to be provided against each element for each of the auditor(s). The number of rows for entering cost auditor details would depend on the number of cost auditors entered in the relevant field in the General Information.
- 2 **Whether cost auditor is lead auditor:** It is a mandatory field. Select "YES" or "NO". This field would be YES for at least one cost auditor in case there is more than one cost auditor. Select "YES" in case of a single cost auditor.
- 3 **Category of cost auditor:** It is a mandatory field. Whether the cost auditor is a Firm, LLP, Sole Proprietor should be mentioned. An individual practicing in individual name is to be considered under the Sole Proprietorship category.
- 4 **Firm's registration number:** It is a mandatory field. 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 enters 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.

- 5 ***Name of cost auditor or cost auditors firm:*** It is a mandatory field. Name of the firm or trade name of the sole proprietor (including individual) or LLP should be given. This name must be same as per the Institute of Cost Accountants of India database.
- 6 ***Permanent account number of cost auditor or cost auditors firm:*** It is a mandatory field. 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.
- 7 ***Address of cost auditor or cost auditors firm:*** It is a mandatory field. Address of the firm as registered with the Institute of the Cost Accountants of India should be given.
- 8 ***Email id of cost auditor or cost auditors firm:*** It is a mandatory field. Email id of the firm should be given in case of Firm. In case cost auditor is individual/ sole proprietor the email id of the cost auditor may be given
- 9 ***Membership number of member signing report:*** It is a mandatory field. Give membership number of the signing Partner in case a Firm or LLP 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.

- 10 **Name of member signing report:** It is a mandatory field. Give name of the member signing the report. The name should be entered as appearing in the database of the Institute of Cost Accountants of India.
- 11 **Name(s) of product or industry:** It is a mandatory field. Give name of the applicable product(s)/service(s) for which cost audit has been conducted. CETA code is mandatory for Products and to be provided as per TABLE A or TABLE B of Rule 3 of the Companies (Cost Records and Audit) Amendment Rules 2014 notified by the Ministry of Corporate Affairs on 31st December 2014.
- 12 **SRN number of Form 23C/ form CRA-2:** It is a mandatory field. Give SRN number of Form 23C/CRA-2. 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. However, some of the companies appointed cost auditors for the financial year 2014-15 filed Form 23C prior to notification of the amended Companies (Cost Records and Audit) Rules 2014 by the Ministry of Corporate Affairs as on 31st December 2014. The Ministry of Corporate Affairs, vide General Circular No. 42/2014 dated 12th November 2014 clarified that the companies which had filed the Form 23-C for the appointment of cost auditor for the financial year 2014-15, are not required to file Form CRA-2 afresh. Accordingly, the companies which had filed Form 23C or CRA-2 and generated SRN for these are required to mention SRN accordingly.
- There may be the case that the company might have filed more than one form 23C, a provision has been kept in costing taxonomy to provide SRN numbers of all such forms 23C. However in case the company has filed multiple form CRA-2, then only the latest SRN number of form CRA-2 should be given.
- 13 **Number of audit committee meeting attended by cost auditor during year:** It is a mandatory field. Give number of audit committee meetings attended by the cost auditor(s) during the reporting period.

- 14 **Date of signing cost audit report and annexure by cost auditor:** It is a mandatory field. 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 are approved.
- 15 **Place of signing cost audit report and annexure by cost auditor:** Give name of place where the report is signed.
- 16 **Disclosure of cost auditors qualifications or adverse remarks in cost auditors report:** *It is a mandatory field. The disclosures in this para would be the same required to be provided by a cost auditor as per notified Form CRA-3 of the Companies (Cost Records and Audit) Rules 2014. In case of multiple cost auditors where the report is being consolidated by the Lead cost auditor, the statements of individual cost auditors would be required to be provided here verbatim as given by the individual cost auditor. All the elements are mandatory and must be completed as per requirement of the certification portion of the cost audit report.*
- 17 **Disclosure regarding audit of cost records in conformity with Cost Auditing Standards:** It is a mandatory field.

We, _____, having been appointed as Cost Auditor under Section 148(3) of the Companies Act, 2013 (18 of 2013) of _____, having its registered office at _____ (hereinafter referred to as the company), (hereinafter referred to as the Company), have audited the Cost Records maintained under Section 148 of the said Act, in compliance with the cost auditing standards, in respect of _____ for the year ended _____ maintained by the company and report, in addition to our observations and suggestions in Part 2.

- (i) **Disclosure relating to availability of information and explanation for purpose of cost audit:** It is a mandatory field. I/We have/have not

obtained all the information and explanations, which to the best of my/our knowledge and belief were necessary for the purpose of this audit.

- (ii) ***Disclosure relating to maintenance of cost records as per rule 5 of the companies cost records and audit rules 2014:*** It is a mandatory field. In my/our opinion, proper cost records, as per rule 5 of the Companies (Cost Records and Audit) Rules 2014, have/have not been maintained by the in respect of the product(s) / service(s) under reference .
- (iii) ***Disclosure relating to availability of cost records of branches not visited:*** It is a mandatory field. In my/our opinion, proper returns adequate for the purpose of the Cost Audit have/have not been received from the branches not visited by me/us.
- (iv) ***Disclosure regarding availability of information as per Companies Act 2013:*** It is a mandatory field. In my/our opinion and to the best of my/our information, the said books and records give/do not give the information required by the Companies Act, 2013, in the manner so required.
- (v) ***Disclosure relating to adequacy of internal audit of cost records:*** It is a mandatory field. In my/our opinion, company has/does not have adequate system of internal audit of cost records which to my/our opinion is commensurate to its nature and size of its business.
- (vi) ***Disclosure relating to the true and fair value of cost of production or service cost of sales margin and other information:*** It is a mandatory field. In my/our opinion, information, statements in the annexure to this cost audit report gives/ does not give a true and fair value of the cost of production of product(s)/ rendering of service(s), cost of sales, margin and other information relating to product(s)/ service(s) under reference.
- (vii) ***Disclosure relating to availability of audited and certified cost statements and schedules for each unit and each product or service:*** It

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

- (viii) **Cost auditors observations or suggestions:** It is a mandatory field. Enter any observations or suggestions of the cost auditor. The observations or suggestions of all the cost auditors must be consolidated provided here by the Lead Cost Auditor.

C. Cost Accounting Policy: ELR [100310]

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

- 1 **Cost accounting policy:** 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 disclosures.
- 2 **Disclosure regarding identification of cost centers, cost objects and cost drivers:** Relevant disclosures about cost centers, cost objects and cost drivers to be given.
- 3 **Disclosure regarding accounting for material cost including packing materials, stores and spares, employee cost, utilities and other relevant cost components:** Relevant disclosures about material cost including packing materials, stores and spares, employee cost, utilities and other relevant cost components to be given here.

- 4 ***Disclosure regarding accounting, allocation and absorption of overheads:*** Relevant disclosures regarding accounting, allocation and absorption of overheads are to be given here.
- 5 ***Disclosure regarding accounting for depreciation or amortization:*** Relevant disclosures regarding accounting for depreciation or amortization are to be given here.
- 6 ***Disclosure regarding accounting for by products, joint products and scraps or wastage:*** Relevant disclosures regarding accounting for by products, joint products and scraps or wastage are to be given here.
- 7 ***Disclosure regarding basis of inventory valuation:*** Relevant disclosures regarding basis of inventory valuation are to be given here.
- 8 ***Disclosure regarding valuation of inter unit or inter-company and related party transaction:*** Relevant disclosures regarding valuation of inter unit or inter-company and related party transactions are to be given here.
- 9 ***Disclosure regarding treatment of abnormal and non-recurring costs including classification of non-cost items:*** Relevant disclosures regarding treatment of abnormal and non-recurring costs including classification of non-cost items are to be given here.
- 10 ***Disclosure regarding other relevant cost accounting policy:*** Relevant disclosures regarding other relevant cost accounting policy are to be given here.
- 11 ***Disclosure regarding changes in cost accounting policy during reporting period:*** 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 or services 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.

- 12 ***Disclosure regarding adequacy of budgetary control system:*** 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.

D. Manufactured product or service ELR: [100320]

- a) ***Select sector for classifying manufactured product or service:*** Select sector(s) Manufacture or Service which are covered under cost audit. 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. The Companies (Cost Records and Audit) Rules, 2014 provides Table A- Regulated Sector and Table B- Non Regulated Sector. Accordingly the cost auditor should provide the details of specific sector as per the classifications in Table A or Table B.
- b) ***Whether previous year figures are reported:*** It is a mandatory field. The response to this element controls providing of previous year figures in Parts B-1, B-2, C-1, C-2 and D-1. If selected as "NO", then reason for not providing previous year figures is mandatory.

Irrespective of whether the response is "YES" or "NO" in this element, previous year figures are mandatory for all the Parts where data is to be provided for the company as a whole.

- c) **Details for not providing the previous year figures:** If "NO" is selected against "**Whether previous year figures are reported**", then reason for not providing the figures for previous year is to be entered.
- d) **Name of manufactured product or service:** 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 manufactured products 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.
- e) **CETA code of manufactured product:** For manufactured products, CETA heading is mandatory and should be mentioned accordingly. In case any Product has multiple units of measurement, then the relevant Product shall be repeated against each unit of measurement separately.
- f) **Subheading of CETA code:** *Sub-heading of CETA Code to be provided here.*
- g) **Service code:** As on date, MCA has not notified service codes, accordingly, this element has to be left blank.
- h) **Subheading of service code:** As service codes are not notified, accordingly this element has to be kept blank. .
- i) **Unit of measurement for manufactured product or service:** This is a mandatory field. Unit of measurement (UOM) for product(s) is mandatory and for service(s) it is optional, if applicable.
- j) **Net operational revenue of manufactured product or service:** This is a mandatory field. 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 net of taxes and duties. It should be equal to summation of value

for all products or services for which the details is provided under 'Net operational revenue of manufactured product or service'.

- k) ***Whether manufactured product or service covered under cost audit:*** There should be at least one product or service which is covered under the cost audit. ***Other operating incomes of company: Enter Other Operating Incomes of the company.***
- l) ***Total operating incomes of company:*** It shall be sum of net operational revenues of all the products/ services plus other operating incomes of the company for both current and previous years.
- m) ***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.
- n) ***Total revenue as per financial accounts:*** It shall be sum of Total operating incomes of company and Other Incomes of the company. This figure should be equal to the Total Revenue of the company as per audited annual accounts.
- o) ***Extraordinary income:*** 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 extraordinary income shown in S. No. 9 of Para 3 of PART - D.
- p) ***Total revenue including extraordinary income:*** This shall be sum of total revenue as per financial accounts and extra ordinary income of the company.
- q) ***Turnover as per excise or service tax records:*** Indicate the information in respect of "Turnover" as per excise records and service tax records whichever is applicable. The amount of turnover need not be equal to the assessable values shown in the respective tax returns.

In case there is difference between the Turnover as per Annual Accounts and Turnover as per Excise/Service Tax Records [which is a more likelihood], the same should be explained in the note given below the table of this para, providing the reasons of such difference.

For detailed guidance, the readers are requested to refer to Chapter XII of this Guidance Note.

E. Quantitative Information of manufactured product: ELR [100330]

7.22 If "Select sector for classifying manufactured product or service" is "Manufactured Product" and "*whether manufactured product or service covered under cost audit*" is YES then mandatory to provide information in this table. Details under this para are required to be provided for each manufactured product or service under cost audit. The number of tables should at least be equal to the number of manufactured product(s) and/or service(s) covered under cost audit. In case a manufactured product(s) consists of product(s) having different unit of measurement, then the information in separate table is required to be provided for the same manufactured product for every different units of measurement.

For example, Product A is measured in Kgs. as well as in litres both having the same CETA code. In such a situation, quantitative details of Product A (in Kgs) and Product A (in litres) is to be provided in separate statements though both the statements will be having the same CETA Code.

- 1 **Name of manufactured product:** All the manufactured product(s) 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 covered under cost audit or not. All products of same CETA heading are to be consolidated and reported accordingly.

- 2 ***CETA code of manufactured product:*** For manufactured products, CETA heading is mandatory and should be mentioned accordingly. In case any Product has multiple units of measurement, then the relevant Product shall be repeated against each unit of measurement separately. For manufactured product the most appropriate CETA code of the Product from the Table A or Table B has to be given.
- 3 ***Subheading of CETA code:*** Enter sub-heading of CETA Code.
- 4 ***Unit of measurement for manufactured product:*** Enter unit of measurement of the manufactured product. If the same manufactured product contain different units of measurement, separate tables to be prepared for each unit of measurement. This is a mandatory field.
- 5 ***Installed capacity on start of reporting period:*** Provide details if applicable. This is a numeric field.
- 6 ***Capacity enhanced during reporting period:*** Provide details if applicable. The figure should be entered on annualised basis. This is a numeric field.

Example: A company is following April 1 to March 31 as its accounting period. As at April 1, 2014 (beginning of the period), it has an installed capacity of 120000 MT. On January 1, 2015 the capacity gets enhanced by another 24000 MT. In such a case, for the period 2014-15, the enhancement of capacity to be considered would be $(24000 / 12 \times 3) = 6000$ MT.
- 7 ***Capacity available through leasing arrangements:*** Provide details if applicable. This is a numeric field. The Company might have taken on lease the complete manufacturing facility. Under this heading capacity contracted through leasing arrangements should be indicated for plant or machinery taken on lease.
- 8 ***Capacity available through loan license or third parties:*** Provide details if applicable. This is a numeric field. Capacity available through loan license or

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

- 9 ***Total Available capacity of manufacture product:*** This is a sum total of all the capacities above. This is a numeric field.
- 10 ***Self-manufactured quantity:*** Production quantity manufactured by the unit(s) for all products under the given CETA Code. This is a numeric field. Self-manufactured quantity would be the total production of all products comprised in the CETA code. If the company has different manufacturing units producing the same product or products falling under the same CETA Code, the sum total of all such products would be indicated here.
- 11 ***Quantity produced under leasing arrangements:*** Quantity manufactured through machines taken on lease by the company. This is a numeric field.
- 12 ***Quantity produced on loan license or by third parties on job work:*** The quantity manufactured through some other entity under loan license basis or production obtained through third parties on job work basis. This is a numeric field.
- 13 ***Total Actual production quantity:*** Sum of serials 10 to 12 above. This is a numeric field.
- 14 ***Production as per excise records:*** Self-explanatory. It may be noted that the Actual production quantity need not always be equal to Production as per Excise records.

- 15 ***In house capacity utilization (%)***: To be computed as (self-manufactured quantity) expressed as a percentage of sum of (Installed Capacity at the beginning of the year+ annualized capacity enhanced during the period).
- 16 ***Finished goods purchased of manufactured product [Abstract]***: The quantity of total finished goods purchased should be same as in Para 4 of Part-A: Product/Service Details (for the company as a whole).
- 17 ***Domestic purchase of finished goods***: The quantity of finished goods purchased from domestic market for the given CETA code should be mentioned here.
- 18 ***Imports of finished goods***: The quantity of finished goods imported for the given CETA code should be mentioned here.
- 19 ***Total finished goods purchased***: It is numeric field and is the sum of Serial no. 17 & 18 above.
- 20 ***Change in stock of finished goods***: It is difference between net quantity of opening and closing stocks of finished goods of the manufactured product.
- 21 ***Self or captive consumption including samples***: It is quantity of self or captive consumption of manufactured product(s).
- 22 ***Other quantitative adjustments***: Any other quantitative adjustments like gain or wastage. Other quantitative adjustments will be those which are made to arrive at the saleable production.
- 23 ***Total stock and other adjustments***: The calculation would be (20-21+22) where 20, 21, 22 are Serial nos.
- 24 ***Available quantity for sale of product***: "Actual Production quantity of manufactured product" plus "Finished Goods Purchased of manufactured goods"

minus "Stock and other adjustments of manufactured product". This is a numeric field.

- 25 **Domestic sales of manufactured products:** Quantity of sales from own manufactured product in the domestic market. This is a numeric field.
- 26 **Domestic sales of traded products:** It is traded quantity of sales of the manufactured product in the domestic market. This sale would be from the Finished Goods Purchased. This is a numeric field.
- 27 **Export sale of manufactured products:** It is Quantity of sales from own manufactured product exported. This is a numeric field.
- 28 **Export sale of traded products:** It is traded quantity of sales of the manufactured product exported. This sale would be from the Finished Goods Purchased. This is a numeric field.
- 29 **Total quantity sold of manufactured and traded product:** This is sum of items 25 to 28 above. This is a numeric field.

F. Abridged Cost Statement of manufactured product ELR: [100340]

This is a mandatory table for both current and previous years.

- 1 **Name of manufactured product:** Provide the name of manufactured product for which the quantitative detail is furnished.
- 2 **CETA code of manufactured product:** CETA codes corresponding to the manufactured product as per Table A and/or TABLE B as notified by the MCA vide the Companies (Cost Records and Audit) Rules 2014.
- 3 **Subheading of CETA code:** Enter sub-heading of CETA Code.
- 4 **Unit of measurement for manufactured product:** Provide unit of measurement of the manufactured product. If the same product contains different units of

measurement, separate tables are to be prepared for each unit of measurement.

- 5 **Actual production quantity:** Provide the actual production quantity for the manufactured products.
- 6 **Finished goods purchased:** Provide the figure for Finished Goods Purchased.
- 7 **Change in stock of finished goods:** Provide the value for change in stock of finished goods. The value should be entered with proper sign.
- 8 **Self or Captive consumption including samples:** Provide quantity of self or captive consumption. This element has a negative weightage in the Taxonomy and the amount should be entered with positive sign.
- 9 **Other quantitative adjustments:** Provide the figure for quantitative adjustments, if any. The value should be entered with proper sign.
- 10 **Total stock and other adjustments:** *Sl. [7 - 8 + 9] as above.*
- 11 **Total quantity sold of manufactured and traded product:** *5+6+10, where 5,6 & 10 are Serial Nos. above*
- 12 **Cost Details of manufactured product:** Provide the cost for each items of cost included for the manufactured product.
- 13 **Cost of materials consumed:** It shall be total cost of materials consumed to manufacture the product as shown under Abridged Cost Statement- Details of material consumed ELR: [100340a]. The materials cost shall be valued as per para 1 of CRA-1.
- 14 **Cost of process materials or chemicals consumed:** It shall be total cost of process materials and chemicals consumed to manufacture the product. The cost of process materials and chemicals shall be valued as per para 1 of CRA-1.

- 15 ***Cost of utilities consumed:*** It shall be total cost of utilities consumed to manufacture the product as shown under Abridged Cost Statement- Details of utilities ELR: [100340b].The cost of utilities shall be valued as per para 3 of CRA-1.
- 16 ***Cost of direct employees:*** It shall be total cost of salaries and wages paid to employees directly engaged to manufacture the product. The cost of direct employees shall be valued as per para 2 of CRA-1.
- 17 ***Cost of direct expenses:*** It shall be total of all direct expenses incurred to manufacture the product. The cost of direct expenses shall be based on para 4 of CRA-1.
- 18 ***Cost of stores and spares consumed:*** It shall be total cost of stores and spares consumed to manufacture the product. The cost of stores and spares shall be valued as per para 1 of CRA-1.
- 19 ***Cost of repairs and maintenance:*** It shall be total expenses incurred towards repairs and maintenance to manufacture the product. The cost of repairs and maintenance shall be valued based on para 5 of CRA-1.
- 20 ***Cost of quality control:*** It shall be total expenses incurred on quality control to manufacture the product. The cost of quality control shall be valued as per para 12 of CRA-1.
- 21 ***Cost of research and development:*** It shall be total expenses incurred towards research and development to manufacture the product. The cost of research and development shall be valued based on para 11 of CRA-1.
- 22 ***Cost of technical knowhow fee or royalty:*** It shall be total expenses and fees incurred/ spent towards technical knowhow to manufacture the product. The cost of technical knowhow fee and royalty shall be valued based on para 10 of CRA-1.

- 23 **Cost of depreciation or amortization:** It will be total Depreciation/amortization cost on the items directly employed on manufacturing of the product and allocated amount of depreciation for the items commonly used for other manufacturing facilities. The cost of depreciation and amortization shall be based on para 6 of CRA-1.
- 24 **Cost of other production overheads:** It shall be total amount of direct and allocated production overheads related to the product. The cost of other production overheads shall be based on para 7 of CRA-1.
- 25 **Cost of industry specific operating expenses:** It shall be total of all industry specific operating expenses shown under Abridged Cost Statement- Details of industry specific operating expenses ELR: [100340c].
- 26 **Total of inputs and conversion cost of product:** This is sum total of serial no. 13 to 25
- 27 **Cost of increase/decrease in work-in-progress:** This will be difference between opening and closing work in progress. The cost of work in progress shall be valued based on para 19 of CRA-1.
- 28 **Credits for recoveries:** Enter amount of recoveries credited to cost of production, if any. This element has a negative weight in the Taxonomy and is to be entered with positive sign.
- 29 **Cost of primary packing:** It shall be total cost of primary packing which forms the part of cost of production of this product, to be values as per paragraph 15 of CRA-1.
- 30 **Cost of production or operations:** $26 + (27 - 28 + 29)$, where 26, 27, 28 & 29 are serial nos. above.
- 31 **Cost of finished goods purchased:** It shall be total cost of finished goods purchased for this product.

- 32 **Total cost of production and purchases:** 30 + 31, where 30 & 31 are serial nos. above
- 33 **Cost of increase/decrease in finished goods:** It shall be difference in opening and closing stocks of the finished goods relating to the product and shall be valued as per paragraph 19 of CRA-1.
- 34 **Cost of self or captive consumption:** It shall be cost of self or captive consumption valued based on CAS-4, Cost Accounting Standards on Cost of Production for Captive Consumption issued by the Institute of Cost Accountants of India.
- 35 **Cost of other adjustments:** This shall be total sum of other adjustments.
- 36 **Cost of production or operations of goods sold:** It shall be sum of 32 + (33-34+35), where 32, 33, 34 & 35 are serial Nos. above
- 37 **Cost of administrative overheads:** It shall be total cost of administrative overheads as defined under Para 8 of CRA-1.
- 38 **Cost of secondary packing:** It shall be total cost of secondary packing valued as per para 15 of CRA-1. The secondary packing cost shall form part of distribution overheads.
- 39 **Cost of selling and distribution overheads:** It shall be total cost of selling and distribution overheads.
- 40 **Cost of sales before interest:** 36+37+38+39, where 36,37,38 & 39 are Serial Nos. above
- 41 **Cost of interest and financing charges:** It shall be total cost of interest and financing charges valued as per para 16 of CRA-1.
- 42 **Cost of sales:** 40+41, where 41 & 42 are Serial Nos. above

43 **Net sales realization of product:** It is self explanatory.

44 **Amount of margin of product as per cost accounts:** 42 - 43, where 42 & 43 are Serial Nos. above.

Cost per unit details of manufactured product [abstract]

7.23 **Cost per unit details of manufactured product:** It may be noted that the cost per unit of a cost element is mandatory if the corresponding value of such cost element is greater than zero. However, the above validation will not be applicable to the following elements:

- (i) Cost of Increase or Decrease in Finished Goods
- (ii) Cost of Self or Captive Consumption
- (iii) Cost of other Adjustments
- (iv) Cost Per Unit of Stock and Other Adjustments

7.24 The divisor for all individual cost elements from Serial nos. 13 to 29 above is "Quantity Produced". The divisor for all individual cost elements from Serial nos. 30 to 41 above is "Quantity Sold". Accordingly, the following cost per unit values are to be calculated and submitted in the following elements:

- 1 **Cost per unit of materials consumed**
- 2 **Cost per unit of process materials or chemicals consumed**
- 3 **Cost per unit of utilities consumed**
- 4 **Cost per unit of direct employees**
- 5 **Cost per unit of direct expenses**
- 6 **Cost per unit of stores and spares consumed**
- 7 **Cost per unit of repairs and maintenance**

- 8 *Cost per unit of quality control*
- 9 *Cost per unit of research and development*
- 10 *Cost per unit of technical knowhow fee or royalty*
- 11 *Cost per unit of depreciation or amortization*
- 12 *Cost per unit of other production overheads*
- 13 *Cost per unit of industry specific operating expenses*
- 14 *Cost per unit of total inputs and conversion cost for product*
- 15 *Cost per unit of increase/decrease in work-in-progress*
- 16 *Cost per unit of credits for recoveries*
- 17 *Cost per unit of primary packing*
- 18 *Cost per unit of production or operations*
- 19 *Cost per unit of finished goods purchased*
- 20 *Cost per unit of production and purchases*
- 21 *Cost per unit of stock and other adjustments*
- 22 *Per unit cost of production or operations of goods sold*
- 23 *Cost per unit of administrative overheads*
- 24 *Cost per unit of secondary packing*
- 25 *Cost per unit of selling and distribution overheads*
- 26 *Cost per unit of sales before interest*
- 27 *Cost per unit of interest and financing charges*

28 Per unit cost of sales of product

29 Per unit net sales realization of product

30 Per unit margin as per cost accounts of product

Abridged Cost Statement- Details of material consumed ELR: [100340a]

7.25 Details of materials consumed for the material amount specified in the abridged cost statement are to be provided here. The following details of material consumed are to be provided:

- Description
- Natures (Indigenous purchased, Imported, Self-manufactured or produced)
- Unit
- Quantity
- Rate
- Cost

7.26 There is a provision to provide details of materials consumed upto 10 numbers of materials. If the no. of different materials consumed is more than 10, then top nine materials in terms of consumption value to be provided under first nine members and consolidated figures for the remaining may be provided in the tenth member as other materials.

Abridged Cost Statement- Details of utilities ELR: [100340b]

7.27 Details of utilities consumed for the utilities amount specified in the abridged cost statement are to be provided here. The following details of material consumed are to be provided:

- Description
- Unit
- Quantity

- Rate
- Cost

7.28 There is a provision to details of utilities consumed upto 10 utilities. If the no. of different utilities consumed is more than 10, then top nine utilities in terms of consumption value to be provided under first nine members and consolidated figures for the remaining may be provided in the tenth member.

Abridged Cost Statement- Details of industry specific operating expenses ELR: [100340c]

7.29 Industry Specific operating expenses are those which are peculiar to a particular industry such as Telecommunication Industry which shows expenses such as Network Operating cost, License fee, Radio Spectrum charges, Microwave charges etc. Such expenses are specific to this Industry and should be disclosed separately in the cost statement. The Industry Specific operating expenses will vary from industry to industry depending upon the nature of operations. It is not mandatory that each and every product will have certain items classified as industry specific operating expenses.

7.30 There is a provision to provide details of industry specific operating expenses upto ten such expenses. If the no. of different industry specific operating expenses consumed is more than 10, then top nine industry specific operating expenses in terms of consumption value to be provided under first nine members and consolidated figures for the remaining may be provided in the tenth member.

G. Quantitative information of service: ELR [100341]

7.31 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.

- 1 ***Name of service:*** Provide the name of service for which the quantitative detail is furnished.
- 2 ***Service code (if applicable):*** Service codes are yet to be notified by the MCA. Hence, value corresponding to this line item has to be NULL/Empty.
- 3 ***Subheading of service code:*** Service codes / sub heading are yet to be notified by the MCA. Hence, value corresponding to this line item has to be NULL/Empty.
- 4 ***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.
- 5 ***Installed capacity on start of reporting period:*** Details of installed capacity is to be provided for the current year as well as for previous year, 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.
- 6 ***Capacity enhanced during reporting period:*** Provide details for capacity enhanced during the year, if applicable. The figure should be entered on annualized basis.
- 7 ***Available Capacity of service:*** This shall be sum of "Total Installed Capacity" and "Capacity enhanced during the year"

- 8 **Own Services:** Provide details of own services rendered by the company.
- 9 **Services under contractual arrangement:** Give details of services which have been provided under contractual arrangement with a third party.
- 10 **Outsourced Services:** Provide details of outsourced services with an outside agency.
- 11 **Total Actual Services provided:** This is a sum of all the above serial nos. 8 to 10.
- 12 **Total Services provided as per Service Tax Records:** Provide the details of total services provided as per Service Tax Returns/ Records.
- 13 **In-house Capacity Utilization (%):** These are the services which have been utilized by the company internally. This is to be expressed in percentage terms.
- 14 **Domestic Services rendered:** Provide total value/Quantity of sales of services rendered in the domestic market.
- 15 **Export Services rendered:** Provide total value/Quantity of sales of services rendered outside India.
- 16 **Total Actual Services Rendered:** This is sum total of services rendered in domestic area and outside India.

H. Abridged cost statement of service: ELR [100342]

- 1 **Name of service:** Provide the name of service for which the quantitative detail is furnished.
- 2 **Service code (if applicable):** Service codes are yet to be notified by the MCA. Hence, value corresponding to this line item has to be NULL/Empty.

- 3 **Subheading of service code:** Service codes / sub heading are yet to be notified by the MCA. Hence, value corresponding to this line item has to be NULL/Empty.
- 4 **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. Providing of unit of measurement for services is optional.
- 5 **Total actual service provided:** Enter the value for total actual service provided.
- 6 **Captive consumption:** Provide the value for captive consumption of service.
- 7 **Other quantitative adjustments:** Provide details of other quantitative adjustment done for services rendered.
- 8 **Total actual service rendered:** Provide value for total actual services rendered.
- 9 **Cost of materials consumed:** It shall be total cost of materials consumed for the service as shown under Abridged Cost Statement- Details of material consumed ELR: [100342a]. The materials cost shall be valued as per para 1 of CRA-1.
- 10 **Cost of utilities consumed:** It shall be total cost of utilities consumed for the service as shown under Abridged Cost Statement- Details of utilities ELR: [100342b]. The cost of utilities shall be valued as per para 3 of CRA-1.
- 11 **Cost of direct employees:** It shall be total cost of salaries and wages paid to employees directly engaged in rendering the service. The cost of direct employees shall be valued as per para 2 of CRA-1.

- 12 ***Cost of direct expenses:*** It shall be total of all direct expenses incurred in respect of rendering the service. The cost of direct expenses shall be based on para 4 of CRA-1.
- 13 ***Cost of stores and spares consumed:*** It shall be total cost of stores and spares consumed in rendering the service. The cost of stores and spares shall be valued as per para 1 of CRA-1.
- 15 ***Cost of repairs and maintenance:*** It shall be total expenses incurred towards repairs and maintenance in rendering the service. The cost of repairs and maintenance shall be valued based on para 5 of CRA-1.
- 16 ***Cost of quality control:*** It shall be total expenses incurred on quality control in rendering the service. The cost of quality control shall be valued as per para 12 of CRA-1.
- 17 ***Cost of research and development:*** It shall be total expenses incurred towards research and development in rendering the service. The cost of research and development shall be valued based on para 11 of CRA-1.
- 18 ***Cost of technical knowhow fee or royalty:*** It shall be total expenses and fees incurred/ spent towards technical knowhow in rendering the service. The cost of technical knowhow fee and royalty shall be valued based on para 10 of CRA-1.
- 19 ***Cost of depreciation or amortization:*** It will be total Depreciation/amortization cost on the items directly employed in rendering the service and allocated amount of depreciation for the items commonly used for other services. The cost of depreciation and amortization shall be based on para 6 of CRA-1.
- 20 ***Cost of other overheads:*** It shall be total amount of direct and allocated other overheads related to the service. The cost of other overheads shall be based on para 7 of CRA-1.

- 21 ***Cost of industry specific operating expenses:*** It shall be total of all industry specific operating expenses shown under Abridged Cost Statement- Details of industry specific operating expenses ELR: [100342c].
- 22 ***Total of inputs and conversion cost for service:*** This is sum total of serial nos 9 to 21
- 23 ***Credits for recoveries:*** This shall be sum of all credits which are required to be adjusted from the total inputs and conversion cost of the service.
- 24 ***Total cost of service provided:*** This shall be amount arrived at serial no. 22 less credit for recoveries shown under serial no. 23.
- 25 ***Cost of outsourced or contractual services:*** This shall be the value of outsourced or contractual services procured.
- 26 ***Total cost of services available:*** 24 + 25 where 24& 25 are serial nos above.
- 27 ***Cost of self or captive consumption:*** It shall be cost of self or captive consumption of this service and shall be valued as per paragraph 20 of CRA-1.
- 28 ***Cost of other adjustments:*** This shall be total sum of other adjustments.
- 29 ***Cost of services sold:*** 26- 27 +/-28 where 26 to 28 are serial nos. above.
- 30 ***Cost of administrative overheads:*** It shall be total cost of administrative overheads as defined under as Para 8 of per CRA-1.
- 31 ***Cost of selling and distribution overheads:*** It shall be total cost of selling and distribution overheads.
- 32 ***Cost of service before interest:*** 29 + 30 + 31, where 29 to 31 are serial nos above.
- 33 ***Cost of interest and financing charges:*** It shall be total cost of interest and financing charges valued as per para 16 of As per CRA-1.

34 ***Cost of sales of service:*** It shall serial numbers 32 + 33.

35 ***Net sales realization of service:*** It is self explanatory.

36 ***Amount of margin of service as per cost accounts:*** 34 - 35, where 34 & 35 are serial nos.

Cost per unit details of service [abstract]

7.32 It may be noted that the cost per unit of a cost element is mandatory if the corresponding value of such cost element is greater than zero. However, the above validation will not be applicable to the following elements-

- (i) Cost of Self or Captive Consumption
- (ii) Cost of other Adjustments

7.33 The divisor for all individual cost elements from Serial nos 9 to 24 above is "Services Provided". The divisor for all individual cost elements from Serial nos 26 to 36 above is "Services Rendered". Accordingly, the following cost per unit values are to be calculated and submitted in the following elements:

- 1 ***Cost per unit of materials consumed***
- 2 ***Cost per unit of utilities consumed***
- 3 ***Cost per unit of direct employees***
- 4 ***Cost per unit of direct expenses***
- 5 ***Cost per unit of stores and spares consumed***
- 6 ***Cost per unit of repairs and maintenance***
- 7 ***Cost per unit of quality control***
- 8 ***Cost per unit of research and development***

- 9 *Cost per unit of technical knowhow fee or royalty*
- 10 *Cost per unit of depreciation or amortization*
- 11 *Cost per unit of other overheads*
- 12 *Cost per unit of industry specific operating expenses*
- 13 *Cost per unit of total inputs and conversion cost for service*
- 14 *Cost per unit of credits for recoveries*
- 15 *Cost per unit of services provided*
- 16 *Cost per unit of outsourced or contractual services*
- 17 *Cost per unit of services available*
- 18 *Cost per unit of other adjustments*
- 19 *Per unit cost of services sold*
- 20 *Cost per unit of administrative overheads*
- 21 *Cost per unit of selling and distribution overheads*
- 22 *Cost per unit of services sold before interest*
- 23 *Cost per unit of interest and financing charges*
- 24 *Per unit cost of services sold of service*
- 25 *Per unit net sales realization of service*
- 26 *Per unit margin as per cost accounts of service*

Abridged Cost Statement- Details of material consumed ELR: [100342a]

7.34 Details of materials consumed for the material amount specified in the abridged cost statement are to be provided here. The following details of material consumed are to be provided:

- Description
- Natures (Indigenous purchased, Imported, Self-manufactured or produced)
- Unit
- Quantity
- Rate
- Cost

7.35 There is a provision to provide the details of materials consumed upto ten materials. If the no. of different materials consumed is more than 10, then top nine materials in terms of consumption value to be provided under first nine members and consolidated figures for the remaining may be provided in the tenth member.

Abridged Cost Statement- Details of utilities ELR: [100342b]

7.36 Details of utilities consumed for the utilities amount specified in the abridged cost statement are to be provided here. The following details of material consumed are to be provided:

- Description
- Unit
- Quantity
- Rate
- Cost

7.37 There is a provision to provide the details of utilities consumed upto 10 utilities. If the no. of different utilities consumed is more than 10, then top nine utilities in terms of consumption value to be provided under first nine members and consolidated figures for the remaining may be provided in the tenth member.

Abridged Cost Statement- Details of industry specific operating expenses ELR: [100342c]

7.38 The element of **Industry Specific Operating Expenses** has been specifically added to meet the requirement of Regulated Industry like Telecommunication or Petroleum etc. but not limited to only the Regulated Industries, where the cost elements or overheads would not match with the cost elements provided in the notified ELR: 100342. There is a provision to provide the details upto 10 nos. of industry specific operating expenses in ELR 100342c. If the no. of different industry specific operating expenses consumed is more than 10, then top nine industry specific operating expenses in terms of consumption value to be provided under first nine members and consolidated figures for the remaining may be provided in the tenth member.

I. Product and Service Profitability statement of manufactured product or service ELR: 100350

- 1 **Name of the product or service:** Provide the name of manufactured product or service for which the profitability detail is furnished.
- 2 **CETA code of manufactured:** CETA codes corresponding to the manufactured product as per Table A and/or TABLEB of the Companies (Cost Records and Audit) Rules 2014 as notified by Ministry of Corporate Affairs.
- 3 **Subheading of the CETA Code:** Table A & Table B provide CETA headings upto 4-digit. However, the company's products are cleared under excise duty for more than 4-digit, in that case the company may mention subheading of their products in addition to 4-digits CETA code.
- 4 **Service Code:** Service codes are yet to be notified by the MCA. Hence, value corresponding to this line item has to be NULL/Empty

- 5 **Subheading of the service code:** Service codes / sub heading are yet to be notified by the MCA. Hence, value corresponding to this line item has to be NULL/Empty
- 6 **Details of Manufactured product and service profitability statement:** Manufactured Product or Service profitability details for audited products / services is to be given in this table for both current year as well as previous year. The following values for each audited product or service needs to be provided:
- 7 **Sales:** Value of 'Sales' in ELR 100350: Product and service profitability statement of manufactured product or service' should be equal to value of 'Net sales realization of product' in ELR 100340: Abridged cost statement of manufactured product ' in case of manufactured product. Value of 'Sales' in ELR 100350 Product and service profitability statement of manufactured product or service' should be equal to value of 'Net sales realization of service' in ELR 100342: Abridged cost statement of service' in case of service.
- 8 **Cost of Sales:** Value of 'Cost of sales' in ELR 100350: Product and service profitability statement of manufactured product or service' should be equal to value of 'Cost of sales of product' in ELR 100340: Abridged cost statement of manufactured product ' in case of manufactured product. Value of 'Cost of sales' in ELR 100350, Product and service profitability statement of manufactured product or service' should be equal to value of 'Cost of sales of service' in ELR 100342: Abridged cost statement of service' in case of service.
- 9 **Margin:** Value of 'Margin' in ELR 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 ELR 100340: Abridged cost statement of manufactured product ' in case of manufactured product. Value of 'Margin' in ELR 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 ELR 100342: Abridged cost statement of service' in case of service.

J. Profit Reconciliation ELR: 100360

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

- 1 ***Profit (loss) 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 shown in the Abridged Cost Statements.
- 2 ***Profit (loss) for un-audited product(s)/ service(s):*** the sum total of profit/(loss) of products/services not covered under cost audit is to be reflected here.
- 3 ***Amount of incomes not considered in cost accounts-*** Incomes which are 'Abnormal' in nature or 'purely financial' 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*

4 **Amount of 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*

Reference also may be made to Cost Accounting Standards issued by the Institute of Cost Accountants of India for specific items of this nature.

7.40 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/ services or activities outside the purview of the cost audit. Since the amount of profit/loss of products or services 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.

7.41 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.

- 1 ***Difference in stock valuation as per cost and financial records-*** This is self-explanatory.
- 2 ***Other adjustments-*** If company has made in other adjustments in the books of accounts than the items listed under Sl. No. (3) and (4) above, those items of adjustment should be given under this heading.
- 3 ***Profit (loss) as per financial accounts-*** The resultant figure after adjustments of all items as per Sl. (1) to (6) should be Profit or Loss as per Audited financial Accounts.

Profit Reconciliation- Details of incomes not considered ELR: [100360a]

7.42 Under this ELR the details of incomes not considered while computing the amount of incomes not considered in cost accounts as indicated under ELR [100360] are to be given. The specific details to be provided are:

- 1 *Name of incomes not considered in cost accounts*
- 2 *Amount of incomes not considered in cost accounts*

Profit Reconciliation- Details of expenses not considered ELR: [100360b]

7.43 Under this ELR the details of expenses not considered while computing the amount of expenses not considered in cost accounts as indicated under ELR [100360] are to be given. The specific details to be provided are:

- 1 *Name of expenses not considered in cost accounts*
- 2 *Amount of expenses not considered in cost accounts*

K. Value Addition and Distribution of Earnings ELR: [100370]

7.44 All figures for the computation of Value Addition and Distribution of Earnings would flow from the audited Profit & Loss Account of the company. It is advisable to prepare a statement drawing the figures from the audited Profit & Loss Account showing details of individual elements. The resultant balance in the statement after consideration of all incomes, expenses, Income Tax, Dividend and transfer of undistributed profits to reserves should be equal to zero. This would ensure correctness of the computation. All the elements in this para are self-explanatory.

7.45 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 to Annexure to Cost Audit Report. The details to be given are:

- 1 *Gross revenue from operations of company*

2 *Excise and other duties of company*

3 *Net revenue from operations of company for value addition-*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.

4 *Export Incentives of company-* 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
- VisheshKrishi and Gram UdyogYojna (VKGUY)
- Marketing Development Assistance (MDA)
- Export Promotion Capital Goods Scheme
- Served from India Scheme
- Exchange earner Foreign Currency Account (EEFC Account)

5 *Adjustments in work-in-progress and finished stocks of company*

Sl. No. 6 to 11 relate to giving information about cost of bought out inputs of company.

6 *Cost of materials consumed of company*

7 *Cost of process materials or chemicals of company*

8 *Cost of stores and spares consumed of company*

9 *Cost of utilities of company*

- 10 ***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. and Interest and Financing Charges to the extent charged to cost. In other words, Employee Cost and Benefits, Depreciation, Borrowing Costs and other Non-Cost Items of expenses shall not be included here.
- 11 ***Total cost of bought out inputs of company***
- 12 ***Value added of company***
- 13 ***Other incomes of company***
- 14 ***Extraordinary income:*** Extraordinary incomes including exceptional items as reflected in the Profit & Loss Account.
- 15 ***Earnings available for distribution***
- 16 ***Distribution of Earnings:***
- (a) ***To employees as salaries, wages, retirement benefits and others-***
This would include all items considered under Employee Benefits Expense in the Profit & Loss Account. Items to be considered shall include salaries, wages, contribution to provident and other funds, contribution to gratuity, other retirement benefits, medical benefits, staff welfare expenses etc.
 - (b) ***To 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.

- (c) **Funds retained by company-** This would mean Depreciation and Amortization expenses 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.
- (d) **To government as taxes-** This would include Income Tax including taxes on dividend (if borne by the company) - both current and deferred, Wealth Tax, difference between Excise Duty Paid and Excise Duty recovered.
- (e) **Extraordinary expenses:** Extraordinary expenses including exceptional items as reflected in the Profit & Loss Account.
- (f) **Other distribution of earnings** would include all non-cost expenses available on the face of the Profit and Loss Account, e.g., Loss on sale of capital assets and investments, Loss/gain on forex, bad debts, stores/stocks written off, Demurrage, Fines and Penalties to statutory authorities, prior period expenses etc. Exceptional Items, if any, and Interest & Financial Charges not considered in cost.
- (g) **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.

L. Financial Position and Ratio Analysis ELR: [100400]

7.46 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. The Profit to be considered for this para is the Profit before Tax of the company. 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 is 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:
 - (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. **Gross fixed assets:** For the purpose calculation of financial ratio under this ELR, the fixed assets would include Gross Tangible Assets, and Gross Intangible Assets. Intangible Assets under Development and Capital work-in-progress is to be excluded from the computation.
5. **Net fixed Assets:** This would be Net Tangible Assets, Net Intangible Assets and Intangible Assets under Development after adjusting depreciation/ amortisation if any at the end of the year.
6. **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.
7. **Current liabilities:** Current Liabilities would consist of Short-term borrowings, Trade payables, other current liabilities & short-term provisions.
8. **Net Current Assets:** Net Current Assets will be difference between Current Assets and Current Liabilities as shown above.
9. **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.
10. **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.

11. **Value added of company:** 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.
12. **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.
13. **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.
14. **Profit before Tax to Capital Employed (%):** Profit before Tax expressed as a percentage of Capital Employed.
15. **Profit before Tax to Net Worth (%):** Profit before Tax expressed as a percentage of Net Worth.
16. **Profit before Tax to Value Added (%):** Profit before Tax expressed as a percentage of Value Added.
17. **Profit before Tax to Net Revenue from Operations (%):** Profit before Tax expressed as a percentage of Net Revenue from Operations.
18. **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. This is to be expressed as a number.
19. **Current Assets to current Liabilities:** Current Assets divided by Current Liabilities. This is to be expressed as a number.

20. **Value Added to Net Revenue from Operations of company (%)**: Valued Added expressed as a percentage of Net Revenue from Operations.
21. **Raw materials stock to consumption of company (in months)**: Raw material stock divided by (Total Raw Material consumption divided by 12).
22. **Stores and spares stock to consumption in months**: Stores & spares stock divided by (Total Stores & Spares consumption divided by 12).
23. **Finished goods stock to sales (in months)**: Finished goods stock divided by (Sales of company divided by 12).

M. Related Party Transactions: ELR [100410]

7.47 Details should be furnished for each Related Party and Product /Service separately. Details of Related Party transactions without indicating the Normal Price and the basis thereof shall be considered as incomplete information. The information under this para is to be provided for the company as a whole. 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.

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

- (i) a director or his relative;
- (ii) a key managerial personnel or his relative;
- (iii) a firm, in which a director, manager or his relative is a partner;
- (iv) a private company in which a director or manager is a member or director;
- (v) a public company in which a director or manager is a director or holds along with his relatives, more than two per cent. of its paid-up share capital;

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

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

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

(viii) any company which is—

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

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

(ix) such other person as may be prescribed;

7.49 Further, the information under this para is to be provided for each related party transactions as asked vide Note.1 of Part D-5 of annexures to cost audit report i.e. separate details for each related party and each purchase / sale of products and services received / rendered.

7.50 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.

7.51 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".

Explanation for Six Methods referred in the table

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

percentage of certain base viz. cost, turnover etc. to the related party transactions.

(6) Any other Method: If Company has adopted any other method for determination of Normal Price or Arm's Length Price, then the cost auditor filing the cost audit report is required to specify the basis chosen by the company.

N. Reconciliation of Indirect Taxes: ELR [100420]

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

7.53 It is expected that duty payable will be ascertained by the company based on the audited financial accounts and legal provisions of respective Law and also will check with duty paid from either CENVAT credit account or account current (PLA). In other words periodical returns i.e. ER1/ER2/ST3 and VAT/CST returns will be reconciled with financial accounts and thereafter will ascertain whether the company has paid correct taxes and also correctly recovered from the customers or if there is excess recovery, then it will be again payable to the Government Exchequer.

7.54 Assessable value of goods cleared/services provided or taxable value in case of VAT during the year to be arrived at as per Chapter XII.

7.55 Duty payable of Excise & Service Tax should be verified after thorough analysis of the important points mentioned in the Chapter XII of this Guidance Note and also entitlement of Cenvat on Inputs, Capital Goods and Input Services should be properly verified and similarly, entitlement of Set-Off under the respective State VAT Laws needs to be verified. If sales have been made on C-Form or H-Form availability of the same should also be checked. As far as stock

transfers have been effected, receipt of F-Forms etc. needs to be ensured. Transit sale formalities of receipt of C-Form after E-1 / E-2 verification needs to be checked. In the case of inter-state sale / transfer, provisions of CST and provisions of State VAT Acts needs to be properly considered for ensuring there is no liability under any of the law.

7.56 The Assessable value should be the same which is reported as "turnover as per excise/service tax "in para "part A-4"

7.57 Duties payable to be finalized considering the various provisions of Excise/Service Tax/VAT & CST.

7.58 Duties / Taxes Paid include CENVAT/ VAT Credit utilized on inputs, capital goods, input services and other utilization, if any. The utilization of Cenvat for other to be specified separately. It may include reversal of CENVAT credit as per Rule 6 of CENVAT Credit Rules, 2004 etc.

7.59 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. Duties /Taxes Recovered should be taken from Books of Account of the company.

7.60 Difference between duties / taxes paid and recovered refer to the amount of total duties/ taxes paid and recovered.

7.61 Difference in duty paid and duty payable to be identified separately.

7.62 To conclude, whatever the information is required for conducting the State VAT Audit under State VAT laws will also be required to be done for finalization of this schedule. Similarly, it is the onus on the company to provide all such details and auditors have to ensure that correct duty liability has been ascertained and which has to be paid also.

7.63 Auditors are supposed to analyze and form his / her opinion considering the pending adjudication / current adjudication of the earlier and find out amount for the period under audit and suitable remarks are to be mentioned after the para giving the opinion with respect to litigation / determination of the duty liability as the case may be. Suitable disclosures to be given at the end of the Audit Para, which should be based on Management Representation Letter and auditor's opinion thereupon.

Chapter - VIII

FILING OF COST AUDIT REPORT

Introduction

8.1 On 9th September 2015, Central Government has notified the Companies (Filing of Documents and Forms in Extensible Business Reporting language) Rules, 2015. Rule 4 of these rules prescribe that a company required to furnish cost audit report and other documents to the Central Government under sub-section (6) of section 148 of the Act and rules made thereunder shall file such report and other documents using the XBRL taxonomy given in Annexure-III for the financial years commencing on or after 1st April, 2014 in e-form CRA-4 specified under the Companies (Cost Records and Audit) Rules, 2014.

8.2 These rules prescribe filing of Cost Audit Report (Form CRA-3) alongwith Form CRA-4 in XBRL format using Costing Taxonomy-2015 notified by the MCA. After filling up the paras, the company may file the Cost Audit Report so prepared and approved by the Board of Directors in compliance to provisions contained in the Companies (Cost Records and Audit) Rules, 2014 read with the Companies (Filing of Documents and Forms in Extensible Business Reporting language) Rules, 2015.

Points to be remembered for filing of Cost Audit Report in XBRL Format

8.3 The following points may be remembered for filing the Cost Audit Report in the XBRL Format:

1. The Cost Audit Report approved by the Board should be used as source for creation of the XBRL instances.

2. It has to be ensured that the XBRL Cost Audit Report Instance Document generated is as per the costing taxonomy [2015] defined by MCA. Please ensure the following in the instance document:
 - a. **Completeness:** All the required information is reported. Please refer to Business Rules to ensure that all mandatory items are reported.
 - b. **Mapping:** The elements tagged should be consistent with the meaning of the associated cost concepts in the Cost Audit.
 - c. **Accuracy:** The amounts, dates, other attributes (for example, Monetary units), and relationships (order and calculations) in the instance document should be consistent with the Cost Audit Report.
 - d. **Structure:** XBRL instances are structured in accordance with the costing taxonomy.
3. The instance document prepared should conform to the business rules framed by MCA for preparation and filing of the Cost Audit Report.
4. If a company manufacture multiple products or provide multiple services and has multiple units across the country and they have appointed multiple cost auditors, the Cost Audit Reports prepared by each individual cost auditor needs to be consolidated and only one XBRL instance document of the Cost Audit Report per company needs to be prepared. This is then filed with the Central Government.
5. The XBRL Instance Document of Cost Audit Report is prepared on the basis of audited/certified cost data and other statements of the company. The Instance Document is to be prepared on the basis of the notified Costing Taxonomy following the Business Rules. The process of conversion of audited/certified cost data and other statements into XBRL Instance Documents

require correct mapping to the appropriate tags given in the costing taxonomy notified by the Ministry of Corporate Affairs.

It may be noted that no separate approval from the Board is required for the Instance document of the Cost Audit Report since the data/information contained in the Instance document has already been approved by the Board of Directors.

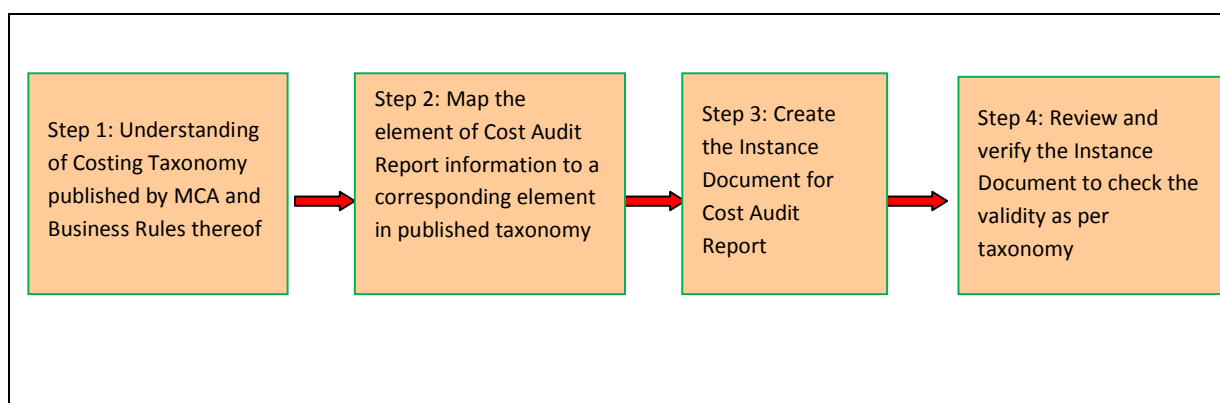
6. As of now the costing taxonomy does not permit any extensions. All the facts need to be reported with the help of elements defined in the taxonomy.
7. "Product or Service classification" in the instance document should be strictly in accordance with the CETA Headings, wherever applicable, as per the Companies (Cost Records and Audit) Rules, 2014.
8. The amounts reported in instance document should have the appropriate sign based on the nature of the value in the Cost Audit Report, balance attribute, etc. of the element.
9. The instance document prepared must conform to all the calculations included in the calculation link base.
10. The level of rounding off used in cost statements is to be defined at one place and it is applicable to all the Paras of the Cost Audit Report.
11. The reporting currency is also defined at one place and is uniformly applicable to all the Paras of Cost Audit Report.
12. The financial year is required to be defined giving the start date and end date of the financial year.
13. The first previous year is also required to be defined by giving the start date and end date of the financial year. In case first previous year figures are not

being given in the instance document, a valid reason for not providing the data needs to be specified.

14. The period information (for both instant and duration i.e. start Date/end Date) should follow the XBRL Specification and should be expressed as YYYY-MM-DD. However, this would depend on the tool being used and the way the tool has been configured to capture the data.
15. Every fact where some detailed information or bifurcation needs to be given; a footnote can be attached to it. Every footnote element must be linked to at least one fact.
16. The valid CIN No (Corporate Identity Number) of the company issued by MCA needs to be provided as identifier for the company whose Cost Audit Report / Compliance Report XBRL instances are being created.
17. Only two financial years' data (Current Year & Previous Year) is to be provided in the Cost Audit Report.

Creation of Instance Document

8.4 As mentioned above, after filling up the paras relating to Cost Audit Report, the next step is to create Instance Document. Steps involved in creating the Instance Document are shown in the Flow Chart below:



Step 1: A user who wants to create XBRL documents need to understand the costing taxonomy and the tags available in the costing taxonomy. This understanding of costing taxonomy makes mapping process easy and efficient. The easiest way to learn about the structure and content of the costing taxonomy is to navigate the costing taxonomy.

Step 2: Mapping of organization's Cost Audit Report to corresponding elements in the taxonomy. The process of mapping includes matching of information given in report to elements included in the taxonomy. Prepares should only consider taxonomy ELRs, relationships and concepts that are relevant to their specific reports.

Step 3: Once the elements of the report are mapped with the taxonomy elements or tags, the next step is to create the instance document. An instance document is a XML file that contains the actual facts, values and information pertaining to the organization along with the contextual details like period, unit of measurement; footnotes etc. generated using tags from the XBRL costing taxonomy.

Step 4: Once the instance document has been prepared, it needs to be ensured that the instance document is a valid instance document and all the required information has been correctly captured in the instance document. The instance document needs to be validated against the taxonomy as well as the specified

business rules for the taxonomy using the validation tool available on the website of MCA.

Use of Software Tool for creation of Instance Document

8.5 XBRL software is required for creating instance documents. The way of working and sequence of entering data in the software may be different, but the output, i.e. the XBRL instance document has to be same irrespective of the software used. For creation of XBRL instance document software is required to be purchased from the software vendors in the market. This software is used to create XBRL instance documents for uploading on the MCA portal. MCA21 system provides facility for validation of the instance document and filing of the same.

Procedure to file of the cost audit report in XBRL Format MCA website

8.6 Please visit the Ministry of Corporate Affairs website and download the Filing Manual from the following link:

http://www.mca.gov.in/Ministry/pdf/XBRL_Filing_manual_Costing_1.0.pdf

The following steps have to be followed in sequence for uploading the file:

- Mapping the individual cost elements of the company to the elements of the costing taxonomy.
- Populating the relevant data in the software/filing tool.
- Creating an XBRL instance document.
- Download XBRL validation tool.
- Validating the instance document with the validation tool of MCA.
- Pre-scrutiny of the instance document.

- Use available tool to convert the instance document to a human readable pdf format and check correctness of data.

Attaching the instance document to the e-Form and filing on MCA portal.

Important Points related to Instance Document

Please note that:

- (i) The PDF format of Cost Audit Report is not required to be attached. Only the XBRL instance document of Cost Audit Report to be attached with the Form CRA-4.
- (ii) The instance document attached with the e-Form is not required to be digitally signed. Only the e-Form CRA-4 for filing the Cost Audit Report to be digitally signed by one director and another director/ manager/company secretary of the company.
- (iii) Only one consolidated Cost Audit Report for the company as a whole is required to be filed in the XBRL format.
- (iv) The process for uploading the filled Form CRA-4 is same as the process of filing of any other e-form, for example, Form 23C or Form CRA-2 or earlier e-form for filing cost audit report with pdf attachment. For further assistance, refer the Filing Manual available on the following link:

http://www.mca.gov.in/Ministry/pdf/XBRL_Filing_manual_Costing_1.0.pdf
- (v) Creation of the Cost Audit Report in XBRL format, as approved by the Board and certified by the Cost Auditor, is the responsibility of the company. In addition, filing the Cost Audit Report in XBRL format with the Central Government is also the responsibility of company. However, the Cost Auditor has to ensure the correctness of data and other information contained in the XBRL Instance Document.

Quality Tagging by Professionals

8.7 Based on the random scrutiny of XBRL filing of financial statements by few companies that revealed significant variations in disclosures in published results and the XBRL filings due to 'incorrect' mapping of disclosures, Ministry of Corporate Affairs had earlier advised professionals for "**Quality of XBRL filing**". It said that few disclosures were 'mapped/tagged' with incorrect accounting concept despite availability of appropriate element in taxonomy. Such filing are inaccurate and do not adequately represent true and fair view of the reports filed. Such XBRL filings, apart from being misleading, also dilute the effectiveness of XBRL. Hence, MCA had mentioned that incorrect filing would be liable to be penalized. Readers may further refer to the documents on XBRL filing of Cost Audit Report:

Architecture, Training and Guidance Manual for filing Cost Audit Reports and Compliance Reports in XBRL formats -

Old version: http://icmai.in/upload/Institute/Updates/Architectural_Training_Guidance_Manual.pdf

Revised version: http://icmai.in/ProfessionalDevelopment/Download_GN.php

Costing Taxonomy -

Old version: http://www.mca.gov.in/Ministry/pdf/Costing_Taxonomy_2012-11-22_v1.0.zip

Revised version: http://www.mca.gov.in/XBRL/index.html/Annexure_III_Costing_Taxonomy_2015.zip

Business Rules -

Old version:
http://www.mca.gov.in/Ministry/pdf/Revised_Business_Rules_Updated_XBRL_Costing_29.11.2012.zip

Revised version:
http://www.mca.gov.in/XBRL/index.html/Revised_Business_Rules_Updated_XBRL_Costing_13.08.2015.zip

CHAPTER - IX

COST ACCOUNTING STANDARDS

9.1 The cost auditor has to ensure that the cost accounting records maintained and submitted to him are in conformity with the Cost Accounting Standards (CAS) and Generally Accepted Cost Accounting Principles (GACAP) issued by the Institute of Cost Accountants of India to the extent it is found relevant and applicable. The Institute of Cost Accountants of India has issued 22 Cost Accounting Standards as on date. List of these standards is given below and their full text is available at annexure - 22 to 35. The Institute has also issued Generally Accepted Cost Accounting Principles on 20th October, 2011.

9.2 Further, as per section 148(3), the cost auditor is required to comply with the cost auditing standards issued by the Institute of Cost Accountants of India with the approval of Central Government. The cost auditing standards so far issued require the cost auditor to ensure that the Cost Accounting Records have been maintained in accordance with Generally Accepted Cost Accounting Principles (GACAP) and Cost Accounting Standards issued by the Institute of Cost Accountants of India.

9.3 The Cost Accounting Standards are formulated by the Cost Accounting Standards Board (CASB) constituted in 2001 by the Institute and these CASs are issued by the Council of the Institute. In view of the Council Resolutions passed from time to time, the Cost Accounting Standards (1 - 22) are mandatory with effect from the period as mentioned below for being applied for the preparation and certification of General Purpose Cost Accounting Statements. In case the cost auditor is of the opinion that the below mentioned Cost Accounting Standards have not been complied with for the preparation of the Cost Statements, it shall be his duty to make a suitable disclosure/qualification in his audit report/ certificate.

9.4 If there is any deviation from the *CASs* or *GACAP* issued by the Institute of Cost Accountants of India, merely stating so is not enough as it would invite professional misconduct if he fails to highlight the material departures from the *CAS* and *GACAP* as issued by the Institute of Cost Accountants of India.

9.5 The following Table shows the details of all the Cost Accounting Standard issued so far and their effective date for the period commencing from:

SNo.	CAS No.	Title	Effective Date
1.	CAS-1 (Revised 2015)	Classification of Cost	1 st April 2016
2.	CAS-2 (Revised 2015)	Cost Accounting Standard on Capacity Determination	1 st April 2016
3.	CAS-3 (Revised 2015)	Cost Accounting Standard on Production & Operation Overheads (Revised)	1 st April 2016
4.	CAS-4	Determination of Cost for Captive Consumption	1 st April 2010
5.	CAS-5	Determination of Average (Equalized) Cost of Transportation	1 st April 2010
6.	CAS-6	Cost Accounting Standard on Material Cost	1 st April 2010
7.	CAS-7	Cost Accounting Standard on Employee Cost	1 st April 2010
8.	CAS-8	Cost Accounting Standard on Cost of Utilities	1 st April 2010
9.	CAS-9	Cost Accounting Standard on Packing Material Cost	1 st April 2010
10.	CAS-10	Cost Accounting Standard on Direct Expenses	1 st April 2010
11.	CAS-11	Cost Accounting Standard on Administrative Overheads	1 st April 2010

12.	CAS-12	Cost Accounting Standard on Repairs and Maintenance Cost	1 st April 2010
13.	CAS-13	Cost Accounting Standard on Cost of Service Cost Centre	1 st April 2011
14.	CAS-14	Cost Accounting Standard on Pollution Control	1 st April 2012
15.	CAS-15	Cost Accounting Standard on Selling and Distribution Overheads	1 st April 2013
16.	CAS-16	Cost Accounting Standard on Depreciation and Amortisation	1 st April 2014
17.	CAS-17	Cost Accounting Standard on Interest and Financing Charges	1 st April 2014
18.	CAS-18	Cost Accounting Standard on Research & Development Cost	1 st April 2014
19.	CAS-19	Cost Accounting Standard on Joint Costs	1 st April 2014
20.	CAS-20	Cost Accounting Standard on Royalty and Technical Know-how Fee	1 st April 2014
21.	CAS-21	Cost Accounting Standard on Quality Control Costs	1 st April 2014
22.	CAS-22	Cost Accounting Standard on Manufacturing Cost	1 st April 2015

CHAPTER - X

COST AUDITING STANDARDS

10.1 Sub-section (2) of section 148 of the Companies Act, 2013 prescribes that 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.

10.2 Sub-section (3) says that the audit under sub-section (2) shall be conducted by a Cost Accountant in practice who shall be appointed by the Board on such remuneration as may be determined by the members in such manner as may be prescribed:

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

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

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

10.3 In exercise of the aforesaid powers, Central Government has notified the Companies (Cost Records and Audit) Rules, 2014 whereby certain class of companies engaged in the production of goods or providing services and meeting with the prescribed threshold limits are required to get their cost records audited by a cost auditor. Proviso below sub-section (3) of section 148, read with the

explanation thereof [mentioned above], prescribes that the auditor conducting cost audit shall comply with the cost auditing standards issued by the Institute of Cost Accountants of India with the approval of the Central Government.

10.4 Government of India, Ministry of Corporate Affairs, vide their letter no. 52/33/CAB/2013 dated 10th September, 2015 has, under section 148(3) of the Companies Act, 2013, granted Central Government approval to the following Cost Auditing Standards:

1. Cost Auditing Standard-101 on Planning an audit of Cost Statements;
2. Cost Auditing Standard-102 on Cost Audit Documentation;
3. Cost Auditing Standard-103 on Overall objectives of the independent cost auditor; and
4. Cost Auditing Standard-104 on Knowledge of business, its processes and the business environment.

10.5 As notified by the Institute, these Standards have come into force with immediate effect i.e. applicable for all audits done on or after the 11th September, 2015.

10.6 Prior to above approval by the MCA, these standards were binding upon the members of the Institute. The cost audit report is required to be in conformity with the "cost auditing standards" as referred to in Section 148 of the Companies Act, 2013. Therefore, for audits completed before September 11, 2015, the cost auditors were advised to give the required certificate.

10.7 After September 11, 2015, the compliance with the aforesaid four cost auditing standards already approved by the Central Government is absolutely mandatory. Hence, members in practice should read and fully understand these standards. While full text of these standards, alongwith the 'Preface to the Cost Audit and Assurance Standards' as issued by the Institute is available at Annexure

- 35 to 39, summary of the objectives and requirements enshrined in these four standards is reproduced below:

Cost Auditing Standard - 101 on Planning an Audit of Cost Statements

Objective: The objective of this Standard is to guide the members in planning for the audit of cost statements so that it is performed in an efficient and effective manner. Audit planning shall also include establishing the overall audit strategy and audit plan for the conduct of the audit.

Requirements

5.1 Prior to entering the planning phase, the Cost Auditor shall ensure that:

(a) the appointment as cost auditor is proper, he has received the letter of appointment and legal formalities regarding his appointment have been complied with;

(b) the ethical requirements as per the regulations continue to be satisfied; (Refer 6.3)

(c) an understanding of the terms of reference including the units to be covered, products/services to be covered, scope of coverage where the regulations leave it to be agreed between the auditor and the auditee.

5.2 The audit partner and other key members of an audit team shall be involved in planning the audit, including planning and participating in the discussion among audit team members. (Refer 6.4)

5.3 The Cost Auditor shall formulate an Overall audit strategy that sets the scope, timing and direction of the audit.

The overall audit strategy guides the development of the audit plan.

5.4 In formulating the Overall audit strategy, the Cost Auditor shall consider all relevant factors. (Refer 6.5)

These relevant factors include:

- (a) results of preliminary activities as specified in 5.1 above*
- (b) knowledge from previous audits and other engagements with the auditee*
- (c) knowledge of business*
- (d) nature and scope of the audit*
- (e) statutory deadlines and reporting format*
- (f) relevant factors determining the direction of the audit efforts*
- (g) nature, timing and extent of resources required for the audit.*

5.5 The Cost Auditor shall develop an audit plan.

The audit plan will include the nature, extent and timing of risk assessment, audit procedures, and other activities (Refer 6.5, 6.6)

5.6 The Cost Auditor shall plan the nature, extent and timing of the direction and supervision of audit team members and the review of their work.(Refer 6.7)

5.7 The Cost Auditor shall update the Overall audit strategy and the audit plan as required during the course of audit. (Refer 6.8)

5.8 The Cost Auditor shall document the overall audit strategy, the audit plan and any significant changes made therein during the audit engagements and the reasons for the changes.

5.9 In the initial audit, the Cost Auditor shall perform procedures regarding the acceptance of the client relationship and the specific audit.

In case where the audit of the entity for the prior period was conducted by a different audit firm, the auditor shall communicate with the previous auditor. (Refer 6.9)

5.10 The Cost Auditor shall ensure adherence to the relevant clauses of the Guidance Manual for Audit Quality issued by Quality Review Board (QRB) constituted u/s 29A of The Cost and Works Accountants Act 1959.

Cost Auditing Standard – 102 on Cost Audit Documentation

Objective: The objective of this Standard is to guide the members to prepare documentation that provides:

- (a) A sufficient and appropriate record of the basis for the Cost Auditor's Report; and
- (b) Evidence that the audit was planned and performed in accordance with Cost Auditing Standards and applicable legal & regulatory requirements.

Requirements

5.1 The cost auditor as part of the audit documentation shall record audit procedures performed, relevant audit evidence obtained, and conclusions reached. (Refer 6.1)

5.2 The Cost Auditor shall prepare audit documentation that is sufficient to enable another competent person, having no previous connection with the said audit, including person undertaking peer review to understand:

- Conformance of audit procedures performed with legal and regulatory requirements;
- Conformance to Cost Auditing Standards. (Refer 6.6)
- The results of audit procedures performed

- The audit evidence obtained
- Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.(Refer 6.7 & 6.8)

5.3 The Cost Auditor shall record the discussions of significant matters with client personnel and outsiders. (Refer 6.9).

5.4 The Cost Auditor shall record any departure from the standard requirement in a Cost Auditing Standard. (Refer 6.11)

5.5 In documenting the nature, timing and extent of audit procedures performed, the Cost Auditor shall record the characteristics of the specific items or matters tested, the persons responsible for performing and reviewing such procedures with relevant dates and extent of review. (Refer 6.12)

5.6 The Cost Auditor shall prepare audit documentation on a timely basis. (Refer 6.14)

5.7 If, in exceptional circumstances, Cost Auditor performs any new or additional audit procedures or draws new conclusions, after the date of Cost Audit Report, then he shall document such circumstances and details of such procedures performed. (Refer 6.15)

5.8 The cost auditor shall assemble the audit documentation in an audit file. (Refer 6.16)

5.9 The Cost Auditor shall ensure adherence to the relevant clauses of the Guidance Manual for Audit Quality issued by Quality Review Board (QRB) constituted u/s 29A of The Cost and Works Accountants Act 1959.

Cost Auditing Standard - 103 on Overall Objectives of the Independent Cost Auditor

Objectives: The objective of this Standard is to lay down the overall objectives of the Cost Auditor and ensuring the Conduct of the Audit of Cost Statements in accordance with the Cost Auditing Standards.

The Cost auditor's overall objectives are:

- a) to obtain reasonable assurance about whether the cost statements as a whole are free from material misstatement, whether due to fraud or error, and to enable the auditor to express an opinion whether the Cost Statements are prepared, in all material respects, in accordance with an applicable Cost reporting framework, Cost Accounting Standards(CAS) and Generally Accepted Cost Accounting Principles (GACAP) as issued by the Institute, and give a true and fair view of the Cost of a product, activity or service. In the case of a Cost Audit under the Companies Act and Rules prescribed thereunder, the objective is to express an opinion on whether the Cost Statements subject to audit represent a true and fair view of the cost of production, cost of sales and margin of products covered by the Cost Audit.
- b) to report on the cost statements in the form required by law or by the Cost Auditing Standard in accordance with the auditor's findings.

Where reasonable assurance cannot be obtained, the cost auditor should qualify the opinion and in extreme cases disclaim an opinion.

The Cost Auditors objective may extend to making observations and suggestions where required by applicable regulations.

Requirements

5.1 The cost auditor shall comply with the relevant ethical requirements including those pertaining to independence in respect of cost audit engagements. (refer 6.1)

5.2 While conducting an audit, the cost auditor shall comply with each of the Cost Auditing Standards relevant to the audit. A Cost Auditing Standard is relevant to the audit when the Cost Auditing Standard is in effect and the circumstances addressed by the Cost Auditing Standard exist. (refer 6.2)

5.3 The cost auditor shall have an understanding of the entire text of the Cost Auditing Standard, including its application and other explanatory material, to understand its objectives and to apply its requirements properly.

5.4 The cost auditor shall not represent compliance with the cost auditing standards in the cost auditor's report unless the auditor has complied fully with all of the Cost Auditing Standards relevant to the audit.

5.5 In exceptional circumstances, the cost auditor may judge it necessary to depart from a relevant requirement in a Cost Auditing Standard. In such circumstances, the auditor shall perform alternative audit procedures to achieve the aim of that requirement.{Refer 6.2(c)}

5.6 The cost auditor shall plan and perform an audit with an attitude of professional skepticism recognizing that circumstances may exist that cause the Cost Statements to be materially misstated. (refer 6.3)

5.7 The auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion.(refer 6.4)

5.8 The cost auditor shall exercise professional judgment in planning and performing the audit.

5.9 The cost auditor shall determine whether the Cost Reporting Framework followed by management in preparing cost statements is in line with the Companies Act and the Rules prescribed thereunder. (refer 6.5)

5.10 The cost auditor shall not be required to perform audit procedures regarding the entity's compliance with laws and regulations governing cost audit in the absence of identified or suspected non-compliance. (refer 6.6)

5.11 If an objective in a relevant Cost Auditing Standard cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor, in accordance with the Cost Auditing Standards, to modify the auditor's opinion.

5.12 The Cost Auditor shall ensure adherence to the relevant clauses of the Guidance Manual for Audit Quality issued by Quality Review Board (QRB) constituted u/s 29A of The Cost and Works Accountants Act 1959.

Cost Auditing Standard - 104 on Knowledge of Business, its Processes and the Business Environment

Objective: The objective of this standard is to enable the cost auditor to have knowledge of the client's business which is sufficient to identify and understand the events, transactions and practices that, in the cost auditor's judgment may have a significant effect on the examination of cost statements or on the preparation of the cost audit report.

Requirements

5.1 The Cost Auditor shall have adequate level of understanding of the knowledge of Business, its Processes and the Business Environment to develop a reasonable assurance in order to express an opinion on the cost statements on which he is expressing an opinion.(refer 6.1)

5.2 The Entity and Its Environment: The cost auditor should obtain an

understanding of the following:

- (a) The nature of the entity, (including its operations covering Business processes, major inputs, Joint & By-Products and Wastages and major outputs etc) and the entity's ownership and governance structure.
- (b) Relevant industry, regulatory, and other external factors including the applicable cost and financial reporting framework.(refer 6.2)
- (c) The entity's selection and application of cost accounting policies.(refer 6.3)
- (d) The measurement and review of the entity's performance. (refer 6.4)

5.3 The Entity's Internal Control: The cost auditor shall obtain an understanding of internal controls relevant to the audit.(refer 6.5)

- (a) Control Environment: The cost auditor shall evaluate whether management has created and maintained a culture of honesty and ethical behaviour.
- (b) The entity's risk assessment process: The cost auditor shall obtain an understanding of whether the entity has a process for: (refer 6.6, 6.7, 6.8)
 - (1) Identifying business risks relevant to cost reporting objectives;
 - (2) Assessing the likelihood of their occurrence;
 - (3) Estimating the significance of the risks; and
 - (4) Deciding about actions to address those risks.
- (c) Cost Information System/ Management Information System: The cost auditor shall obtain an understanding of the Information System including Management Information System, relevant to cost reporting,

including the following areas: (refer 6.9)

- (1) The classes of transactions and their analysis, that is significant to the cost statements;
- (2) The procedures, by which those transactions and their analysis are initiated, recorded, processed, and reported in the management information systems and cost statements;
- (3) The related cost accounting records, supporting information that are used to initiate, record, process and report transactions; and
- (4) The reporting process used to prepare the entity's cost statements, including significant estimates and disclosures.

(d) Control Activities: The auditor shall obtain an understanding of the control activities, relevant to the audit.(refer 6.10)

(e) Monitoring of controls:

- (1) The auditor shall obtain an understanding of the major activities, that the entity uses to monitor internal control over reporting.(refer 6.11)
- (2) The cost auditor shall evaluate the adequacy of the internal audit function in relation to cost records. (refer 6.12)

5.4 IT Environment and Control: The cost auditor shall evaluate and assess: (refer 6.13)

- (1) IT Architecture, Systems and programmes in use in the entity;
- (2) Controls on access to data;
- (3) Controls on changes to data in master files, systems or programmes; and

- (4) Integrity of information and security of the data

5.5 Identifying and Assessing the Risks of Material Misstatement: The cost auditor shall identify and assess the risks of material misstatement at the cost statement level; and at the assertion level including items of cost, cost heads and disclosures thereof. For this purpose, the cost auditor shall: (refer 6.14, 6.15, 6.16)

- (1) Identify risks including relevant controls that relate to the risk of material misstatements or a risk of fraud;
- (2) Assess whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention;
- (3) Assess whether the risk involves significant transactions with related parties;
- (4) Assess the degree of subjectivity in the measurement of information related to the risk.
- (5) Assess whether there arises a need for revising the assessment of risk based on additional audit evidence obtained.

5.6 Documentation:

The auditor shall document:

- (i) Key elements of the understanding obtained regarding each of the aspects of the entity and its environment specified in paragraph 5.1 & 5.2 above and of each of the internal control components specified in paragraphs 5.3 above; the sources of information from which the understanding was obtained; and the risk assessment procedures performed;
- (ii) The identified and assessed risks of material misstatement at the cost statement level and at the assertion level including items of cost, cost

heads and disclosure thereof as required by paragraph 5.5 above; and

- (iii) The risks identified, and related controls about which the auditor has obtained an understanding, as a result of the requirements in paragraphs 5.5 above.

CHAPTER - XI

REPRESENTATIONS BY MANAGEMENT

Preamble

11.1 The proposed Cost Auditing Standard on "Written Representations", prescribes the purpose to provide guidance to the cost auditor to deal with the management representations as audit evidence, the procedures to be applied in evaluating and documenting written representation, and the actions to be taken if management refuses to provide appropriate representations.

11.2 Audit evidence is the information used by the auditor in arriving at the conclusions on which the cost auditor's opinion is based. Written representations are necessary information that the cost auditor requires in connection with the audit of the entity's cost statements. Accordingly, similar to responses to inquiries, written representations are audit evidence.

11.3 Although written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal. Furthermore, the fact that management has provided reliable written representations does not affect the nature or extent of other audit evidence that the cost auditor obtains about the fulfillment of management's responsibilities, or about specific assertions.

11.4 For complete understanding, the following terms defined in the standard are relevant:

Audit Evidence: Information used by the cost auditor in arriving at the conclusions on which the cost auditor's opinion is based. Audit evidence includes both information contained in the cost accounting records underlying the cost statements and all other related information.

Management: The person(s) with executive responsibility for the conduct of the entity's operations. For some entities in some jurisdictions, management includes some or all of those charged with governance.

Those charged with governance: The person(s) or organisation(s) (e.g., a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.

Written Representation: a written statement by management provided to the cost auditor to confirm certain matters or to support other audit evidence. Written representations in this context do not include financial statements, cost statements, the assertions therein, or supporting books and records.

11.5 The proposed standard further describes the objectives of the cost auditor as under:

- (a) to obtain written representations from management and, where appropriate, those charged with governance that they believe that they have fulfilled their responsibility for the preparation of the cost statements and for the completeness of the information provided to the cost auditor.
- (b) to support other audit evidence relevant to the cost statements or specific assertions in the cost statements by means of written representations if determined necessary by the cost auditor or required by other Standards on Cost Auditing; and
- (c) to respond appropriately to written representations provided by management and, where appropriate, those charged with governance, or

if management or, where appropriate, those charged with governance do not provide the written representations requested by the cost auditor.

Requirements under the proposed Standard

11.6 The following requirements have been prescribed in the proposed standard on "Written Representations". It is necessary that the cost auditor should fully familiarize with these requirements:

- (a) The cost auditor shall request written representations from management with appropriate responsibilities for the cost statements and knowledge of the matters concerned.
- (b) The cost auditor shall request management to provide a written representation that it has fulfilled its responsibility for the preparation of the cost statements in accordance with the applicable cost reporting framework, including, where relevant, their fair presentation, as set out in the terms of the cost audit engagement.
- (c) The cost auditor shall request management to provide a written representation that (i) it has provided the cost auditor with all relevant information and access as agreed in the terms of the cost audit engagement; and (ii) all transactions have been recorded and are reflected in the cost statements.
- (d) Management's responsibilities shall be described in the written representations required by above paragraphs in the manner in which these responsibilities are described in the terms of the cost audit engagement.
- (e) Other Standards on Cost Auditing require the cost auditor to request written representations. If, in addition to such required representation, the cost auditor determines that it is necessary to obtain one or more written representations to support other audit evidence relevant to the cost statements or one or more specific assertions in the cost statements, the cost auditor shall request such other written representations.

- (f) The date of the written representations shall be as near as practicable to, but not after, the date of the cost auditor's report on the cost statements. The written representations shall be for all cost statements and period(s) referred to in the cost auditor's report.
- (g) The written representations shall be in the form of a representation letter addressed to the cost auditor. If the law or regulation requires management to make written public statements about its responsibilities, and the cost auditor determines that such statements provide some or all of the representations required by above paragraphs (b) and (c), the relevant matters covered by such statements need not be included in the representation letter.
- (h) If the cost auditor has concerns about the competence, integrity, ethical values or diligence of management, or about its commitment to or enforcement of these, the cost auditor shall determine the effect of such concern may have on reliability of representation (oral or written) and audit evidence in general.
- (i) In particular, if written representations are inconsistent with other audit evidence, the cost auditor shall perform audit procedures to attempt to resolve the matter. If the matter remain unresolved, the cost auditor shall reconsider the assessment of the competence, integrity, ethical values or diligence of management, or of its commitment to or enforcement of these and shall determine the effect that this may have on the reliability of representations (oral or written) and audit evidence in general.
- (j) If the cost auditor concludes that the written representations are not reliable, the cost auditor shall take appropriate actions, including determining the possible effect on the opinion in the cost auditor's report, having regard to the requirement in paragraph (l) below.
- (k) If management does not provide one or more of the requested written representations, the cost auditor shall (i) Discuss the matter with management; (ii) Re-evaluate the integrity of management and evaluate the effect that this may have on the reliability of representations (oral or written) and audit

evidence in general; and (iii) Take appropriate actions, including determining the possible effect on the opinion in the cost auditor's report, having regard to the requirement in paragraph (l) below.

- (l) The cost auditor shall disclaim an opinion on the cost statements if (i) the cost auditor concludes that there is sufficient doubt about the integrity of management such that the written representations required by paragraphs above (b) and (c) are not reliable; or (ii) management does not provide the written representations required by above paragraphs (b) and (c).

EXAMPLE OF A MANAGEMENT REPRESENTATION LETTER IN AN AUDIT OF COST ACCOUNTING RECORDS

The following letter is for use as a general guide with reference to the points mentioned in this respect. It may vary from one company to another and from one year to another. Therefore it can be adapted in view of individual requirements and circumstances.

(On Company's letter head)

Dated:

To,

M/S

Cost Accountants/ Cost Auditors

Dear Sir/Madam,

This representation letter is provided in connection with your audit of cost accounting records of **(name of Company/ factory/ Unit)**** for the year ended_____ for the purpose of expressing an opinion as to whether the company maintained cost accounting records as required under the Companies (Cost Records and Audit) Rules, 2014 and the cost statements/abridged cost statements

give a true and fair view of the cost of production or cost of operation, cost of sales and margin for each of the products and activities under reference. We acknowledge the management's responsibility for the true and fair presentation of the cost accounting records, financial position and results of operations in accordance with the policies and practices, including the Generally Accepted Cost Accounting Principles (GACAP) and the Cost Accounting Standards (CAS) issued or that may be issued from time to time by the Institute of Cost Accountants of India.

We confirm, to the best of our knowledge and belief, the following representations:

ACCOUNTING POLICIES AND RECORDS:

1. All Cost Accounting records are maintained on regular basis as per the provisions of Companies (Cost Records and Audit) Rules, 2014. The list of cost records maintained by the company is enclosed herewith.
2. The Company adopted the cost accounting policy keeping in view the requirements of the Company, Companies (Cost Records and Audit) Rules, 2014, Cost Accounting Standards (CAS) and Generally Accepted Cost Accounting Principles (GACAP) issued by the Institute of Cost Accountants of India. In the opinion of the Company, the Cost Accounting Policy so adopted is adequate to determine the cost of production/ operation, cost of sales, sales realization and margin of the product/ activity / service under reference.
3. There is no change*** in the Cost Accounting system for identification of cost centers/ cost objects, cost drivers, accounting for materials, allocation and absorption of overheads, basis of Inventory valuation system, and method of charging depreciation or amortization followed by the company as compared to previous year.

4. The collection, classification, allocation & apportionment of expenses to various products/ activities/ services/ departments/ processes are properly made on the actual and / or appropriate/ estimated basis. The basis adopted for such allocation / apportionment have been followed consistently with due modifications wherever necessary.
5. No items of fixed assets have been charged with 100% depreciation in cost accounting records. The Written Down Value (W. D. V) of such items has been carried forward to next financial year_____.

OR

The 100 % depreciation on certain items of fixed assets amounting to Rs. _____ , being very small amount, is considered in cost accounting in view of the materiality concept.

6. The installed capacity of Products/ Services under cost audit is _____****.
7. There is no change in the manufacturing / operating process or technology during the year as compared to previous year***.
8. The incomes / expenses / assets /liabilities / relating to the products/ services to which provisions of Companies (Cost Records and Audit) Rules, 2014are not applicable have been duly segregated and excluded from the Cost Accounting Records of applicable products/ services.
9. The abnormal and Non-recurring items have been excluded from Cost Accounting Records for the period***.
10. The cost records containing product/service/activity-wise cost details have been properly compiled and reconciled with financial accounts in totality for the year under reference.

11. The company is having a Budgetary control system according to the needs of the management and the system is being regularly applied in the decision making process.
12. The Internal Audit of financial accounts for the year under audit has/has not* been carried out.
13. The Internal Audit of cost accounting records for the year under audit has/has not* been carried out.
14. There are no persistent deficiencies in the cost accounting system pointed out in earlier cost audit reports but not rectified.
15. The company has incurred loss or there is a decline in profitability of following products/services as per cost accounting records:

Product/ Service	Total Profit / loss	Profit / loss / per unit

The reasons for the loss or decline in profit are as under:

- 1.
- 2.

16. There are no defaults on the payments due to the Government, financial institutions and banks ***.
17. The company has fulfilled the export commitments to the extent of () %.
18. To the best of our knowledge and belief all outstanding liabilities (including those of income tax, Excise duty, wealth tax, VAT/sales tax, and other taxes and duties where applicable) and outstanding income and assets have been provided for in the accounts.
19. Nothing has been done during the year under audit which would be in contravention of any of the provisions of The Companies Act 2013 ***.

20. Board resolutions, sanctioning and approving inter-company and related party transactions, loans given and taken including loans in kind, purchase and sale of investments and fixed assets, write off of bad debts/ irrecoverable advances and other relevant accounting matters, have been duly passed during the year.
21. There are no legal cases or other disputes pending against or instituted by company, which would give rise to any liabilities other than those which have been disclosed in the accounts.
22. Allocation between capital and revenue expenditure has been correctly done and that no items of capital nature have been debited to profit and loss account or vice versa.
23. Net book values of Tangible Non-Current Assets (fixed assets) shown in the Balance Sheet are after:
- a) taking into account all capital expenditure on additions thereto, but no expenditure attributable to revenue.
 - b) eliminating the cost and accumulated depreciation relating to items sold or discarded.
 - c) providing adequate depreciation on the fixed assets during the year.
24. All capital expenses of the company are genuine and solely connected with the company's business.
25. The Company has maintained necessary records in respect of related party transactions & inter-company transfer as prescribed in the Companies (Cost Records and Audit) Rules, 2014. The basis followed for arriving at the rates charged in such transactions is reasonable and there is no shifting of profits between units to the detriment of ordinary investors at large.

- 26.No personal expenses other than those incurred under contractual obligations of accepted business practices have been incurred by the company and charged to the profit & loss account for the year ended_____.
- 27.There have been no irregularities involving management or employees who have a significant role in the system of internal control that could have a material effect on the cost accounting records.
- 28.The company has complied with all aspects of contractual agreement that would materially affect the cost statements, in the event of non- compliance.
- 29.The company is not aware of any violations or possible violations of law or regulations whose effect should be considered for disclosure in the cost accounting records or as a basis for recording a loss or contingency.
- 30.All accounts & records have been balanced in ink after adjustments of closing entries and agree with the Cost Accounting statements, Annexures & Proforma to the Cost Audit Report. *(This will not applicable if company maintains records following SAP/ERP or any other computerized system).*

INVENTORIES

- 31.Following is the summary of the stock held by (Name of the company as at the____ (date):

Stores and spare parts	Rs	
Loose Tools	Rs	
Raw Materials	Rs	
Work - in progress	Rs	
Finished Goods	Rs	
Any other items	Rs	
(Including scrapped machinery)		
Total	Rs	_____

With respect to the above stocks, we hereby certify that to the best of our knowledge and belief:

- a) Inventories recorded in the books as at _____(date of Balance Sheet) aggregating to Rs _____ are based upon the physical inventories taken as at _____ (date of physical stock checking)_____ by actual count, weight or measurement. The book inventories were adjusted to the physical inventory and subsequent transactions recorded in the accounts fairly reflect the changes in the inventories upto _____(date of Balance sheet).
- b) All goods included in the books in the inventory are the property of this company and are not subject to any charge, none of the goods being held on consignment from other or as bailey and none being subject to lien of any kind except as follows: (e.g. hypothecated to the banks against cash credit facility).
- c) The inventory includes all goods of any value which are the property of this company wherever located, including goods sent on consignment account to customers.
- d) The inventory does not include:
 - ✓ Goods purchased for which invoices have not been entered as liabilities.
 - ✓ Goods returned by customers without credit to their accounts; or
 - ✓ Goods billed to customers in advance of delivery.
- e) In valuing the inventory, due consideration has been given to the sale-ability / usability of the stock and no obsolete or damaged items were included therein except at their net realizable value as follows:-

f) The goods have been valued according to the provisions of Accounting Standard (AS 2) on the following basis:

Stores and spare parts	
Loose Tools	
Raw materials	
Work-in - progress	
Finished goods	
Any other head	

g) No item of stock has a value on realization, in the ordinary course of business, which is less than the amount stated in the inventory.

h) The company has written off stock during the year under consideration as per the details given below:

(i)

(ii)

(iii)

i) Slow Moving Non-moving stock details are as below for which the management is taking necessary steps to reduce such stocks.

(i)

(ii)

(iii)

j) The basis of valuation adopted is the same as was used in the previous year, except as follows:-

(i)

(ii)

(iii)

Yours faithfully,

For _____ Ltd.

(Name _____)

Managing Director/Company Secretary.

* Strike out the words/sentences/para not applicable.

** Separate cost statements required product-wise, unit-wise / factory-wise and also Abridged Cost Statements for each Product / Service as the case may be. Companies (Cost Records and Audit) Rules, 2014 requires Cost Audit Report for all the Products/ Services covered under the Cost Audit. All companies are required to prepare cost statements for each Product/ Service under Audit

*** In case of change, please give details including the impact on unit cost of production/ operation and/or profit/loss position of the product/unit/factory and Product/ Service wherever applicable.

**** If more than one product/ service, give product/ service wise and also give basis of calculation of installed capacity.

CHAPTER - XII

TURNOVER AS PER EXCISE / SERVICE TAX RECORDS

Preamble

12.1 The Companies (Cost Records and Audit) Rule, 2014 were amended by the Ministry of Corporate Affairs vide Notification dated 31st December, 2014. Prior to the said amendment, there was no requirement to reconcile Turnover as per Excise records/service Tax Records with the Turnover as per Financial Accounts. Further, Part A(4) of the Cost Audit Report states that "Explain the difference, if any between the turnover as per the Annual Accounts and turnover as per Excise / Service tax records".

12.2 In other words, it is not only the requirement of reporting the turnover as per excise records / service tax records but detailed reconciliation needs to be given alongwith reasons & amount thereof. There has to be difference, since turnover as per annual accounts will be in accordance with AS-9 (Revenue Recognition), whereas turnover as per Central Excise Records will be in accordance with Central Excise Act 1944 and Rules made thereunder and Finance Act 1994 as amended. Though there is no definition of turnover in the Central Excise Act 1944, but the wording of turnover is reflected / mentioned in the various provisions of Central Excise as given below:

Notification No. 8/2003-CE dated 01.03.2003 as amended [SSI Units having turnover less than Rs. 1.50 crore are exempted].

For the purposes of determining the first clearances upto an aggregate value not exceeding one hundred and fifty lakh rupees made on or after the 1st day of April in any financial year, mentioned against serial no.1 of the said Table, the following clearances shall not be taken into account, namely:-

- (a) clearances, which are exempt from the whole of the excise duty leviable thereon (other than an exemption based on quantity or value of clearances)

under any other notification or on which no excise duty is payable for any other reason;

- (b) clearances bearing the brand name or trade name of another person, which are ineligible for the grant of this exemption in terms of paragraph 4;
- (c) clearances of the specified goods which are used as inputs for further manufacture of any specified goods within the factory of production of the specified goods;
- (d) For the purposes of determining the aggregate value of clearances of all excisable goods for home consumption, mentioned in clause (vii) of paragraph 2 of this notification, the following clearances shall not be taken into account, namely:-
 - a. Clearance of excisable goods without payment of duty -
 - (i) To Units in a Free Trade Zone OR
 - (ii) To a Unit in a Special Economic Zone OR
 - (iii) To a 100% Export Oriented Undertaking OR
 - (iv) To a Unit in Electronic Hardware Technology Park or Software Technology Park OR
 - (v) Supplied to United Nation or an International Organization for their official use or supplied to projects funded by them on which exemption of duty is available under Notification of the GOI in the Erstwhile Ministry of Finance (Department of revenue) 108 / 95 CE dtd. 28.08.1995 vide No. GSR 602(E) dtd. 28.08.1995
 - b. Clearances bearing the brand name or trade name of another person which are ineligible for grant of this exemption in terms of Para 4.

- c. Clearances of specified goods which are used as inputs for further manufacture of any specified goods within the factory of production of specified goods.
- d. Deleted
- e. Clearances which are exempt from whole of the excise duty leviable thereon under notification no. 214 / 86 CE dtd. 25.03.1986 or Notification no. 83/94 CE dtd 11.04.1994 or Notification no. 84/94 CE dtd 11.04.1994.

Note: This definition of "Turnover" cannot be considered as "Turnover as per Excise records" since it has got the specific object of granting SSI Exemption.

12.3 The Turnover as defined under Rule 5 of Cenvat Credit Rules 2004 for granting refund of accumulated Cenvat Credit. Total turnover means sum total of the value of -

- a. all excisable goods cleared during the relevant period including exempted goods, dutiable goods and excisable goods exported;
- b. export turnover of services determined in terms of clause (D) of sub-rule (1) above and the value of all other services, during the relevant period.
i.e. Export turnover of services means the value of the export service calculated in the following manner, namely:-

Export turnover of services = payments received during the relevant period for export services + export services whose provision has been completed for which payment had been received in advance in any period prior to the relevant period - advances received for export services for which the provision of service has not been completed during the relevant period;

- c. all inputs removed as such under sub-rule (5) of rule 3 against an invoice, during the period for which the claim is filed i.e. *"When inputs or capital goods, on which CENVAT credit has been taken, are removed as such from the factory, or premises of the provider of output service, the*

manufacturer of the final products or provider of output service, as the case may be."

12.4 The Turnover for reversal of Cenvat credit on common services is mentioned in Rule 6 of Cenvat Credit Rules. However, the said turnover also cannot be considered, since trading turnover is considered as exempted service and value thereof is taken at different grounds and hence cannot be considered. Therefore, turnover as per excise records can be considered as reported in Monthly Report namely, ER-1 / ER-2 and for services ST-3. Turnover as per ER-1:

- a. Details of the manufacturer, clearance and duty payable: Assessable value
- b. Clearance details of inter unit transfer of intermediate goods without payment of duty under sub-rule(1)of rule 12BB

12.5 Valuation is determined for various types of clearances in accordance with Sec 4 / Sec 4A of Central Excise Act 1944 read with Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000. It is important to understand the same and thereafter needs to distinguish the valuation as reported under Annual Accounts.

- **Manufactured Goods cleared for Direct Sale to unrelated buyer:** The valuation of the said goods will be in accordance with Sec 4 of Central Excise Act 1944, where goods are not covered under schedule _____ including the products under Legal Metrology Act.

Section 4. Valuation of excisable goods for purposes of charging of duty of excise. -

(1) Where under this Act, the duty of excise is chargeable on any excisable goods with reference to their value, then, on each removal of the goods, such value shall -

- *(a) in a case where the goods are sold by the assessee, for delivery at the time and place of the removal, the assessee and the buyer of the goods are*

not related and the price is the sole consideration for the sale, be the transaction value;

- (b) in any other case, including the case where the goods are not sold, be the value determined in such manner as may be prescribed.

Explanation - For the removal of doubts, it is hereby declared that the price-cum-duty of the excisable goods sold by the assessee shall be the price actually paid to him for the goods sold and the money value of the additional consideration, if any, flowing directly or indirectly from the buyer to the assessee in connection with the sale of such goods, and such price-cum-duty, excluding sales tax and other taxes, if any, actually paid, shall be deemed to include the duty payable on such goods.

However the valuation will be different for the following products, which will be based on maximum retail price less specified abatement percentage which are given below:

S.No.	Chapter, heading, sub-heading or tariff item	Description of goods	Abatement as a percentage of retail sale price
(1)	(2)	(3)	(4)
1.	17 or 21	Preparations of other sugars	35
1A	04029110, 04029920	Condensed milk put up in unit containers	30
(Above Sl. No. 1A has been inserted vide NTF. NO. 03/2015-CE (NT), DT. 01/03/2015)			
2.	1702	Sugar syrups not containing added flavouring or colouring matter; artificial honey, whether or not	35

S.No.	Chapter, heading, sub-heading or tariff item	Description of goods	Abatement as a percentage of retail sale price
		mixed with natural honey; caramel	
3.	1704	Gums, whether or not sugar coated (including chewing gum, bubblegum and the like)	35
4.	170490	All goods, other than white chocolate	30
5.	170490	White chocolate	35
6.	18050000 or 18061000	Cocoa powder, whether or not containing added sugar or other sweetening matter	30
7.	1806	Chocolates in any form, whether or not containing nuts, fruit kernels or fruits, including drinking chocolates	30
8.	1806	Other food preparations containing cocoa	30
9.	19012000 or 190190	All goods, other than Dough for preparation of bakers' ware of heading No.1905	30
10.	1904	All goods, other than goods falling under tariff item 19042000	30
11.	19042000	All goods	30

S.No.	Chapter, heading, sub-heading or tariff item	Description of goods	Abatement as a percentage of retail sale price
12.	19053100 or 19059020	Biscuits	30
13.	19053211 or 19053290	Waffles and wafers, coated with chocolate or containing chocolate	30
14.	19053290	All goods, other than wafer biscuits	35
15.	19053219 or 19053290	Wafer biscuits	30
16.	210111 or 21011200	Extracts, essences and concentrates, of coffee, and preparations with a basis of these extracts, essences or concentrates or with a basis of coffee	30
16A	210120	Extracts, essences and concentrates of tea or mate and preparations with a basis of these extracts, essences or concentrates or with a basis of tea or mate	30
(Above Sl. No. 16A has been inserted vide NTF. NO. 03/2015-CE (NT), DT. 01/03/2015)			
17.	2102	All goods	30
18	21069011	Sharbat	25

S.No.	Chapter, heading, sub-heading or tariff item	Description of goods	Abatement as a percentage of retail sale price
19	21069020	All goods, other than pan masala containing not more than 15% betel nut	40
20.	21069020	Pan masala containing not more than 15% betel nut	20
21.	2403	Pan masala containing tobacco	55 [OLD-50]
22.	21069030	All goods	30
23.	21061000, 21069050, 21069070, 21069080, 21069091 or 21069099	All goods	35
24.	2201 or 2202	Mineral waters	45
25.	2201 or 2202	Aerated waters	40
25A	2202	All goods except mineral waters and aerated waters	35
(Above Sl. No. 25A has been inserted vide NTF. NO. 03/2015-CE (NT), DT. 01/03/2015)			
26.	2209	Vinegar and substitutes for vinegar	35

S.No.	Chapter, heading, sub-heading or tariff item	Description of goods	Abatement as a percentage of retail sale price
		obtained from acetic acid	
26(A).	2402	Cigarettes	50%
27.	24039910, 24039920 or 24039930	All goods	55 [OLD-50]
28.	25232100 or 252329	White cement, whether or not artificially coloured and whether or not with rapid hardening properties	30
28(A)	2523 29	All Goods	30
(In the table Sr. No. 26(A) & 28(A) has been inserted vide NTF. NO. 07/2012-CE (NT), DT. 17/03/2012)			
29.	2710	Lubricating oils and Lubricating preparations	35
30.	30	Medicaments, other than those which are exclusively used in Ayurvedic, Unani, Siddha, Homeopathic or Bio-chemic systems Explanation.- For the purposes of this entry, "retail sale price" means the retail price displayed by the manufacturer under the provisions of the Drugs (Prices Control) Order, 1995.	35

S.No.	Chapter, heading, sub-heading or tariff item	Description of goods	Abatement as a percentage of retail sale price
31.	320420	Synthetic organic products of a kind used as fluorescent brightening agents or as a luminophores	30
32.	3206	All goods other than pigments and inorganic products of a kind used as luminophores	30
33.	3208, 3209 or 3210	All goods	30
34.	321290 20	Dyes and other colouring matter put up in forms or small packing of a kind used for domestic or laboratory purposes	35
35.	3213	All goods	35
36.	3214	All goods	35
37.	3303, 3304, 3305 or 3307	All goods	35
38.	33061020	Toothpaste	30
39.	340119 or 34012000	Soap (other than paper, wadding, felt and non-wovens, impregnated, coated or covered with soap or detergent)	30
40.	340111, 340119	Organic surface active products and preparations for use as soap in the	30

S.No.	Chapter, heading, sub-heading or tariff item	Description of goods	Abatement as a percentage of retail sale price
	or 3402	form of bars, cakes, moulding pieces or shapes, other than goods falling under 34029020	
41.	3403	Lubricating preparations (including cutting-oil preparations, bolt or nut release preparations, anti-rust or anti-corrosion preparation and mould release preparations based on lubricants)	30
42.	3405	All goods	30
43.	3506	Prepared glues and other prepared adhesives, not elsewhere specified or included	35
44.	3702	All goods other than for X-ray and unexposed cinematographic films	35
45.	3808	Insecticides, fungicides, herbicides, weedicides and pesticides	30
46.	3808	Disinfectants and similar products	35
47.	38089340	Plant growth regulator	25
48.	38140010	Thinners	35
49.	3819	All goods	35

S.No.	Chapter, heading, sub-heading or tariff item	Description of goods	Abatement as a percentage of retail sale price
50.	38200000	Anti-freezing preparations and prepared de-icing fluids	35
51.	38249024 or 38249090	Stencil correctors and other correcting fluids, ink removers put up in packings for retail sale	35
52.	3919	Self adhesive tapes of plastics	35
53.	3923 or 3924	Insulated ware	40
54.	4816	Carbon paper, self-copy paper, duplicator stencils, of paper	35
55.	4818	Cleansing or facial tissues, handkerchiefs and towels, of paper pulp, paper, cellulose wadding or webs of cellulose fibres, other than goods falling under 48185000	35
56	64	All footwear	25% [OLD-35]
(Column (4) at Sl. No. 56 has been substituted vide NTF. NO. 03/2015-CE (NT), DT. 01/03/2015)			
[Old 56.	64	The following goods namely: - (i) Footwear of retail sale price exceeding Rs 250/- and not	35

S.No.	Chapter, heading, sub-heading or tariff item	Description of goods	Abatement as a percentage of retail sale price
		exceeding Rs 750/- per pair	
		(ii) All other foot wear	40]
[In the table, Sr.No.56 has been substituted vide NTF. NO. 07/2012-CE (NT), DT. 17/03/2012]			
57.	650610	Safety headgear	35
58.	6907	Vitrified tiles, whether polished or not	45 [OLD-40]
59.	6908	Glazed tiles	45 [OLD-40
60.	7321	Cooking appliances and plate warmers, other than LPG gas stoves (with burners only, without other functions such as, grills or oven)	35]
61.	7321	LPG gas stoves (with burners only, without other functions such as, grills or oven)	35 [OLD-30]
[In the table, Sr.No.62 Column (2) has been substituted vide NTF. NO. 01/2013-CE (NT), DT. 01/03/2013]			
62.	7323 or 7615 10 11 [OLD 7323 or	Pressure Cookers	25

S.No.	Chapter, heading, sub-heading or tariff item	Description of goods	Abatement as a percentage of retail sale price
	76151910]		
63.	7324	Sanitary ware of iron or steel	35
64.	74182010	Sanitary ware of copper	35
65.	8212	Razors and razor blades (including razor blade blanks in strips)	35
66.	83052000 or 83059020	Staples in strips, paper clips, of base metal	35
67.	841451 or 841459	Electric fans	35
[In the Table, Sr.No.68, Column (3) & (4) has been substituted vide NTF. NO. 26/2012-CE (NT), DT. 10/05/2012]			
68.	8415	All goods except 841520 [OLD Window room air-conditioners and split air conditioners of capacity upto 3 tonnes]	35 [OLD 25]
[In the Table Sr.No.69 has been substituted vide NTF. NO. 26/2012-CE (NT), DT. 10/05/2012]			
[OLD 69.	84181090, 84182100, 84182900, 84183090,	All goods	35]

S.No.	Chapter, heading, sub-heading or tariff item	Description of goods	Abatement as a percentage of retail sale price
	84186920		
69.	8418	Refrigerators	35
70.	842121	Water filters and water purifiers, of a kind used for domestic purposes	30
[In the Table, SrNo.70 , Column(40 has been substituted vide NTF. NO. 26/2012-CE (NT), DT. 10/05/2012]			
71.	84221100 or 84221900	Dish washing machines	35 [OLD 30]
72.	8443	Facsimile machines	35
73.	844331 00 or 844332	Printer whether or not combined with the functions of copying or facsimile transmission	20
74.	844399 51	Ink cartridges, with print head assembly	20
75.	8450	Household or laundry-type washing machines, including machines which both wash and dry	35
76.	8469	Typewriters	30
77.	8470	Calculating machines and pocket-size data recording, reproducing and	35

S.No.	Chapter, heading, sub-heading or tariff item	Description of goods	Abatement as a percentage of retail sale price
		displaying machines with calculating functions, other than goods falling under sub-heading 847050 and 847090	
78.	847130	All goods	20
79.	847160	All goods	20
80.	847290 10	Stapling machines	35
81.	8506	All goods, other than parts falling under tariff item 85069000	35
82.	8508	All goods, other than parts falling under tariff item 85087000	35
83.	8509	All goods, other than parts falling under tariff item 85099000	35
84.	8510	All goods, other than parts falling under tariff item 85109000	35
85.	8513	All goods, other than parts falling under tariff item 85139000	30
86.	8516	Electric instantaneous or storage water heaters and immersion heaters; electric space heating apparatus and soil heating apparatus; electro-thermic hairdressing	35

S.No.	Chapter, heading, sub-heading or tariff item	Description of goods	Abatement as a percentage of retail sale price
		apparatus (for example, hair dryers, hair curlers, curling tong heaters) and hand dryers; electric smoothing irons; other electro-thermic appliances of a kind used for domestic purposes.	
[In the Table, Sr No.87 Column (3) has been substituted vide NTF. NO. 26/2012-CE (NT), DT. 10/05/2012]			
87.	8517	Telephones sets including telephones with cordless handsets and for cellular networks or for other wireless networks; videophones [OLD Telephone sets including telephones with cordless handsets; video phones;]	35
88.	851762 30	Modems (modulators-demodulators)	20
89.	851769 60	Set top boxes for gaining access to internet	20
[In the Table, Sr.No.90 & 91, Column(3) has been substituted vide NTF. NO. 26/2012-CE (NT), DT. 10/05/2012] [In the table, Sr No.92 has been Omitted vide NTF. NO. 26/2012-CE (NT), DT. 10/05/2012]			
90.	8519	All goods [OLD All goods, other than MP3	35

S.No.	Chapter, heading, sub-heading or tariff item	Description of goods	Abatement as a percentage of retail sale price
		Player or MPEG 4 Player]	
91.	8521	All goods [OLD All goods, other than MP3 Player or MPEG 4 Player]	35
[Omitted 92.	85	MP3 Player or MPEG 4 Player	35] [OLD-30]
[In the table, Sr.No.93, In Column(3) has been substituted vide NTF. NO. 26/2012-CE (NT), DT. 10/05/2012]			
93.	8523	All goods except 85232100, 85232960 to 85232990, 85234120 to 85234150, 85234930, 85234950 to 85234990, 85235210, 852359, 85238020, 85238030 and 85238060 [OLD Unrecorded audio cassettes; recorded or unrecorded video cassettes; recorded or unrecorded magnetic discs]	35
93A.	8523	Packaged software or canned software	15
(Above Sl. No. 93A has been inserted vide NTF. NO. 30/2010-CE (NT), DT. 21/12/2010)			
[In the table, Sr.No.94, Column (3) & (4) has been substituted vide NTF. NO. 26/2012-CE (NT), DT. 10/05/2012]			

S.No.	Chapter, heading, sub-heading or tariff item	Description of goods	Abatement as a percentage of retail sale price
94.	8527	All goods except 85279912, 85279919 and 85279990 [OLD Pagars]	35 [OLD 30]
[In the table, Sr.No.95 & 96 has been Omitted Vide NTF. NO. 26/2012-CE (NT), DT. 10/05/2012] [In the table, Sr .No.97,Column(3) & (4) has been substituted vide NTF. NO. 26/2012-CE (NT), DT. 10/05/2012]			
[Omitted 95.	8527	Radio sets including transistors sets, having the facility of receiving radio signals and converting the same into audio output with no other additional facility like sound recording or reproducing or clock in the same housing or attached to it	30]
[Omitted 96.	8527	Reception apparatus for radio-broadcasting, whether or not combined, in the same housing, with sound recording or reproducing apparatus or a clock (other than goods covered at S.No.95)	35[Omitted
97.	8528	All goods [OLD Television receivers (including video monitors and video projectors) whether or not incorporating radio broadcast receivers or sound or	35 [OLD 30]

S.No.	Chapter, heading, sub-heading or tariff item	Description of goods	Abatement as a percentage of retail sale price
		video recording or reproducing apparatus}	
[In the table, Sr.No.98 & 99 has been Omitted vide NTF. NO. 26/2012-CE (NT), DT. 10/05/2012]			
[In the table, Sr.No.101A has been inserted vide NTF. NO. 26/2012-CE (NT), DT. 10/05/2012]			
[Omitted 98.	8528	Monitors of a kind solely or principally used in an automatically data processing machine	20]
[Omitted 99.	852871 00	Set top boxes for television sets	20]
100.	8536	All goods, other than goods falling under tariff item 85367000	35
101.	85 or 94 [OLD- 8539]	All goods falling under heading 8539 [except lamps for automobiles], LED lights or fixtures including LED Lamps falling under Chapter 85 or heading 9405 [OLD - except lamps for automobiles] [OLD- The following goods, other than lamps for automobiles, namely:- (i) Compact Fluorescent Lamp (CFL) falling under tariff item 85393110	35

S.No.	Chapter, heading, sub-heading or tariff item	Description of goods	Abatement as a percentage of retail sale price
		(ii) All other goods]	35
(Column (2) & in column (3) the words "falling under heading 8539 [except lamps for automobiles], LED lights or fixtures including LED Lamps falling under Chapter 85 or heading 9405" at Sl. No. 101 has been substituted vide NTF. NO. 03/2015-CE (NT), DT. 01/03/2015)			
101A	Chapter 84 or 85	Goods capable of performing two or more functions of items specified at Sl. No. 67 to 101 and 140 to 142	35
(Column (3) at Sl. No. 101 has been substituted & Sl. No. 101A - inserted vide NTF. NO. 26/2012-CE (NT), DT. 10/05/2012)			
102.	9006	Photographic (other than cinematographic) cameras	30
103.	9101 or 9102	All goods, other than braille watches	30
104.	9103 or 9105	Clocks	40
105.	96032100	Toothbrush	30 [OLD-25]
106.	9612	All goods	30
107.	9617	Vacuum flasks	35
108.	Any Chapter	Parts, components and assemblies of vehicles (including chassis fitted with engines) falling under Chapter 87	30

S.No.	Chapter, heading, sub-heading or tariff item	Description of goods	Abatement as a percentage of retail sale price
		excluding vehicles falling under headings 8712, 8713, 8715 and 8716	
[OLD- 108.	Any heading	Parts, components and assemblies of automobiles	30]
109.	Any Chapter	Parts, components and assemblies of goods falling under tariff item 84264100, headings 8427, 8429 and sub-heading 843010	30

(Sl. No. 109 has been inserted vide NTF. No. 19/2010-CE, (NT), DT. 29/04/2010)

(In above table column (4) at Sl. No. 21 & 27 and Sl. No. 108 has been substituted vide NTF. No. 09/2010-CE, (NT), DT. 27/02/2010)

(In above table column (4) at Sl.Nos. 58, 59, 61, 92 & 105 has been substituted vide NTF. NO. 18/2009-CE(N.T.), DT. 07/07/2009)

"109	151710	Margarine edible grade	35
110	16	All goods	35
111	190110	All goods put up in unit containers	35
112	1902 other than 19024010 and 19024090	All goods	35

113	20	All goods	35
114	2101	Coffee or tea pre-mixes	35
115	2103	Sauces, ketchup and the like and preparations thereof	35
116	2104	Soups and broths and preparations thereof	35
117	21050000	All goods	35
118	210690	All kinds of food mixes, including instant food mixes	35
119	21069030	Betelnut product known as "supari"	35
120	21069099	(i) Ready to eat packaged food, (ii) Milk containing edible nuts with sugar or other ingredients	35
DELETED - 121	22029010	All goods	35
DELETED - 122	22029020	All goods	35
DELETED - 123	22029030	Flavoured Milk of Animal origin	35
DELETED - 124	22029090	Tender coconut water	35

(Sl. No. 121 to 124 has been deleted vide NTF. NO. 03/2015-CE (NT), DT. 01/03/2015)

		The following goods, namely:- (i) Medicaments exclusively used in Ayurvedic, Unani, Siddha, Homeopathic or Bio-chemic systems, manufactured in accordance with the formulae described in the authoritative books specified in the First Schedule to the Drugs and Cosmetics Act, 1940 (23 of 1940) or Homeopathic Pharmacopoeia of India or the United States of America or the United Kingdom or the German Homeopathic Pharmacopoeia, as the case may be, and sold under the name as specified in such books or pharmacopoeia;	
125	30	(ii) Medicaments exclusively used in Ayurvedic, Unani, Siddha, Homeopathic or Bio-chemic systems and sold under a brand name Explanation.- For the purposes of this entry, "brand name" means a brand name, whether registered or not, that is to say, a name or a mark, such as a symbol, monogram, label, signature or invented words or any writing which is used in relation to a medicament, for the purpose of indicating, or so as to indicate, a connection in the course of trade between the medicament and some person using such name or mark with or without any indication of the identity of that person.	35
(Sl. No. 125 has been substituted vide NTF. NO. 01/2013-CE (NT), DT. 01/03/2013)			
[OLD - 125	30	Medicaments (including those used in Ayurvedic, Unani, Siddha, Homeopathic or Bio-chemic systems), manufactured exclusively in accordance	35]

		with the formulae described in the authoritative books specified in the First Schedule to the Drugs and Cosmetics Act, 1940 (23 of 1940) or Homeopathic Pharmacopoeia of India or the United States of America or the United Kingdom or the German Homeopathic Pharmacopoeia, as the case may be, and sold under the name as specified in such books or pharmacopoeia	
126	30	Intravenous fluids used for sugar, electrolyte or fluid replenishment	35
127	300220 or 30023000	Vaccines (other than those specified under the National Immunisation Program)	35
128	32159010	Fountain pen ink	35
129	32159020	Ball pen ink	35
130	32159040	Drawing ink	35
131	33061010	Tooth Powder	35
132	34060010	Candles	35
133	39 or 40	Nipples for feeding bottles	35
134	4015	Surgical rubber gloves or medical examination rubber gloves	35
OMITTED 135	48184010	All goods	35
OMITTED 136	48184090	All goods	35

OMITTED 137	56011000	All goods	35
138	7310 or 7326 or any other Chapter	Mathematical boxes, geometry boxes and colour boxes, pencil sharpeners	35
139	8215	All goods	35
140	84212120, 84219900 [OLD- 84212120]	Water filters functioning without electricity and replaceable kits thereof	35
(Column (2) at Sl. No. 140 has been substituted vide NTF. NO. 17/2014-CE (NT), DT. 11/07/2014)			
141	8517 852560	or Mobile handsets including Cellular Phones and Radio trunking terminals	35
142	8517	Wireless data modem cards with PCMCIA or USB or PCI express ports	35
[OMITTED 143	8523	Recorded audio compact discs (CDs); Recorded video compact discs (VCDs); Recorded digital video discs (DVDs) & Recorded audio cassettes	35
144	9619	All goods"	35
(Sl. No. 143 has been omitted vide NTF. NO. 26/2012-CE (NT), DT. 10/05/2012)			
(In above table Sl. No. 135 to 137 -omitted & Sl. No. 144 inserted vide NTF. NO. 30/2011-CE (NT), DT. 30/12/2011 wef 01/01/2012)(In above table Sl. No.109 to 143 has been inserted vide NTF. NO. 11/2011-CE (NT), DT. 24/03/2011)			

- **Manufactured Goods cleared for Direct Sale to related party:** When sales are made exclusively to the related party in such circumstances the value of the goods is considered on which the related party sales the goods to the unrelated buyer. However, if such sales are not exclusive to related party then, valuation will be in terms of transaction value even though it is sold to related party. Valuation of the goods covered under above table will be based on MRP less specified abatement as mentioned in the above table.
- **Manufactured Goods cleared for Stock Transfer to branches:** When manufactured goods are cleared on stock transfer basis to the branches / C&F Agent / consignment agent / depot / warehouses etc. then Rule 7 of Central Excise Valuation (determination of price of excisable goods) Rules, 2000 will be applicable and valuation will be determined accordingly. Rule 7 is given below :

Rule 7

Where the excisable goods are not sold by the assessee at the time and place of removal but are transferred to a depot, premises of a consignment agent or any other place or premises (hereinafter referred to as "such other place") from where the excisable goods are to be sold after their clearance from the place of removal and where the assessee and the buyer of the said goods are not related and the price is the sole consideration for the sale, the value shall be the normal transaction value of such goods sold from such other place at or about the same time and, where such goods are not sold at or about the same time, at the time nearest to the time of removal of goods under assessment."

- **Manufactured Goods cleared for captive consumption to other units :** When manufactured goods are cleared to the other unit then valuation will be determined in accordance with Rule 8 of Central Excise Valuation (determination of price of excisable goods) Rules, 2000 which is reproduced below :

Rules 8

Where the excisable goods are not sold by the assessee but are used for consumption by him or on his behalf in the production or manufacture of other articles, the value shall be one hundred and ten per cent of the cost of production or manufacture of such goods. "

Needless to say, such value is determined in accordance with Cost Accounting Standards No. 4.

- **Manufactured goods cleared on behalf of 3rd party:** No of times goods are manufactured under contract manufacturing e.g. electric bulbs are manufactured for Philips, in such case the valuation will be based on transaction value of such customer i.e. the value of Philips.

Similarly in Pharma unit, inputs are supplied directly from the supplier of principal manufacturer and goods are cleared directly as per the direction of principal manufacturer, in such case valuation will be at the price of principal manufacturer or in terms of Section 4A of Central Excise Act, 1944. However such turnover may not appear in the annual turnover as reflected in financial accounts.

- **Manufactured Goods - Free Supply:** When manufactured goods are cleared on FOC basis either for sales promotion for any other purpose, excise duty is payable on the comparable value when sold to unrelated buyer. However such clearance will not appear in the annual turnover as reflected in financial accounts.
- **Manufactured Goods with receipt of free goods and services:** When goods are manufactured and some inputs / capital goods / input services have been supplied free of cost and therefore value needs to be determined in accordance with Rule 6 of Central Excise Valuation (determination of price of excisable goods) Rules, 2000.

Rule 6

Where the excisable goods are sold in the circumstances specified in clause (a) of sub section (1) of section 4 of the Act except the circumstance where the price is not the sole consideration for sale, the value of such goods shall be deemed to be the aggregate of such transaction value and the amount of money value of any additional consideration flowing directly or indirectly from the buyer to the assessee.

Explanation 1 - *For removal of doubts, it is hereby clarified that the value, apportioned as appropriate, of the following goods and services, whether supplied directly or indirectly by the buyer free of charge or at reduced cost for use in connection with the production and sale of such goods, to the extent that such value has not been included in the price actually paid or payable, shall be treated to be the amount of money value of additional consideration flowing directly or indirectly from the buyer to the assessee in relation to sale of the goods being valued and aggregated accordingly, namely : -*

- (i) value of materials, components, parts and similar items relatable to such goods;*
- (ii) value of tools, dies, moulds, drawings, blue prints, technical maps and charts and similar items used in the production of such goods;*
- (iii) value of material consumed, including packaging materials, in the production of such goods;*
- (iv) value of engineering, development, art work, design work and plans and sketches undertaken elsewhere than in the factory of production and necessary for the production of such goods.*

Explanation 2 - *Where an assessee receives any advance payment from the buyer against delivery of any excisable goods, no notional interest on such*

advance shall be added to the value unless the Central Excise Officer has evidence to the effect that the advance received has influenced the fixation of the price of the goods by way of charging a lesser price from or by offering a special discount to the buyer who has made the advance deposit.

Illustration1 - X, an assessee, sells his goods to Y against full advance payment at Rs. 100 per piece. However, X also sells such goods to Z without any advance payment at the same price of Rs. 100 per piece. No notional interest on the advance received by X is includible in the transaction value.

Illustration 2 - A, an assessee, manufactures and supplies certain goods as per design and specification furnished by B at a price of Rs. 10 lakhs. A takes 50% of the price as advance against these goods and there is no sale of such goods to any other buyer. There is no evidence available with the Central Excise Officer that the notional interest on such advance has resulted in lowering of the prices. Thus, no notional interest on the advance received shall be added to the transaction value."

- **Physical Exports:** While exporting the goods out of Country FOB value of exports is reflected after considering foreign exchange rates for exports as notified by customs time to time. Annual Accounts may reflect the value based on the payment terms of the customer e.g. Ex-works, FOR, FAS, FOB, C&I, C&F, CIF, DDP, etc. However, valuation imported in central excise will be in accordance with FOB value only. In accordance with accounting standards, exchange rates is to be considered on the date of booking of the invoice, whereas in Central Excise exchange rate is considered as notified for the purpose of exports by custom time to time.
- **Exports through Merchant Exports:** Merchant Exports normally executes the B-1 Bond and in turn such person issues CT-1 Form and CT-1 Form provides the FOB value of Merchant Exporter for which B-1 Bond is debited, whereas financial accounts will reflect only sale value to the merchant export.

- **Supply to SEZ:** Value to be determined in terms of Sec 4 / 4A of Central Excise Act 1944 read with Central Excise Valuation (determination of price of excisable goods) Rules, 2000.
- **Supply to EOU / EHTP / STP / BTP:** Value to be determined in terms of Sec 4 / 4A of Central Excise Act 1944 read with Central Excise Valuation (determination of price of excisable goods) Rules, 2000.
- **Scrap Sales (Arising from Manufacturing Process) :** Value is to be determined based on transaction value
- **Other Scrap Sales :** Value is to be determined based on transaction value

However, there is possibility of provisional assessment as requested by the assessee in terms of Rule 7 of Central Excise Rules 2002. In such circumstances, excise turnover should be taken in terms of final assessment and not the turnover as the summary of ER-1.

- **Turnover as per Service Tax :** Service tax is paid on the following :
 - (a) Services provided
 - (b) Services to be provided
 - (c) Reverse Charge including Partial Reverse Charge
 - (d) Services provided / agreed to be provided on specified services where abatements are allowed
 - (e) Services provided / agreed to be provided including that of declared services
- **ST -3 provides for :**
 - (a) Gross Amount (excluding amounts received in advance, amounts taxable on receipt basis, for which bills/invoices/ challans or any other documents may not have been issued) for which bills/invoices/challans or any other

documents are issued relating to service provided or to be provided (including export of service and exempted service)

- (b) Amount received in advance for services for which bills/invoices/challans or any other documents have not been issued
- (c) Amount taxable on receipt basis under third proviso to Rule 6(1) of Service Tax Rules, 1994 for which bills/invoices/ challans or any other documents have not been issued
- (d) Amount taxable for services provided for which bills/invoices/ challans or any other documents have not been issued
- (e) Money equivalent of other considerations charged, if any, in a form other than money
- (f) Amount on which Service Tax is payable under partial reverse charge
- (g) Amount charged as Pure Agent
- (h) Amount claimed as abatement

Sum of the above as mentioned in (a) to (e) will be considered as per service tax. While arriving the turnover, person should be conversant with Point of Taxation Rules 2011 and Place of Provisions of Service Rules 2012, since some of the service will be based on performance base and may not be considered as turnover as per service tax record since place of service is outside taxable territory i.e. J&K or outside India.

12.6 Annual financial accounts will not reflect the followings:

- (a) Advances
- (b) Amount taxable on receipt basis under third proviso to Rule 6(1) of Service Tax Rules, 1994 for which bills/invoices/ challans or any other documents have not been issued

- (c) Amount taxable for services provided for which bills/invoices/ challans or any other documents have not been issued
- (d) Money equivalent of other considerations charged, if any, in a form other than money
- (e) Value of declared services i.e. agreeing to the obligation to refrain from an act, or to tolerate an act or a situation, or to do an act;

12.7 Turnover as reflected in Financial accounts will include:

- (a) the sale of goods,
- (b) the rendering of services, and
- (c) the use by others of enterprise resources yielding interest, royalties and dividends.
- (d) Revenue arising from construction contracts;
- (e) Revenue arising from hire-purchase, lease agreements;
- (f) Revenue arising from government grants and other similar subsidies;
- (g) Revenue of insurance companies arising from insurance contracts.

In accordance with definition as reflected in AS-9

1. Revenue is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise⁶ from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends. Revenue is measured by the charges made to customers or clients for goods supplied and services rendered to them and by the charges and rewards arising from the use of resources by them. In an agency relationship, the revenue is the amount of commission and not the gross in flow of cash, receivables or other consideration.

2. Completed service contract method is a method of accounting which recognizes revenue in the statement of profit and loss only when the rendering of services under a contract is completed or substantially completed.
3. Proportionate completion method is a method of accounting which recognizes revenue in the statement of profit and loss proportionately with the degree of completion of services under a contract.

12.8 Sale of goods as reflected in Annual Turnover will be net of Sales Return, Annual discounts, Debit Note / Credit Note, Cash Discounts etc. but Turnover as per Central Excise may not include Sales Return, Annual discounts, Debit Note / Credit Note, Cash Discounts. Similarly, goods not accepted but returned will be reflected only in Central Excise Turnover and therefore proper study of the records which are maintained in terms of Rule 16 of Central Excise Rules 2002 needs to be checked while reconciling the turnover. Annual Turnover in financial Accounts will also include trading turnover & turnover of the services appearing in the negative list but the same will not be reflected in turnover as per excise records.

12.9 Removal of inputs and capital goods as such, sometime may be reflected in financial accounts as Sale or trading sale or it might have been credited to the respective accounts. This aspect needs to be studied carefully while reconciling the turnover, since such turnover may not reflect in excise. However, it is advice to study the workings of excise records carefully.

12.10 It is important to reconcile value of stock transfer to C&F Agent / Consignment Agent / Branch / Depot and sale from such place and differential will be reported as reconciliation item. However, Cost Auditor has to verify whether differential duty is payable on such differential value.

12.11 Before doing the reconciliation, any person needs to be acquainted with various Accounting Standards including AS-9, AS-11 and provisions of Central Excise Act 1944 & Rules made thereunder and Finance Act 1994. Further such

person needs to study accounting policy as reflected in Annual Report of the company and thereafter arrive the difference with reasoning.

Part D (6): Reconciliation of Indirect Taxes (for the company):

12.12 Institute of Cost Accountants of India believes and propagates that cost audit will be effective tool for plugging evasion of taxes and therefore the said format has been designed. It is expected that cost auditor will determine / verify the following:

- (a) Duty payable of excise , service tax and VAT/CST
- (b) Duty paid through Cenvat credit of inputs, capital goods and input service and account current i.e. cash / duty free scrip
- (c) Duty collected from customers.

12.13 It is expected cost auditor is well conversant with central excise law and central sales tax and various State VAT Acts and thereafter verifies the correctness of duty payable. Therefore it is advised to scrutinize and analyze following records:

- (a) ST-3 : Half yearly Service Tax Return
- (b) ER-1 : Monthly Excise Return for Domestic Unit
- (c) ER-2 : Monthly Excise Return for EOU
- (d) ER-4 : Annual Financial Information Statement
- (e) ER-5 : Information relating to Principal Inputs
- (f) ER-6 : Monthly return of receipt & consumption of each of Principal Inputs
- (g) ER-7 : Annual Installed Capacity Statement
- (h) ER-8 : Quarterly Return for Manufacturer paying 1% duty

12.14 Auditor needs to check various aspects as separately given in Annexures. Similarly Auditors has to check VAT Audit Report, Tax Audit Report, Financial Audit report and check the various aspects as separately given in this chapter.

12.15 Illustrative form has been given below for reconciliation of the turnover of Excise as well as Service Tax.

ANNEXURE

Section - 148 of the Companies Act

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

Provided that the Central Government shall, before issuing such order in respect of any class of companies regulated under a special Act, consult the regulatory body constituted or established under such special Act.

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

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

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

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

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

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

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

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

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

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

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

(a) the company and every officer of the company who is in default shall be punishable in the manner as provided in sub-section (1) of section 147;

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

MINISTRY OF CORPORATE AFFAIRS NOTIFICATION

New Delhi, the 30th June, 2014

G.S.R. 425 (E).—In exercise of the powers conferred by sub-sections (1) and (2) of section 469 and section 148 of the Companies Act, 2013 (18 of 2013) and in supersession of Companies (Cost Accounting Records) Rules, 2011; Companies (Cost Audit Report) Rules, 2011; Cost Accounting Records (Telecommunication Industry) Rules, 2011; Cost Accounting Records (Petroleum Industry) Rules, 2011; Cost Accounting Records (Electricity Industry) Rules, 2011; Cost Accounting Records (Sugar Industry) Rules, 2011; Cost Accounting Records (Fertilizer Industry) Rules, 2011 and Cost Accounting Records (Pharmaceutical Industry) Rules, 2011, except as respects things done or omitted to be done before such supersession, the Central Government hereby makes the following rules, namely:-

1. Short title and commencement.- (1) These rules may be called the Companies (cost records and audit) Rules, 2014.
- (2) They shall come into force on the date of publication in the Official Gazette.
2. Definitions: In these rules, unless the context otherwise requires -
 - (a) "Act" means the Companies Act, 2013 (18 of 2013);
 - (b) "Cost Accountant in practice" means a cost accountant as defined in clause (b) of sub-section (1) of section 2 of the Cost and Works Accountants Act, 1959 (23 of 1959), who holds a valid certificate of practice under sub-section (1) of section 6 of that Act and who is deemed to be in practice under sub-section (2) of section 2 thereof, and includes a firm or limited liability partnership of cost accountants;
 - (c) "cost auditor" means a Cost Accountant in practice, as defined in clause (b), who is appointed by the Board;

(d) "cost audit report" means the report duly audited and signed by the cost auditor including attachment, annexure, qualifications or observations etc. to cost audit report;

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

(f) "form" means a form annexed to these rules;

(g) "institute" means the Institute of Cost Accountants of India constituted under the Cost and Works Accountants Act, 1959 (23 of 1959);

(h) all other words and expressions used in these rules but not defined, and defined in the Act or in the Companies (Specification of Definition Details) Rules, 2014 shall have the same meanings as assigned to them in the Act or in the said rules.

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

(A) Companies engaged in the production of following goods in strategic sectors, such as:

(a) (i) machinery and mechanical appliances used in defence, space and atomic energy sectors excluding any ancillary item or items;

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

(ii) turbo jets and turbo propellers;

(iii) arms and ammunitions;

(iv) propellant powders; prepared explosives, (other than propellant

powders); safety fuses; detonating fuses; percussion or detonating caps; igniters; electric detonators;

(v) radar apparatus, radio navigational aid apparatus and radio remote control apparatus;

(vi) tanks and other armoured fighting vehicles, motorised, whether or not fitted with weapons and parts of such vehicles, that are funded (investment made in the company) to the extent of ninety per cent. or more by the Government or Government Agencies;

(b) provisions of clause (A) shall be applicable, if the net worth of the company is rupees five hundred crore or more or the turnover is rupees five hundred crore or more.

(B) companies engaged in an industry regulated by a Sectoral Regulator or a Ministry or Department of Central Government:

(a) (i) Port services of stevedoring, pilotage, hauling, mooring, re-mooring, hooking, measuring, loading and unloading services rendered by a Port in relation to a vessel or goods regulated by the Tariff Authority for Major Ports under section 111 of the Major Port Trusts Act, 1963(38 of 1963);

(ii) Aeronautical services of air traffic management, aircraft operations, ground safety services, ground handling, cargo facilities and supplying fuel rendered by airports and regulated by the Airports Economic Regulatory Authority under the Airports Economic Regulatory Authority of India Act, 2008 (27 of 2008);

(iii) Telecommunication services made available to users by

means of any transmission or reception of signs, signals, writing, images and sounds or intelligence of any nature (other than broadcasting services) and regulated by the Telecom Regulatory Authority of India under the Telecom Regulatory Authority of India Act, 1997 (24 of 1997);

(iv) Generation, transmission, distribution and supply of electricity regulated by the relevant regulatory body or authority under the Electricity Act, 2003 (36 of 2003), other than for captive generation (as defined under the Electricity Rules 2005);

(v) Steel;

(vi) Roads and other infrastructure projects;

(vii) Drugs and Pharmaceuticals;

(viii) Fertilisers;

(ix) Sugar and industrial alcohol;

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

(xi) Rubber and allied products being regulated by the Rubber Board.

(b) For the purposes of clause (B), the thresholds limit shall be as under, -

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

(ii) in the case of a company, producing any one specific product or service, if the net worth of the company is rupees one hundred and

fifty crore or more or the turnover is rupees twenty five crore or more.

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

(C) Companies operating in areas involving public interest such as:

- (a) (i) Railway or tramway locomotives, rolling stock, railway or tramway fixtures and fittings, mechanical (including electro mechanical) traffic signalling equipment's of all kind;
- (ii) Mineral products including cement;
- (iii) Ores;
- (iv) Mineral fuels (other than Petroleum), mineral oils etc.;
- (v) Base metals;
- (vi) Inorganic chemicals, organic or inorganic compounds of precious metals, rare-earth metals of radioactive elements or isotopes, and Organic Chemicals;
- (vii) Jute and Jute Products;
- (viii) Edible Oil under Administrative Price Mechanism;
- (ix) Construction Industry;
- (x) Companies engaged in health services viz. functioning as or running hospitals, diagnostic centres, clinical centres or test laboratories;
- (xi) Companies engaged in education services, other than such similar services falling under philanthropy or as part of social spend which do not form part of any business.

- (b) For the purposes of clause (C), the thresholds limit shall be as under, -
- (i) in the case of a multi-product or a multi services company (i.e. a

company producing more than one product or service), any product or a service for which the individual turnover (from such specific product or such specific service) is rupees fifty crore or more;

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

(D) Companies (including foreign companies other than those having only liaison offices) engaged in the production, import and supply or trading of following medical devices, namely:-

- (a) (i) Cardiac Stents;
- (ii) Drug Eluting Stents;
- (iii) Catheters;
- (iv) Intra Ocular Lenses;
- (v) Bone Cements;
- (vi) Heart Valves;
- (vii) Orthopaedic Implants;
- (viii) Internal Prosthetic Replacements;
- (ix) Scalp Vein Set;
- (x) Deep Brain Stimulator;
- (xi) Ventricular peripheral Shud;
- (xii) Spinal Implants;
- (xiii) Automatic Impalpable Cardiac Deflobillator;
- (xiv) Pacemaker (temporary and permanent);
- (xv) patent ductus arteriosus, atrial septal defect and ventricular septal defect closure device;

- (xvi) Cardiac Re-synchronize Therapy ;
- (xvii) Urethra Spinicture Devices;
- (xviii) Sling male or female;
- (xix) Prostate occlusion device; and
- (xx) Urethral Stents.

(b) For the purposes of clause (D), the thresholds limit shall be as under, -

(i) in the case of a company engaged in multiple products, any product or device for which the individual turnover (from such specific product or device) is rupees ten crore or more, or one third of the turnover, whichever is less.

(ii) in the case of a company engaged in one specific product or device, if it has net worth of rupees one hundred and fifty crore or more or the turnover is rupees twenty five crores or more;

4. Applicability for cost audit.-

(1) Every company engaged in a strategic industry and covered under sub-clause (b) of clause (A) of rule 3 shall be required to get its cost records audited in accordance with these rules.

(2) In the case of a multi-product or a multi services company specified in sub-clause (b) of clause (B) and sub-clause

(b) of clause (C) of rule 3, the requirement for cost audit shall apply to a product or a service for which the individual turnover (from such specific product or such specific service) is rupees one hundred crore or more;

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

service is rupees one hundred crore or more.

(4) In the case of a company engaged in medical products or devices referred to in sub-clause (b) of clause (D) of rule 3,

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

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

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.

(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.

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.

(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 form CRA-4 along with 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.

7. Rules not to apply in certain cases.- The requirement for cost audit under these rules shall not be applicable to a company which is covered under rule 3, and,

- (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.

[F. No. 1/40/2013/CL.-V]
AMARDEEP SINGH BHATIA,
Jt. Secy.

[To be published in the Gazette of India, Extraordinary, Part II, Section 3,
Sub-section (i)]

**GOVERNMENT OF INDIA
MINISTRY OF CORPORATE AFFAIRS
NOTIFICATION**

New Delhi, the 31st Dec., 2014

G.S.R..... (E).— In exercise of the powers conferred by the sub-sections (1) and (2) of section 469 and section 148 of the Companies Act, 2013 (18 of 2013), the Central Government hereby makes the following rules to amend the Companies (Cost Records and Audit) Rules, 2014, namely :-

1. (1) These rules may be called the Companies (Cost Records and Audit) Amendment Rules, 2014
(2) They shall come into force from the date of their publication in the Official Gazette.

2. In the Companies (Cost Records and Audit) Rules 2014, —

(i) In rule 2, after clause (a), the following clause shall be inserted, namely:-

“(aa) “Central Excise Tariff Act Heading” means the heading as referred to in the Additional Notes in the First Schedule to the Central Excise Tariff Act, 1985 [5 of 1986]

(ii) For rule 3, the following rule shall be substituted, namely: -

“3. Application of Cost Records.- For the purposes 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, specified in the Table below, 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 the their books of accounts, namely:-

Table

(A) Regulated Sectors

<i>Sl. No</i>	<i>Industry /Sector/ Product/Service</i>	<i>CETA Heading (wherever applicable)</i>
1.	<i>Telecommunication services made available to users by means of any transmission or reception of signs, signals, writing, images and sounds or intelligence of any nature (other than broadcasting services) and regulated by the Telecom Regulatory Authority of India under the Telecom Regulatory Authority of India Act, 1997 (24 of 1997);</i>	<i>Not applicable</i>
2.	<i>Generation, transmission, distribution and supply of electricity regulated by the relevant regulatory body or authority under the Electricity Act, 2003 (36 of 2003), other than for captive generation (referred to in the Electricity Rules, 2005);</i>	<i>.....</i>
3.	<i>Petroleum products regulated by the Petroleum and Natural Gas Regulatory Board under the Petroleum and Natural Gas Regulatory Board Act, 2006 (19 of 2006);</i>	<i>2709 to 2715;</i>
4.	<i>Drugs and pharmaceuticals</i>	<i>2901 to 2942; 3001 to 3006.</i>
5.	<i>Fertilisers;</i>	<i>3102 to 3105.</i>
6.	<i>Sugar and industrial alcohol;</i>	<i>1701; 1703; 2207.</i>

(B) Non-regulated Sectors

<i>Sl. No</i>	<i>Industry/ Sector/ Product/ Service</i>	<i>CETA Heading (wherever applicable)</i>
1.	<i>Machinery and mechanical appliances used in defence, space and atomic energy sectors excluding ancillary item or items;</i>	<i>8401 to 8402; 8801 to 8805; 8901 to 8908</i>

	<i>Explanation - For the purposes of this sub-clause any company which is engaged in any item or items supplied exclusively for use under this clause, shall be deemed to be covered under these rules.</i>	
2.	<i>Turbo jets and turbo propellers;</i>	<i>8411</i>
3.	<i>Arms and ammunitions;</i>	<i>3601 to 3603; 9301 to 9306.</i>
4.	<i>Propellant powders; prepared explosives (other than propellant powders); safety fuses; detonating fuses; percussion or detonating caps; igniters; electric detonators;</i>	<i>3601 to 3603</i>
5.	<i>Radar apparatus, radio navigational aid apparatus and radio remote control apparatus;</i>	<i>8526</i>
6.	<i>Tanks and other armoured fighting vehicles, motorized, whether or not fitted with weapons and parts of such vehicles, that are funded (investment made in the company) to the extent of ninety per cent, or more by the Government or Government agencies;</i>	<i>8710</i>
7.	<i>Port services of stevedoring, pilotage, hauling, mooring, re-mooring, hooking, measuring, loading and unloading services rendered by a Port in relation to a vessel or goods regulated by the Tariff Authority for Major Ports under section 111 of the Major Port Trusts Act, 1963 (38 of 1963);</i>	<i>Not applicable.</i>
8.	<i>Aeronautical services of air traffic management, aircraft operations, ground safety services, ground handling, cargo facilities and supplying fuel rendered by airports and regulated by the Airports Economic Regulatory Authority under the Airports Economic Regulatory Authority of India Act, 2008 (27 of 2008);</i>	<i>Not applicable.</i>
9.	<i>Steel;</i>	<i>7201 to 7229; 7301</i>

		to 7326
10.	<i>Roads and other infrastructure projects corresponding to para No.(1) (a) as specified in Schedule VI of the Companies Act, 2013;</i>	Not applicable.
11.	<i>Rubber and allied products being regulated by the Rubber Board constituted under the Rubber Act, 1947 (XXIV of 1947)</i>	4001 to 4017
12.	<i>Coffee and tea;</i>	0901 to 0902
13.	<i>Railway or tramway locomotives, rolling stock, railway or tramway fixtures and fittings, mechanical (including electro mechanical) traffic signaling equipment's of all kind;</i>	8601 to 8608.
14.	<i>Cement;</i>	2523; 6811 to 6812
15.	<i>Ores and Mineral Products;</i>	2502 to 2522; 2524 to 2526; 2528 to 2530; 2601 to 2617
16.	<i>Mineral fuels (other than Petroleum), mineral oils etc.;</i>	2701 to 2708
17.	<i>Base metals;</i>	7401 to 7403; 7405 to 7413; 7419; 7501 to 7508; 7601 to 7614; 7801 to 7802; 7804; 7806; 7901 to 7905; 7907; 8001; 8003; 8007; 8101 to 8113.
18.	<i>Inorganic chemicals, organic or inorganic compounds of precious metals, rare-earth metals of radioactive elements or isotopes, and Organic Chemicals;</i>	2801 to 2853; 2901 to 2942; 3801 to 3807; 3402 to 3403; 3809 to 3824.
19.	<i>Jute and Jute Products;</i>	5303, 5310
20.	<i>Edible Oil;</i>	1507 to 1518
21.	<i>Construction Industry as per para No.(5) (a) as specified in Schedule VI of the Companies Act, 2013 (18 of 2013)</i>	Not applicable.
22.	<i>Health services, namely functioning as or</i>	Not applicable.

	<i>running hospitals, diagnostic centres, clinical centres or test laboratories;</i>	
23.	<i>Education services, other than such similar services falling under philanthropy or as part of social spend which do not form part of any business.</i>	<i>Not applicable.</i>
24.	<i>Milk powder;</i>	<i>0402</i>
25.	<i>Insecticides;</i>	<i>3808</i>
26.	<i>Plastics and Polymers;</i>	<i>3901 to 3914; 3916 and 3921; 3925</i>
27.	<i>Tyres and Tubes;</i>	<i>4011 to 4013</i>
28.	<i>Paper;</i>	<i>4801 to 4802</i>
29.	<i>Textiles;</i>	<i>5004 to 5007; 5106 to 5113; 5205 to 5212; 5303; 5310; 5401 to 5408; 5501 to 5516</i>
30.	<i>Glass;</i>	<i>7003 to 7008, 7011, 7016</i>
31.	<i>Other machinery;</i>	<i>8403 to 8487</i>
32.	<i>Electricals or electronic machinery;</i>	<i>8501 to 8507; 8511 to 8512; 8514 to 8515; 8517; 8525 to 8536; 8538 to 8547.</i>
33.	<i>Production, import and supply or trading of following medical devices, namely:- (i) Cardiac stents; (ii) Drug eluting stents; (iii) Catheters; (iv) Intra ocular lenses;; (v) Bone cements; (vi) Heart valves; (vii) Orthopaedic implants (viii) Internal prosthetic replacements; (ix) Scalp vein set; (x) Deep brain stimulator</i>	<i>9018 to 9022</i>

	(xi) Ventricular peripheral shud; (xii) Spinal implants; (xiii) Automatic impalpable cardiac deflobillator; (xiv) Pacemaker (temporary and permanent); (xv) Patent ductus arteriosus, atrial septal defect and ventricular septal defect closure device; (xvi) Cardiac re-synchronize therapy; (xvii) Urethra spinicture devices (xviii) Sling male or female; (xix) Prostate occlusion device; and (xx) Urethral stents;	

Provided that nothing contained in serial number 33 shall apply to foreign companies having only liaison offices.

Provided further that nothing contained in this rule shall apply to a company which is classified as a micro enterprise or small enterprise including as per the turnover criteria under sub-section (9) of section 7 of the Micro, Small and Medium Enterprises Development Act, 2006 (27 of 2006).

(iii) For rule 4, the following rule shall be substituted, namely:-

"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.

(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.

(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.

(iv) In rule 5, in sub-rule (1), the following proviso shall be inserted, namely:-

"Provided that in case of company covered in serial number 12 and serial number 24 to 32 of item (B) of rule 3, the requirement under this rule shall apply in respect of each of its financial year commencing on or after 1st day of April, 2015."

(v) In rule 6, after sub-rule (3), following sub-rule shall be inserted, namely:-

"3(A) 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."

(vi) Rule 7 shall be omitted;

(vii) in Annexure, for Form CRA-1 and CRA-3, the following shall respectively, be substituted, namely:-

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 object 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 customized), 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 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.

Form CRA-3

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

I/We,..... having been appointed as Cost Auditor(s) under Section 148(3) of the Companies Act, 2013 (18 of 2013) of(mention name of the company) having its registered office at (mention registered office address of the company) (hereinafter referred to as the company), have audited the Cost Records maintained under section 148 of the said Act, in compliance with the cost auditing standards, in respect of the.....[mention name (s) of Product(s) / service(s)] for the period/year..... (mention the financial year) maintained by the company and report, in addition to my/our observations and suggestions in para 2.

- (i) I/We have/have not obtained all the information and explanations, which to the best of my/our knowledge and belief were necessary for the purpose of this audit.
- (ii) In my/our opinion, proper cost records, as per Rule 5 of the Companies (Cost Records and Audit) Amendment Rules, 2014 have/have not been maintained by the company in respect of product(s)/service(s) under reference.
- (iii) In my/our opinion, proper returns adequate for the purpose of the Cost Audit have/have not been received from the branches not visited by me/us.
- (iv) In my/our opinion and to the best of my/our information, the said books and records give/do not give the information required by the Companies Act, 2013, in the manner so required.
- (v) In my/our opinion, the company has/does not have adequate system of internal audit of cost records which to my/our opinion is commensurate to its nature and size of its business.
- (vi) In my/our opinion, information, statements in the annexure to this cost audit report gives/does not give a true and fair view of the cost of production of product(s)/rendering of service(s), cost of sales, margin and other information relating to product(s)/service(s) under reference.
- (vii) Detailed unit-wise and product/service-wise cost statements and schedules thereto in respect of the product/ service under reference of the company

duly audited and certified by me/us are/are not kept in the company.

2. Observations and suggestions, if any, of the Cost Auditor, relevant to the cost audit.

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

SIGNATURE AND SEAL OF THE COST
AUDITOR (S)

MEMBERSHIP NUMBER (S)

NOTES:

(1) Delete words not applicable.

(2) If as a result of the examination of the books of account, the Cost Auditor desires to point out any material deficiency or give a qualified report, he/she shall indicate the same against the relevant para (i) to (vi) in the prescribed form of the Cost Audit Report giving details of discrepancies he/she has come across.

(3) The report, suggestions, observations and conclusions given by the Cost Auditor under this paragraph shall be based on verified data, reference to which shall be made here and shall, wherever practicable, be included after the company has been afforded an opportunity to comment on them.

Annexure to the Cost Audit Report

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	

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	

3. Cost Accounting Policy

(1) Briefly describe the cost accounting policy adopted by the Company and its adequacy or otherwise to determine correctly the cost of production/operation, cost of sales, sales realization and margin of the product(s)/service(s) under reference separately for each product(s)/service(s). The policy should cover, inter alia, the following areas:

- a) Identification of cost centres/cost objects and cost drivers.
- b) Accounting for material cost including packing materials, stores and spares etc., employee cost, utilities and other relevant cost components.

- c) Accounting, allocation and absorption of overheads
 - d) Accounting for Depreciation/Amortization
 - e) Accounting for by-products/joint-products or services, scraps, wastage etc.
 - f) Basis for Inventory Valuation
 - g) Methodology for valuation of Inter-Unit/Inter Company and Related Party transactions.
 - h) Treatment of abnormal and non-recurring costs including classification of other non-cost items.
 - i) 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.
- (3) Observations of the Cost Auditor regarding adequacy or otherwise of the Budgetary Control System, if any, followed by the company.

4. PRODUCT/SERVICE DETAILS (for the company as a whole)

Name of Product(s) /Service(s)	UOM	CETA Heading (Wherever applicable)	Whether Covered under Cost Audit Yes / No	Net Operational Revenue (net of taxes, duties etc.)	
				Current Year Rs.	Previous Year Rs.
1.					
2.					
3.					
4.					
.....					
Total Net revenue from Operations					
Other Incomes of Company					

Total revenue as per Financial Accounts					
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.					

PART-B
FOR MANUFACTURING SECTOR

1. QUANTITATIVE INFORMATION (for each product with CETA Heading separately)			
Name of Product			
CETA Heading			
Particulars	Unit	Current Year	Previous Year
1. Available Capacity			
(a) Installed Capacity			
(b) Capacity enhanced during the year, if any			
(c) Capacity available through leasing arrangements, if any			
(d) Capacity available through loan license / third parties			
(e) Total available Capacity			
2. Actual Production			
(a) Self manufactured			
(b) Produced under leasing arrangements			
(c) Produced on loan license / by third parties on job work			
(d) Total Production			
3. Production as per Excise Records			
4. Capacity Utilization (in-house)			
5. Finished Goods Purchased			
(a) Domestic Purchase of Finished Goods			
(b) Imports of Finished Goods			
(c) Total Finished Goods Purchased			
6. Stock & Other Adjustments			
(a) Change in Stock of Finished Goods			

(b) Self / Captive Consumption (incl. samples etc.)			
(c) Other Quantitative Adjustments, if any (wastage etc.)			
(d) Total Adjustments			
7. Total Available Quantity for Sale [2(d) + 5(c) + 6(d)]			
8. Actual Sales			
(a) Domestic Sales of Product			
(b) Domestic Sales of Traded Product			
(c) Export Sale of Product			
(d) Export Sale of Traded Product			
(e) Total Quantity Sold			

2. ABRIDGED COST STATEMENT (for each product with CETA Heading separately)

	Name of Product						
	CETA Heading						
	Unit of Measure						
		Production	Finished Goods Purchased	Finished Stock Adjustment	Captive Consumption	Other Adjustments	Quantity Sold
	Current Year						
	Previous Year						
Sno	Particulars	Current Year		Previous Year			
		Amt (Rs.)	Rate per Unit (Rs.)	Amt (Rs.)	Rate per Unit (Rs.)		
1	Materials Consumed (specify details as per Para 2A)						
2	Process Materials/Chemicals						
3	Utilities (specify details as per 2B)						
4	Direct Employees Cost						
5	Direct Expenses						
6	Consumable Stores & Spares						
7	Repairs & Maintenance						
8	Quality Control Expenses						
9	Research & Development Expenses						
10	Technical know-how Fee / Royalty						
11	Depreciation/Amortization						
12	Other Production Overheads						

13	Industry Specific Operating Expenses (specify details as per Para 2C)				
14	Total (1 to 13)				
15	Increase/Decrease in Work-in-Progress				
16	Less: Credits for Recoveries, if any				
17	Primary Packing Cost				
18	Cost of Production/Operations (14 + 15 to 17)				
19	Cost of Finished Goods Purchased				
20	Total Cost of Production & Purchases (18 + 19)				
21	Increase/Decrease in Stock of Finished Goods				
22	Less: Self/Captive Consumption (incl. Samples, etc.)				
23	Other Adjustments (if any)				
24	Cost of Production/Operation of Product Sold (20 + 21 to 23)				
25	Administrative Overheads				
26	Secondary Packing Cost				
27	Selling & Distribution Overheads				
28	Cost of Sales before Interest (24 to 27)				
29	Interest & Financing Charges				
30	Cost of Sales (28 + 29)				
31	Net Sales Realization (Net of Taxes and Duties)				
32	Margin [Profit/(Loss) as per Cost Accounts] (31 - 30)				
	NOTES:				
1.	Separate cost statement shall be prepared for each 4 digit CETA Code representing the product.				

2.	In case the same product has different unit of measure, separate cost statement shall be provided for different unit of measures.
3.	The items of cost shown in the Proforma are indicative and the same should be reflected keeping in mind the materiality of the item of cost in the product. The Proforma may be suitably modified to meet the requirement of the industry/product.
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 Product								
CETA Heading								
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 Product							
CETA Heading							
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 Product		
CETA Heading		
Description of Industry Specific Operating Expenses		Current Year
		Amount
		Previous Year
		Amount
1.		
2.		
3.		
4.		

5.		
6.		
7.		
8.		
9.		
10.		

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			

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				
Sn o.	Particulars	Current Year		Previous Year	
		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 /				

10	Royalty				
11	Depreciation/Amortization				
12	Other Overheads				
	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.		

PART-D

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

Sn o.	Particulars	Current Year			Previous Year		
		Sales Rs.	Cost of Sales Rs.	Margin Rs.	Sales Rs.	Cost of Sales Rs.	Margin Rs.
	Product 1						
	Product 2						
	Product 3						
	 etc.						
	Service 1						
	Service 2						
	Service 3						
	 etc.						
	Total						

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			

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

S.No.	Particulars	Current Year Rs.	Previous Year Rs.
	<u>Value Addition:</u>		
1	Gross Sales (excluding returns)		
2	Less: Excise duty, etc.		
3	Net Sales		
4	Add: Export Incentives		
5	Add/Less: Adjustment in Finished Stocks		
6	Less: Cost of bought out inputs		
	(a) Cost of Materials Consumed		
	(b) Process Materials / Chemicals		
	(c) Consumption of Stores & Spares		
	(d) Utilities (e.g. power & fuel)		
	(e) Others, if any		
	Total Cost of bought out inputs		
7	Value Added		

8	Add: Income from any other sources		
9	Add: Extra Ordinary Income		
10	Earnings available for distribution		
	<u>Distribution of Earnings to:</u>		
1	Employees as salaries & wages, retirement benefits, etc.		
2	Shareholders as dividend		
3	Company as retained funds		
4	Government as taxes (specify)		
5	Extra Ordinary Expenses		
6	Others, if any (specify)		
7	Total distribution of earnings		

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

S.No.	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.				

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.

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

	Particulars	Asses sable Value Rs.	Excise Duty Rs.	Servic e 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.						

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

Notes:

- (1) Wherever, there is any significant variation in the current year's figure over the previous year's figure for any item shown under each para of the Annexure to the Cost Audit Report, reasons thereof shall be given by the Cost Auditor.
- (2) Wherever, duration of the current year or the previous year is not 12 (twelve) months, same shall be clearly indicated in the Report.

FORM NO. CRA-2

[Pursuant to section 148(3) of Companies Act, 2013 and rule 6(2) & 6(3A) of the Companies (cost records and audit) Rules, 2014]



Form of intimation of appointment of cost auditor by the company to Central Government

Form language

☒ English ☐ Hindi

Note: Refer the instruction kit for filing the form.

IN CASE OF REVISED CRA-2, ALL THE DETAILS MUST BE FILLED AFRESH.

1. (a) *Corporate identity number (CIN) or foreign company registration number (FCRN) of the company Pre-Fill

(b) Global location number (GLN) of the company

2. (a) Name of the company

(b) Address of the registered office or of the principal place of business in India of the company

(c) * e-mail ID of the company

(d) * Phone (with STD code) -

(e) * Nature of intimation of appointment of cost auditor(s)

(f) (i) * SRN of CRA-2/23C filed earlier for appointment of cost auditor(s) for the current Financial Year

(ii) * Number of such auditor(s) whose place of office is vacated

(iii) * Particulars of the auditor(s) whose place of office is vacated

☐ (i) * Firm registration number(FRN) of the Cost auditor/Cost Auditor's firm/LLP

(ii) * Name of the Cost Auditor/Cost Auditor's firm/LLP

(iii) * Date of casual vacancy

(iv) * Reason of casual vacancy

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

(a) Number of Industries/Sectors/Products/Services (CETA Heading Level, wherever applicable as per rules) covered under regulated sectors

Details of such industries/sectors/products/services

Industries/sectors/products/services	CETA heading (wherever Applicable)	No. of tariff items/Products/ services

(b) Number of Industries/Sectors/Products/Services (CETA Heading Level, wherever applicable as per rules) covered under non-regulated sectors

Details of such industries/sectors/products/services

Industries/sectors/products/services	CETA heading (wherever Applicable)	No. of tariff items/Products/ services

4. * Details of all the cost auditor(s) appointed

* Number of cost auditor(s)

(a) * Category of the auditor ☐ Individual ☐ Partnership firm ☐ Limited liability partnership (LLP)

(b) (i) * Membership number of the Cost Auditor/ member representing the Cost Auditor's Firm/LLP

(ii) * Name of the Cost Auditor/ member representing the Cost Auditor's firm/LLP

(iii) * Firm Registration Number(FRN) of the Cost Auditor/Cost Auditor's firm/LLP

(iv) * Name of the Cost Auditor's firm/LLP

(c) (i) Address * Line I

Line II

(ii) * City

(iii) * State

(iv) * Country

(v) * Pin Code

(vi) * e-mail ID of the firm or member

(d) * Date of the board meeting in which cost auditor was appointed

(DD/MM/YYYY)

(e) * Type of appointment

☐ Original ☐ Appointment due to casual vacancy ☐ Appointment for new products/ services/locations

Re

(f) * Scope of audit of the cost auditor/firm/LLP

5. * Financial year to be covered under the cost audit

From (DD/MM/YYYY) To (DD/MM/YYYY)

6. (a) * Is there any change in cost auditor(s) appointed, from the previous financial year ☐ Yes ☐ No ☐ Not Applicable

(b) * Mention the Firm Registration number(s) and name of the previous cost auditor(s) which has not been reappointed

(c) * Reasons for change

(d) * Whether the previous cost auditor(s) has/have been informed about the change ☐ Yes ☐ No

Attachments

List of attachments

(1) * Copy of Board resolution of the company

Attach

(2) Optional attachment, if any.

Attach

Remove Attachment

Declaration

I am authorized by the Board of Directors of the Company vide resolution number *
dated * to sign this form and declare that all the requirements of Companies Act, 2013 and the
rules made thereunder in respect of the subject matter of this form and matters incidental thereto have been complied
with. I also declare that all the information given herein above is true, correct and complete including the attachments
to this form and nothing material has been suppressed.

*To be digitally signed by



* Designation

* Director identification number of the director; or PAN of the
Manager or CEO or CFO or authorized representative;
or Membership number of the Company Secretary

**Note: Attention is drawn to provisions of Section 448 and 449 which provide for punishment for false
statement / certificate and punishment for false evidence respectively.**

Modify

Check Form

Prescrutiny

Submit

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

FORM NO. CRA-4

[Pursuant to section 148(6) of Companies Act, 2013 and rule 6(6) of the Companies (cost records and audit) Rules, 2014]



Form for filing Cost Audit Report with the Central Government

Form language ☒ English ☐ Hindi

Refer the instruction kit for filing the form.

1. (a) *Corporate identity number (CIN) or foreign company registration number (FCRN) of the company **Pre-fill**

(b) Global location number (GLN) of company

2. (a) Name of the company

(b) Address of the registered office or of the principal place of business in India of the company

(c) *e-mail ID of the company

(d) *SRN of 23C/ CRA-2 filed for appointment of Cost Auditor(s) **Pre-fill**

3. (a) *Financial year for which cost auditor was initially appointed
From (DD/MM/YYYY) To (DD/MM/YYYY)

(b) *Whether any change in Financial Year ☐ Yes ☐ No

(d) *Date of Board of Directors meeting in which Annexure to the cost audit report was approved DD/MM/YYYY

4. (a) *State number of Industries/ Sectors/ Product(s)/ Service(s) (CETA heading level, wherever applicable as per Rules) for which the Cost Audit Report is being submitted

(i) Regulated

(ii) Non-Regulated

(b) Details of such Industries/ Sectors/ product(s)/ service(s) of the company

(i) Details of such industries/sectors/products/services under the regulated sectors

Industries/sectors/products/services	CETA heading (wherever Applicable)	No. of tariff items/Products/ services

(ii) Details of such industries/sectors/products/services under non-regulated sectors

Industries/sectors/products/services	CETA heading (wherever Applicable)	No. of tariff items/Products/ services

5. (a) *State number of Industries/ Sectors/ Product(s)/ Service(s) (CETA heading level, wherever applicable as per Rules) not covered in the Cost Audit Report

(i) Regulated

(ii) Non-Regulated

(b) (i) Details of such Industries/ Sectors/ product(s)/ service(s) of the company under regulated sector

Industries/sectors/products/services	CETA heading (wherever Applicable)	No. of tariff items/Products/ services

(b) (ii) Details of such Industries/ Sectors/ product(s)/service(s) of the company under non-regulated sector

Industries/sectors/products/services	CETA heading (wherever Applicable)	No. of tariff items/Products/ services

6. Details of the cost auditor(s) appointed

*Number of cost auditor(s) appointed

(a) * Category of the auditor ☐ Individual ☐ Partnership firm ☐ Limited liability partnership (LLP)

(b) (i) * Membership number of the cost auditor or member representing the cost auditor's firm/LLP

(ii) * Name of the Cost Auditor/ member representing the Cost Auditor's Firm/LLP

(iii) * Firm registration number(FRN) of the Cost Auditor/Cost Auditor's firm/LLP

(iv) * Name of the Cost Auditor's firm/LLP

(c) (i) Address * Line I

Line II

(ii) * City

(iii) * State

(iv) Country

(v) * Pin Code

(vi) * e-mail ID of the firm or member

Re

(d) * Date of the board meeting in which cost auditor was appointed

(DD/MM/YYYY)

(e) * Type of appointment

☐ Original ☐ Appointment due to casual vacancy ☐ Appointment for new products/ services/locations

(f) * Scope of audit of the cost auditor/firm/LLP

(g) Date of receipt of copy of cost audit report by the company

(DD/MM/YYYY)

7. (a) *Whether the cost auditor's report has been qualified

☐ Yes

☐ No

(b) *Whether cost auditor's report has any reservations

☐ Yes

☐ No

(c) *Whether cost auditor's report has any adverse remarks

☐ Yes

☐ No

(d) *Whether the cost auditor's report contain any observations or suggestions

☐ Yes

☐ No

Attachments

- (1) *XBRL document in respect of the cost audit report and Company's information and explanations on every Qualification and reservation contained therein
- (2) Optional attachment, if any.

Attach

Attach

List of attachments

Remove attachment

Declaration

To the best of my knowledge and belief, the information given in this form and its attachments is correct and complete I have been authorised by the Board of Director's resolution number dated* (DD/MM/YYYY) to sign and submit the application.

It is confirmed that the attached XBRL document(s) are the XBRL converted copy(s) of the duly signed cost audit report as required under Section 148(2) and company's information and explanations as required under Section 148(6) of the Companies Act, 2013 and the rules made thereunder. It is further confirmed that such document(s) have been prepared using XBRL taxonomy as notified by the Ministry of Corporate Affairs for this purpose.

* To be digitally signed by

Director or Manager or CEO or CFO or Secretary of the company (in case of Indian company) or authorised representative (in case of Foreign company)



* Designation

* Director identification number of the Director; or PAN of the Manager or CEO or CFO or authorized representative; or membership number of the Company Secretary

Note: Attention is drawn to provisions of Section 448 and 449 which provide for punishment for false statement / certificate and punishment for false evidence respectively.

Modify

Check Form

Prescrutiny

Submit

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

Submit to BO

Table of Fees

[pursuant to rule 12 of the Companies (Registration of Offices and Fees) Rules, 2014]

I. Fee for filings etc. under section 403 of the Companies Act, 2013

Table of fees for the documents required to be submitted, filed, registered or recorded or for any fact or information required or authorized to be registered under the Act, shall be submitted filed, registered or recorded within the time specified in the relevant provision on payment of fee as prescribed hereunder :—

A. TABLE OF FEES TO BE PAID TO THE REGISTRAR

(I) In respect of a company having a share capital:	Other than OPCs and Small Companies	*OPC and Small Companies
1. (a) For OPC and small companies whose nominal share capital does not exceed Rs. 10,00,000.	---	2000
(b) For every Rs. 10,000 of nominal share capital or part of Rs. 10,000 after the first Rs. 10,00,000 and upto Rs. 50,00,000	---	200
(c) For registration of a company whose nominal share capital does not exceed Rs. 1,00,000.	5000	---
2. For registration of a company whose nominal share capital exceeds Rs. 1,00,000 the above fee of Rs. 5,000 with the following additional fees regulated according to the amount of nominal capital:		
(a) for every Rs. 10,000 of nominal share capital or part of Rs. 10,000 after the first Rs. 1,00,000 upto Rs. 5,00,000	400	

(b)for every Rs.10,000 of nominal share capital or part of Rs10,000 after the first Rs. 5,00,000 upto Rs.50,00,000	300	-- -
(c) for every Rs. 10,000 of nominal share capital or part of Rs. 10,000afterthefirstRs. 50,00,000upto Rs. One crore	100	-- -
d)foreveryRs.10,000ofnominalsharecapitalorpartofRs. 10,000 after the first Rs. 1 crore. Provided that where the additional fees, regulated according to the amount of the nominal capital of a company, exceeds a sum of rupees two crore and fifty lakh, the total amount of additional fees payable or the registration of such company shall not, in any case, exceed rupees two crore and fifty lakhs. 3. For filing a notice of any increase in the nominal share capital of a company, the difference between the fees payable on the increased share capital on the date of filing the notice for the registration of a company and the fees payable on existing authorized capital, at the rates prevailing on the date of filing the notice.	75	-- -
4. For registration of any existing company, except such companies as are by this Act exempted from payment of fees in respect of registration under this Act, the same fee is charged for registering a new company. 5. Forsubmitting,filing,registering or recording any document by this Act required or authorized to be submitted, filed, registered or recorded		
(a) In respect of a company having a nominal share capital of upto 1,00,000.	200	

(b) in respect of a company having a nominal share capital of Rs. 1,00,000 or more but less than Rs.5,00,000.	300	
(c) in respect of a company having a nominal share capital of Rs. 5,00,000 or more but less than Rs. 25,00,000	400	
(d) in respect of a company having a nominal share capital of Rs.25,00,000 or more but less than Rs. 1 crore or more.	500	
(e) in respect of a company having a nominal share capital of Rs.1 crore or more. 6. For making or recording or registering any fact by this Act required or authorised to be recorded or registered by the Registrar-	600	
(a) in respect of a company having a nominal share capital of upto 1,00,000.	200	
(b) in respect of a company having a nominal share capital of Rs. 1,00,000 or more but less than Rs.5,00,000.	300	
(c) in respect of a company having a nominal share capital of Rs. 5,00,000 or more but less than Rs. 25,00,000	400	
(d) in respect of a company having a nominal share capital of Rs. 25,00,000 or more but less than Rs. 1 crore or more.	500	
(e) in respect of a company having a nominal share capital of Rs.1 crore or more.	600	
(II) In respect of a company not having a share capital:		

7. For registration of a company whose number of members as stated in the articles of association, does not exceed 20	2000
8. For registration of a company whose number of members as stated in the articles of association, exceeds 20 but does not exceed 200	5000
9. For registration of a company whose number of members as stated in the articles of association, exceeds 200 but is not stated to be unlimited, the above fee of Rs.5,000 with an additional Rs.10 for every member after first 200.	
10. For registration of a company in which the number of members is stated in the articles of association to be unlimited.	10000
11. For registration of any increase in the number of members made after the registration of the company, the same fees as would have been payable in respect of such increase, if such increase had been stated in the articles of association at the time of registration: Provided that no company shall be liable to pay on the whole a greater fee than Rs. 10,000 in respect to its number of members, taking into account the fee paid on the first registration of the company.	
12. For registration of any existing company except such companies as are by this Act exempted from payment of fees in respect of registration under this Act, the same fee as is charged for registering a new company.	
13. For filing or registering any document by this Act required or authorized to be filed or registered with the Registrar.	200
14. For making a record of or registering any fact by this Act required or authorized to be recorded or registered by the Registrar.	200

(1) The above table prescribed for small companies [as defined under section 2(85) of the Act] and one person companies defined under Rule related to Chapter II of the Act shall be applicable provided the said company shall remain as said class of company for a period not less than one year from its incorporation.

(2) The above table of fee shall be applicable for any such intimation to be furnished to the Registrar or any other officer or authority under section 159 of the Act, filing of notice of appointment of auditors or Secretarial Auditor or Cost Auditor.

(3) The above table of fee and calculation of fee as applicable for increase in authorised capital shall be applicable for revised capital in accordance with sub-section (11) of 233 of the Act, (after setting off fee paid by the transferor company on its authorised capital prior to its merger or amalgamation with the transferee company).

(4) The above table of fee shall be applicable for filing revised financial statement or board report under section 130 and 131 of the Act.

General Circular No. 42/2014

**No. 1/40/2013/CL.V-Part
Government of India
Ministry of Corporate Affairs**

**5th Floor, "A" Wing, Shastri Bhawan,
Dr. R. P. Road, New Delhi.
Dated: 12th November, 2014**

**To
All Regional Directors,
All Registrars of Companies,
All Stakeholders.**

**Subject: Clarification on matters relating to the Companies
(Cost Records and Audit) Rules, 2014.**

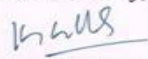
Sir,

Government has received representations from stakeholders seeking clarifications about Rules 5 (1) and 6 (2) of the Companies (Cost Records and Audit) Rules, 2014 regarding maintenance of cost records and filing of notice of appointment of the Cost Auditor in Form CRA-2 in electronic mode. The matter has been examined in the Ministry and the following is clarified:

Considering delay in availability of Form CRA-2 on the MCA website, it has been decided to extend the date of filing of the said Form without any penalty/late fee up to 31st January, 2015. Form CRA-2 will be made available on the MCA website soon. It is noted that some companies have filed Form 23C for appointment of Cost Auditor for the financial year 2014-15. It is clarified that such companies need not file form CRA-2 afresh for the financial year 2014-15.

2. This issues with the approval of the Competent Authority.

Yours faithfully,


**(Kamna Sharma)
Assistant Director**

Copy to:

1. E-governance Section and web contents officer to place this circular on the Ministry's website.
2. Guard File

General Circular No. 2/2015
No. 1/40/2013-CL-V-Part
Government of India
Ministry of Corporate Affairs

5th Floor, 'A' Wing, Shastri Bhawan,
New Delhi: 110001
Dated: 11th February, 2015

To

All Regional Directors,
All Registrars of Companies,
All Stakeholders

Subject: Extension of time for filing of Notice of appointment of the Cost Auditor in Form CRA-2.

Sir,

In continuation to the General Circular No. 42/2014, the last date of filing of Form CRA-2 without any penalty/late fee is hereby extended upto 31st March, 2015.

2. This issues with the approval of competent authority.

Yours faithfully,


(Kamna Sharma)
Assistant Director
Tel: 23387263

General Circular No. 28/2015
 File No./1/40/2013/CL-V
 Government of India
 Ministry of Corporate Affairs

'A' Wing, 5th floor, Shastri Bhawan
 Dr. Rajendra Prasad Road, New Delhi-110001
 Dated: 12th June, 2015

To
 All Regional Directors,
 All Registrars of Companies,
 All Stakeholders

Sub: - Extension of time for filing of Notice of appointment of the Cost Auditor for the F.Y. 2015-16 in Form CRA-2 and filing of cost audit report to the Central Government for the F.Y. 2014-15 in form CRA-4.

Sir,

The Ministry has received several representations about the non-availability of the revised form CRA-2 on MCA-21 required for filing of notice of appointment of the Cost Auditor for the F.Y. 2015-16, although the time limit for filing of the same has either lapsed or will be lapsing. The revised form CRA-2 has now been notified on 12th June, 2015 and is available on the MCA21 system for filing.

2. In view of the delay in availability of revised Form CRA-2 on the MCA21 portal, however, the additional fee on account of any delay beyond the prescribed period of 30 days from the date of Board Meeting in which the appointment of the Auditor was made for filing of CRA-2 for the financial year starting on or after 1st April, 2015 is waived for all such filings till 30th June, 2015.

3. The revised e-Form CRA-4 has also been notified vide the above mentioned notification and will be made available on MCA-21 portal shortly. Therefore, on the similar lines mentioned in above paras, additional fees on delayed filing of form CRA-4 beyond the prescribed period of 30 days from the date of receipt of a copy of Cost Audit Report from the Cost Auditor for the Financial Year starting on or after 1st April, 2014 is also waived for all such filings till 31st August, 2015.

4. This issues with the approval of the Competent Authority.

Yours faithfully,


 (K.M.S. Narayanan)
 Assistant Director
 Tel: 23387263

Copy to:

1. E-governance Section and web content officer to place this circular on the Ministry's website.
2. File No. 52/22/CAB/2015

Frequently Asked Questions

**FAQ- 1 on
Maintenance of Cost Accounting Records and
Cost Audit under Companies Act, 2013**

1.1 Which Rules govern maintenance of cost accounting records and cost audit as per Section 148 of the Companies Act, 2013?

The Central Government issued Companies (Cost Records and Audit) Rules, 2014 on June 30, 2014. Subsequently, it issued Companies (Cost Records and Audit) Amendment Rules, 2014 on December 31, 2014. The Amendment Rules has introduced certain changes to the original Rules issued on June 30, 2014. The Companies (Cost Records and Audit) Rules, 2014 read with the Amendment Rules 2014 are now applicable and governs the maintenance of cost accounting records and cost audit as per Section 148 of the Companies Act, 2013.

1.2 What is the applicability of the Companies (Cost Records and Audit) Rules, 2014 and what is the date on which it becomes effective and applicable?

- a) The Rules have classified sectors/industries under Regulated and Non-Regulated sectors. The sectors/industries covered under Table A of the Rules are under the Regulated Sector and sectors/industries covered under Table B are under the Non-Regulated Sector.
- b) Every company, including foreign companies defined in clause (42) of section 2 of the Act, engaged in the production of the goods or providing services, specified in Tables A and B, having an overall turnover from all its products and services of rupees thirty five crore or more during the immediately preceding financial year, shall be required to maintain cost accounting records.

However, foreign companies having only liaison office in India and engaged in production, import and supply or trading of medical devices listed in Sl. 33 of Table B are exempted. Further, companies which are classified as a micro enterprise or a small enterprise including as per the turnover criteria under sub-section (9) of section 7 of the Micro, Small and Medium Enterprises Development Act, 2006 (27 of 2006) are also excluded from the purview of the Rules.

- c) The Rules are effective from April 1, 2014 in respect of certain class of companies and for the others it is effective from April 1, 2015 as detailed below:

Rules Applicable from April 1, 2014 - Regulated Sectors		
Sl.	Industry /Sector/ Product/Service	CETA Heading
1.	Telecommunication services made available to users by means of any transmission or reception of signs, signals, writing, images and sounds or intelligence of any nature (other than broadcasting services) and regulated by the Telecom Regulatory Authority of India under the Telecom Regulatory Authority of India Act, 1997 (24 of 1997);	Not applicable
2.	Generation, transmission, distribution and supply of electricity regulated by the relevant regulatory body or authority under the Electricity Act, 2003 (36 of 2003), other than for captive generation (referred to in the Electricity Rules, 2005);	
3.	Petroleum products regulated by the Petroleum and Natural Gas Regulatory Board under the	2709 to 2715;

Rules Applicable from April 1, 2014 - Regulated Sectors		
Sl.	Industry /Sector/ Product/Service	CETA Heading
	Petroleum and Natural Gas Regulatory Board Act, 2006 (19 of 2006);	
4.	Drugs and pharmaceuticals	2901 to 2942; 3001 to 3006.
5.	Fertilizers;	3102 to 3105.
6.	Sugar and industrial alcohol;	1701; 1703; 2207

Rules Applicable from April 1, 2014 - Non-Regulated Sectors		
Sl.	Industry /Sector/ Product/Service	CETA Heading
1.	Machinery and mechanical appliances used in defence, space and atomic energy sectors excluding any ancillary item or items; <i>Explanation.</i> - For the purposes of this sub-clause, any company which is engaged in any item or items supplied exclusively for use under this clause, shall be deemed to be covered under these rules.	8401 to 8402; 8801 to 8805; 8901 to 8908
2.	Turbo jets and turbo propellers;	8411
3.	Arms and ammunitions;	3601 to 3603; 9301 to 9306.
4.	Propellant powders; prepared explosives (other than propellant powders); safety fuses; detonating fuses; percussion or detonating caps; igniters; electric detonators;	3601 to 3603
5.	Radar apparatus, radio navigational aid apparatus and radio remote control apparatus;	8526

Rules Applicable from April 1, 2014 - Non-Regulated Sectors		
Sl.	Industry /Sector/ Product/Service	CETA Heading
6.	Tanks and other armoured fighting vehicles, motorised, whether or not fitted with weapons and parts of such vehicles, that are funded (investment made in the company) to the extent of ninety percent or more by the Government or Government agencies;	8710
7.	Port services of stevedoring, pilotage, hauling, mooring, re-mooring, hooking, measuring, loading and unloading services rendered by a Port in relation to a vessel or goods regulated by the Tariff Authority for Major Ports under section 111 of the Major Port Trusts Act, 1963 (38 of 1963);	Not applicable.
8.	Aeronautical services of air traffic management, aircraft operations, ground safety services, ground handling, cargo facilities and supplying fuel rendered by airports and regulated by the Airports Economic Regulatory Authority under the Airports Economic Regulatory Authority of India Act, 2008 (27 of 2008);	Not applicable.
9.	Steel;	7201 to 7229; 7301 to 7326
10.	Roads and other infrastructure projects corresponding to para No.(1) (a) as specified in Schedule VI of the Companies Act, 2013;	Not applicable.
11.	Rubber and allied products being regulated by the Rubber Board constituted under the Rubber Act, 1947 (XXIV of 1947)	4001 to 4017
12.	Railway or tramway locomotives, rolling stock, railway or tramway fixtures and fittings, mechanical (including electro mechanical) traffic signalling equipment's of all kind;	8601 to 8608.
13.	Cement;	2523; 6811 to 6812

Rules Applicable from April 1, 2014 - Non-Regulated Sectors		
Sl.	Industry /Sector/ Product/Service	CETA Heading
14.	Ores and Mineral Products;	2502 to 2522; 2524 to 2526; 2528 to 2530; 2601 to 2617
15.	Mineral fuels (other than Petroleum), mineral oils etc.;	2701 to 2708
16.	Base metals;	7401 to 7403; 7405 to 7413; 7419; 7501 to 7508; 7601 to 7614; 7801 to 7802; 7804; 7806; 7901 to 7905; 7907; 8001; 8003; 8007; 8101 to 8113.
17.	Inorganic chemicals, organic or inorganic compounds of precious metals, rare-earth metals of radioactive elements or isotopes, and Organic Chemicals;	2801 to 2853; 2901 to 2942; 3801 to 3807; 3402 to 3403; 3809 to 3824.
18.	Jute and Jute Products;	5303, 5310
19.	Edible Oil;	1507 to 1518
20.	Construction Industry as per para No.(5) (a) as specified in Schedule VI of the Companies Act, 2013 (18 of 2013)	Not applicable.
21.	Health services, namely functioning as or running hospitals, diagnostic centres, clinical centres or test laboratories;	Not applicable.
22.	Education services, other than such similar services falling under philanthropy or as part of social spend which do not form part of any business.	Not applicable.
23.	Production, import and supply or trading of following medical devices, namely:	
	Cardiac Stents, Drug Eluting Stents, Catheters, Intra Ocular Lenses, Bone Cements, Heart Valves, Orthopaedic Implants, Internal Prosthetic Replacements, Scalp Vein Set,	9018 to 9022

Rules Applicable from April 1, 2014 - Non-Regulated Sectors		
Sl.	Industry /Sector/ Product/Service	CETA Heading
	Deep Brain Stimulator, Ventricular peripheral Shud, Spinal Implants, Automatic Impalpable Cardiac Deflobillator, Pacemaker (temporary and permanent), patent ductusarteriosus, atrial septal defect and ventricular septal defect closure device, Cardiac Re-synchronize Therapy, Urethra Spinicture Devices, Sling male or female, Prostate occlusion device, Urethral Stents	

Rules Applicable from April 1, 2015 - Non-Regulated Sectors		
Sl.	Industry /Sector/ Product/Service	CETA Heading
1.	Coffee and tea;	0901 to 0902
2.	Milk powder;	0402
3.	Insecticides;	3808
4.	Plastics and Polymers;	3901 to 3914; 3916 to 3921; 3925
5.	Tyres and Tubes;	4011 to 4013
6.	Paper;	4801 to 4802
7.	Textiles;	5004 to 5007; 5106 to 5113; 5205 to 5212; 5303; 5310; 5401 to 5408; 5501 to 5516
8.	Glass;	7003 to 7008, 7011, 7016
9.	Other machinery;	8403 to 8487

Rules Applicable from April 1, 2015 - Non-Regulated Sectors		
Sl.	Industry /Sector/ Product/Service	CETA Heading
10.	Electricals or electronic machinery;	8501 to 8507; 8511 to 8512; 8514 to 8515; 8517; 8525 to 8536; 8538 to 8547.

1.3 The Institute of Cost Accountants of India (ICAI-CMA) had, from time to time, issued FAQs subsequent to implementation of Companies (Cost Accounting Records) Rules, 2011 and Companies (Cost Audit report) Rules, 2011. Will the clarifications and FAQs remain valid subsequent to Companies (Cost Records and Audit) Rules, 2014 coming into effect?

The FAQs and clarifications issued earlier are no longer valid. The same may be considered as withdrawn and not applicable for the Companies (Cost Records and Audit) Rules, 2014 unless specifically mentioned in these FAQs.

1.4 What constitutes the cost records under Rule 2(e)?

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.

Cost records are to be kept on regular basis to make it possible to "*calculate per unit cost of production/operations, cost of sales and margin for each of its products for every financial year on monthly/quarterly/half-yearly/annual basis*". What is required is to maintain such records and details in a

structured manner on a regular basis so that accumulation is possible on a periodical basis.

1.5 The Rules state that cost records are to be maintained in Form CRA-1. However, CRA-1 does not prescribe any format but only provides principles to be followed for different cost elements. What are the role and status of Cost Accounting Standards/GACAP and its applicability vis-à-vis CRA-1?

The principles of maintenance of cost accounting records have been notified in the Rules in CRA-1. The principles are in sync with the cost accounting standards. The Rules are principle based and no formats have been prescribed for maintenance of cost accounting records like pre-2011 industry specific rules. No separate format based records maintenance has been prescribed even for the Regulated Industry and the prescription has left it open for industry to maintain cost accounting records according to its size and nature of business so long as it determines a true and fair view of the cost of production, cost of sales and margin of the products/services. The cost audit report is required to be in conformity with the "cost auditing standards" as referred to in Section 148 of the Companies Act, 2013.

It 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.

1.6 What is the 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.

1.7 Whether overall annual Turnover/individual turnover definition will include other operational income like Job work income, scrap sale, trading turnover, export benefits, sales of services etc.?

The Turnover shall include other operational income like Job work income, scrap sale, trading turnover, export benefits, sales of services etc.

1.8 Is maintenance of cost accounting records mandatory for a multi-product company where all the products are not covered under the Rules even if the Turnover of the individual product/s that are covered under the Rules is less than rupees thirty five crores?

The Rules provide threshold limits for the company as a whole irrespective of whether all its products are as per the prescribed industry/sector provided under Table A or Table B. The Rules do not provide any minimum product specific threshold limits for maintenance of cost accounting records and consequently the company would be required to maintain cost accounting records for the products covered under Table-A or Table-B or both even if the turnover of such products is below rupees thirty five crores.

1.9 What is the difference between Cost Accounting policy and Cost Accounting system?

Cost Accounting Policy of a company state the policy adopted by the company for treatment of individual cost components in cost determination.

The Cost Accounting system of a company, on the other hand, provides a flow of the cost accounting data/information across the activity flow culminating in arriving at the cost of final product/service.

1.10A company meets the threshold limits for both maintenance of cost records and cost audit in Year-0 (previous year) and consequently comes under the purview of the Rules in Year-1 (current year). If the turnover of company gets reduced to lower than the prescribed threshold limit in Year-1 (current year), whether Cost Records and Cost Audit will be applicable for Year-2 (next year).

Rule 3 of the Companies (Cost Records and Audit) Rules, 2014 states that a company engaged in the production of the goods or providing of services as prescribed 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. Since the threshold limit for applicability of maintenance of cost accounting records is met in Year-0, the cost records are required to be maintained from Year-1. Once the maintenance of cost records becomes applicable, it would be maintained on a continuous basis in the subsequent years also. In the same line, cost audit will be applicable from Year-1 and for every year thereafter.

1.11 How to identify products covered under 4-digit CETA Code as mentioned in the Rules?

Central Excise Tariff Act Heading has been defined in Rule 2(aa) of Companies (Cost Records and Audit) Rules 2014. It states "*Central Excise Tariff Act Heading*" means the heading as referred to in the Additional Notes in the First Schedule to the Central Excise Tariff Act, 1985 [5 of 1986].

First Schedule to the Central Excise Tariff Act, 1985 states - "*heading*" in respect of goods, means a description in list of tariff provisions accompanied by a four-digit number and includes all sub-headings of tariff items the first four-digits of which correspond to that number.

1.12 The Rules prescribed in 2011 had introduced the concept of reporting under "Product Group". The present Rules are silent about Product Group.

What is the requirement of preparation of cost statements of products/services so far as maintenance of cost accounting records is concerned and reporting thereof in the cost audit report?

The concept of "Product Group" has been dispensed with in the present Rules. The cost records referred to in sub-rule (1) of Rule 5 is required to 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***. Hence, it is imperative that the cost accounting records are required to be maintained and cost statements prepared for each and every product/service/activity that the company is engaged in.

So far as reporting is concerned, Abridged Cost Statement for every product identified with the CETA Code is required to be provided. For activities/services for which CETA Code is not applicable, the Abridged Cost Statement shall be for each service/activity.

1.13 Whether separate Form CRA-2 is required to be filed by a company having two or more different types of products covered under cost audit?

CRA-2 Form (intimation for appointment of cost auditor to Central Government) has replaced the earlier Form 23C (application seeking approval for appointment of cost auditor). 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. Provision has been made in the Form to accommodate details of multiple cost auditors.

1.14 The Tables listing the industry/sector/product/service in the Rules have described the same by way of description as well as CETA Heading, wherever applicable. For certain sectors, the coverage under the CETA Heading are apparently not in line with the description of the sector. How to determine the coverage in such cases?

The description and the CETA Heading have to be read harmoniously and construed to be supplementing each other. The CETA Heading has been provided in the amended Rules in addition to what was provided in the original Rules issued in June 2014. The CETA Codes are inclusive and all products covered under the codes are covered irrespective of the description.

For example, in case of Petroleum Industry, the description states "Petroleum products regulated by the Petroleum and Natural Gas Regulatory Board under the Petroleum and Natural Gas Regulatory Board Act, 2006 (19 of 2006)" and the CETA Headings are 2709 to 2715. Hence, all products covered under CETA Headings 2709 to 2715 are included as well as activities like storage, transportation, distribution of Crude Oil or Gas etc. and any other activity that is defined under the Petroleum and Natural Gas Regulatory Board Act, 2006 and regulated by the PNGRB are covered.

Similarly, Rubber and allied products would include all rubber products as specified under CETA Codes 4001 to 4017 and will not be restricted only to such rubber products regulated by the Rubber Board.

Companies engaged in manufacturing Machinery and mechanical appliances falling under CETA Codes 8401 to 8402; 8801 to 8805; 8901 to 8908 are similarly covered irrespective of its ultimate customer/consumer, subject to the company meeting the threshold limits prescribed and it is not necessary that the products have to be exclusively used in defence, space and atomic energy sectors.

1.15 What is meant by Telecommunication Services and what is its coverage?

The Companies (Cost Records and Audit) Rules, 2014 has covered *"Telecommunication services made available to users by means of any transmission or reception of signs, signals, writing, images and sounds or intelligence of any nature (other than broadcasting services) and regulated by the Telecom Regulatory Authority of India under the Telecom Regulatory Authority of India Act, 1997 (24 of 1997)"*. The Telecom Regulatory

Authority of India Act, 1997 defines "telecommunication service" as "service of any description (including electronic mail, voice mail, data services, audio text service, video text services, radio paging and cellular mobile telephone services) which is made available to users by means of any transmission or reception of signs, signals, writing, images and sounds or intelligence of any nature, by wire, radio, visual or other electro-magnetic means but shall not include broadcasting services".

Subsequently, the Central Government has included broadcasting services within the ambit of telecommunication services by notifying "broadcasting services and cable services to be telecommunication service". [Notification No. 39 issued by Ministry of Communication and Information Technology dated 9 January 2004, S.O. No. 44(E) issued by TRAI, vide F. No. 13-1/2004].

In view of the above, Telecommunication Services made available to users and regulated by the Telecom Regulatory Authority of India under the Telecom Regulatory Authority of India Act, 1997 would include all such services being regulated by TRAI including broadcasting services.

1.16 What is the coverage of "Roads and other infrastructure projects" under Item 10 of Table B of the Rules?

"Roads and other infrastructure projects" has been defined to be corresponding to para No.(1)(a) as specified in Schedule VI of the Companies Act, 2013. Sub-clause (a) to Para (1) of Schedule VI of the Companies Act, 2013 covers "Roads, national highways, state highways, major district roads, other district roads and village roads, including toll roads, bridges, highways, road transport providers and other road-related services". Hence, every activity including construction and maintenance of the above projects are covered under the Rules.

1.17 What is the coverage of Construction Industry under Item 21 of Table B of the Rules?

Construction Industry has been defined to be corresponding to para No. (5)(a) as specified in Schedule VI of the Companies Act, 2013. Para (5) of Schedule VI of the Companies Act, 2013 pertains to "Industrial, commercial and social development and maintenance" and covers "real estate development, including an industrial park or special economic zone" as per sub-clause (a). Hence, every construction activity in relation to the above are covered under the Rules.

1.18 What is the coverage of Aeronautical Services?

Clause 3(B)(8) of the Companies (Cost Records and Audit) Rules, 2014 covers under the ambit of the Rules *"Aeronautical services of air traffic management, aircraft operations, ground safety services, ground handling, cargo facilities and supplying fuel rendered by airports and regulated by the Airports Economic Regulatory Authority under the Airports Economic Regulatory Authority of India Act, 2008 (27 of 2008)"*.

The Airports Economic Regulatory Authority of India Act, 2008 has defined "aeronautical services" as follows:

- (i) For navigation, surveillance, and supportive communication thereto for air traffic management;
- (ii) For the landing, housing or parking of an aircraft or any other ground facility offered in connection with aircraft operations at an airport;
- (iii) For ground safety services at an airport;
- (iv) For ground handling services relating to aircraft, passengers and cargo at an airport;
- (v) For the cargo facility at an airport;
- (vi) For supplying fuel to the aircraft at an airport;

The Rule has covered all the above services under the ambit of maintenance of cost accounting records and cost audit subject to threshold limits.

However, all airports and aircraft operations belonging to or subject to the control of the Armed Forces or paramilitary Forces of the Union are excluded from the scope of these Rules.

1.19 Whether maintenance of cost accounting records and cost audit thereof, subject to threshold limits prescribed, is applicable to products which are for 100% captive consumption?

The Companies (Cost Records and Audit) Rules, 2014 has specified different products and services for which maintenance of cost accounting records and cost audit thereof, subject to threshold limits prescribed, is mandatory.

In case a product is manufactured and 100% captively consumed for production of some other product which is also covered under these Rules and is subject to cost audit, then the cost of such captively consumed product would form part of the final product which is also under cost audit and as such a separate cost audit report for the captively consumed product will not be necessary.

However, if the product is partly for captive consumption and partly sold, or if the product is 100% captively consumed for production of some other product which is not covered under these Rules, then cost audit would be applicable for such captively consumed product(s).

1.20 What would be the treatment of cost consumption of electricity from a captive generating plant and applicability of cost audit to such captive generating plants?

Rule 3(A)(2) dealing with generation, transmission, distribution and supply of electricity has excluded captive generation as defined in the Electricity Rules, 2005. It may be noted that in case of a company whose product(s)/service(s) are covered under the Rules and it consumes electricity from the captive generating plant, determination of cost of generation, transmission, distribution and supply of electricity as per CRA-1 would be mandatory since

the cost of consumption of electricity has to be at cost. Hence, maintenance of cost records for generation, transmission, distribution and supply of electricity would be applicable. However, cost audit will not be applicable to such captive plants, provided the entire generation is consumed captively and no portion is sold outside.

1.21 A Company is engaged in both Regulated and Non-Regulated sectors and all its products are not covered under the Rules. How to determine applicability of cost audit for the products covered under the Regulated and Non-Regulated sectors since different threshold limits have been prescribed under Rule 4?

Rule 4 states that cost audit would be applicable for products under:

- (a) Table A if the overall turnover of the company is at least Rs. 50 crore and
- (b) Table B if the overall turnover of the company is Rs. 100 crore.

Hence, the coverage of cost audit for a company where all its products are covered under Table A or Table B or a combination of the two would be guided by these threshold limits.

In case of a multi-product company where all its products are not covered under Table A or Table B or a combination of both, then the following would apply:

- a) If the overall turnover of the company is more than Rs.50 crore but less than Rs.100 crore, then only products covered under Table-A will be covered under cost audit provided the sum total of all the products of the company covered under Table A and Table B is more than Rs.25 crore.
- b) If the overall turnover of the company is more than Rs.100 crore, then:
 - i. products under both Table A and Table B will be covered under cost audit provided the sum total of all the products of the company covered under Table A and Table B is more than Rs.35 crore

- ii. only products of Table A will be covered if the sum total of all the products of the company covered under Table A and Table B is more than Rs.25 crore but less than Rs.35 crore.

Explanation: Rule 4 has defined threshold limits for Table A and Table B separately but the aggregate turnover of the individual product or products or service or services has been defined to be all products for which cost records are required to be maintained under rule 3.

1.22 A company does job work for others. The raw materials are supplied to the company by the principal and the job worker gets conversion charges only. The Job Worker company pays the excise duty which is reimbursed by the principal. Will the job worker be covered under the Companies (Cost Records and Audit) Rules, 2014?

The Rules are applicable to a company. If the products of the Job Worker is listed under Table A or Table B of the Rules and the Job Worker company meets the threshold limits as prescribed, then the job worker company will be required to maintain cost accounting records. If the threshold criteria of the cost audit as prescribed are met, the company would be covered under cost audit also. Payment of excise duty by the Job Worker and in turn getting reimbursement for it is immaterial for application of the Rules.

1.23 Whether companies registered under Section 8 of the Companies Act, 2013 (corresponding to Section 25 of the Companies Act, 1956) and One Person Company (OPC) introduced in Companies Act, 2013 covered under the Rules?

The Companies (Cost Records and Audit) Rules, 2014 are applicable to every company registered under the Companies Act, 2013 which are engaged in production of goods or providing of services listed in Table-A or Table-B of Rule 3. Different threshold limits have been prescribed in the Rules for applicability of maintenance of cost accounting records and coverage under cost audit. Exemption has been granted only to companies which are classified

as a micro enterprise or a small enterprise including as per the turnover criteria under sub-section (9) of section 7 of the Micro, Small and Medium Enterprises Development Act, 2006 (27 of 2006) and foreign companies having only liaison offices engaged in Production, import and supply or trading of medical devices specified under Item 33 of Table-B of Rule 3. Any other legal entity registered as a company that meets the conditions stated in Rule 3 and Rule 4 are covered.

1.24 The manufacturing process of a company generates Metal Scrap during production of its main products which may or may not be covered under cost audit. Such scrap is sold in the market after the same is cleared under CETA Codes that are covered in the Rules. Will the company be covered under cost audit for generation of scrap?

Generation of scrap is not a production or processing or manufacturing but is incidental to manufacture of its main products. The Rules are applicable to production of goods or providing of services. CETA Codes have been inducted in the Rules for proper identification of Products that are manufactured. The act of payment of Excise Duty is immaterial in the context of application of the Rules. The generation of scrap and its consequent sale in the market cannot be construed to be covered under the Rules.

1.25 Whether Value Addition and Distribution of Earnings [Part D, Para 3] is to be computed based on Cost record data or audited financial data?

Value Addition statement is to be computed based on audited financial accounts.

1.26 Whether Financial Position and Ratio Analysis [Part D, Para 4] is to be computed based on Cost record data or audited financial data?

Financial Position and Ratio Analysis is to be computed based on audited financial accounts. This reporting Para has been aligned with the nomenclature of Schedule III of the Companies Act, 2013.

1.27 What is the procedure for appointment of cost auditor under the Companies Act, 2013?

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.

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.

1.28 Who can be appointed as a cost auditor?

Only a Cost Accountant, as defined under section 2(28) of the Companies Act, 2013, can be appointed as a cost auditor.

Clause (b) of sub-section (1) of section 2 of the Cost and Works Accountants Act, 1959 defines "Cost Accountant". It means a Cost Accountant who holds a valid certificate of practice under sub-section (1) of section 6 of the Cost and Works Accountants Act, 1959 and is in whole-time practice. Cost Accountant includes a Firm of Cost Accountants and a LLP of cost accountants.

1.29 What are the eligibility criteria for appointment as a cost auditor?

Eligibility Criteria under Section 141 of the Companies Act, 2013 read with Rule 10 of the Companies (Audit and Auditors) Rules, 2014 and Section 148 of the Companies Act, 2013. The following persons are not eligible for appointment as a cost auditor:

- a) A body corporate. However, a Limited Liability partnership registered under the Limited Liability Partnership Act, 2008 can be appointed. *[Section 141(3)(a)].*
- b) An officer or employee of the company. *[Section 141(3)(b)].*
- c) A person who is a partner, or who is in the employment, of an officer or employee of the company. *[Section 141(3)(c)].*
- d) A person who, or his relative or partner is holding any security of or interest in the company or any of its subsidiary or of its holding or associate company or a subsidiary of such holding company. *[Section 141(3)(d)(i)].*
- e) Relatives of any partner of the firm holding any security of or interest in the company of face value exceeding Rs. 1 lakh. *[Section 141(3)(d)(i) and Rule 10(1) of Companies (Audit and Auditors) Rules, 2014].*
- f) A person who is indebted to the company or its subsidiary, or its holding or associate company or a subsidiary or such holding company, for an amount exceeding Rs. 5 lakhs. *[Section 141(3)(d)(ii) and Rule 10(2) of Companies (Audit and Auditors) Rules, 2014].*
- g) A person who has given any guarantee or provided any security in connection with the indebtedness of any third person to the company or its subsidiary, or its holding or associate company or a subsidiary of such holding company, for an amount exceeding Rs. 1 lakh. *[Section 141(3)(d)(iii) and Rule 10(3) of Companies (Audit and Auditors) Rules, 2014].*
- h) A person or a firm who, whether directly or indirectly, has business relationship with the company or its subsidiary, or its holding or associate company or subsidiary of such holding company or associate

company.[Section 141(3)(e) and Rule 10(4) of Companies (Audit and Auditors) Rules, 2014].

"Business Relationship" is defined in Rule 10(4) of Companies (Audit and Auditors) Rules, 2014 and the same shall be construed as any transaction entered into for a commercial purpose, except commercial transactions which are in the nature of professional services permitted to be rendered by a cost auditor or a cost audit firm under the Act and commercial transactions which are in the ordinary course of business of the company at arm's length price - like sale of products or services to the cost auditor, as customer, in the ordinary course of business, by companies engaged in the business of telecommunications, airlines, hospitals, hotels and such other similar businesses.

- i) A person whose relative is a director or is in the employment of the company as a director or key managerial personnel of the company. [Section 141(3)(f)].
- j) A person who is in the full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor if such person or persons is at the date of such appointment or reappointment holding appointment as auditor of more than twenty companies. [Section 141(3)(g)].
- k) A person who has been convicted by a court for an offence involving fraud and a period of ten years has not elapsed from the date of such conviction. [Section 141(3)(h)].
- l) Any person whose subsidiary or associate company or any other form of entity, is engaged as on date of appointment in consulting and providing specialised services to the company and its subsidiary companies:[Section 141(3)(i) and Section 144].
 - (a) accounting and book keeping services
 - (b) internal audit
 - (c) design and implementation of any financial information system

- (d) actuarial services
- (e) investment advisory services
- (f) investment banking services
- (g) rendering of outsourced financial services
- (h) management services

1.30 The Companies Act, 2013 has introduced provision regarding rotation of auditors. Is the provision of rotation of auditors applicable to cost auditors also?

The provisions for maintenance of cost accounting records and cost audit are governed by Section 148 of the Companies Act, 2013. The provisions of Section 148 clearly states that no person appointed under Section 139 as an auditor of the company shall be appointed for conducting audit of cost records of the company. Section 148 also provides that qualifications, disqualifications, rights, duties and obligations applicable to auditors (financial) shall apply to a cost auditor appointed under this section. The eligibility, qualifications and disqualifications are provided in Section 141 of the Act and powers and duties are provided in Section 143. Section 143(14) specifically states that the provisions of Section 143 shall *mutatis mutandis* apply to a cost auditor appointed under Section 148. There are no other provisions governing the appointment of a cost auditor.

Section 139(3) of the Act, applicable to appointment of auditors (financial), and Rule 6 of Companies (Audit and Auditors) Rules, 2014 deals with the provision of rotation of auditors and these provisions are applicable only to appointment of auditors (financial). The Act does not provide for rotation in case of appointment of cost auditors and the same is not applicable to a cost auditor. It may, however, be noted that though there is no statutory provision for rotation of cost auditors, individual companies may do so as a part of their policy, as is the practice with Public Sector Undertakings.

1.31 What is the procedure to be followed for fixing the remuneration of a cost auditor?

Rule 14 of the Companies (Audit and Auditors) Rules, 2014 has laid down the procedure of appointment and fixing the remuneration of a cost auditor. It states as follows:

Remuneration of the Cost Auditor: For the purpose of sub-section (3) of section 148,—

(a) in the case of companies which are required to constitute an audit committee—

(i) the Board shall appoint an individual, who is a cost accountant in practice, or a firm of cost accountants in practice, as cost auditor on the recommendations of the Audit committee, which shall also recommend remuneration for such cost auditor;

(ii) the remuneration recommended by the Audit Committee under (i) shall be considered and approved by the Board of Directors and ratified subsequently by the shareholders;

(b) in the case of other companies which are not required to constitute an audit committee, the Board shall appoint an individual who is a cost accountant in practice or a firm of cost accountants in practice as cost auditor and the remuneration of such cost auditor shall be ratified by shareholders subsequently.

1.32 What are the duties of the Companies in relation to provisions of Section 148 of the Companies Act, 2013 and the Rules framed thereunder?

Every company required to get cost audit conducted under Section 148(2) of the Companies Act, 2013 shall:-

a) Appoint a cost auditor within one hundred and eighty days of the commencement of every financial year;

- b) Inform the cost auditor concerned of his or its appointment;
- c) 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**, alongwith the fee as specified in Companies (Registration Offices and Fees) Rules, 2014;
- d) 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 alongwith full information and explanation on every reservation or qualification contained therein, in **form CRA-4** alongwith fees specified in the Companies (Registration Offices and Fees) Rules, 2014.

1.33 Is a cost auditor required to audit and certify monthly, quarterly, half-yearly and yearly cost statements?

As per Rule 5, every company under these rules including all units and branches thereof are required, in respect of each of its financial year, to maintain cost records in form CRA-1. The cost records are required to be maintained on regular basis in such manner so 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. The cost auditor is appointed to conduct audit of the cost records and make report thereon for the financial year for which he is appointed. It is not incumbent upon the cost auditor to certify monthly, quarterly, half-yearly cost statements.

1.34 CRA-3 requires Details of Material Consumed, Details of Utilities Consumed and Details of Industry Specific Operating Expenses respectively [Part B and Part C, Para 2(a), 2(b) and 2(c)]. In case of companies where number of materials or utilities or industry specific

operating expenses is more than 10 each, which items should be disclosed in the respective paras?

It is to be noted that the cost audit report is required to be filed in XBRL mode and there is no provision for extending the number of items under any of the heads to accommodate more than 10 items. Hence, in cases where number of such items is more than 10 under any of the heads of material or utility or industry specific operating expenses, the 9 main items in terms of value should be provided separately and the balance items should be clubbed together under "Others" and shown as the tenth item.

1.35 Whether figures are to be provided for Rupees per Unit or Amount in Rupees in the Product and Service Profitability Statement [CRA-3, Part D, Para 1]?

Amount in Rupees are required to be provided under this Para. The number of products or services will be equal to the number of products and services covered under cost audit and for which Abridged Cost Statement has been provided.

1.36 Is there any obligation on the part of cost auditor to report offence of fraud being or has been committed in the Company by its officers or employees?

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.

**FAQ- 2 on
Maintenance of Cost Accounting Records and
Cost Audit under Companies Act, 2013**

2.1 What types of Educational Services are covered under the Companies (Cost Records and Audit) Rules 2014?

The Companies (Cost Records and Audit) Rules 2014 covers ***“Education services, other than such similar services falling under philanthropy or as part of social spend which do not form part of any business”***.

Any company imparting training or education by means of any mode is covered under Education Services. However, auxiliary services provided by companies, as a separate independent entity, to educational institutions viz., (i) transportation of students, faculty and staff; (ii) catering service including any mid-day meals scheme; (iii) security or cleaning or house-keeping services in such educational institution; (iv) services relating to admission to such institution or conduct of examination are not included under Education Services.

In case the educational institution covered under the Rules is providing the above auxiliary services as a part of their total operations, then the institution will be required to maintain records for such auxiliary services also.

2.2 What types of Health Services are covered under the Companies (Cost Records and Audit) Rules 2014?

The Companies (Cost Records and Audit) Rules 2014 covers ***“Health services, namely functioning as or running hospitals, diagnostic centres, clinical centres or test laboratories”***.

Any company engaged in providing Health services through functioning as or running hospitals, diagnostic centres, clinical centres, test laboratories,

physiotherapy centres and post-operative/treatment centres are covered within the ambit of the Companies (Cost Records and Audit) Rules 2014. Further, companies running hospitals exclusively for its own employees are excluded from the ambit of these Rules, provided however, if such hospitals are providing health services to outsiders also in addition to its own employees on chargeable basis, then such hospitals are covered within the ambit of these Rules.

It is clarified that companies engaged in running of Beauty parlours / beauty treatment are not covered under these Rules.

2.3 A company is engaged in construction of residential housing, offices, industrial units, Roads, Bridges, Marine facilities etc. having sites in India and abroad. The company also has Joint venture projects in India and abroad. Whether Companies (Cost Records and Audit) Rules 2014 would be applicable to the company?

Real Estate Developers including all companies engaged in construction business either as contractors or as sub-contractors, who meet with the threshold limits laid down in the Companies (Cost Records and Audit) Rules, 2014 and undertake jobs with the use of own materials [whether self-manufactured/produced or procured from outside] shall be required to maintain cost records and get cost audit conducted as per the provisions of the Companies (Cost Records and Audit) Rules, 2014.

The provisions of the Companies (Cost Records and Audit) Rules, 2014 would also apply for construction activities undertaken under BOT/BOOT mode, or the projects undertaken as EPC contractor or the projects undertaken abroad by a company incorporated in India.

The Companies (Cost Records and Audit) Rules, 2014, do not make any distinction between the Contractor and Sub-Contractor and accordingly all such companies will be included within the ambit of the Rules.

2.4 A company is engaged in manufacturing products on its own as well as purchase the same products from other companies. The outsourced products are treated as trading activity in the financial accounts. Same products are also manufactured by supply of materials

toconverters. What would be treatment of such products for the purposes of maintenance of cost accounting records and cost audit?

Products manufactured by the company as well as conversion activity through third parties will be covered under the Companies (Cost Records and Audit) Rules 2014 and the company would be required to maintain cost accounting records and get cost audit conducted subject to threshold limits. The finished products bought from outside parties (treated as Trading Activity in Financial Accounts) would be reflected as "Cost of Finished Goods Purchased" in Abridged Cost Statement.

2.5 The Companies (Cost Records & Audit) Rules, 2014 provides exemption from cost audit to a company which is covered under rule 3, and whose revenue from exports, in foreign exchange, exceeds seventy five per cent of its total revenue. How to determine the percentage to total revenue in the following cases:

- (i) In a company who is manufacturing Pharmaceutical products, the revenue from export of pharmaceutical products earned in foreign exchange divided by total revenue including other income etc. is 58%.*
- (ii) The revenue in foreign exchange earned from export of pharmaceutical products plus revenue in foreign exchange earned from rendering of research & development service divided by total revenue including other income etc. is 82%.*

Cost audit is applicable for specified products/services. Rule 4(3) states "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". The inclusion or coverage of a company under Rule 3 is in respect of products/services listed under Table-A and Table-B and consequently the computation of 75% is to be calculated for the specific products/services covered under Rule 3 and not in respect of all the products/services of the company.

The total revenue and turnover of R&D Activities, not being covered under Rule 3 cannot be taken into consideration for computation of 75%.

In this connection it is also clarified that "total revenue" of a company is to be considered as the total revenue as defined in Schedule III of the Companies Act, 2013. Total Revenue as defined in Schedule III is Total Operating Revenue plus Other Incomes.

2.6 A company has units in SEZ and in non-SEZ areas. The Companies (Cost Records and Audit) Rules 2014 has exempted companies operating in special economic zones from cost audit. What would be applicability of the Companies (Cost Records and Audit) Rules 2014 on such a company in respect of maintenance of cost accounting records and cost audit?

Rule 3 of the Companies (Cost Records and Audit) Rules 2014 is specific and it has mandated maintenance of cost accounting records on all products/activities listed under Table-A and Table-B subject to threshold limits. No exemption is available to any company from maintenance of cost accounting records once it meets the threshold limits. Hence, the above company would be required to maintain cost accounting records for all its units including the one located in the special economic zone.

In view of the provisions of Rule 4(3)(ii) of the Companies (Cost Records and Audit) Rules 2014 the unit located in the special economic zone would be outside the purview of cost audit and the company would not be required to include particulars of such unit in its cost audit report. The other units of the company located outside the special economic zone would be covered under cost audit subject to the prescribed threshold limits.

2.7 A cost auditor is required to certify under Para 1(vii) of the Cost Audit Report - *"Detailed unit-wise and product/service-wise cost statements and schedules thereto in respect of the product/service under reference of the company duly audited and certified by me/us are/are not kept in the company"*. Whether product Cost Sheet prepared SKU wise/ type-wise/ size-wise/ specification-wise by the

company is required to be certified by the cost auditor and kept in the company?

Rule 5(2) of the Companies (Cost Records and Audit) Rules 2014 requires that "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".

The Rules have identified products as per CETA heading as defined in Rule 2(aa) which states "*Central Excise Tariff Act Heading means the heading as referred to in the Additional Notes in the First Schedule to the Central Excise Tariff Act, 1985[5 of 1986]*".

First Schedule to the Central Excise Tariff Act, 1985 states - "heading" in respect of goods, means a description in list of tariff provisions accompanied by a four-digit number and includes all sub-headings of tariff items the first four-digits of which correspond to that number.

The above definitions make it clear that maintenance of cost accounting records should conform to the CETA Heading and detailed unit-wise and product/service-wise cost statements and schedules thereto are required to be certified by the cost auditor.

2.8 In the abridged cost statement, what are Industry specific operating expenses? When should this be used?

Industry Specific operating expenses are those which are peculiar to a particular industry such as Telecommunication Industry which shows expenses such as Network Operating cost, License fee, Radio Spectrum charges, Microwave charges etc. which are peculiar to this Industry and should be disclosed separately in the cost statement. The Industry Specific operating expenses will vary from industry to industry depending upon the nature of operations. The industry specific operating expenses shall have to be identified and reported upon in the abridged cost statement.

2.9 What is installed capacity and how is this different from total available capacity? How the installed capacity is to be calculated in a multi-product company using the same machine/ facilities? Should installed capacity be the capacity at the beginning of the year or at the end of the year under audit?

The Institute of Cost Accountants of India has defined "*Installed Capacity is the maximum productive capacity, according to the manufacturer's specifications or determined through an expert study*" [CAS-2 of Cost Accounting Standards]. The Installed Capacity to be disclosed in the Quantitative Details of CRA-3 is to be considered as at the beginning of the year. Capacity enhanced during the year should be considered as the increase in Installed Capacity during the year on pro-rata basis. Available capacity is the total installed capacity after adjustment of capacity enhanced during the year and if any capacity is available by means of leasing arrangement or taking on third-party capacity for increasing the total capacity.

If the same available capacity is utilised for production of multiple products, the following different basis may be adopted to determine the available capacity in respect of each of the products:

- (i) If the company has a system of allocating the total available capacity for production of multiple products, then such allocated available capacity is to be considered for the products being manufactured by utilising the same production facility.
- (ii) If the production allocation is not pre-determined and changes from period to period, then the capacity utilisation is to be determined on the basis of total production of all the products taken together and the total available capacity should be considered for all the products.

2.10 Whether each and every transactions with Related Parties is to be disclosed under Para D-5 of Annexure to the Cost Audit Report?

Details of related Party Transaction are required to be provided in respect of each Related Party and each Product/Service for the year as a whole and not transaction-wise.

2.11 Revised Form CRA-2 has been made available by the Ministry of Corporate Affairs conforming to the Companies (Cost Records and Audit) Rules, 2014 on 31st December, 2014. What are the required attachments to Form CRA-2?

The Form has provided an attachment button for attachment of certified copy of the Board Resolution appointing the cost auditor. The consent letter of the cost auditor should be attached as optional attachment.

2.12 Is CRA-3 applicable for companies whose financial year commenced prior to April 1, 2014? Which Rules are applicable to companies whose financial year commenced on January 1, 2014?

The Section 148 of the Companies Act, 2013 and Companies (Cost Records and Audit) Rules, 2014 are applicable from April 1, 2014. Companies that were covered under the erstwhile Companies (Cost Accounting Records) Rules, 2011 and met the threshold limits prescribed therein are required to get the cost audit of their companies audited for the financial year 01/01/2014 to 31/12/2014 under the 2011 Rules and submit their respective reports under Companies (Cost Audit Report) Rules, 2011.

Companies (Cost Records and Audit) Rules, 2014 is applicable to companies maintaining calendar financial year from 01/01/2015 onwards subject to the products/services being covered under Table-A or Table-B of Rule 3 and meeting the prescribed threshold limits.

2.13 The Companies (Cost Records and Audit) Rules, 2014 requires submission of a single cost audit report at company level. What is the procedure of certifying and submission of cost audit report of a company where more than one cost auditor is appointed?

In case of a company having more than one cost auditor, it would be necessary for the company to appoint/designate one cost auditor as the lead cost auditor for consolidation of the report.

The individual cost auditors appointed for specific units/products would be required to audit and provide Para numbers A-4, B-1, B-2, B-2A, B-2B, B-2C, 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, B-1, B-2, B-2A, B-2B, B-2C, 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.

2.1 The Companies (Cost Records and Audit) Rules, 2014 covers "Generation, transmission, distribution and supply of electricity" with no corresponding CETA Heading. Whether the Quantitative Information and Abridged Cost Statement in respect of Electricity are required to be reported under the Service Sector in the absence of a CETA Heading?

The reporting of electricity generation activity will be considered under "Manufacturing" and should be shown under CETA Heading 2716.

Transmission and Distribution activities should be reported under the "Service Sector".

2.2 A Company is engaged in both Regulated and Non-Regulated sectors and all its products are not covered under the Rules. How to determine applicability of cost audit for the products covered under the Regulated and Non-Regulated sectors since different threshold limits have been prescribed under Rule 4?

The above issue was clarified in FAQ-1 vide FAQ 1.21. The issue is further clarified by means of the following example for ease of understanding.

	Turnover (Rs. Crores) of					Applicability of	
	Table A Products	Table B Products	Table A + B Products	Other Products	Total Operating Revenue	Cost Records	Cost Audit
Case 1	5	10	15	19	34	No	No
Case 2	5	10	15	25	40	Yes	No
Case 3	10	15	25	26	51	Yes	Only Table A Products
Case 4	0	25	25	26	51	Yes	No
Case 5	20	14	34	75	109	Yes	Only Table A Products
Case 6	20	20	40	61	101	Yes	Both Table A & B Products

2.1 What is the status of companies after the notification of Companies (Cost Records and Audit) Rules, 2014, who have not filed cost audit report and/or compliance report pertaining to any year prior to financial year commencing on or after April 1, 2014?

Companies that were covered under the Companies (Cost Accounting Records) Rules, 2011 or any of the 6 industry specific Cost Accounting Records Rules and were required to file Compliance Report and/or Cost Audit Report for and upto any financial year commencing prior to April 1, 2014 are required to comply with the erstwhile Rules and file the Compliance Report and/or Cost Audit Report in XBRL Mode for the defaulted years. For this purpose, the Costing Taxonomy 2012 will continue to be available and such reports would be required to be filed in Form A-XBRL and Form I-XBRL, as the case may be.

2.2 Many Companies have filed Form 23C as well as Form CRA-2 for 2014-15 in respect of different products and/or multiple cost auditors, if applicable. Which SRN Number has to be reported in the cost audit report while filing the same in XBRL Mode?

- a) Companies who have filed multiple Form 23C in respect of multiple cost auditors will be required to provide the SRN Numbers against each Form 23C filed.
- b) In case the company after filing individual Form 23C has also filed Form CRA-2, in such case the company will be required to provide the SRN Number of the latest CRA-2 only since the details of multiple cost auditors, if applicable for the company, would be covered under one Form CRA-2.

2.14 A company is engaged in manufacturing of multiple products. Some of the products are covered under the Companies (Cost Records and Audit) Rules, 2014 and some are not. Part-A, Para 4 of the Annexure to the Cost Audit Report (Product/Service Details for the company as a whole) requires Net Operational Revenue to be reported for each

CETA Heading for both the current year and the previous year. Can the Net Operational Revenue of all the Products that are not covered under the Rules be reported in this Para as a single line item?

Part-A, Para 4 of the Annexure to the Cost Audit Report of Companies (Cost Records and Audit) Rules, 2014 require reporting of Net Operational Revenue of every CETA Heading separately comprised in the Total Operational Revenue as per Financial Accounts. Hence, the company would be required to report Net Revenue of every CETA Heading irrespective of whether the same is covered under maintenance of cost accounting records and cost audit or not. In case some of the Products are under the same CETA Heading but having different units of measurement (UOM), then Net Revenue is to be reported for separate UOMs. It may be noted that the number of quantitative details and abridged cost statements will have to be provided for each unique combination of CETA Heading and UOM of the Products which are covered under cost audit.

If the company is engaged in manufacturing of products as well as providing of services and/or trading, such services which are covered under the Companies (Cost Records and Audit) Rules, 2014 will be required to be reported separately according to the definition provided in the Rules classified under different types of services within the same class of service. It may be noted that the number of quantitative details and abridged cost statements will have to be provided for each classification of service covered under cost audit.

Other services that are not covered under the Rules and Revenue from Trading Activity may be reported under suitable heads denoting the service/activity.

The New Taxonomy has introduced a separate line item in this Para to report "Other Operating Incomes" which will form part of the Total Operating Revenue.

FAQs - On XBRL

A. General FAQs

1. What is XBRL?

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

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

2. What are the potential uses of XBRL?

XBRL can be applied to a very wide range of business applications including financial and cost data. XBRL has applications in the following areas:-

- Reporting for internal and external purposes by an entity involving financial and costing data/information.
- Business reporting to all types of regulators, including tax and financial authorities, central banks and governments.
- Filing of loan reports and applications; credit risk assessments.
- Exchange of information between government departments, institutions and banks.

3. Who can benefit from using XBRL?

All types of organisations can make use of XBRL to automate their process of data collection and distribution to various stakeholders. It helps in saving costs and improving the efficiency in managing business information - financial or cost. XBRL, being extensible and flexible, can be adapted to a wide variety of requirements. All stakeholders whether they are

preparers, transmitters or users of business data in the financial information supply chain can benefit from the use of XBRL.

4. What is the future of XBRL?

XBRL has a bright future ahead of it that goes way beyond the current focus on regulatory reporting and compliance. Businesses that are now creating XBRL filings for regulatory bodies should be thinking about how they can leverage their investment in understanding and using XBRL to drive more consistent and comparable internal reporting. By tagging data at the account/transaction level, by investigating how XBRL can help to deliver new holistic reports that integrate and connect financial and non-financial data, and by leveraging emerging online XBRL data streams for better industry performance and peer group analytics, every business can power its own journey towards financial transformation.

5. Who developed XBRL?

The Extensible Business Reporting Language (XBRL) is managed and promoted by XBRL International, a not-for-profit consortium, with companies, government bodies and other organizations as its members. Currently over 600 organizations are associated with XBRL International. It is comprised of jurisdictions, which represent countries, regions or international bodies and which focus on the progress of XBRL in their area.

6. What is the benefit of having cost related data in XBRL format?

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

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

7. What is Costing Taxonomy?

Costing Taxonomy is a dictionary of all cost elements required in the cost audit report and compliance report. The costing taxonomy contains the

properties and interrelationships of all these cost elements for the purposes of capturing the required reporting data in XBRL format.

8. Where can I find the Costing Taxonomy and related Business Rules?

The Costing Taxonomy and related Business Rules including sample instance documents can be downloaded from the website of MCA (<http://mca.gov.in>). The specific links are as follows:

Costing Taxonomy -

http://mca.gov.in/Ministry/pdf/costing_taxonomy_20112-9-12.zip

Business Rules -

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

9. What is the use of other files given in xml / xsd format along with the taxonomy?

Taxonomy file has extensions of XML and XSD. An XBRL processor (computer software that understands and/or manipulates XBRL documents) will need those XML and XSD documents.

10. How and where can a person interested in filing cost audit report and compliance report in XBRL format take training for the same?

The Institute of Cost Accountants of India has been organizing XBRL training programmes across the country to familiarize interested professionals with the Costing Taxonomy. The details of the programmes are available on the website of the Institute (www.icwai.org) as well the website of MCA (www.mca.gov.in).

11. How can the cost audit report and compliance report is converted into the XBRL format?

XBRL is an open source technology. Any of the following methods can be adopted to create the instance document required for filing of the respective reports.

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

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

12. Does preparing XBRL Documents mean that the entire report has to be typed (Data Entry) in XBRL?

XBRL software is required for creating instance documents. The way of working and sequence of entering data in the software may be different, but the output, i.e. the XBRL instance document has to be same irrespective of the software used. The softwares developed by individual vendors being different, some may require data entry to be done, while some others may facilitate tagging on the document itself.

13. Is the XBRL software required to be purchased from a software vendor or MCA will provide the software. Which agency should I approach to get the XBRL software?

XBRL instance document creation software is required to be purchased from the software vendors in the market. This software is used to create XBRL instance documents for uploading on the MCA portal. MCA21 system provides facility for validation of the instance document and filing of the same. MCA is not recommending any specific XBRL software.

There are several software vendors in the market, who are in the business of developing XBRL software tools. The users are free to choose the one

that suits their requirements in order to create XBRL documents for filing.

14. Which companies are required to file the Cost Audit Report and Compliance Report in XBRL format and what is the authority for the same?

MCA vide Circular No. 8/2012 dated May 10, 2012 has mandated filing of Cost Audit Reports and Compliance Reports in XBRL format from the financial year 2011-12 (including the overdue reports relating to any previous year).

MCA vide Circular No. 18/2012 dated July 26, 2012, has extended the last date of filing of cost audit reports and compliance reports with the Central Government in XBRL format up to December 31, 2012.

15. What is the purpose of the Final Costing Taxonomy and the Business Rules?

The final costing taxonomy published by MCA is to be used for mapping of individual cost elements of the company to the Taxonomy. The Business Rules of the Costing Taxonomy published by the MCA 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.

16. What process is to be followed to file the reports in XBRL Format?

The following steps have to be followed in sequence:

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

17. Is the necessary to convert the instance document (xml) into a human readable / pdf format?

Though technically, it is not required to convert the xml instance document into human readable / pdf format, it is advisable to generate a human readable format of the instance document to ensure its correctness by matching with relevant Cost Audit Report or Compliance Report prepared by the Cost Auditor/Accountant before it is uploaded.

18. Whether it is required to validate the instance document created before uploading the same on MCA portal?

Yes, validating the instance document is a pre requisite before filing the Cost Audit Report and Compliance Report on MCA portal. A tool has been provided on the MCA portal for validating the generated XBRL instance document. You are required to download the tool from the portal and validate the instance document before uploading the same. The MCA XBRL validation tool can be downloaded from the XBRL website of the Ministry of Corporate Affairs. (www.mca.gov.in/XBRL)

19. Will extension to the taxonomy be allowed based on company specific requirements?

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

20. When we are filing Cost Audit Report/ Compliance in XBRL format, then whether the previous Form-I and Form-A are still in existence or not?

Previous forms are no longer in existence. Only the new forms 23CAR-XBRL and 23CR-XBRL are to be used for filing of Cost Audit Report and Compliance Report respectively in the XBRL format.

B. Stakeholder's FAQs

Filing Related

1. **Which are the companies that need to file the Cost Audit Report and Compliance Report in XBRL format?**

Ministry of Corporate Affairs has mandated filing of the Cost Audit Report and Compliance Report from the financial year 2011-12 onwards (including overdue reports relating to any previous year) by using the XBRL taxonomy. The relevant General Circular No. 8/2012 dated 10.5.2012 [as amended on 29.6.2012] and No. 18/2012 dated 26.7.2012 issued by MCA can be accessed from the following link:

http://www.mca.gov.in/Ministry/companies_act.html.

2. **Which companies are not required to file the Cost Audit Report?**

All such companies that are **NOT** covered under the company specific Cost Audit Orders issued prior to 31.3.2011 and/or under the industry specific Cost Audit Order No. 52/26/CAB-2010 dated 2nd May 2011, 30th June 2011 and 24th January 2012 are not required to file Cost Audit Report. However, companies meeting with the threshold limits as prescribed in the relevant Cost Accounting Records Rules 2011 are required to file Compliance Report in the XBRL format.

3. **Which companies are exempted from filing the Compliance Report?**

All such companies that are not covered under any of the Cost Accounting Records Rules notified in 2011 are not required to file the Compliance Report.

Further, as per MCA's General Circular No. 68/2011 dated 30.11.2011 read with the General Circular No. 12/2012 dated 4.6.2012, such companies that are covered under any of the Cost Accounting Records Rules notified in 2011 but wherein all their products/activities, excluding the exempted categories, are covered under cost audit, are not required to separately file the Compliance Report.

4. **If my Cost Audit Report pertains to the financial year prior to 2011-12, then do I need to file the report in XBRL format?**

As per MCA's General Circular No. 8/2012 dated 10.5.2012, all Cost Audit Reports required to be filed with the Central Government starting from financial year 2011-12 and also in respect of any financial years prior to 2011-12 [that has not been filed so far] need to be filed in XBRL format.

5. **Central Government vide General Circular no. 18/2012 dated July 26, 2012 has extended filing of the Cost Audit Report in XBRL format till December 31, 2012. A company follows different financial year viz. from October 01, 2011 to September 30, 2012. As per Companies (Cost Audit Report) Rules, 2011, filing of Cost Audit Report becomes due by March 27, 2013, i.e. within 180 days from the end of the reporting year. Is this company still required to file the Cost Audit Report in XBRL format by December 31, 2012 or it would be allowed to file the report until March 27, 2013?**

The companies are required to file their Cost Audit Report [or the Compliance report] for the year 2011-12 within 180 days of the close of the financial year or by December 31, 2012, whichever is later.

6. **Who will certify XBRL filing for Cost Audit Report?**

The Cost Auditor [or the lead Cost Auditor in case the company has more than one Cost Auditors] is required to digitally sign and file the Cost Audit Report for the company as a whole.

7. **Who will certify XBRL filing for Compliance Report?**

Any valid Member of the Institute of Cost Accountants of India who is either in full-time employment with the concerned company or is holding full-time Certificate of Practice can only certify the Compliance Report.

8. **I am holding valid membership of the Institute of Cost Accountants of India as well as of the Institute of Company Secretaries of India. As a full-time employee of the company, can I certify its Compliance Report?**

Yes, being a valid Member of the Institute of Cost Accountants of India and in full-time employment with the concerned company, you can certify its Compliance Report provided you are not signing the Compliance Report as Company Secretary or as Director of the company also.

9. **The responsibility of filing Cost Audit Report with the Central Government lies with the Cost Auditor. Whose responsibility is it to create XBRL document?**

Creation of the Cost Audit Report in XBRL format, as approved by the Board and certified by the Cost Auditor, is the responsibility of the company. However, filing the Cost Audit Report in XBRL format with the Central Government is the responsibility of the Cost Auditor, who has to ensure the correctness of data and other information contained in the XBRL Instance Document.

10. **I have completed the Cost Audit and the Board of Directors has also approved the Cost Audit Report / Compliance Report. Is the Board of Directors of the company required to approve the Instance document of the Cost Audit Report / Compliance Report?**

No separate approval from the Board is required for the Instance document of the Cost Audit Report or of the Compliance Report since the data/information contained in the Instance document would already have been approved by the Board of Directors. However, if the data & other information as given in the Instance document differ from that approved by the Board, then it is advisable to get fresh approval of the revised Cost Audit Report or the Compliance Report unless the Board while according approval had authorized any officer of the company to make modifications as required in the XBRL document.

11. **A company has not appointed anyone as the lead cost auditor. Is it required to appoint a lead cost auditor for consolidation?**

The company is not required to separately appoint a lead Cost Auditor. It may designate/nominate any one of the existing Cost Auditors as the lead Cost Auditor and assign the additional task of consolidation, who would be responsible for verifying the consolidated report and filing the same with the Central Government.

12. **Is Performance Appraisal Report required to be filed with the Central Government as a part of the Cost Audit Report?**

As per provisions of the Companies (Cost Audit Report) Rules, 2011, every cost auditor, who submits a cost audit report, is also required to furnish

Performance Appraisal Report to the Board/Audit Committee of the company in the prescribed format (Form III). However, this report will not be required to be filed with the Central Government.

13. **My company is in the business of power generation. As per the MCA Circular, power companies are not required to file the Balance Sheet and Profit & Loss Account in XBRL format. Do I still need to file Cost Audit Report / Compliance Report (as applicable) in XBRL format?**

Power generation companies have been exempted from filing their Balance Sheet and Profit & Loss Account in XBRL format as the relevant taxonomy as per disclosure requirements under the Electricity Act, 2003 is still under development. However, under the said Act, there are no such separate disclosure requirements for cost details. Hence, the costing Taxonomy for filing the Cost Audit Report or the Compliance Report is common to all companies. Therefore, companies engaged in the business of power generation, transmission or distribution are also required to file Cost Audit Report / Compliance Report (as applicable) in the XBRL format.

Taxonomy Related

14. **Can I use C&I taxonomy to create Cost Audit Report or Compliance Report?**

No, there is a separate in-Cost taxonomy for creating Cost Audit Report or Compliance Report. The Costing Taxonomy can be accessed from the website of Ministry of Corporate Affairs. The relevant link for the costing taxonomy is:

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

15. **Do I need separate validation tool for validating the instance document of Cost Audit Report/Compliance report or the same validation tool as applicable for validating the instance document of Balance Sheet and Profit & Loss account can be used?**

Ministry of Corporate Affairs is in the process of developing a single validation tool that will validate all types of instance documents whether

it is for Cost Audit Report or Compliance report or Balance Sheet and Profit & Loss account. However, while validating, the user would be required to select appropriate taxonomy used for creation of the Instance document.

16. **My company has to file both Cost Audit Report and Compliance report. Can I use the same taxonomy for both the reports?**

Yes. The in-Cost taxonomy contains elements for both Cost Audit Report and Compliance Report. The entry points are different. However, common elements are defined at one place only.

17. **Costing taxonomy shows variation when compared to the formats of Cost Audit Report and Compliance Report given in the notified Cost Accounting Records Rules and Cost Audit Report Rules. Can the instance documents created as per Costing taxonomy be filed with the Central Government or I need to create instance document conforming to the notified formats?**

In XBRL mode, only the requisite data & other information as per the Costing Taxonomy is required to be filed by attaching the valid instance document with the relevant e-Form. No other formats as earlier notified are required to be filed. The final Costing Taxonomy as available on the MCA website supersedes the formats of Cost Audit Report and Compliance Report as given in the earlier notified Cost Accounting Records Rules and Cost Audit Report Rules.

18. **The revised structure of the Compliance Report as well as the Cost Audit Report has stipulated reporting at the "Product or Activity Group" level. What would be the basis of determining a "Product or Activity Group" for a multi-product company?**

"Product or Activity Group classification" shall be strictly in accordance with the notification issued by the Ministry of Corporate Affairs vide S.O. No. 1747(E) dated 7th August 2012. The link for accessing the product group notification is:

[http://mca.gov.in/Ministry/pdf/S.O.\(E\)1747_07_08_2012.pdf](http://mca.gov.in/Ministry/pdf/S.O.(E)1747_07_08_2012.pdf)

19. **If my company deals in multiple product groups and there are multiple cost auditors appointed in the company. Do I need to file multiple Cost Audit Reports or only consolidated Cost Audit Report in XBRL format?**

In the XBRL format, you are required to file only one consolidated Cost Audit Report for the company as a whole. If a company has multiple Cost Auditors, then in such case, one of them may be designated/nominated as the lead Cost Auditor who will file the consolidated cost audit report for the company as a whole. However, the lead Cost Auditor would be required to provide details of all the Cost Auditors of the company including the report of the individual Cost Auditors with their comments and observations separately for each Cost Auditor in the consolidated report. Only the data contained in para 3 to 11 would be consolidated, wherever applicable.

20. **In the Abridged Cost Statement (Para 5) of the Cost Audit Report pertaining to my company, I want to report cost elements for which I am not able to find the corresponding elements in the taxonomy? How do I report such costs?**

In the Costing taxonomy, there is provision for separate link Table for Industry Specific Operating Expenses in the Abridged Cost Statement of the Cost Audit Report. Such cost details, for which no matching corresponding cost element is found in the Abridged Cost Statement, such cost elements are to be defined and reported in the industry specific operating expenses link table.

21. **In the Abridged Cost Statement (Para 5) of the Cost Audit Report pertaining to my company, I want to report more than 10 numbers of materials / utilities / industry specific operating expenses? However, the taxonomy supports only reporting 10 numbers of materials / utilities / industry specific operating expenses in the corresponding link tables? How do I report additional cost elements under these heads?**

The materials/utilities/industry specific operating expenses link tables in the Abridged Cost Statement have a provision for reporting only 10 different cost elements respectively. In case, a company has more than

10 numbers of materials/utilities/industry specific operating expenses, 9 nos. of such materials/utilities/industry specific operating expenses, whose value is in descending order need to be reported separately and the balance may be clubbed together as "others" so as to ensure that the total value of such materials/utilities or industry specific operating expenses is equal to the materials cost or the utilities cost or the industry specific operating cost [as the case may be] reported in the main part of the Abridged Cost Statement. Since the "others" category would be an amalgamation of different elements, the unit, quantity and rate in the "others" category may be kept blank.

22. Where do I get 8-digit ITC Codes / NPCS Codes to be used for preparing the Cost Audit Report?

The 8-digit ITC Codes can be accessed from the link:

http://www.mca.gov.in/XBRL/pdf/ITC_HS_codes.pdf

The 8-digit NPCS Code can be accessed from the link:

http://mca.gov.in/XBRL/pdf/NPCS_codes.pdf

23. In my company, two different units of measurement are used for the same product group. How do I report details about such product groups under the relevant Para of the Cost Audit Report?

If a company has two different units of measurement for the same product group, then details for the same product group are to be reported twice with different units of measurement for all the relevant paras and such details need not be aggregated on the Product or Activity Group Code. In this connection, the notes provided in the notification issued by the Ministry of Corporate Affairs vide S.O. No. 1747(E) dated 7th August 2012 may be referred to.

24. My company has related party transactions only in respect of the financial transactions? Do I need to fill in the details of these transactions in the related party transactions para?

In the cost audit report, as per the notified taxonomy, details in respect of only the following types of transactions are to be reported. Therefore,

details of all the remaining financial transactions with the related parties are not to be reported in the Cost Audit Report.

1. Sale or Purchase of Goods
2. Services Received or Rendered

25. **I am an individual practising cost accountant? What do I need to fill in the "Category of Cost Accountants" or the "Category of Cost Auditor"? It only gives the option of "Firm / Sole Proprietor"?**

An individual practising cost accountant needs to fill in as "Sole Proprietor" Option under the category of Cost Accountants or of the Cost Auditors. The category of Sole Proprietor includes individuals also.

26. **Form 23C has been filed by my company but the same is not yet approved. Can I still file the Cost Audit Report pertaining to my company?**

Cost Audit Reports can be filed for the company only after filing Form 23C and ensuring that the same is approved.

27. **Form 23C has been filed by my company but related Form 23D has not been filed. Can I still file the Cost Audit Report pertaining to my company?**

Filing of Form 23D has been made mandatory for appointments of cost auditors from the financial year commencing on or after April 1, 2011. Since earlier years' reports (prior to 2011-12) are also required to be filed in the XBRL format for which no Form 23D was applicable, hence filing of Form 23D is not applicable for filing such cost audit reports.

28. **The taxonomy provides the option of providing multiple SRN number of Form 23C and Form 23D for the same Cost Auditor. Under what circumstances do I provide multiple SRN Numbers for the same Cost Auditor?**

If the company has filed multiple Form 23C against the same cost auditor either for the same or for different products/units, then the SRN numbers of all such Form 23C and the SRN numbers of all the corresponding Form 23D filed by the cost auditor(s) are required to be provided in the fields provided for the same in the taxonomy. Such cases

would arise in respect of Form 23C filed before the new Form 23C was introduced enabling appointment of a cost auditor for multiple products under multiple cost audit orders.

29. **Does a company mandatorily require indicating previous year(s) figures in the relevant columns of the Para(s) to Annexure to the Cost Audit Report even if the Cost Accounting Records Rules were not applicable to the company in the previous years?**

If a company was already covered under erstwhile Cost Accounting Records Rules, previous year figures are required to be given in the cost audit report even in the first year of cost audit. Suitable disclosure may be made by the cost auditor that the previous year figures are as provided by the management.

In case some of the products of the company was under cost accounting records/cost audit prior to 2011-12 and additional products have come under cost accounting records and cost audit from 2011-12, then previous year figures in respect of such products that were under cost accounting records prior to 2011-12 is required to be provided. The taxonomy provides reporting of previous year figures according to product group and the same should be suitably disclosed in Para 3.

However, if both cost accounting records rules and cost audit becomes simultaneously applicable for the first time on a company, then disclosure of previous year figures is optional.

Any non-disclosure of previous year figures must be supported with reasoned justification.

E-Filing Related

30. **Whether the existing e-forms are to be used for filing Cost Audit Report / Compliance Report in XBRL mode?**

No, the existing forms are not to be used for filing Cost Audit Report/ Compliance Report. For this, new Form 23CAR-XBRL and 23CR-XBRL will be shortly made available on the MCA portal.

31. **By when can we file the Form 23CAR-XBRL and 23CR-XBRL for Cost Audit Report & Compliance Report?**

All cost auditors and companies can file their Cost Audit Reports / Compliance Reports by 31st December 2012, in XBRL mode by using e-Form 23CAR-XBRL and 23CR-XBRL, without any penalty, up to 31st December 2012 or 180 days from the end of the financial year, whichever is later.

32. **Do we have the option to file detailed Cost Audit Report/ Compliance Report with the form as PDF attachment instead of XBRL format?**

No, the PDF formats of Cost Audit Report / Compliance Report are not allowed to be attached. Only the XBRL instance documents of Cost Audit Report / Compliance Report needs to be attached with the Form 23CAR-XBRL and 23CR-XBRL respectively.

33. **Whether the instance documents attached with Form 23CAR-XBRL and 23CR-XBRL needs to be digitally signed. If yes, by whom?**

No, the instance documents attached with the e-Forms are not required to be digitally signed. Only the e-Form 23CAR-XBRL for filing the Cost Audit Report need to be digitally signed by the Cost Auditor [or by the lead Cost Auditor as the case may be as well as by one director and another director/ manager/company secretary of the company.

The e-Form 23CR-XBRL for filing the Compliance Report need to be digitally signed by the Cost Accountant who has certified such Compliance Report of the company as well as by one director and another director/manager/ company secretary of the company.

34. **While filing the Form 23C in MCA-21 portal, there was some mistake pertaining to the name of the firm. Can I still file the Cost Audit Report for the company?**

Yes, you can still file the Cost Audit Report in the XBRL format provided the Form 23C belongs to the same company and same cost auditor.

35. **Does Government allow re-filing of the revised Cost Audit Report / Compliance Report in case of any errors in the original filings?**

For the current year, the MCA-21 system would allow re-filing of the revised Cost Audit Report/ Compliance Report of the company only in case of an error in the original fillings.

36. **Does Government allow multiple filings of the Cost Audit Report / Compliance Report for the same company?**

For each company, only one consolidated Cost Audit Report/ Compliance Report for the company as a whole is required to be filed in the XBRL format.

37. **What shall be the process for uploading the filled Form 23CAR-XBRL and 23CR-XBRL on MCA portal?**

The process for uploading the filled Form 23CAR-XBRL and 23CR-XBRL is same as the process of filing of any other e-form, for example, Form 23C or Form 23D or earlier e-form for filing cost audit report with pdf attachment.

38. **How to view the Cost Audit Report / Compliance Report submitted in XBRL format on MCA Portal?**

The Cost Audit Report / Compliance Report filed by the company are not public documents and cannot be viewed in public domain by anyone.

CAS - 1
(REVISED 2015)
COST ACCOUNTING STANDARD ON
"CLASSIFICATION OF COST"

The following is the COST ACCOUNTING STANDARD - 1 (CAS - 1) (Revised 2015) issued by the Council of the Institute of Cost Accountants of India for determination of "CLASSIFICATION OF COST". In this Standard, the standard portions have been set in bold italic type. This standard should be read in the context of the background material which has been set in normal type.

1. Introduction

This standard deals with the principles of Classification of Cost for determining the cost of a product or service.

2. Objective

The objective of this standard is to bring uniformity and consistency in the principles of Classification of Cost for disclosure and presentation in the cost statements of a product or service.

3. Scope

This standard shall be applied to cost statements, which require classification, presentation and disclosure of cost including those requiring attestation.

4. Definitions

The following terms are being used in this standard with the meaning specified.

4.1 Abnormal Cost: An unusual or atypical cost whose occurrence is usually irregular and unexpected and / or due to some abnormal situation of the production or operation.

4.2 Administrative Overheads: Cost of all activities relating to general management and administration of an entity.

Administrative overheads shall exclude production overheads, marketing overheads and interest and finance charges. Administrative overheads do not include administration cost relating to production, factory, works or manufacturing.

4.3 Classification of cost: Classification of cost is the arrangement of items of costs in logical groups having regard to their nature (subjective classification) and purpose (objective classification).

4.4 Conversion cost: Conversion cost is the production cost excluding the cost of direct materials.

4.5 Cost: Cost is a measurement, in monetary terms, of the amount of resources used for the purpose of production of goods or rendering services.

Manufacturing of goods or rendering services involves consumption of resources. The type of cost often referred to in the costing system depends on the purpose for which cost is incurred. For example, material cost is the price of materials consumed for manufacturing a product or for rendering a service.

4.6 Cost Centre: Any unit of an entity selected with a view to accumulating all cost under that unit. The unit can be division, department, section, group of plant and machinery, group of employees or combination of several units.

Cost Centre is the logical unit for accumulation of cost. Cost Centre may be of two types - personal and impersonal cost centres. Personal cost centre consists of a person or a group of persons. Cost centres which are not personal cost centres are impersonal cost centres. Cost centres may also be classified into broad types i.e. Operating Cost Centres and Support- Service Cost Centres. Operating Cost Centres are those which are in the chain of operations like machine shop, welding shop, assembly shop, operation theatre, call centre and so on. Support-service Cost centres are for rendering services to operating cost centre like power house, maintenance, stores, help desk, transport for call centre staff and so on.

4.7 Cost Object: An activity, contract, cost centre, customer, process, product, project, service or any other object for which costs are ascertained.

4.8 Cost of Production: Cost of production of a product or a service consists of cost of materials consumed, direct employee costs, direct expenses, production

overheads, quality control costs, packing costs, research and development costs and administrative overheads relating to production.

Cost of production of a service means cost of the service rendered. To arrive at cost of production of goods, including those despatched for captive consumption, adjustment for stock of work-in-process, finished goods, recoveries for sales of scrap, wastage and the like, shall be made.

4.9 Cost of Transportation: Cost of Transportation comprises of 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.

Cost of transportation is classified as inward transportation cost and outward transportation cost.

4.10 Cost Unit: Cost Unit is a form of measurement of volume of production of a product or a service. Cost Unit is generally adopted on the basis of convenience and practice in the industry concerned.

Examples:

- Power - MW
- Cement - MT
- Automobile - Number
- Transportation- Tonne- Kilometre

4.11 Development Cost: Development cost is the cost for 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 before the start of commercial production or use.

4.12 Direct Employee Cost: Employee costs, which can be attributed to a cost object in an economically feasible way.

4.13 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.

Examples:

- Royalties charged on production
- Job charges
- Hire charges for use of specific equipment for a specific job
- Software services specifically required for a job

4.14 Direct Materials: Materials, the costs of which can be attributed to a cost object in an economically feasible way.

4.15 Distribution Overheads: Distribution overheads, also known as distribution costs, are the costs incurred in handling a product or service from the time it is ready for despatch or delivery until it reaches the ultimate consumer including the units receiving the product or service in an inter-unit transfer. The cost of any non manufacturing operations such as packing, repacking and labelling at an intermediate storage location will be part of distribution cost.

Examples:

- Secondary packing
- Outward transportation cost
- Warehousing cost
- Cost of delivering the products to customers
- Clearing and forwarding charges
- Cost of mending or replacing packing materials at distribution point.

4.16 Employee Cost: Benefits paid or payable for the services rendered by employees (including temporary, part time and contract employees) of an entity.

Explanation:

1 Contract employees include employees engaged by the employer on contract basis, either directly or through a contractor but does not include employees of any contractor engaged in the entity for a contractual job.

2 Compensation paid to employees for the past period on account of any dispute / court orders in the current period shall form part of employee cost, but not a part of production cost.

3 Short provisions of prior period employee cost in current period shall form part of the employee cost in the current period, but not a part of production cost.

Employee cost includes payment made in cash or kind.

4.17 Fixed Costs: Fixed costs are costs which do not vary with the change in the volume of activity. Fixed indirect costs are termed fixed overheads.

4.18 Indirect Employee Cost: Employee cost, which cannot be directly attributed to a particular cost object.

4.19 Indirect Expenses: Expenses, which cannot be directly attributed to a particular cost object.

4.20 Indirect Materials: Materials, the costs of which cannot be directly attributed to a particular cost object.

4.21 Marketing overheads: Marketing Overheads comprise of selling overheads and distribution overheads.

4.22 Material Cost: The cost of material used for the purpose of production of a product or rendering a service.

4.23 Normal capacity: Normal Capacity is the production achieved or achievable on an average over a number of periods or seasons under normal circumstances taking into account the loss of capacity resulting from planned maintenance.

The above definition is also applicable for normal capacity in relation to a service being rendered.

4.24 Overheads: Overheads comprise costs of indirect materials, indirect employees and indirect expenses.

4.25 Packing Material Cost: The cost of material of any nature used for the purpose of packing of a product.

Packing material can be classified into primary packing material and secondary packing material. Primary packing material is essential to hold and preserve the product for its use by the customer and secondary packing material enables to store, transport, inform the customer, promote and otherwise make the product marketable.

4.26 Prime cost: Prime cost is the aggregate of direct material cost, direct Employee cost and direct expenses.

4.27 Production Overheads: Indirect costs involved in the production of a product or in rendering service.

The terms Production Overheads, Factory Overheads, Works Overheads and Manufacturing Overheads denote the same meaning. Production overheads include administration costs relating to production, factory, works or manufacturing.

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

4.29 Selling Overheads: Selling overheads are the expenses related to sale of products or services and include all indirect expenses incurred in selling the products or services.

Selling overheads are also known as selling costs.

4.30 Semi Variable Costs: Semi Variable Costs are the costs that contain both fixed and variable elements. They partly change with the change in the level of activity.

4.31 Support-Service Cost Centre: The cost centre which primarily provides auxiliary services across the entity.

The cost centre which provides services to production, operation or other service cost centre but not directly engaged in manufacturing process or operation or in rendering a service is a support-service cost centre. A support-service cost centre renders services to other cost centre's/ other units and in some cases to outside parties.

Examples:

- Engineering
- Workshop
- Quality control
- Quality assurance
- Designing
- Laboratory
- Help desk
- Transport for call centre staff

4.32 Standard Cost: A predetermined cost of a product or service based on technical specifications and efficient operating conditions.

Standard costs are used as scale of reference to compare the actual cost 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.

4.33 Variable Costs: Variable costs are the cost which tends to directly vary with the volume of activity.

Variable indirect costs are termed as variable overheads.

5. Principles of Classification of Costs

5.1 Costs shall be classified by the process of grouping the components of cost under a common designation on the basis of similarities of nature, attributes or relations. Items grouped together under common heads shall be further classified according to their fundamental differences.

It is the process of identification of each item and the systematic placement of like items together according to their common features. The same costs may appear in several different classifications depending on the purpose of classification.

Cost is classified normally in terms of managerial objective. Its presentation normally requires sub-classification. Such sub-classification may be

according to nature of the cost elements, functional lines, areas of responsibility, or some other useful break-up. The appropriate sub-classification depends upon the uses to be made of the cost report.

Cost may be classified with reference to the nature of expense, its traceability to a cost object (direct/ indirect), its relation to functions /activities, its behaviour (fixed, semi-variable or variable) and its relationship to production process.

5.2 Scheme of classification shall be such that every item of cost is classified.

6. Classification of Costs

6.1 By Nature of expenses

6.1.1 Items of costs differ on the basis of their nature. Costs shall be gathered together in their natural groupings such as material, employee and expenses. The elements of cost can be classified in the following three categories :

- i) Material
- ii) Employee
- iii) Expenses

6.1.2 Material Costs are cost of materials used for the purpose of production of a product or rendering of a service, net of trade discounts, rebates, taxes and duties refundable that can be quantified with reasonable accuracy.

6.1.3 Employee Costs are consideration, including benefits paid or payable to employees, permanent or temporary, for the purpose of production of a product or rendering of a service.

It is the aggregate of all kinds of consideration paid and payable for the services rendered by employees of an entity (including temporary, part time and contract employees). Consideration includes wages, salaries, and other payments, including benefits, as applicable.

6.1.4 Expenses are costs other than material cost and employee cost for the purpose of production of a product or rendering of a service.

Examples :

- Cost of utilities
- Payment for bought out services
- Job processing charges

6.2 By nature of traceability to a cost object

6.2.1 Classification shall be on the basis of method of assigning cost to a cost object. If a cost can be assigned to a cost object in an economically feasible way, it shall be termed as direct to that cost object. A cost that cannot be assigned directly shall be indirect cost.

6.2.2 Direct Material Costs are the cost of materials which can be assigned to a cost object in an economically feasible way.

Raw materials consumed for production of a product or rendering of a service which are identifiable to the product or service form the direct material cost. Direct material cost includes cost of procurement, freight inward, taxes & duties and insurance directly attributable to the acquisition of the material. Trade discounts, rebates, duty drawbacks, refunds of duties/taxes and other similar items are deducted in determining the costs of direct material.

6.2.3 Direct Employee Cost are employee costs, which can be assigned to a cost object in an economically feasible way.

Example :

The cost of wages of those workers who are readily identified or linked with a cost centre or cost object, including the fringe benefits like provident fund contribution, gratuity, ESI, overtime, incentives, bonus, ex-gratia, leave encashment and wages for holidays and idle time.

6.2.4 Direct Expenses are expenses, which can be assigned to a cost object.

Examples:

- Expenses for special moulds required in a particular cost centre
- Hiring charges for tools and equipments for a cost centre

- Royalties in connection to a product
- Job processing charges

6.2.5 Indirect Material Costs are cost of materials, which cannot be directly assigned to a particular cost object in an economically feasible way.

Examples:

- Consumable spares and parts
- Lubricants
- Cost of computer stationary for administrative function

6.2.6 Indirect Employee costs are employee costs, which cannot be directly assigned to a particular cost object in an economically feasible way.

Examples:

- Salaries of security staff
- Operating manager's salary

6.2.7 Indirect Expenses are expenses, which cannot be directly assigned to a particular cost object in an economically feasible way.

Examples:

- Insurance
- Rates and Taxes

By function

6.3.1 Costs shall be classified according to major functions viz:

- Production/ Project;
- Administration;
- Selling;
- Distribution;
- Research;
- Development;

6.4 By nature of behaviour

6.4.1 Costs shall be classified based on behaviour in response to the changes in the activity levels such as, fixed cost, variable cost and semi-variable cost.

6.5 By nature of production or operation process

6.5.1 Costs shall also be classified on the basis of nature of production or operation process.

6.5.2 Batch Cost shall be the aggregate cost related to a cost unit which consist of a group of similar articles or services which maintain its identity throughout one or more stages of production or operation.

6.5.3 Process cost shall be the cost of production or operation process where goods are produced or services rendered from a sequence of continuous or repetitive operations or processes during a period.

6.5.4 Operation Cost shall be the cost a specific operation involved in production of goods or rendering of services.

6.5.5 Contract cost shall be the cost of a contract agreed upon between the contractee and the contractor.

6.5.6 Joint costs are the costs of common resources used for producing two or more products or rendering two or more services simultaneously.

7. Presentation

7.1 The cost items in the cost statement shall be presented on 'basis of relevant classification'.

7.2 The classification of cost items shall be followed consistently from period to period.

8. Disclosure

8.1 Any change in classification of cost shall be made only if it is required by law or for compliance with a Cost Accounting Standard or such change would result in a more appropriate preparation or presentation of cost statements of an entity.

8.2 Any change in classification of cost which has a material effect on the cost of the product shall be disclosed in the cost statements. Where the effect of such change is not ascertainable wholly or partly, the fact shall be indicated in the cost statement.

CAS - 2 (REVISED 2015)

COST ACCOUNTING STANDARD ON CAPACITY DETERMINATION

The following is the Cost Accounting Standard - 2 (Revised 2015) on "Capacity Determination" issued by the Council of the Institute of Cost Accountants of India. This standard replaces CAS-2 (Revised 2012) on Capacity Determination. In this Standard, the standard portions have been set in bold italic type. These are to be read in the context of the background material, which has been set in normal type.

1. Introduction

1.1 This standard deals with the principles and methods of determining the capacity of a facility for producing goods or providing services by an entity.

1.2 This standard deals with the principles and methods of classification and determination of capacity of an entity for ascertainment of the cost of product or service, and the presentation and disclosure in cost statements.

2. Objective

The objective of this standard is to bring uniformity and consistency in the principles and methods of determination of capacity with reasonable accuracy.

3. Scope

This standard shall be applied to the cost statements, including those requiring attestation, which require determination of capacity for assignment of overheads.

4. Definitions

The following terms are being used in this standard with the meaning specified.

4.1 **Abnormal Idle Capacity:** Abnormal idle capacity is the difference between normal capacity and actual capacity utilization where the actual capacity is lower than the normal capacity.

4.2 **Actual capacity utilization:** Actual capacity utilization is measured in terms of volume of production achieved or service provided in a specified period.

Volume may be measured in terms of units produced or services provided or equivalent machine or man hours, as applicable.

Actual capacity utilization is usually expressed as a percentage of installed capacity.

4.3 Cost Object: An activity, contract, cost Centre, customer, product, process, project, service or any other object for which costs are ascertained.

4.4 Installed capacity: Installed capacity is the maximum capacity of producing goods or providing services, determined either based on technical specification of the facility or through a technical evaluation.

4.5 Normal Capacity: Normal capacity is the volume of production or services achieved or achievable on an average over a period under normal circumstances taking into account the reduction in capacity resulting from planned maintenance.

4.6 Normal Idle Capacity: Normal idle capacity is the difference between installed and normal capacity.

5. Determination of Capacity:

5.1 Capacity shall be determined in terms of units of production or services or equivalent machine or man hours.

5.2 Installed capacity

Installed capacity is usually determined based on:

- iv) Technical specifications of facility.
- v) Technical evaluation.
- vi) Capacities of individual or interrelated production or operation Centres.
- vii) Operational constraints or capacity of critical machines or equipment.
- viii) Number of shifts or machine hours or man hours.

In case technical specifications of facility are not available, the estimates by technical experts on capacity under ideal conditions shall be considered for determination of installed capacity.

In case the installed capacity is assessed as per direction of the Government or regulator it shall be in accordance with the said directives.

5.3 Reassessment of Installed Capacity:

Installed capacity shall be reassessed in case of any change due to addition, deletion, modification or for any other reason from the date of such change.

In case the installed capacity is reassessed as per direction of the Government or regulator it shall be in accordance with the said directives.

5.4 Normal Capacity:

Normal capacity is determined after suitable adjustments to the Installed Capacity.

The adjustments may be of the following nature:

- (i) Time lost due to scheduled preventive or planned maintenance
- (ii) Number of shifts or machine hours or man hours.
- (iii) Holidays, normal shut down days, normal idle time,
- (iv) Normal time lost in batch change over

6. Presentation

6.1 Cost Statements shall present Installed capacity, normal capacity and actual production of goods or services provided, in absolute terms.

6.2 Actual Capacity utilization shall be presented as a percentage of installed capacity.

7. Disclosure:

7.1 The cost statements shall disclose the following:

- a. Basis for arriving at different types of capacity.
 - b. Changes in the installed capacity or normal capacity with reason thereof.
 - c. Capacity enhanced through outsourcing.
 - d. Capacity outsourced to others.
 - e. Details of actual production of goods or services provided.
- a) Self-Manufactured goods or services provided through in-house facility
 - b) Goods Produced or services provided through outsourcing
 - f. Reasons for low capacity utilization.
 - g. Abnormal cost due to under-utilization of capacity.

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

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

8. Effective date

This Cost Accounting Standard shall be effective from the period commencing on or after 1st April 2016 for being applied for the preparation and certification of General Purpose Cost Accounting Statement.

CAS-3 (REVISED 2015)
**COST ACCOUNTING STANDARD ON "PRODUCTION AND OPERATION
OVERHEADS"**

The following is the Cost Accounting Standard on Production and Operation Overheads (CAS-3) (Revised 2015) issued by the Council of the Institute of Cost Accountants of India. This standard replaces CAS-3 (Revised 2011) on Overheads. In this Standard, the standard portions have been set in bold italic type. This standard shall be read in the context of the background material, which has been set in normal type.

1. Introduction

1.1 This standard deals with the principles and methods of determining the Production or Operation Overheads.

1.2 This standard deals with the principles and methods of classification, measurement and assignment of Production or Operation Overheads, for determination of the cost of goods produced or services provided and for the presentation and disclosure in cost statements.

2. Objective

The objective of this standard is to bring uniformity and consistency in the principles and methods of determining the Production or Operation Overheads with reasonable accuracy.

3. Scope

This standard shall be applied to cost statements, which require classification, measurement, assignment, presentation and disclosure of Production or Operation Overheads including those requiring attestation.

4. Definitions

The following terms are being used in this standard with the meaning specified.

4.1 Abnormal cost: An unusual or atypical cost whose occurrence is usually irregular and unexpected or due to some abnormal situation of the production or operation.

4.2 Absorption of Production or Operation Overheads: Assigning of Production or Operation Overheads to cost objects by means of appropriate absorption rate.

Overhead Absorption Rate = Production or Operation Overheads of the Activity divided by the volume of activity.

For example the rate obtained by dividing the overheads of a Machine Shop by machine hours.

4.3 Administrative Overheads: Cost of all activities relating to general management and administration of an entity.

Administrative overheads shall exclude production overheads, marketing overheads and finance cost. Production overheads includes administration cost relating to production, factory, works or manufacturing.

4.4 Cost Centre: Any unit of an entity selected with a view to accumulating all costs under that unit. The unit can be division, department, section, group of plant and machinery, group of employees or combination of several units.

A cost centre includes a process, function, activity, location, item of equipment, group of persons or any other unit in relation to which costs are accumulated.

4.5 Cost Object: An activity, contract, cost centre, customer, product, process, project, service or any other object for which costs are ascertained.

4.6 Fixed costs: Fixed costs are costs which do not vary with the change in the volume of activity. Fixed indirect costs are termed fixed overheads.

4.7 Imputed Cost: Notional cost, not involving cash outlay, computed for any purpose.

4.8 Indirect Employee Cost: Employee cost, which cannot be directly attributed to a particular cost object.

4.9 Indirect Expenses: Expenses, which cannot be directly attributed to a particular cost object.

4.10 Indirect Material Cost: Material cost that cannot be directly attributed to a particular cost object.

4.11 Normal capacity: Normal capacity is the volume of production or services achieved or achievable on an average over a period under normal circumstances taking into account the reduction in capacity resulting from planned maintenance.¹

4.12 Production or Operation Overheads: Indirect costs involved in the production of a product or in providing service.

The terms Production Overheads, Operation Overheads, Factory Overheads, Works Overheads and Manufacturing Overheads denote the same meaning and are used interchangeably.

Production or Operation Overheads include administration cost relating to production, factory, works or manufacturing and providing of services.

In addition Production or Operation Overheads shall also be classified on the basis of behaviour such as variable Production or Operation Overheads, semi-variable Production or Operation Overheads and fixed Production or Operation Overheads.

- Variable Production or Operation Overheads comprise of expenses which vary in proportion to the change of volume of production or activity or services provided.
- Semi Variable Costs are the costs that contain both fixed and variable elements. They partly change with the change in the level of activity.
- Fixed overhead are indirect costs which do not vary with the change in the volume of production or activity or service provided.

¹ In line with paragraph 4.5 of CAS – 2 (Revised 2015)

4.13 Standard Cost: A predetermined cost of a product or service based on technical specifications and efficient operating conditions.

Standard costs are used as scale of reference to compare the actual cost 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. Standard costs are also used for estimation.

4.14 Variable costs: Variable costs are the cost which tends to directly vary with the volume of activity.

5. Principles of Measurement:

5.1 Production or Operation 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.

5.2 Production or Operation Overheads other than those referred to in paragraph 5.1 shall be determined on the basis of cost incurred in connection therewith.

In case of machinery spare fabricated internally or a repair job carried out internally, it will include cost incurred on material, employees and expenses.

5.3 Any abnormal cost where it is material and quantifiable shall not form part of the Production or Operation Overheads.

5.4 Production or Operation Overheads shall not include imputed cost.

5.5 Production or Operation Overhead variances attributable to normal reasons shall be treated as part of Production or Operation Overheads. Overhead variances attributable to abnormal reasons shall be excluded from Production or Operation Overheads.

5.6 Any subsidy, Grant, Incentive or amount of similar nature received or receivable with respect to Production or Operation Overheads shall be reduced

for ascertainment of the cost of the cost object to which such amounts are related.

5.7 Fines, penalties, damages and similar levies paid or payable to statutory authorities or other third parties shall not form part of the Production or Operation Overheads.

5.8 Credits or recoveries relating to the Production or Operation Overheads, material and quantifiable, shall be deducted from the total Production or Operation overheads to arrive at the net Production or Operation Overheads. Where the recovery exceeds the total Production or Operation Overheads, the balance recovery shall be treated as other income.

5.9 Any change in the cost accounting principles applied for the measurement of the Production or Operation 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.

6. Assignment

6.1 While assigning Production or Operation 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.

6.2 Assignment of Production or Operation 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 - Production Overheads are to be apportioned to the various cost objects in proportion to the benefits received by them.

In case of facilities created on a standby or ready to serve basis, the cost shall be assigned on the basis of expected benefits instead of actual.

6.3 Absorption of Production or Operation Overheads shall be as follows:

6.3.1 The variable Production or Operation Overheads shall be absorbed to products or services based on actual production.

6.3.2 The fixed Production or Operation Overheads shall be absorbed based on the normal capacity.

7. Presentation

7.1 Production or Operation Overheads shall be presented as separate cost head.

7.2 If material, element wise and behavior wise details of the Production or Operation Overheads shall be presented.

7.3 Any under-absorption or over-absorption of Production or Operation Overheads shall be presented in the reconciliation statement.

8. Disclosures

8.1 The cost statements shall disclose the following:

1. The basis of assignment of Production or Operation Overheads to the cost objects.
2. Production or Operation Overheads incurred in foreign exchange.
3. Production or Operation Overheads relating to resources received from or supplied to related parties².
4. Any Subsidy, Grant, Incentive or any amount of similar nature received or receivable reduced from Production or Operation Overheads.
5. Credits or recoveries relating to the Production or Operation Overheads.
6. Any abnormal cost not forming part of the Production or Operation Overheads.
7. Any unabsorbed Production or Operation Overheads.

² Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement

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

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

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

9. Effective date

This Cost Accounting Standard shall be effective from the period commencing on or after 1st April 2016 for being applied for the preparation and certification of General Purpose Cost Accounting Statement.

(CAS-4)

**COST ACCOUNTING STANDARD ON
COST OF PRODUCTION FOR CAPTIVE CONSUMPTION**

The following is the text of the **COST ACCOUNTING STANDARD 4 (CAS-4)** issued by the Council of the Institute of Cost and Works Accountants of India on "Cost of Production for Captive Consumption". The standard deals with determination of cost of production for captive consumption. In this Standard, the standard portions have been set in bold italic type. These should be read in the context of the background material which has been set in normal type.

1. Introduction

The Cost Accounting principle for determination of cost of production is well established. Similarly, rules for levy of excise duty on goods used for captive consumption are also well defined. Captive Consumption means the consumption of goods manufactured by one division and consumed by another division(s) of the same organization or related undertaking for manufacturing another product(s). Liability of excise duty arises as soon as the goods covered under excise duty are manufactured but excise duty is collected at the time of removal or clearance from the place of manufacture even if such removal does not amount to sale. Assessable value of goods used for captive consumption is based on cost of production. According to the Central Excise Valuation (Determination of Price of Excisable Goods) Rules 2000, the assessable value of goods used for captive consumption is 115% (110% w.e.f. 05-08-2003) of cost of production of such goods, and as may be prescribed by the Government from time to time.

2. Objective

2.1 The purpose of this standard is to bring uniformity in the principles and methods used for determining the cost of production of excisable goods used for captive consumption.

2.2 The cost statement prepared based on standard will be used for determination of assessable value of excisable goods used for captive consumption.

2.3 The standard and its disclosure requirement will provide better transparency in the valuation of excisable goods used for captive consumption.

3. Scope

3.1 The standard is to be followed for determining the cost of production to arrive at an assessable value of excisable goods used for captive consumption.

3.2 Cost of production will include various cost components. They are already defined in Cost Accounting Standard-1 (Classification of Cost - CAS-1). Thus, this standard has to be read in conjunction with CAS-1.

4. Definitions

4.1 Cost of Production: Cost of production shall consist of Material Consumed, Direct Wages and Salaries, Direct Expenses, Works Overheads, Quality Control cost, Research and Development Cost, Packing cost, Administrative Overheads relating to production.

To arrive at cost of production of goods despatched for captive consumption, adjustment for Stock of work-in-Process, finished goods, recoveries for sales of scrap, wastage etc shall be made.

4.2 Captive Consumption: Captive Consumption means the consumption of goods manufactured by one division or unit and consumed by another division or unit of the same organization or related undertaking for manufacturing another product(s).

4.3 Normal Capacity is the production achieved or achievable on an average over a period or season under normal circumstances taking into account the loss of capacity resulting from planned maintenance. (CAS-2)

5. Determination of Cost of Production for Captive Consumption

To determine the cost of production for captive consumption, calculations of different cost components and adjustments are explained below:

5.1 Material Consumed

Material Consumed shall include materials directly identified for production of goods such as:

- (a) indigenous materials
- (b) imported materials
- (c) bought out items
- (d) self manufactured items
- (e) process materials and other items

Cost of material consumed shall consist of cost of material, duties and taxes, freight inwards, insurance and other expenditure directly attributable to procurement. Trade discount, rebates and other similar items will be deducted for determining the cost of materials. Cenvat credit, credit for countervailing customs duty, Sales Tax set off, VAT, duty draw back and other similar duties subsequently recovered/ recoverable by the enterprise shall also be deducted.

5.2 Direct wages and salaries

Direct wages and salaries shall include house rent allowance, overtime and incentive payments made to employees directly engaged in the manufacturing activities.

Direct wages and salaries include fringe benefits such as:

- (i) Contribution to provident fund and ESIS
- (ii) Bonus/ ex-gratia payment to employees
- (iii) Provision for retirement benefits such as gratuity and superannuation
- (iv) Medical benefits
- (v) Subsidised food
- (vi) Leave with pay and holiday payment
- (vii) Leave encashment
- (viii) Other allowances such as children's education allowance, conveyance allowance which are payable to employees in the normal course of business etc.

5.3 Direct Expenses

Direct expenses are the expenses other than direct material cost and direct employees costs which can be identified with the product.

Direct expenses include:

- (i) Cost of utilities such as fuel, power, water, steam etc
- (i) Royalty based on production
- (ii) Technical Assistance / know-how fees
- (iii) Amortized cost of moulds, patterns, patents etc
- (iv) Job charges
- (v) Hire charges for tools and equipment
- (vi) Charges for a particular product designing etc

5.4 Works Overheads

Works overheads are the indirect costs incurred in the production process.

Works overheads include the following expenses:

- (i) Consumable stores and spares
- (ii) Depreciation of plant and machinery, factory building etc
- (iii) Lease rent of production assets
- (iv) Repair and maintenance of plant and machinery, factory building etc
- (v) Indirect employees cost connected with production activities
- (vi) Drawing and Designing department cost.
- (vii) Insurance of plant and machinery, factory building, stock of raw material & WIP etc
- (viii) Amortized cost of jigs, fixtures, tooling etc
- (ix) Service department cost such as Tool Room, Engineering & Maintenance, Pollution Control etc

5.5 Quality Control Cost

The quality control cost is the expenses incurred relating to quality control activities for adhering to quality standard. These expenses shall include salaries & wages relating to employees engaged in quality control activity and other related expenses.

5.6 Research and Development Cost

The research and development cost incurred for development and improvement of the process or the existing product shall be included in the cost of production.

5.7 Administrative Overheads

Administrative overheads need to be analysed in relation to production activities and other activities. Administrative overheads in relation to production activities shall be included in the cost of production. Administrative overheads in relation to activities other than manufacturing activities e.g. marketing, projects management, corporate office expenses etc. shall be excluded from the cost of production.

5.8 Packing Cost

If product is transferred/despached duly packed for captive consumption, cost of such packing shall be included.

Packing cost includes both cost of primary and secondary packing required for transfer/ despatch of the goods used for captive consumption.

5.9 Absorption of overheads: Overheads shall be analysed into variable overheads and fixed overheads.

Variable Overheads are the items which change with the change in volume of production, such as cost of utilities etc.

Fixed overheads are the items whose value does not change with the change in volume of production such as salaries, rent etc.

The variable production overheads shall be absorbed in production cost based on actual capacity utilisation.

The fixed production overheads and other similar item of fixed costs such as quality control cost, research and development costs, administrative overheads relating to

manufacturing shall be absorbed in the production cost on the basis of the normal capacity or actual capacity utilization of the plant, whichever is higher.

5.10 Valuation of Stock of work-in-progress and finished goods

Stock of work-in-progress shall be valued at cost on the basis of stages of completion as per the cost accounting principles. Similarly, stock of finished goods shall be valued at cost. Opening and closing stock of work-in-progress shall be adjusted for calculation of cost of goods produced and similarly opening and closing stock of finished goods shall be adjusted for calculation of goods despatched.

In case the cost of a shorter period is to be determined, where the figures of opening and closing stock are not readily available, the adjustment of figures of opening and closing stock may be ignored.

5.11 Treatment of Joint Products and By-Products

A production process may result in more than one product being produced simultaneously. In case joint products are produced, joint costs are allocated between the products on a rational and consistent basis. In case by-products are produced, the net realisable value of by-products is credited to the cost of production of the main product.

For allocation of joint cost to joint products, the sales values of products at the split off point i.e. when the products become separately identifiable may become the basis. Some other basis may be adopted. For example, in case of petroleum products, each product is assigned certain value based on its certain properties, may be calorific value and these values become the basis of apportionment of joint cost among petroleum products.

5.12 Treatment of Scrap and Waste

The production process may generate scrap or waste. Realized or realizable value of scrap or waste shall be credited to the cost of production.

In case, scrap or waste does not have ready market and it is used for reprocessing, the scrap or waste value is taken at a rate of input cost depending upon the stage at

which such scrap or waste is recycled. The expenses incurred for making the scrap suitable for reprocessing shall be deducted from value of scrap or waste.

Illustration

A production process has three stages.

Stage	Input material cost	Processing cost	Total
(Rs/ MT)	(Rs/MT)	(Rs/MT)	
1	2000	500	2500
2	2500	1000	3500
3	3500	1000	4500

If during the production process at stage3, the scrap is produced and the same is recycled at stage2 after making an expenditure of Rs 200 per MT to make it suitable for re-processing at stage2, then scrap will be valued @ Rs (2500 - 200) i.e. Rs 2300. If no expenditure is involved to make scrap re-usable, the scrap value will be @ Rs 2500. The scrap value for the scrap produced during a period calculated at the rate as explained above may be deducted to find out the cost of production for the period.

5.13 Miscellaneous Income

Miscellaneous income relating to production shall be adjusted in the calculation of cost of production, for example, income from sale of empty containers used for despatch of the captively consumed goods produced under reference.

5.14 Inputs received free of cost

In case any input material, whether of direct or indirect nature, including packing material is supplied free of cost by the user of the captive product, the landed cost of such material shall be included in the cost of production.

5.15 Moulds, Tools, Dies & Patterns etc received free of cost

The amortization cost of such items shall be included in the cost of production.

5.16 Interest and financial charges

Interest and financial charges being a financial charge shall not be considered to be a part of cost of production.

5.17 Abnormal and non-recurring cost

Abnormal and non-recurring cost arising due to unusual or unexpected occurrence of events, such as heavy break down of plants, accident, market condition restricting sales below normal level, abnormal idle capacity, abnormal process loss, abnormal scrap and wastage, payments like VRS, retrenchment compensation, lay-off wages etc. The abnormal cost shall not form the part of cost of production.

6. Cost Sheet

The cost sheet should be prepared in the format as par Appendix - 1 or as near thereto as possible. The manufacturer will be required to maintain cost records and other books of account in a manner, which would facilitate preparation and verification of the cost of production. For manufacturers covered under the ambit of Section 148(1) of the Companies Act, 2013, i.e., where Cost Accounting Records are statutorily required to be maintained, the Cost Accountant certifying the cost of production for captive consumption shall verify the correctness of the cost from these records. However, for manufacturers not covered under Section 148(1) of the Companies Act, 2013, it is desirable that they also maintain cost accounting records in line with the records so prescribed as to facilitate determination and certification of cost of production.

7. Disclosure

- (i) If there is any change in cost accounting principles and practices during the concerned period which may materially affect the cost of production in terms of comparability with previous periods, the same should be disclosed.
- (ii) If opening stock and closing stock of work -in-progress and finished goods are not readily available for certification purpose, the same should be disclosed.

Appendix - 1

Name of the Manufacturer:

Address of the Manufacturer:

Registration No of Manufacturer:

Description of product captively consumed:

Excise Tariff Heading:

Statement of Cost of Production of _____ manufactured / to be manufactured during the period _____

		Qty	
Q1	Quantity Produced (Unit of Measure)		
Q2	Quantity Despatched (Unit of Measure)		
	Particulars	Total Cost (Rs)	Cost/u nit (Rs)
1.	Material Consumed		
2.	Direct Wages and Salaries		
3.	Direct Expenses		
4.	Works Overheads		
5.	Quality Control Cost		
6.	Research & Development Cost		
7.	Administrative Overheads (relating to production activity)		
8.	Total (1 to 7)		
9.	Add : Opening stock of Work - in -Progress		
10.	Less : Closing stock of Work -in- Progress		
11.	Total (8+9-10)		

12.	Less : Credit for Recoveries/Scrap/By-Products / misc income		
13.	Packing cost		
14.	Cost of production (11 - 12 + 13)		
15.	Add: Inputs received free of cost		
16.	Add: Amortised cost of Moulds, Tools, Dies & Patterns etc received free of cost		
17.	Cost of Production for goods produced for captive consumption (14 + 15 + 16)		
18.	Add : Opening stock of finished goods		
19.	Less : Closing stock of finished goods		
20.	Cost of production for goods despatched (17 + 18 - 19)		

Seal & Signature of Company's
Authorised Representative

I/We, have verified above data on test check basis with reference to the books of account, cost accounting records and other records. Based on the information and explanations given to me/us, and on the basis of generally accepted cost accounting principles and practices followed by the industry, I /We certify that the above cost data reflect true and fair view of the cost of production.

Date :

Place :

Seal & Signature of Cost
Accountant
Membership No.

(CAS-5)
COST ACCOUNTING STANDARD
ON DETERMINATION OF
AVERAGE (EQUALIZED) COST OF TRANSPORTATION

The following is the text of the Cost Accounting Standard 5 (CAS-5) issued by the Council of the Institute of Cost & Works Accountants of India on "Determination of Average (Equalized) Cost of Transportation". This standard deals with the determination of average transportation cost of a product. In this standard the standard portions have been set in bold italic type. These are to be read in the context of the background material which has been set in the normal type.

1. Introduction:

1.1 The cost accounting principles for tracing/identifying an element of cost, its allocation/apportionment to a product or service are well established. Transportation cost is an important element of cost for procurement of materials for production and for distribution of product for sale. Therefore, Cost Accounting Records should present transportation cost separately from the other cost of inward materials or cost of sales of finished goods. The Finance Act 2003 also specifies the certification requirement of transportation cost for claiming deduction while arriving at the assessable value of excisable goods cleared for home consumption/ export. There is a need to standardize the record keeping of expenses relating to transportation and computation of transportation cost.

2. Objective

2.1 To bring uniformity in the application of principles and methods used in the determination of averaged/equalized transportation cost.

2.2 To prescribe the system to be followed for maintenance of records for collection of cost of transportation, its allocation/apportionment to cost centres, locations or products.

For example, transportation cost needs to be apportioned among excisable, exempted, non-excisable and other goods for arriving at the average of transportation cost of each class of goods.

2.3 To provide transparency in the determination of cost of transportation.

3. Scope

3.1 This standard should be applied for calculation of cost of transportation required under any statute or regulations or for any other purpose. For example, this standard can be used for :

- (a) determination of average transportation cost for claiming the deduction for arriving at the assessable value of excisable goods
- (b) Insurance claim valuation
- (c) Working out claim for freight subsidy under Fertilizer Industry Coordination Committee
- (d) Administered price mechanism of freight cost element
- (e) Determination of inward freight costs included or to be included in the cost of purchases attributable to the acquisition.
- (f) Computation of freight included in the value of inventory for accounting on inventory or valuation of stock hypothecated with Banks / Financial Institution, etc.

4. Definitions

The following terms are used in this standard with the meaning specified:

4.1 Cost of Transportation comprises of 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.

Explanation:

Cost of transportation is classified as inward transportation cost and outward transportation Cost.

4.2 Inward Transportation cost is the transportation expenses incurred in connection with materials /goods received at factory or place of use or sale/removal.

4.3 Outward Transportation cost is the transportation expenses incurred in connection with the sale or delivery of materials or goods from factory or depot or any other place from where goods are sold /removed

4.4 Freight is the charges paid or payable for transporting materials/ goods from one location to another.

4.5 Cartage is the expenses incurred for movement of goods covering short distance for further transportation for delivery to customer or storage.

4.6 Transit insurance cost is the amount of premium to be paid to cover the risk of loss /damage to the goods in transit.

4.7 Depot is the bounded premises /place managed internally or by an agent, including consignment agent and C & F agent, franchisee for storing of materials/goods for further despatch including the premises of Consignment Agent and C&F Agent for the purpose.

Depot includes warehouses, go-downs, storage yards, stock yards etc.

4.8 Equalized transportation cost means average transportation cost incurred during a specified period.

4.9 Equalized freight means average freight.

5. Maintenance of records for ascertaining Transportation Cost

5.1 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.

5.2 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.

5.3 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, etc.

5.4 Records shall be maintained separately for inward and outward transportation cost specifying the details particulars of goods despatched, name of supplier / recipient, amount of freight etc.

5.5 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 /sold for both home consumption and export.

5.6 Records for transportation cost from factory to depot and thereafter shall be maintained separately.

5.7 Records for transportation cost for carrying any material / product to job-workers place and back should be maintained separately so as include the same in the transaction value of the product.

5.8 Records for transportation cost for goods involved exclusively for trading activities shall be maintained separately and the same will not be included for claiming any deduction for calculating assessable value excisable goods cleared for home consumption.

5.9 Records of transportation cost directly allocable to a particular category of products should be maintained separately so that allocation in appendix -3 can be made.

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

5.11 Records for transportation cost for exempted goods, excisable goods cleared for export shall be maintained separately.

5.12 Separate records of cost for mode of transportation other than road like ship, air etc are to be maintained in appendix -2 which will be included in total cost of transportation.

6. Treatment of cost:

6.1 Inward transportation costs shall form the part of the cost of procurement of materials which are to be identified for proper allocation/ apportionment to the materials / products.

6.2 Outward transportation cost shall form the part of the cost of sale and shall be allocated / apportioned to the materials and goods on a suitable basis.

Explanation :

Outward transportation cost of a product from factory to depot or any location of sale shall be included in the cost of sale of the goods available for sale.

6.3 The following basis may 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 / Equivalent unit
- v) Value of goods
- vi) Percentage of usage of space

Once a basis of apportionment is adopted , the same should be followed consistently.

For determining the transportation cost per unit, distance shall be factored in to arrive at weighted average cost.

6.4 Abnormal and non recurring cost shall not be a part of transportation cost.

Explanation

Penalty, detention charges, demurrage and cost related to abnormal break down will not be included in transportation cost.

7. Cost Sheet

The cost sheets shall be prepared and presented in a form as per Appendices 1,2 and 3 or as near thereto. Appendix 1 and Appendix 2 show the details of information to be maintained for compilation of transport cost for own fleet and hired transportation charges respectively. Appendix 1 is applicable where the organization is having its own fleet.

The directly allocable cost of own fleet (outward) shall be identified against different categories of products as shown in Appendix 3 and same shall be indicated there. Similarly, total common cost of own fleet (outward) shall be apportioned to different categories of products as shown in Appendix 3 on a basis which should be specified. The basis of apportionment may be adopted depending on the nature of product as indicated in para 6.3. Similar approach shall also be applied for hired outward transport charges.

More columns may be required to be shown in Appendix 3 specifying different types of transactions. For example : Sale on specific rate basis, sale of waste, scrap, return from customer, goods sent for job work, goods received after job work etc.

Unit of Measurement (UM) may vary depending upon the nature of the product. For example, Number, MT, Meter, Litre etc.

Proper records shall be maintained to show separately the Transportation Cost relating to sending of jobs to job contractors/convertors and receipt back of processed jobs/converted materials.

An enterprise shall be required to maintain cost records and other books of account in a manner which would facilitate preparation and verification of cost of transportation and other related charges and its apportioning to various products.

8. Transaction value :

'Transaction value' shall have the meaning assigned to it in Section 4 of The Central Excise Act, 1944 or Section 14 of The Customs Act , 1962 or as defined in any other Act or Regulations as the case may be.

9. The standard will be operative from the date of issue.

Appendix 1

Name of the Manufacturer:

Address of the Manufacturer:

Statement of Operating Cost of own Fleet for the period.....

Sl No		
A	QUANTITATIVE INFORMATION	
A1	Number of Vehicles	
A2	Number of trips	
A3	Goods Transported - inward (UM)	
A4.	Goods transported - outward (UM)	
A5.	Goods transported - inward - Km	
A6.	Goods transported - outward - Km	
A7.	Total Goods transported inward - basis of apportionment (Specify)	
A8.	Total Goods transported outward - basis of apportionment (Specify)	
A9	Total (A7+A8)	
B	COST INFORMATION	(Rs)
	Cost of Operation	
	Variable Cost	
B1.	Salaries & Wages of Drivers, Cleaners and others	
B2.	Fuel & Lubricants	
B3.	Consumables	
B4.	Amortized cost of Tyre, Tube & Battery	
B5.	Spares	
B6.	Repair & Maintenance	
B7.	Other Variable Cost (specify)	
B8.	Total Variable Cost (B1 to B7)	
	Fixed Cost	
B9.	Insurance	

B10.	Licence Fee, Permit Fee and Taxes	
B11.	Depreciation	
B12.	Other Fixed Costs (Specify)	
B13.	Total Fixed Cost (B9 to B12)	
B14.	Total Operating Cost (B8+B13)	
C	APPORTIONMENT (Basis to be specified) - usage	
C1.	Inward Transport Cost (B14 *A7/ A9)	
C2.	Outward Transport Cost (B14 *A8/A9)	
C3.	Transit insurance for inward movement	
C4.	Transit insurance for outward movement	
C5.	Total transportation cost for inward movement (C1+C3)	
C6.	Total transportation cost for outward movement (C2+C4)	

Note :

1. Cost of Battery, and Tyres and Tubes shall to be amortised over its useful life.
2. Asset Register shall be maintained for determination of depreciation and amortization cost.
3. Separate Cost Sheet shall be prepared for different types of vehicles.

Appendix 2

Name of the Manufacturer:

Address of the Manufacturer:

Statement of Hired Outward Transportation Cost for the period ending.....

A	Quantitative Information	
A1	Quantity of goods transported - outward (UM)	
B	COST INFORMATION)	(Rs)
B1	Hired Transport Charges	
B2	Transit Insurance	
B3	Other (specify)	
B4	Total Transportation cost (B1 to B3)	

Name of the Manufacturer:

Appendix -3

Address of the Manufacturer:

Statement of apportionment of Outward Transportation Cost to different goods and
Determination of Averaged Outward Transport Cost for the period ending.....

A	Quantitative Information	Total	Excisable goods			Specific Rated goods	Goods cleared for Export	Exempted goods	Goods Cleared on MRP Basis	Goods cleared from factory to customer	Goods cleared from Depot to Customer	Others (specify)
			Product- Product group 2	Product group 2	Product group 3							
A1	Goods transported Outwards(UM *)											
A2	Goods Transported Outward (KM)											
B	Outward Transport Cost (Rs)											
B1	Directly allocated own fleet transportation cost (Rs)											

B2	Basis of Apportionment of own fleet cost (Specify)											
B3	Common own fleet transport cost to be apportioned											
B4	Directly allocated hired transportation charges (Rs)											
B5	Basis of Apportionment of hired transportation cost (Specify)											
B6	Common hired transport charges to be apportioned											
B7	Total Transport Cost (B1+ B3+B4+B6)											
B8	Averaged transport cost per unit (Rs) (B7/A1)											

* UM is the Unit of measurement

Seal and signature of Company's authorized representative

I /We, have verified above data and calculation in the appendix 1, 2 and 3 on test check basis with reference to the books of account, cost accounting records and other records. Based on the information and explanations given to me/us, and on the basis of generally accepted cost accounting principles and practices followed by the industry, I /We certify that the above cost data reflect true and fair view of averaged transport cost.

Date :

Place :

Seal & Signature of Cost Accountant

Membership No.

(CAS-6)

COST ACCOUNTING STANDARD ON MATERIAL COST

The following is the **COST ACCOUNTING STANDARD 6 (CAS 6)** issued by the Council of The Institute of Cost Accountants of India on "**MATERIAL COST**". In this Standard, the standard portions have been set in bold italic type. This standard should be read in the context of the background material, which has been set in normal type.

1. Introduction

1.1 This standard deals with principles and methods of determining the Material Cost.

Material for the purpose of this standard includes raw materials, process materials, additives, manufactured / bought out components, sub-assemblies, accessories, semi finished goods, consumable stores, spares and other indirect materials. This standard does not deal with Packing Materials as a separate standard is being issued on the subject.

1.2 This standard deals with the principles and methods of classification, measurement and assignment of material cost, for determination of the Cost of product or service, and the presentation and disclosure in cost statements.

1.3 The Standard deals with the following issues.

- Principle of Valuation of receipt of materials.
- Principle of Valuation of issue of materials.
- Assignment of material cost to cost objects.

2. Objective

The objective of this standard is to bring uniformity and consistency in the principles and methods of determining the material cost with reasonable accuracy.

3. Scope

This standard should be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of material costs including those requiring attestation.

4. Definitions

The following terms are being used in this standard with the meaning specified.

4.1 Abnormal cost: An unusual or atypical cost whose occurrence is usually irregular and unexpected and/ or due to some abnormal situation of the production or operation³.

4.2 Administrative overheads: Cost of all activities relating to general management and administration of an entity.

4.3 Cost Object: An activity, contract, cost centre, customer, process, product, project, service or any other object for which costs are ascertained.

4.4 Defectives: Materials, products or intermediate products that do not meet quality standards. This may include reworks or rejects.

4.4.1 Reworks: Defectives which can be brought up to the standards by putting in additional resources.

Rework includes repairs, reconditioning and refurbishing.

4.4.2 Rejects: Defectives which cannot meet the quality standards even after putting in additional resources.

Rejects may be disposed off as waste or sold for salvage value or recycled in the production process.

4.5 Imputed Costs: Notional cost, not involving cash outlay, computed for any purpose.

4.6 Intermediate Product: An intermediate product is a product that requires further processing before it is saleable.

4.7 Materials:

³ Adapted from CAS-1 Para 6.5.19

4.7.1 Direct Materials: Materials the costs of which can be attributed to a cost object in an economically feasible way⁴.

4.7.2 Indirect Materials: Materials, the costs of which cannot be directly attributed to a particular cost object⁵.

4.8 Material Cost: The cost of material used for the purpose of production of a product or rendering a service.

4.9 Production overheads: Indirect costs involved in the production of a product or in rendering service

The terms Production Overheads, Factory Overheads, Works Overheads and Manufacturing Overheads denote the same meaning and are used interchangeably.

4.10 Scrap: Discarded material having no or insignificant value and which is usually either disposed off without further treatment (other than reclamation and handling) or reintroduced into the process in place of raw material.

4.11 Standard Cost: A predetermined cost of a product or service based on technical specifications and efficient operating conditions

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 for deviation is placed.⁶ 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.

4.12 Waste and spoilage:

4.12.1 Waste: Material lost during production or storage and discarded material which may or may not have any value.

⁴ Adapted from CAS 1-6.2.3

⁵ Adapted from CAS 1– 6.2.8

⁶ Adapted from CAS 1_ Para 6.7.5

4.12.2 Spoilage: Production that does not meet the quality requirements or specifications and cannot be rectified economically.

5. Principles of Measurement

5.1. Principle of valuation of receipt of materials:

5.1.1 The material receipt 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 by the taxing authorities) that can be quantified with reasonable accuracy at the time of acquisition.

Examples of taxes and duties to be deducted from cost are cenvat credits, credit for countervailing customs duty, sales tax set off/ vat credits and other similar items of credit recovered/ recoverable.

5.1.2 Finance costs incurred in connection with the acquisition of materials shall not form part of material cost.

5.1.3 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. In case of captive consumption, the valuation shall be in accordance with Cost Accounting Standard 4.

5.1.4 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.

5.1.5 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.

5.1.6 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.

The adjustment for moisture will depend on whether dry weight is used for measurement.

5.1.7 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.

Explanation: The date on which a transaction (whether for goods or services) is recognised in accounting in conformity with generally accepted accounting principles

5.1.8 Any demurrage or detention charges, or penalty levied by transport or other authorities shall not form part of the cost of materials.

5.1.9 Subsidy/Grant/Incentive and any such payment received/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.

5.2. Principle of valuation of issue of material

5.2.1 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.

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

5.2.3 Any abnormal cost shall be excluded from the material cost.

5.2.4 Wherever, material costs include transportation costs, determination of costs of transportation shall be governed by CAS 5 - Cost Accounting Standard on Determination of Average (Equalized) Cost of Transportation.

5.2.5 Material cost may include imputed costs not considered in financial accounts. Such costs which are not recognized in financial accounts may be determined by imputing a cost to the usage or by measuring the benefit from an alternate use of the resource.

5.3 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. In case of captive consumption, the valuation shall be in accordance with Cost Accounting Standard 4.

5.4 The material cost of normal scrap/ defectives which are rejects shall be included in the material cost of goods manufactured. The material cost of actual scrap / defectives, not exceeding the normal shall be adjusted in the material cost of good production. Material Cost of abnormal scrap /defectives should not be included in material cost but treated as loss after giving credit to the realisable value of such scrap / defectives.

6. Assignment of costs

The basis of assignment of costs to the cost of product or service is dealt within this section.

6.1 Assignment of costs - Materials

6.1.1 Assignment of material costs to cost objects: Material costs shall be directly traced to a Cost object to the extent it is economically feasible and /or shall be assigned to the cost object on the basis of material quantity consumed or similar identifiable measure and valued as per the principles laid under Paragraph 5.

6.1.2 Where the material costs are not directly traceable to the cost object, these may be assigned on a suitable basis like technical estimates.

6.2 Assignment of costs - Direct Expenses

6.2.1 Where a material is processed or part manufactured by a third party according to specifications provided by the buyer, the processing/ manufacturing charges payable to the third party shall be treated as part of the material cost.

6.2.2 Wherever part of the manufacturing operations / activity is subcontracted, the subcontract charges related to materials shall be treated as direct expenses and assigned directly to the cost object.

6.3 Assignment of costs- Indirect materials

6.3.1 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.

6.3.2 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.

6.3.3 The cost of indirect material with life exceeding one year shall be included in cost over the useful life of the material.

7. Presentation

Cost Statements governed by this standard, shall present material costs as detailed below:

7.1 Direct Materials shall be classified in the cost statement under suitable heads.

E.g.

- Raw materials,
- Components,
- Semi finished goods and
- Sub-assemblies

7.2 Direct Materials shall be classified as Purchased - indigenous, imported and self-manufactured.

7.3 Indirect Materials shall be classified in the cost statement under suitable heads.

Indirect materials may be grouped under major heads like tools, stores and spares, machinery spares, jigs and fixtures, consumable stores, etc., if they are significant.

8. Disclosures

The following information should be disclosed in the cost statements dealing with determination of material cost.

8.1 Quantity and rates of major items of materials shall be disclosed. Major items are defined as those who form 5% of cost of materials.

8.2 The basis of valuation of materials shall be disclosed.

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

8.4 Any abnormal cost excluded from the material cost shall be disclosed.

8.5 Any demurrage or detention charges, penalty levied by transport or other authorities excluded from the material cost shall be disclosed.

8.6 Any Subsidy/Grant/Incentive or any such payment reduced from material cost shall be disclosed.

8.7 Cost of Materials procured from related parties⁷ shall be disclosed

8.8 Any cost imputed in arriving at the material cost shall be disclosed.

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

8.10 Disclosures may be made in the body of the Cost statement or as a footnote or as a separate schedule.

⁷ Related party as per the applicable legal requirements relating to the cost statement as on the date of statements

CAS - 7

COST ACCOUNTING STANDARD ON EMPLOYEE COST

The following is the **COST ACCOUNTING STANDARD 7 (CAS - 7)** issued by the Council of The Institute of Cost Accountants of India on "EMPLOYEE COST". In this Standard, the standard portions have been set in bold italic type. This standard should be read in the context of the background material, which has been set in normal type.

1 Introduction

1.1 This standard deals with the principles and methods of determining the Employee cost.

1.2 This standard deals with the principles and methods of classification, measurement and assignment of Employee cost, for determination of the Cost of product or service, and the presentation and disclosure in cost statements.

2 Objective

The objective of this standard is to bring uniformity and consistency in the principles and methods of determining the Employee cost with reasonable accuracy.

3 Scope

This standard should be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of Employee cost including those requiring attestation.

4 Definitions

The following terms are being used in this standard with the meaning specified.

4.1 Abnormal cost: An unusual or atypical cost whose occurrence is usually irregular and unexpected and/ or due to some abnormal situation of the production or operation.⁸

⁸ Adapted from CAS 1 paragraph 6.5.19

4.2 Abnormal Idle time: An unusual or atypical idle time occurrence of which is irregular and unexpected or due to some abnormal situations.

E.g.: Idle time due to a strike, lockout or an accident

4.3 Administrative overheads: Cost of all activities relating to general management and administration of an entity.

4.4 Cost Object: An activity, contract, cost centre, customer, process, product, project, service or any other object for which costs are ascertained.

4.5 Direct Employee Cost: Employee cost, which can be attributed to a Cost object in an economically feasible way.⁹

4.6 Distribution Overheads: Distribution overheads, also known as distribution costs, are the costs incurred in handling a product or service from the time it is ready for despatch or delivery until it reaches the ultimate consumer including the units receiving the product or service in an inter-unit transfer

The cost of any non manufacturing operations such as packing, repacking, labelling, etc. at an intermediate storage location will be part of distribution cost.

4.7 Employee cost: Benefits paid or payable for the services rendered by employees (including temporary, part time and contract employees) of an entity.

Explanation:

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

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

3 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.

⁹ Adapted from CAS 1 paragraph 6.2.4 (Direct labour cost)

For example:

- Employee cost
 - 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.

4.8 Idle time: The difference between the time for which employees are paid /payable to employees and the employees' time booked against cost objects.

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

4.9 Imputed Costs: Notional cost, not involving cash outlay, computed for any purpose.

4.10 Indirect Employee Cost: Employee cost, which cannot be directly attributed to a particular cost object.¹⁰

4.11 Marketing overheads: Marketing overheads comprise of selling overheads and distribution overheads.

4.12 Overtime Premium: The extra amount payable beyond the normal wages and salaries for beyond the normal working hours.

4.13 Production Overheads: Indirect costs involved in the production of a product or in rendering service.

The terms Production Overheads, Factory Overheads, Works Overheads and Manufacturing Overheads denote the same meaning and are used interchangeably.

4.14 Selling Overheads: Selling overheads are the expenses related to sale of products or services and include all indirect expenses incurred in selling the products or services.

4.15 Standard Cost: A predetermined cost of a product or service based on technical specifications and efficient operating conditions.

Standard costs are used as scale of reference 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. Standard costs are also used for estimation.

5 Principles of Measurement

¹⁰Adapted from CAS 1 paragraph 6.2.10

5.1 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.

5.2 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.

5.3 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 Cost of the year under reference whether the whole or part of the remuneration is computed as a percentage of profits.

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

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

5.5 Employee cost shall not include imputed costs.

5.6 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.

5.7 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.

5.8 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.

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

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

5.11 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.

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

5.13 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.

6 Assignment of costs

6.1 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.

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

6.3 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.

6.4 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.

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

6.6 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.

6.7 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.

Cost of idle time for reasons anticipated like normal lunchtime, holidays etc is normally loaded in the Employee cost while arriving at the cost per hour of an Employee/a group of Employees whose time is attributed direct to cost objects.

7 Presentation

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

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

7.3 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.

8 Disclosures

8.1 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 parties¹¹.
7. Employee cost incurred in foreign exchange.

¹¹Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement

8.2 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.

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

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

(CAS-8)

COST ACCOUNTING STANDARD ON COST OF UTILITIES

The following is the **COST ACCOUNTING STANDARD - 8 (CAS-8)** issued by the Council of The Institute of Cost Accountants of India on "cost of UTILITIES", for comments. In this Standard, the standard portions have been set in bold italic type. This standard should be read in the context of the background material which has been set in normal type.

1. Introduction

1.1 This standard deals with the principles and methods of determining the cost of utilities.

1.2 This standard deals with the principles and methods of classification, measurement and assignment of cost of utilities, for determination of the cost of product or service, and the presentation and disclosure in cost statements.

2. Objective

The objective of this standard is to bring uniformity and consistency in the principles and methods of determining the cost of utilities with reasonable accuracy.

3. Scope

3.1 This standard shall be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of cost of utilities including those requiring attestation.

3.2 For determining the cost of production to arrive at an assessable value of excisable utilities used for captive consumption, Cost Accounting Standard 4 on Cost of Production for Captive Consumption (CAS 4) shall apply.

3.3 This standard shall not be applicable to the organizations primarily engaged in generation and sale of utilities.

3.4 This standard does not cover issues related to the ascertainment and treatment of carbon credits, which shall be dealt with in a separate standard.

4. Definitions

The following terms are being used in this standard with the meaning specified.

4.1 Abnormal cost: An unusual or atypical cost whose occurrence is usually irregular and unexpected and/ or due to some abnormal situation of the production or operation.¹

4.2 Committed Cost: The cost of maintaining stand-by utilities shall be the committed cost.

4.3 Cost Object: An activity, contract, cost centre, customer, process, product, project, service or any other object for which costs are ascertained.

4.4 Imputed Costs: Notional cost, not involving cash outlay, computed for any purpose.

4.5 Interest and Finance charges: Interest, including any payment in the nature of interest for use of non equity funds and incidental cost that an entity incurs in arranging those funds.

This will include interest and commitment charges on bank borrowings, other short term and long term borrowings, amortisation of discounts or premium related to borrowings, amortisation of ancillary cost incurred in connection with the arrangements of borrowings, finance charges in respect of finance leases, other similar arrangements and exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest costs². The terms Finance costs and Borrowing costs are used interchangeably.

4.6 Normal capacity: Normal Capacity is the production achieved or achievable on an average over a number of periods or seasons under normal circumstances taking into account the loss of capacity resulting from planned maintenance.³

In case of any standby utility the normal capacity will be the same as actual production of the utility.

The normal capacity of a utility meant for captive consumption would be based on the normal capacity for the production facility of the end product of the consuming unit.

¹ Adapted from CAS 1 paragraph 6.5.19

² Adapted from CIMA Terminology

³ Adapted from CAS 2 paragraph 4.4

4.7 Standard Cost: A predetermined cost of a product or service based on technical specifications and efficient operating conditions.

Standard costs are used as scale of reference 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. Standard costs are also used for estimation.

4.8 Stand-by utilities: Any utility created as backup against any failure of the main source of utilities.

4.9 Utilities: Significant inputs such as power, steam, water, compressed air and the like which are used for manufacturing process but do not form part of the final product.

5. Principles of measurement

5.1 Each type of utility shall be treated as a distinct cost object.

5.2 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.

5.3.1 Cost of self-generated utilities for own consumption shall comprise direct material cost, direct employee cost, direct expenses and factory overheads.

5.3.2 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 per paragraph 5.3.1.

5.3.3 Cost of Utilities generated for the inter company transfers shall comprise direct material cost, direct employee cost, direct expenses, factory overheads, distribution cost and share of administrative overheads.

5.3.4 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 will also include the margin.

5.4 Finance costs incurred in connection with the utilities shall not form part of cost of utilities.

5.5 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.

5.6 Cost of utilities shall not include imputed costs.

5.7 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.

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

5.9 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 cost⁴. Cost of a Stand-by Utility shall include the committed costs of maintaining such a utility.

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

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

5.12 Credits/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.

5.13 Any change in the cost accounting principles applied for the measurement of the cost of utilities should be made only if, it is required by law or for compliance with the requirements of a cost accounting standard, or a change

⁴Adapted from paragraph 5.7 of CAS 3

would result in a more appropriate preparation or presentation of cost statements of an organisation.

6. Assignment of costs

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

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

6.3 The most appropriate basis of distribution of cost of a utility to the departments consuming services is to be derived from usage parameters.

7. Presentation

7.1 Utilities costs shall be presented as a separate cost head for each type of utility in the cost statement, if material.

7.2 Where separate cost statements are prepared for utilities, cost of utilities shall be classified as purchased or generated. Such statement shall also include cost of utilities consumed along with quantitative information by individual consuming units, inter unit transfers, inter company transfers and sale to outside parties wherever applicable.

8. Disclosures

8.1 The cost statements shall disclose the following:

8. The basis of distribution of Cost of Utility to the consuming centres.

9. The cost of purchase, production, distribution, marketing and price with reference to sales to outside parties.

10. Where cost of utilities is disclosed at standard cost, the price and usage variances.

11. The cost and price of Utility received from/supplied to related parties⁵.

12. The cost and price of Utility received from/supplied as inter unit transfers and inter company transfers

13. Cost of utilities incurred in foreign exchange.

⁵ Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement

14. Any Subsidy/Grant/Incentive and any such payment reduced from Cost of utilities.

15. Credits/recoveries relating to the Cost of utilities.

16. Any abnormal cost excluded from Cost of utilities.

17. Penalties and damages paid etc excluded from cost of utilities.

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

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

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

(CAS 9)

COST ACCOUNTING STANDARD ON PACKING MATERIAL COST

The following is the *COST ACCOUNTING STANDARD - (CAS - 9)* issued by the Council of The Institute of Cost Accountants of India on "PACKING MATERIAL COST", for comments. In this Standard, the standard portions have been set in bold italic type. This standard should be read in the context of the background material which has been set in normal type.

1. Introduction

1.1 This standard deals with the principles and methods of determining the Packing Material Cost.

1.2 This standard deals with the principles and methods of classification, measurement and assignment of Packing Material Cost, for determination of the cost of product, and the presentation and disclosure in cost statements.

1.3 Packing Materials for the purpose of this standard are classified into primary and secondary packing materials.

2. Objective

The objective of this standard is to bring uniformity and consistency in the principles and methods of determining the packing material cost with reasonable accuracy.

3. Scope

This standard should be applied to cost statements, which require classification, measurement, assignment, presentation and disclosure of Packing Material Cost including those requiring attestation.

4. Definitions

The following terms are being used in this standard with the meaning specified.

4.1 Abnormal cost: An unusual or atypical cost whose occurrence is usually irregular and unexpected and/ or due to some abnormal situation of the production or operation.¹

For example: the cost of packing material which is rejected after issue due to abnormal causes such as misprinting, use of material of wrong specification etc. (net of realisable value) may be treated as abnormal cost.

4.2 Administrative Overheads: Cost of all activities relating to general management and administration of an entity. Administrative overheads shall exclude any overhead relating to production, operations and marketing.

4.3 Cost Object: An activity, contract, cost centre, customer, process, product, project, service or any other object for which costs are ascertained.

4.4 Direct Employee Cost: Employee cost, which can be attributed to a cost object in an economically feasible way.²

4.5 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 or direct employee cost³. Examples of Direct Expenses are royalties charged on production, job charges, hire charges for use of specific equipment for a specific job, cost of special designs or drawings for a job, software services specifically required for a job, travelling Expenses for a specific job.

4.6 Direct Materials: Materials, the costs of which can be attributed to a cost object in an economically feasible way.

4.7 Distribution Overheads: Distribution overheads, also known as distribution costs, are the costs incurred in handling a product or service from the time it is ready for despatch or delivery until it reaches the ultimate consumer including the units receiving the product or service in an inter-unit transfer.

For example:

¹ Adapted from CAS 1 Para 6.5.19

² Adapted from CAS 7 Para 4.6

³ Adapted from CAS 1 Para 6.2.6 and also proposed in the CAS on Direct Expenses

- Secondary packing
- Transportation cost
- Warehousing cost
- Cost of delivering the products to customers etc.
- Clearing and forwarding charges
- Cost of mending or replacing packing materials at distribution point.

4.8 Imputed Costs: Notional cost, not involving cash outlay, computed for any purpose.

For example: packing material supplied by the customer.

4.9 Interest and Finance charges: Interest, including any payment in the nature of interest for use of non-equity funds and incidental cost that an entity incurs in arranging those funds.

This will include interest and commitment charges on bank borrowings, other short term and long term borrowings, amortisation of discounts or premium related to borrowings, amortisation of ancillary cost incurred in connection with the arrangements of borrowings, finance charges in respect of finance leases, other similar arrangements and exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest costs⁴. The terms Finance costs and Borrowing costs are used interchangeably.

4.10 Marketing overheads: Marketing Overheads comprise of selling overheads and distribution overheads.

4.11 Packing Materials: Materials used to hold, identify, describe, store, protect, display, transport, promote and make the product marketable.

4.11.1 Defectives: Materials, products or intermediate products that do not meet quality standards. This may include reworks or rejects.

⁴Adapted from CIMA Terminology

4.11.1.1 Reworks: Defectives which can be brought up to the standards by putting in additional resources.⁵

Rework includes repairs, reconditioning and refurbishing.

4.11.1.2 Rejects: Defectives which can not meet the quality standards even after putting in additional resources.⁶

Rejects may be disposed off as waste or sold for salvage value or recycled in the production process.

4.11.2 Packing Material Cost: The cost of material of any nature used for the purpose of packing of a product.

4.11.3 Primary Packing Material: Packing material which is essential to hold and preserve the product for its use by the customer.

For example:

- Pharmaceutical industry: Insertions related to product, Foils for strips of tablets/capsules, vials.
- Industrial gases: Cylinders / bottles used for filling the gaseous products
- Confectionary Industry: Butter paper and wrappers.

4.11.4 Reusable Packing Material: Packing materials that are used more than once to pack the product.

4.11.5 Scrap: Discarded material having no or insignificant value and which is usually either disposed off without further treatment (other than reclamation and handling) or reintroduced into the process in place of raw material.

4.11.6 Secondary Packing Material: Packing material that enables to store, transport, inform the customer, promote and otherwise make the product marketable.

For example:

- Pharmaceutical industry: Cartons used for holding strips of tablets and card board boxes used for holding cartons.

⁵ Adapted from CAS 6 Para 4.4.1

⁶ Adapted from CAS 6 Para 4.4.2

- Textile industry: Card board boxes used for holding cones on which yarn is woven.
- Confectionary Industry: Jars for holding wrapped chocolates, Cartons containing packs of biscuits.

4.12 Packing Material Development Cost: Cost of evaluation of packing material such as pilot test, field test, consumer research, feed back, and final evaluation cost.

4.13 Production overheads: Indirect costs involved in the production of a product or in rendering service.

The terms Production Overheads, Factory Overheads, Works Overheads and Manufacturing Overheads denote the same meaning and are used interchangeably. Production overheads shall include administration cost relating to production, factory, works or manufacturing.

4.14 Selling Overheads: Selling overheads are the expenses related to sale of products or services and include all indirect expenses incurred in selling the products or services.

4.15 Standard Cost: A predetermined cost of a product or service based on technical specifications and efficient operating conditions.

Standard costs are used as scale of reference 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. Standard costs are also used for estimation.

5. Principles of Measurement

5.1 Principle of valuation of receipts of packing material:

5.1.1 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.

Examples of taxes and duties to be deducted from cost are CENVAT credits, credit for countervailing customs duty, sales tax set off/ vat credits and other similar items of credit recovered/ recoverable.

5.1.2 Finance costs directly incurred in connection with the acquisition of Packing Material shall not form part of Packing Material Cost.

5.1.3 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.

5.1.4 The valuation of captive consumption of packing materials shall be in accordance with paragraph 5 of Cost Accounting Standard 4.

5.1.5 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.

5.1.6 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.

Explanation: The date on which a transaction (whether for goods or services) is recognised in accounting in conformity with generally accepted accounting principles.

5.1.7 Any demurrage, detention charges or penalty levied by the transport agency or any authority shall not form part of the cost of packing materials.

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

5.2. Principle of valuation of issue of packing material

Issues shall be valued using appropriate assumptions on cost flow.

For example: First In First Out, Last In First Out, Weighted Average Rate.

The method of valuation shall be followed on a consistent basis.

5.3 Wherever, packing material costs include transportation costs, determination of costs of transportation shall be governed by CAS 5 - Cost Accounting Standard on determination of average (equalized) cost of transportation.

5.4 Packing Material Costs shall not include imputed costs. However in case of Cost of Production of Excisable Goods for Captive Consumption the computation of cost shall be as per CAS 4.

5.5 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.

5.6 The normal loss arising from the issue or consumption of packing materials shall be included in the packing materials cost.

5.7 Any abnormal cost where it is material and quantifiable shall be excluded from the packing material cost.

5.8 The credits/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.

6. Assignment of Cost

6.1 Assignment of packing material costs to cost objects: Packing material costs shall be directly traced to a cost object to the extent it is economically feasible.

6.2 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.

6.3 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.

6.4 Cost of primary packing materials shall form part of the cost of production.

6.5 Cost of secondary packing materials shall form part of distribution overheads.

7. Presentation

7.1 Packing Materials shall be classified as primary and secondary and within this classification as purchased - indigenous, imported and self-manufactured.

7.2 Where separate cost statements are prepared for packing costs, the cost of packing materials consumed shall be presented in terms of type of packing in which the materials are used (For example; Bale, Bag, Carton, Pallet). Such statements shall also include cost and quantitative information, wherever it is found material and quantifiable.

8. Disclosures

8.1 The cost statements shall disclose the following:

1. The basis of valuation of Packing Materials.
2. Where Packing Materials Cost is disclosed at standard cost, the price and usage variances.
3. The cost and price of Packing Materials received from/supplied to related parties⁷.
4. Packing Materials cost incurred in foreign exchange.
5. Any Subsidy/Grant/Incentive and any such payment reduced from Packing Materials Costs.
6. Credits/recoveries relating to the Packing Materials Costs.
7. Any abnormal cost excluded from Packing Materials Costs.
8. Penalties and damages paid etc. excluded from Packing Materials Costs.

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

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

⁷ Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement

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

(CAS-10)

COST ACCOUNTING STANDARD ON DIRECT EXPENSES

The following is the **COST ACCOUNTING STANDARD - 10 (CAS-10)** issued by the Council of The Institute of Cost Accountants of India on "DIRECT EXPENSES", for comments. In this Standard, the standard portions have been set in bold italic type. This standard should be read in the context of the background material which has been set in normal type.

1. Introduction

1.1 This standard deals with the principles and methods of determining the Direct Expenses.

1.2 This standard deals with the principles and methods of classification, measurement and assignment of Direct Expenses, for determination of the cost of product or service, and the presentation and disclosure in cost statements.

2. Objective

The objective of this standard is to bring uniformity and consistency in the principles and methods of determining the Direct Expenses with reasonable accuracy.

3. Scope

This standard should be applied to cost statements, which require classification, measurement, assignment, presentation and disclosure of Direct Expenses including those requiring attestation.

4. Definitions

The following terms are being used in this standard with the meaning specified.

4.1 Abnormal cost: An unusual or atypical cost whose occurrence is usually irregular and unexpected and/ or due to some abnormal situation of the production or operation.¹

¹ Adapted from CAS 1 paragraph 6.5.19

4.2 Cost Object: An activity, contract, cost centre, customer, process, product, project, service or any other object for which costs are ascertained.

4.3 Direct Employee Cost: Employee cost, which can be directly attributed to a cost object in an economically feasible way.²

4.4 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 cost³. Examples of Direct Expenses are royalties charged on production, job charges, hire charges for use of specific equipment for a specific job, cost of special designs or drawings for a job, software services specifically required for a job, travelling Expenses for a specific job

4.5 Direct Material Cost: The cost of material which can be attributed to a cost object in an economically feasible way⁴.

4.6 Imputed Costs: Notional cost, not involving cash outlay, computed for any purpose.

4.7 Interest and Finance charges: Interest, including any payment in the nature of interest for use of non equity funds and incidental cost that an entity incurs in arranging those funds.

This will include interest and commitment charges on bank borrowings, other short term and long term borrowings, amortisation of discounts or premium related to borrowings, amortisation of ancillary cost incurred in connection with the arrangements of borrowings, finance charges in respect of finance leases, other similar arrangements and exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest costs⁵. The terms Finance costs and Borrowing costs are used interchangeably.

4.8 Overheads: Overheads comprise costs of indirect materials, indirect employees and indirect expenses.

4.9 Standard Cost: A predetermined cost of a product or service based on technical specifications and efficient operating conditions.

² Adapted from CAS 1 paragraph 6.2.4 (Direct labour cost)

³ Adapted from CAS 1 paragraph 6.2.6

⁴ Adapted from CAS 1-6.2.3

⁵ Adapted from CIMA Terminology

Standard costs are used as scale of reference 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. Standard costs are also used for estimation.

5. Principles of Measurement:

5.1 Identification of Direct Expenses shall be based on traceability in an economically feasible manner.

5.2.1 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.

5.2.2 Direct expenses other than those referred to in paragraph 5.2.1 shall be determined on the basis of amount incurred in connection therewith.

Examples: in case of dies and tools produced internally, the cost of such dies and tools will include direct material cost, direct employee cost, direct expenses, factory overheads including share of administrative overheads relating to production comprising factory management and administration.

In the case of research and development cost, the amount traceable to the cost object for development and improvement of the process for the existing product shall be included in Direct Expenses.

5.2.3 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.

Examples: Royalty or Technical know-how fees, or drawing designing fees, are paid for which the benefit is ensued in the future period. In such case, the production / service volumes shall be estimated for the effective period and based on volume achieved during the Cost Accounting period, the charge for amortisation be determined.

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

5.4 Finance costs incurred in connection with the self generated or procured resources shall not form part of Direct Expenses.

5.5 Direct Expenses shall not include imputed costs. In case of goods produced for captive consumption, treatment of imputed cost shall be in accordance with Cost Accounting Standard - 4 (CAS-4).

5.6 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.

5.7 Any Subsidy/Grant/Incentive or any such payment received/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.

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

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

5.10 Credits/ recoveries relating to the Direct Expenses, material and quantifiable, shall be deducted to arrive at the net Direct Expenses.

5.11 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.

6. Assignment of costs

6.1 Direct Expenses that are directly traceable to the cost object shall be assigned to that cost object.

7. Presentation

7.1 Direct Expenses, if material, shall be presented as a separate cost head with suitable classification. e.g.

- Subcontract charges
- Royalty on production

8. Disclosures

8.1 The cost statements shall disclose the following:

- The basis of distribution of Direct Expenses to the cost objects/ cost units.
- Quantity and rates of items of Direct Expenses, as applicable.
- Where Direct Expenses are accounted at standard cost, the price and usage variances.
- Direct expenses representing procurement of resources and expenses incurred in connection with resources generated.
- Direct Expenses paid/ payable to related parties⁶.
- Direct Expenses incurred in foreign exchange.
- Any Subsidy/Grant/Incentive and any such payment reduced from Direct Expenses.
- Credits/recoveries relating to the Direct Expenses.
- Any abnormal portion of the Direct Expenses.
- Penalties and damages excluded from the Direct Expenses

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

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

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

⁶ Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement

CAS - 11

COST ACCOUNTING STANDARD ON ADMINISTRATIVE OVERHEADS

The following is the **COST ACCOUNTING STANDARD - (CAS-11)** issued by the Council of The Institute of Cost Accountants of India on "ADMINISTRATIVE OVERHEADS". In this Standard, the standard portions have been set in bold italic type. This standard should be read in the context of the background material which has been set in normal type.

1. Introduction

1.1. This standard deals with the principles and methods of determining the administrative overheads.

1.2 This standard deals with the principles and methods of classification, measurement and assignment of administrative overheads, for determination of the Cost of product or service, and the presentation and disclosure in cost statements.

2. Objective

The objective of this standard is to bring uniformity and consistency in the principles and methods of determining the administrative overheads with reasonable accuracy.

3. Scope

This standard should be applied to cost statements, which require classification, measurement, assignment, presentation and disclosure of administrative overheads including those requiring attestation.

4. Definitions

The following terms are being used in this standard with the meaning specified.

4.1 Abnormal cost: An unusual or atypical cost whose occurrence is usually irregular and unexpected and/ or due to some abnormal situation of the production or operation.¹

¹ Adapted from CAS 1 Para 6.5.19

4.2 Absorption of overheads: Assigning of overheads to cost objects by means of appropriate absorption rate.

Overhead Absorption Rate = Overheads of the Cost object / Quantum of base.

4.3 Administrative Overheads: Cost of all activities relating to general management and administration of an entity.

Administrative overheads shall exclude production overheads², marketing overheads³ and finance cost. Production overheads includes administration cost relating to production, factory, works or manufacturing.

4.4 Cost Object: An activity, contract, cost centre, customer, process, product, project, service or any other object for which costs are ascertained.

4.5 Imputed Costs: Notional cost, not involving cash outlay, computed for any purpose.

4.6 Interest and Finance charges: Interest, including any payment in the nature of interest for use of non equity funds and incidental cost that an entity incurs in arranging those funds.

This will include interest and commitment charges on bank borrowings, other short term and long term borrowings, amortisation of discounts or premium related to borrowings, amortisation of ancillary cost incurred in connection with the arrangements of borrowings, finance charges in respect of finance leases, other similar arrangements and exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest costs⁴. The terms Finance costs and Borrowing costs are used interchangeably.

4.7 Normal capacity: Normal Capacity is the production achieved or achievable on an average over a number of periods or seasons under normal circumstances taking into account the loss of capacity resulting from planned maintenance.⁵

² Paragraph reference 4.13 CAS -9

³ Paragraph reference 4.11 CAS -7

⁴ Adapted from CIMA Terminology

⁵ Adapted from CAS 2 Para 4.4

4.8 Overheads: Overheads comprise costs of indirect materials, indirect employees and indirect expenses.

5. Principles of Measurement

5.1 Administrative overheads shall be the aggregate of cost of resources consumed in activities relating to general management and administration of an organisation.

It usually represents the cost of shared services, cost of infrastructure and general management costs. Administrative overheads comprise items such as employee costs, utilities, office supplies, legal expenses and outside services. The principles of measurement of Material Cost, Employee Costs, Utilities, Repairs and Maintenance and Depreciation found in the respective standards will apply to these elements included in administrative overheads.

5.2 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.

5.3 The cost of software (developed in house, purchased, licensed or customised), including up-gradation cost shall be amortised over its estimated useful life.

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

5.4 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.

5.5 Any Subsidy/Grant/Incentive or any amount of similar nature received/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.

5.6 Administrative overheads shall not include any abnormal administrative cost.
Example: Expense incurred in a situation of natural calamity.

5.7 Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the administrative overheads.

5.8 Credits/ 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.

5.9 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.

6. Assignment of Cost

6.1 While assigning administrative overheads, traceability to a cost object in an economically feasible manner shall be the guiding principle.

6.2 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.⁶

The costs of shared services should be assigned to user activities on the basis of actual usage.

Where the resources by way of infrastructure are shared the cost should be assigned on a readiness to serve basis.

General management costs should be assigned on rational basis.

For example: Number of employees, turnover, investment size etc.

7. Presentation

7.1 Administrative overheads shall be presented as a separate cost head in the cost statement.

⁶ Adapted from of CAS 3 Para 5.1

7.2 Element wise details of the administrative overheads based on materiality shall be presented.

8. Disclosures

8.1 The cost statements shall disclose the following:

- The basis of assignment of administrative overheads to the cost objects.
- Any imputed cost included as a part of administrative overheads.
- Administrative overheads incurred in foreign exchange.
- Cost of administrative activities received from or supplied to related parties⁷.
- Any Subsidy / Grant / Incentive or any amount of similar nature received / receivable reduced from administrative overheads.
- Credits / recoveries relating to the administrative overheads.
- Any abnormal portion of the administrative overheads.
- Penalties and damages excluded from the administrative overheads.

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

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

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

⁷ Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement

(CAS - 12)

**COST ACCOUNTING STANDARD ON REPAIRS AND MAINTENANCE
COST**

The following is the **COST ACCOUNTING STANDARD - 12 (CAS - 12)** issued by the Council of The Institute of Cost Accountants of India on "REPAIRS AND MAINTENANCE COST". In this Standard, the standard portions have been set in bold italic type. This standard should be read in the context of the background material which has been set in normal type.

1. Introduction

1.1 This standard deals with the principles and methods of determining the repairs and maintenance cost.

1.2 This standard deals with the principles and methods of classification, measurement and assignment of repairs and maintenance cost, for determination of the Cost of product or service, and the presentation and disclosure in cost statements.

2. Objective

The objective of this standard is to bring uniformity and consistency in the principles and methods of determining the repairs and maintenance cost with reasonable accuracy.

3. Scope

This standard should be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of repairs and maintenance cost including those requiring attestation.

4. Definitions

The following terms are being used in this standard with the meaning specified.

4.1 **Cost Object:** An activity, contract, cost centre, customer, process, product, project, service or any other object for which costs are ascertained.

4.2 **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.

Examples of Direct Expenses are royalties charged on production, job charges, hire charges for use of specific equipment for a specific job, cost of special designs or drawings for a job, software services specifically required for a job, travelling Expenses for a specific job.

4.3 Imputed Costs: Notional cost, not involving cash outlay, computed for any purpose.

4.4 Interest and Finance charges: Interest, including any payment in the nature of interest for use of non-equity funds and incidental cost that an entity incurs in arranging those funds.

This will include interest and commitment charges on bank borrowings, other short term and long term borrowings, amortisation of discounts or premium related to borrowings, amortisation of ancillary cost incurred in connection with the arrangements of borrowings, finance charges in respect of finance leases, other similar arrangements and exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest costs¹. The terms Finance costs and Borrowing costs are used interchangeably.

4.5 Normal capacity: Normal Capacity is the production achieved or achievable on an average over a number of periods or seasons under normal circumstances taking into account the loss of capacity resulting from planned maintenance.²

4.6 Production overheads: Indirect costs involved in the production of a product or in rendering service.

The terms Production Overheads, Factory Overheads, Works Overheads and Manufacturing Overheads denote the same meaning and are used interchangeably. Production overheads shall include administration cost relating to production, factory, works or manufacturing.

4.7 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.

¹ Adapted from CIMA Terminology

² Adapted from CAS 2 paragraph 4.4

Repairs and Maintenance activities for the purpose of this standard include routine or preventive maintenance, planned (predictive or corrective) maintenance and breakdown maintenance.

The repair or overhaul of an asset which results in restoration of the asset to intended condition would also be a part of Repairs and Maintenance activity.

Major overhaul is a periodic (generally more than one year) repair work carried out to substantially restore the asset to intended working condition.

4.8 Standard Cost: A predetermined cost of a product or service based on technical specifications and efficient operating conditions.

Standard costs are used as scale of reference 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. Standard costs are also used for estimation.

5. Principles of Measurement:

5.1 Repairs and maintenance cost shall be 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.

5.2 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.

5.3 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.

5.4 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.

5.5 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.

5.6.1 Each type of repairs and maintenance shall be treated as a distinct activity, if material and identifiable.

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

5.6.2 Cost of repairs and maintenance activity shall be measured for each major asset category separately.

5.7 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.

5.8 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.

Example: The cost of new spare is Rs. 1 crore and the value of the existing spare after reconditioning is estimated at Rs. 20 lacs, the difference of Rs. 80 lacs should be treated as repairs and maintenance cost.

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

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

5.11 Repairs and maintenance costs shall not include imputed costs.

5.12 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.

5.13 Subsidy / Grant / Incentive or amount of similar nature received / 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.

5.14 Any repairs and maintenance cost resulting from some abnormal circumstances, if material and quantifiable, shall not form part of the repairs and maintenance cost.

Example: Major fire, explosions, flood and similar events are abnormal circumstances referred above.

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

Example: A penalty imposed by a regulatory authority for wrongful construction or damages paid to third party for the loss caused due to improper working of property, plant & equipment, should not be included in repairs and maintenance cost.

5.16 Credits/ recoveries relating to the repairs and maintenance activity, material and quantifiable, shall be deducted to arrive at the net repairs and maintenance cost.

5.17 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.

6. Assignment of costs

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

6.2 Where the repairs and maintenance cost is not directly traceable to cost object, it shall be assigned 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.

6.3 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 as per principles laid down in Cost Accounting Standard - 3.

7. Presentation

7.1 Repairs and maintenance cost, if material, shall be presented in the cost statement as a separate item of cost.

7.2 Asset category wise details of repairs and maintenance cost, if material, shall be presented separately.

7.3 Activity wise details of repairs and maintenance cost, if material, shall be presented separately.

8. Disclosures

8.1 The cost statements shall disclose the following:

1. The basis of distribution of repairs and maintenance cost to the cost objects/ cost units.

2. Where standard cost is applied in repairs and maintenance cost, the price and usage variances.

3. Repairs and maintenance cost of Jobs done in-house and outsourced separately.

4. Cost of major overhauls, asset category wise and the basis of amortisation.

5. Repairs and maintenance cost paid/ payable to related parties³.

6. Repairs and maintenance cost incurred in foreign exchange.

³ Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement

7. Any Subsidy / Grant / Incentive or any amount of similar nature received / receivable reduced from repairs and maintenance cost.

8. Any credits / recoveries relating to the repairs and maintenance cost.

9. Any abnormal portion of the repairs and maintenance cost.

10. Penalties and damages excluded from the repairs and maintenance cost.

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

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

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

CAS - 13

COST ACCOUNTING STANDARD ON COST OF SERVICE COST CENTRE

The following is the **COST ACCOUNTING STANDARD - 13 (CAS - 13)** issued by the Council of The Institute of Cost Accountants of India on "Cost of Service Cost Centre". In this Standard, the standard portions have been set in bold italic type. These are to be read in the context of the background material which has been set in normal type.

1. Introduction

1.1 This standard deals with the principles and methods of determining the cost of Service Cost Centre.

1.2 This standard covers the Service Cost Centre as defined in paragraph 4.11 of this standard. It excludes Utilities and Repairs & Maintenance Services dealt with in CAS-8 and CAS-12 respectively.

1.3 This standard deals with the principles and methods of classification, measurement and assignment of Cost of Service Cost Centre, for determination of the Cost of product or service, and the presentation and disclosure in cost statements.

2. Objective

The objective of this standard is to bring uniformity and consistency in the principles and methods of determining the Cost of Service Cost Centre with reasonable accuracy.

3. Scope

This standard should be applied to the preparation and presentation of cost statements, which require classification, measurement and assignment of Cost of Service Cost Centre, including those requiring attestation.

4. Definitions

The following terms are being used in this standard with the meaning specified.

4.1 Abnormal cost: An unusual or atypical cost whose occurrence is usually irregular and unexpected and / or due to some abnormal situation of the production or operation.¹

4.2 Administrative Overheads: Cost of all activities relating to general management and administration of an entity.

Administrative overheads shall exclude production overheads², marketing overheads³ and finance cost. Production overheads includes administration cost relating to production, factory, works or manufacturing.

4.3 Cost Object: An activity, contract, cost centre, customer, process, product, project, service or any other object for which costs are ascertained.

4.4 Distribution Overheads: Distribution overheads, also known as distribution costs, are the costs incurred in handling a product or service from the time it is ready for despatch or delivery until it reaches the ultimate consumer including the units receiving the product or service in an inter-unit transfer.

The cost of any non-manufacturing operations such as packing, repacking, labelling, etc. at an intermediate storage location will be part of distribution cost.

4.5 Imputed Cost: Notional cost, not involving cash outlay, computed for any purpose.

4.6 Interest and Finance charges: Interest, including any payment in the nature of interest for use of non-equity funds and incidental cost that an entity incurs in arranging those funds.

This will include interest and commitment charges on bank borrowings, other short term and long term borrowings, amortisation of discounts or premium related to borrowings, amortisation of ancillary cost incurred in connection with the arrangements of borrowings, finance charges in respect of finance leases, other similar arrangements and exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment

¹ Adapted from CAS 1 paragraph 6.5.19

² Paragraph reference 4.13 CAS -9

³ Paragraph reference 4.11 CAS -7

to the interest costs⁴. The terms Finance costs and Borrowing costs are used interchangeably.

4.7 Marketing overheads: Marketing overheads comprise of selling overheads and distribution overheads.

4.8 Normal capacity: Normal Capacity is the production achieved or achievable on an average over a number of periods or seasons under normal circumstances taking into account the loss of capacity resulting from planned maintenance.⁵

4.9 Production Overheads: Indirect costs involved in the production of a product or in rendering service.

The terms Production Overheads, Factory Overheads, Works Overheads and Manufacturing Overheads denote the same meaning and are used interchangeably.

4.10 Selling Overheads: Selling overheads are the expenses related to sale of products or services and include all indirect expenses incurred in selling the products or services.

4.11 Standard Cost: A predetermined cost of a product or service based on technical specifications and efficient operating conditions.

Standard costs are used as scale of reference 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. Standard costs are also used for estimation.

4.12 Stand-by service: Any facility created as backup against any failure of the main source of service.

4.13 Support-Service Cost Centre: The cost centre which primarily provides auxiliary services across the entity.

The cost centre which provides services to Production, Operation or other Service Cost Centre but not directly engaged in manufacturing process or

⁴ Adapted from CIMA Terminology

⁵ Adapted from CAS 2 paragraph 4.4

operation is a service cost centre. A service cost centre renders services to other cost centres / other units and in some cases to outside parties.

Examples of service cost centres are engineering, workshop, research & development, quality control, quality assurance, designing, laboratory, welfare services, safety, transport, Component, Tool stores, Pollution Control, Computer Cell, dispensary, school, crèche, township, Security etc.

Administrative Overheads include cost of administrative Service Cost Centre.

5. Principles of Measurement

5.1 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.

5.2.1 Cost of service cost centre shall be the aggregate of direct and indirect cost attributable to services being rendered by such cost centre.

5.2.2 Cost of in-house services shall include cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources used in such service.

Cost of other resources includes related overheads.

5.2.3 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.

5.2.4 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.

5.2.5 Cost of services for the purpose of inter unit transfers shall also include distribution costs incurred for such transfers.

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

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

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

5.4 The cost of service cost centre shall not include imputed costs.

5.5 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.

5.6 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.

5.7 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 cost⁶. Cost of a Stand-by service shall include the committed costs of maintaining such a facility for the service.

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

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

5.10 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.

5.11 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.

⁶ Adapted from Paragraph 5.7 of CAS 3

6. Assignment of Cost

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

6.2 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.

6.3 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.

7. Presentation

7.1 Cost of service cost centre shall be presented as a separate cost head for each type of service in the cost statement, if material.

8. Disclosures

8.1 The cost statements shall disclose the following:

1. The basis of distribution of cost of each service cost centre to the consuming centres.
2. The cost of purchase, production, distribution, marketing and price of services with reference to sales to outside parties
3. Where the cost of service cost centre is disclosed at standard cost, the price and usage variances
4. The cost of services received from / rendered to related parties⁷.
5. Cost of service cost centre incurred in foreign exchange.
6. Any Subsidy/Grant/Incentive and any such payment reduced from cost of Service Cost Centre.
7. Credits/ recoveries relating to the cost of Service Cost Centre
8. Any abnormal cost excluded from cost of Service Cost Centre
9. Penalties and damages paid excluded from cost of Service Cost Centre.

⁷ Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement

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

8.3 Disclosures shall be made only where material and significant.

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

CAS - 14

COST ACCOUNTING STANDARD ON POLLUTION CONTROL COST

The following is the Cost Accounting Standard - 14 (CAS - 14) issued by the Council of The Institute of Cost Accountants of India on "POLLUTION CONTROL COST". In this Standard, the standard portions have been set in bold italic type. This standard should be read in the context of the background material, which has been set in normal type.

1 Introduction

This standard deals with principles and methods of determining the Pollution control costs.

This standard deals with the principles and methods of classification, measurement and assignment of pollution control costs, for determination of Cost of product or service, and the presentation and disclosure in cost statements.

2 Objective

The objective of this standard is to bring uniformity and consistency in the principles and methods of determining the Pollution Control Costs with reasonable accuracy.

3 Scope

This standard should to be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of Pollution Control Costs including those requiring attestation.

4 Definitions

The following terms are being used in this standard with the meaning specified.

4.1 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

environment¹.

4.2 Air Pollution: Air pollution means the presence in the atmosphere of any air pollutant.²

4.3 Cost Object: An activity, contract, cost centre, customer, process, product, project, service or any other object for which costs are ascertained.

4.4 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.³

4.5 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.⁴

4.6 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.⁵

4.7 Environment Pollution: Environmental pollution means the presence in the environment of any environmental pollutant.⁶

4.8 Imputed Costs: Notional cost, not involving cash outlay, computed for any purpose.

4.9 Interest and Finance charges: Interest, including any payment in the nature of interest for use of non equity funds and incidental cost that an entity incurs in arranging those funds.

¹ Section 2 (a) of The Air (Prevention and Control of Pollution) Act, 1981

² Section 2 (b) of The Air (Prevention and Control of Pollution) Act, 1981

³ Adapted from Paragraph 4.4 of CAS - 10

⁴ Section 2 (a) of The Environment (Protection) Act, 1986

⁵ Section 2 (b) of The Environment (Protection) Act, 1986

⁶ Section 2 (c) of The Environment (Protection) Act, 1986

This will include interest and commitment charges on bank borrowings, other short term and long term borrowings, amortisation of discounts or premium related to borrowings, amortisation of ancillary cost incurred in connection with the arrangements of borrowings, finance charges in respect of finance leases, other similar arrangements and exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest costs.⁷ The terms Finance costs and Borrowing costs are used interchangeably.

4.10 Normal capacity: Normal Capacity is the production achieved or achievable on an average over a number of periods or seasons under normal circumstances taking into account the loss of capacity resulting from planned maintenance⁸.

4.11 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.

Production overheads: Indirect costs involved in the production of a product or in rendering service.

The terms Production Overheads, Factory Overheads, Works Overheads and Manufacturing Overheads denote the same meaning and are used interchangeably.

Production overheads shall include administration cost relating to production, factory, works or manufacturing.

4.12 Soil Pollutant: Soil Pollutant is a substance which is the source of soil contamination.

4.13 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.

4.14 Standard Cost: A predetermined cost of a product or service based on

⁷ Adapted from CIMA Terminology

⁸ Adapted from CAS 2 paragraph 4.4

technical specifications and efficient operating conditions.

Standard costs are used as scale of reference 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. Standard costs are also used for estimation.

4.15 Water pollution: Water 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.⁹

5 Principles of Measurement:

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

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.

5.2 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.

5.3 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

⁹ Section 2 (e) of The Water (Prevention and Control of Pollution) Act, 1974

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.

5.4 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.

5.5 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.

5.6 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.

5.7 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.

5.8 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.

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

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

5.11 Pollution Control costs shall not include imputed costs.

5.12 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.

5.13 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.

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

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

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

5.17 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.

5.18 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.

6 Assignment of costs

6.1 Pollution Control costs shall be traced to a cost object to the extent economically feasible.

Direct costs of pollution control such as treatment and disposal of waste shall be assigned directly to the product, where traceable economically.

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.

6.2 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;

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.

Typical of such costs are costs such as administration costs relating to pollution control activities, costs of certification such as ISO 14000 and registration fees payable to pollution control authorities

6.3 If the Pollution Control 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 as per principles laid down in Cost Accounting Standard - 3.

7 Presentation

7.1 Pollution Control cost, if material, shall be presented in the cost statement as a separate item of cost.

7.2 Pollution control costs shall be presented duly classified as follows:

- a) Direct and Indirect cost
- b) Internal and External costs

- c) Current and future costs
- d) Domain area e.g. water, air and soil.

7.3 Activity wise details of Pollution Control cost, if material, shall be presented separately.

8 Disclosures

8.1 The cost statements shall disclose the following:

1. The basis of distribution of Pollution Control cost to the cost objects/ cost units.
2. Where standard cost is applied in Pollution Control cost, the price and usage variances.
3. Pollution Control cost of Jobs done in-house and outsourced separately.
4. Pollution Control cost paid/ payable to related parties¹⁰.
5. Pollution Control cost incurred in foreign exchange.
6. Any Subsidy / Grant / Incentive or any amount of similar nature received / receivable reduced from Pollution Control cost.
7. Any credits / recoveries relating to the Pollution Control cost.
8. Any abnormal portion of the Pollution Control cost.
9. Penalties and damages excluded from the Pollution Control cost.

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

8.3 Cost incurred on pollution control relating to prior periods and taken to reconciliation directly shall be disclosed separately.

8.4 Where estimates are made of future costs to be incurred on pollution control, the basis of estimate shall be disclosed separately.

8.5 If a descriptive note dealing with the social cost of pollution caused by the entity and the control of such pollution is contained in the same document as the

¹⁰ Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement

cost statement, the cost Statement shall carry a reference to such descriptive note.

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

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

CAS - 15

COST ACCOUNTING STANDARD ON SELLING AND DISTRIBUTION OVERHEADS

The following is the **COST ACCOUNTING STANDARD -15 (CAS-15)** issued by the Council of The Institute of Cost Accountants of India on "**SELLING AND DISTRIBUTION OVERHEADS**". In this standard, the standard portions have been set in bold italic type. These are to be read in the context of the background material which has been set in normal type.

1. Introduction

This standard deals with the principles and methods of determining the Selling and Distribution Overheads.

This standard deals with the principles and methods of classification, measurement and assignment of Selling and Distribution Overheads, for determination of the cost of sales of product or service, and the presentation and disclosure in cost statements.

2. Objective

The objective of this standard is to bring uniformity and consistency in the principles and methods of determining the Selling and Distribution Overheads with reasonable accuracy.

3. Scope

This standard should be applied to cost statements, which require classification, measurement, assignment, presentation and disclosure of Selling and Distribution Overheads including those requiring attestation.

4. Definitions

The following terms are being used in this standard with the meaning specified.

a. **Abnormal cost:** An unusual or atypical cost whose occurrence is usually irregular and unexpected and / or due to some abnormal situation of the production or operation.¹

b. **Absorption of overheads:** Assigning of overheads to cost objects by means of appropriate absorption rate.

Overhead Absorption Rate = Overheads of the Cost object / Quantum of base.

c. **Cost Object:** An activity, contract, cost centre, customer, process, product, project, service or any other object for which costs are ascertained.

d. **Distribution overheads:** Distribution overheads, also known as distribution costs, are the costs incurred in handling a product or service from the time it is ready for despatch or delivery until it reaches the ultimate consumer including the units receiving the product or service in an inter-unit transfer.

The cost of packing, repacking, labelling, etc. at an intermediate storage location will be part of distribution cost.

For Example:

1. Packing, repacking / labelling at an intermediate storage location
2. Transportation cost
3. Cost of warehousing (cover depots, godowns, storage yards, stock yards etc.,)

Note:

In case of machinery involving technical help in installation, such expenses for installation are part of cost of production and not considered as cost of Selling and Distribution Overheads.

e. **Imputed Costs:** Notional cost, not involving cash outlay, computed for any purpose.

f. **Indirect expenses:** Expenses which cannot be directly attributed to a particular cost object.

¹CAS 3 (Revised 2011) Para 4.1

4.7 Marketing Overheads: Marketing overheads comprise of selling overheads and distribution overheads.

4.8 Overheads: Overheads comprise costs of indirect materials, indirect employees and indirect expenses.

4.9 Selling Overheads: Selling overheads are the expenses related to sale of products or services and include all indirect expenses incurred in selling the products or services.

For Example:

1. Salaries of sales personnel
2. Travelling expenses of sales personnel
3. Commission to sales agents
4. Sales and brand promotion expenses including advertisement, publicity, sponsorships, endorsements and similar other expenses.
5. Receivable Collection costs
6. After sales service costs
7. Warranty costs
9. Principles of Measurement

5.1 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.

Post sales costs such as warranty cost, product liability cost, after sales service shall be estimated on a reasonable basis.

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

5.3 Selling and distribution overheads shall not include imputed cost.

5.4 Cost of after Sales Service provided in terms of sale agreement for a class of transactions, shall be determined on rational and scientific basis, net of any recovery on the service.

5.5 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.

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

5.7 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.

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

5.9 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.

5.10 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.

10. Assignment of Cost

6.1 Selling and Distribution Overheads directly traceable shall be assigned to the relevant product sold or services rendered.

6.2 Transportation cost relating to distribution shall be assigned as per CAS - 5, where relevant and applicable.

6.3 Assignment of Selling and Distribution 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.

11. Presentation

7.1 Selling and Distribution overheads shall be presented as a separate cost head in the cost statement.

A reporting entity may use the term marketing Overheads in place of Selling and Distribution overheads.

7.2 Element wise details of the Selling and Distribution overheads shall be presented, if material.

12. Disclosures

8.1 The cost statements shall disclose the following:

- The basis of distribution of Selling and Distribution Overheads to the cost objects.
- Selling and Distribution Overheads incurred in foreign exchange.
- Cost of Selling and Distribution services rendered to related parties².
- Any Subsidy / Grant / Incentive and any such payment reduced from Selling and Distribution Overheads.
- Credits / recoveries relating to the Selling and Distribution Overheads.
- Penalties and damages excluded from the Selling and Distribution Overheads.

8.2 Disclosures shall be made only where material and significant.

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

8.4 Any change in the cost accounting principles and methods applied for the measurement and assignment of the Selling and Distribution Overheads during the period covered by the cost statement which has a material effect on the Selling

² Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement

and Distribution Overheads shall be disclosed. Where the effect of such change is not ascertainable wholly or partly the fact shall be indicated.

13. Effective date:

This Cost Accounting Standard shall be effective from the period commencing on or after 1st April 2013 for being applied for the preparation and certification of General Purpose Cost Accounting Statements.

CAS -16

COST ACCOUNTING STANDARD ON DEPRECIATION AND AMORTISATION

The following is the **COST ACCOUNTING STANDARD - 16 (CAS - 16)** issued by the Council of The Institute of Cost Accountants of India on "DEPRECIATION AND AMORTISATION". In this Standard, the standard portions have been set in bold italic type. This standard should be read in the context of the background material which has been set in normal type.

39. Introduction

This standard deals with the principles and methods of measurement and assignment of Depreciation and Amortisation for determination of the cost of product or service, and the presentation and disclosure in cost statements.

40. Objective

The objective of this standard is to bring uniformity and consistency in the principles and methods of determining the Depreciation and Amortisation with reasonable accuracy.

41. Scope

This standard shall be applied to cost statements which require measurement, assignment, presentation and disclosure of Depreciation and Amortisation, including those requiring attestation.

42. Definitions

The following terms are being used in this standard with the meaning specified:-

4.1 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.

4.2 Asset: An Asset is a resource;

(a) controlled by an entity as a result of past events; and

(b) from which future economic benefits are expected to flow to the entity.

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.

4.3 Cost Object: An activity, contract, cost centre, customer, process, product, project, service or any other object for which costs are ascertained.

4.4 Current asset: An entity shall classify an asset as current when :

(a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;

(b) it holds the asset primarily for the purpose of trading;

(c) it expects to realise the asset within twelve months after the reporting period;
or

(d) the asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

4.5 Depreciation: Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

4.6 Depreciable amount: The cost of an asset, or other amount substituted for cost in the financial statement, less its residual value.

4.7 Depreciable fixed and Intangible assets are assets which:

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

(ii) have a limited useful life; and

(iii) 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.

4.8 Residual (salvage) value: The estimated amount that an entity would currently obtain from disposal of an asset, after deducting the estimated costs of disposal, if the assets were already of the age and in the condition expected at the end of its useful life.

4.9 Useful life of asset: Useful life of asset is either:

- the period over which a asset is expected to be available for use by an entity ; or
- the number of production or similar units expected to be obtained from use of the asset by the entity.

5 Principles of Measurement

5.1 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:

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

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

10. 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.

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

5.3 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.

5.4 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.

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.

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

5.5 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.

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.

5.6 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.

5.7 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.

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

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

5.10 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.

5.11 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.

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

5.13 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.

5.14 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.

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

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

5.17 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.

6 Assignment of Costs

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

6.2 Where the depreciation is not directly traceable to cost object, it shall be assigned based on either of the following two principles:

- i. Cause and effect - cause is a process or operation or activity and effect is the incurrence of cost.
- ii. Benefits received- depreciation is to be apportioned to the various cost objects in proportion to the benefits received by them.

7 Presentation

Depreciation and Amortisation, if material, shall be presented in the cost statement as a separate item of cost.

8 Disclosures

8.1 The cost statement shall disclose the following:-

1. The basis of distribution of Depreciation and Amortisation to the cost objects.
2. Any credits / recoveries relating to Depreciation and Amortisation.
3. Additional Depreciation on account of revaluation of asset, which is not included in cost.

4. Amount of depreciation that is not included in cost because of temporary retirement of assets from production of goods and services.

8.2 Disclosure shall be made only where material, significant and quantifiable.

8.3 Disclosures shall be made in the body of the cost statement or as a foot note or in a separate schedule.

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

9. Effective date:

This Cost Accounting Standard shall be effective from the period commencing on or after 1st April 2014 for being applied for the preparation and certification of General Purpose Cost Accounting Statements

CAS-17

COST ACCOUNTING STANDARD ON INTEREST AND FINANCING CHARGES

The following is the Cost Accounting Standard (CAS 17) issued by the Council of The Institute of Cost Accountants of India for determination of **"INTEREST AND FINANCING CHARGES"**. In this Standard, the standard portions have been set in *bold italic* type. These are to be read in the context of the background material which has been set in normal type.

1 Introduction

This standard deals with the principles and methods of classification, measurement and assignment of Interest and Financing Charges.

2 Objective

The objective of this standard is to bring uniformity and consistency in the principles, methods of determining and assigning the Interest and Financing Charges with reasonable accuracy.

3 Scope

This standard should be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of Interest and Financing Charges including those requiring attestation.

This standard does not deal with costs relating to risk management through derivatives.

4 Definitions

The following terms are being used in this standard with the meaning specified.

4.1 Asset: *An Asset is a resource;*

(a) controlled by an entity as a result of past events; and

(b) from which future economic benefits are expected to flow to the

entity.

- 4.2 Cost Object:** *An activity, contract, cost centre, customer, process, product, project, service or any other object for which costs are ascertained.*
- 4.3 Current asset:** *An entity shall classify an asset as current when :*
- (a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;*
 - (b) it holds the asset primarily for the purpose of trading;*
 - (c) it expects to realise the asset within twelve months after the reporting period; or*
 - (d) the asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.*
- 4.4 Current Liabilities:** *An entity shall classify a liability as current when:*
- (a) it expects to settle the liability in its normal operating cycle;*
 - (b) it holds the liability primarily for the purpose of trading;*
 - (c) the liability is due to be settled within twelve months after the reporting period ; or*
 - (d) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.*
- 4.5 Imputed Costs:** *Notional cost, not involving cash outlay, computed for any purpose.*
- 4.6 Intangible Asset:** *An intangible asset is an identifiable non-monetary asset without physical substance.*
- 4.7 Interest and Finance charges:** *Interest, including any payment in the nature of interest for use of non equity funds and incidental cost that an entity incurs in arranging those funds.*

Examples are:

- 43. interest and commitment charges on bank borrowings, other short term and long term borrowings:
- 44. amortisation of discounts or premium related to borrowings:
- 45. amortisation of ancillary cost incurred in connection with the arrangements of borrowings:
- 46. Financing Charges in respect of finance leases and other similar arrangements: and
- 47. exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest costs.⁵⁹
- 48. Cash discount allowed to customers.

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

4.8 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 disbursement as per Loan Agreement.

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

5. Principles of Measurement:

- ***Interest and Financing Charges incurred shall be identified for :***

⁵⁹

Adapted from CIMA Terminology

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

5.3 Interest and Financing Charges shall not include imputed costs.

5.4 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.

5.5 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.

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

6. Assignment of costs

6.1 Assignment of Interest and Financing Charges to the cost objects shall be based on either of the following principles;

- *Cause and effect- cause is the process or operation or activity and effect is the incurrence of cost.*
- *Benefits received- Interest and Financing Charges are to be apportioned to the various cost objects in proportion to the benefits received by them.*

7. Presentation

Interest and Financing Charges shall be presented in the cost statement as a separate item of cost of sales.

(c) Disclosures

(d) *The cost statements shall disclose the following:*

11. The basis of distribution of Interest and Financing Charges to the cost objects/ cost units.

12. Where predetermined cost is applied in Interest and Financing Charges, the rate and usage variances.

13. Interest and Financing Charges paid/ payable to related parties.

14. Interest and Financing Charges incurred in foreign exchange.

15. Any Subsidy / Grant / Incentive or any amount of similar nature received / receivable reduced Interest and Financing Charges.

(e) *Disclosures shall be made only where material, significant and quantifiable.*

(f) *Interest and Financing Charges incurred relating to prior periods and taken to reconciliation directly shall be disclosed separately.*

(g) *Disclosures shall be made in the body of the Cost Statement or as a foot note or as a separate schedule.*

(h) *Any change in the cost accounting principles and methods applied for the measurement and assignment of the Interest and Financing Charges during the period covered by the cost statement which has a material effect on the Interest and Financing Charges shall be disclosed. Where the effect of such change is not ascertainable wholly or partly the fact shall be indicated.*

(i)Effective date:

This Cost Accounting Standard shall be effective from the period commencing on or after 1st April 2014 for being applied for the preparation and certification of General Purpose Cost Accounting Statements

CAS -18

COST ACCOUNTING STANDARD ON RESEARCH AND DEVELOPMENT COSTS

The following is the Cost Accounting Standard-18 (CAS-18) issued by the Council of The Institute of Cost Accountants of India for determination of "RESEARCH AND DEVELOPMENT COSTS". In this Standard, the standard portions have been set in *bold italic* type. This standard should be read in the context of the background material which has been set in normal type.

1. Introduction

This standard deals with the principles and methods of determining the Research, and Development Costs and their classification, measurement and assignment for determination of the cost of product or service, and the presentation and disclosure in cost statements.

2. Objective

The objective of this standard is 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.

3. Scope

This standard should be applied to cost statements that require classification, measurement, assignment, presentation and disclosure of Research, and Development Costs including those requiring attestation.

Definitions

The following terms are being used in this standard with the meaning specified.

4.1 Abnormal cost: An unusual or atypical cost whose occurrence is usually irregular and unexpected and/ or due to some abnormal situation of the production or operation.⁶⁰

4.2 Cost Object: An activity, contract, cost centre, customer, process, product, project, service or any other object for which costs are ascertained.

4.3 Direct Employee Cost: Employee cost, which can be attributed to a Cost Object in an economically feasible way.⁶¹

4.4 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 or direct employee cost⁶².

Examples of Direct Expenses are royalties charged on production, hire charges for use of specific equipment for a specific job, cost of special designs or drawings for a job, software services specifically required for a job, travelling Expenses for a specific job.

4.5 Direct Materials: Materials, the cost of which can be attributed to a cost object in an economically feasible way.⁶³

⁶⁰ Adapted from CAS 1 paragraph 6.5.19

⁶¹ Adapted from CAS 1 Para 6.2.4 (Direct labour cost)

⁶² Adapted from CAS 1 Para 6.2.6

⁶³ Adapted from CAS 1-6.2.3

4.6 Imputed Costs: Notional cost, not involving cash outlay, computed for any purpose

4.7 Indirect Employee Cost: The employee cost which cannot be directly attributed to a particular cost object.

4.8 Indirect Material Cost: Material cost that cannot be directly attributed to a particular cost object.

4.9 Indirect expenses: Expenses which cannot be directly attributed to a particular cost object.

4.10 Overheads: Overheads comprise costs of indirect materials, indirect employees and indirect expenses.

4.11 Research and Development:

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

4.11.2 Development cost: Development cost is the cost for application of research finding or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems, or services before the start of commercial production or use.

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

5. Principles of Measurement

5.1 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:

1. The cost of materials and services consumed in Research, and Development activities.
2. 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.
3. The salaries, wages and other related costs of personnel engaged in Research, and Development activities;
4. 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;
5. Overhead costs, other than general administrative costs, related to Research, and Development activities.
6. Costs incurred for carrying out Research, and Development activities by other entities and charged to the entity; and
7. Expenditure incurred in securing copyrights or licences
8. Expenditure incurred for developing computer software
9. Costs incurred for the design of tools, jigs, moulds and dies
10. Other costs that can be directly attributed to Research, and Development activities and can be identified with specific projects.

5.2 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.

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

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

5.5 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.

5.6 Research and Development costs shall not include imputed costs.

5.7 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.

6. Assignment of costs

6.1 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.

6.2 Development cost which results in the creation of an intangible asset shall be amortised over its useful life

6.3 Assignment of Development Costs shall be based on the principle of "benefits received".

6.4 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.

6.5 Development costs attributable to a saleable service e.g providing technical know-how to outside parties shall be accumulated separately and treated as cost of providing the service.

7. Presentation

7.1 Research and Development costs relating to improvement of the process or products or services shall be presented as a separate item of cost in the cost statement under cost of production.

7.2 Research, and Development costs which are not related to improvement of the process, materials, devices, processes, systems, product or services shall be presented as a part of the reconciliation statement.

8. Disclosures

8.1 The cost statements shall disclose the following:

- 1. The basis of accumulation and assignment of Research and Development costs.**
- 2. The Research, and Development costs paid to related parties⁶⁴.**
- 3. Credit/recoveries from related parties**
- 4. Research, and Development cost incurred in foreign exchange.**
- 5. Any Subsidy/Grant/Incentive and any such payment reduced from Research, and Development cost.**

⁶⁴ Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement

6. *Credits/recoveries deducted from the Research, and Development cost.*
7. *Any abnormal cost excluded from Research, and Development cost including cost of abandoned projects and research activities considered abnormal.*
8. *Penalties and damages paid etc. excluded from Research, and Development cost.*
- 8.2 *Any change in the cost accounting principles and methods applied for the measurement and assignment of the Research, and Development cost during the period covered by the cost statement that has a material effect on the Research, and Development cost shall be disclosed. Where the effect of such change is not ascertainable wholly or partly the fact shall be indicated.*
- 8.3 *Disclosures shall be made only where material, significant and quantifiable.*
- 8.4 *Disclosures shall be made in the body of the Cost Statement or as a foot note or as a separate schedule.*

CAS-19

COST ACCOUNTING STANDARD ON JOINT COSTS

The following is the Cost Accounting Standard - 19 (CAS - 19) issued by the Council of The Institute of Cost Accountants of India for determination of "JOINT COSTS". In this standard, the standard portions have been set in bold Italic type. This standard should be read in the context of the background material which has been set in normal type.

i. Introduction

The standard deals with the principles and methods of measurement and assignment of Joint Costs and the presentation and disclosure in cost statement.

ii. Objective

The objective of this standard is to bring uniformity, consistency in the principles, methods of determining and assigning Joint Costs with reasonable accuracy.

iii. Scope

The standard shall be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of Joint Costs including those requiring attestation.

iv. Definitions

The following terms are being used in this standard within the meaning specified.

4.1 By-Product: Product with relatively low value produced incidentally in the manufacturing of the product or service.

4.2. Cost Object: An activity, contract, cost centre, customer, process, product, project, service or any other object for which costs are ascertained.

4.3 Imputed Cost: Notional cost, not involving cash outlay, computed for any purpose

4.4 Joint Costs: Joint costs are the cost of common resources used to produce two or more products or services simultaneously.

4.5 Joint product: Products or services that are produced simultaneously, by the same process, identifiable at the end of the process and recognised as main products or services having sufficient value.

4.6 Scrap: Discarded material having no or insignificant value and which is usually either disposed off without further treatment (other than reclamation and handling) or reintroduced into the process in place of raw material.

4.7 Split off point: The point in the production process at which joint products become separately identifiable.

The terms split off point and separation point are used interchangeably.

4.8 Waste: Material lost during production or storage and discarded material which may or may not have any value.

5. Principles of Measurement

5.1 The principles and methods for measuring Joint costs upto the split off point will be the same as stipulated in other cost accounting standards.

5.2 Cost incurred after split-off point on product separately identifiable shall be measured for the resources consumed for each Joint/By-Product.

5.3 Cost incurred after split- off point for further processing of joint product/By-Product shall be the aggregate of direct and indirect costs.

5.4 Cost of further processing of joint product/By-Product carried out by outside parties shall be determined at invoice or agreed price including duties and taxes, net of discounts (other than cash discount) taxes and duties refundable or to be credited and other expenditure directly attributable to such processing . This cost shall also include the cost of resources provided to outside parties.

5.5 In case the production process generates scrap or waste, realized or realizable value, net of disposal cost, of scrap and waste shall be deducted from the cost of Joint Product.

5.6 Any Subsidy / Grant / Incentive or any such payment received / receivable with respect to any joint product /By-Product shall be reduced for ascertainment of the cost to which such amounts are related.

5.7 Penalties, damages paid to statutory authorities or other third parties shall not form part of the cost of the joint product /By-Product.

6. Assignment

6.1 Joint cost incurred shall be assigned to joint products based on benefits received, which is measured using any of the following methods:

5 Physical Units Method.

6 Net Realisable Value at split-off point.

Net realisable value for this purpose means the net selling price per unit multiplied by quantity (Quantity sold). Net realizable value is to be adjusted for the post-split off costs.

7 Technical estimates

6.2 The value of By-Product shall be estimated using any of the following methods for adjusting joint costs :

- Net realizable value

Net realizable value for this purpose means the net selling price per unit multiplied by quantity (Quantity sold). Net realizable value is to be adjusted for the post-split off costs.

- Technical Estimates

This method may be adopted where the By-Product is not saleable in the condition in which it emerges or comparative prices of similar products are not available.

7. Presentation

The Cost Statement shall present the element wise cost of individual products produced jointly and the value assigned to By-Products.

8. Disclosures

8.1 The Cost statement shall disclose the basis of allocation of Joint costs to individual products and the value assigned to the By-Products

8.2 The Cost statement shall also disclose:

8.3 The disclosure should be made only where material, significant & quantifiable.

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

8.5 Any change in the cost accounting principles and methods applied for the measurement and assignment of the Joint costs and the value assigned to by-product during the period covered by the cost statement which has a material effect on the Joint/ By-Products shall be disclosed. Where the effect of such change is not ascertainable wholly or partly the fact shall be indicated.

9. Effective date:

This Cost Accounting Standard shall be effective from the period commencing on or after 1st April, 2014 for being applied for the preparation and certification of General Purpose Cost Accounting Statements.

CAS-20

COST ACCOUNTING STANDARD ON ROYALTY AND TECHNICAL KNOW-HOW FEE

The following is Cost Accounting Standard- (CAS-20) issued by the council of The Institute of Cost Accountants of India for determination of "ROYALTY AND TECHNICAL KNOW-HOW FEE". In this Standard, the standard portions have been set in bold italic type. This standard should be read in the context of the background material which has been set in normal type.

1. Introduction

1.1 This standard deals with the principles and methods of determining the amount of Royalty and Technical Know-how Fee.

1.2 This standard deals with the principles and methods of classification, measurement and assignment of the amount of Royalty and Technical Know-how Fee, for determination of the cost of product or service, and their presentation and disclosure in cost statements.

2. Objective: The objective of this standard is to bring uniformity and consistency in the principles and methods of determining the amount of Royalty and Technical Know-how Fee with reasonable accuracy.

3. Scope: This standard should be applied to cost statements, which require classification, measurement, assignment, presentation and disclosure of the amount of Royalty and Technical Know-how Fee including those requiring attestation.

4. Definitions

The following terms are being used in this standard with the meaning specified.

4.1 Cost Object: An activity, contract, cost centre, customer, process, product, project, service or any other object for which costs are ascertained.

4.3 Imputed Costs: Notional cost, not involving cash outlay, computed for any purpose.

4.4 Interest and Finance charges: Interest, including any payment in the nature of interest for use of non equity funds and incidental cost that an entity incurs in arranging those funds.

This will include interest and commitment charges on bank borrowings, other short term and long term borrowings, amortisation of discounts or premium related to borrowings, amortisation of ancillary cost incurred in connection with the arrangements of borrowings, finance charges in respect of finance leases, other similar arrangements and exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest costs⁶⁵. The terms Finance costs and Borrowing costs are used interchangeably.

4.2 Royalty: Royalty is any consideration for the use of asset (tangible and/or intangible) to the owner.

Royalty is often expressed as a percentage of the revenues obtained by use of the owners asset(tangible and/or intangible); per unit of production or sales value. It may relate to use of: Non-renewable resource (petroleum and mineral resources) ; Patents; Trademarks; Franchise rights; Copy rights; art-work, software and the like.

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.

4.5 Technical service fee: Technical service fee is any consideration payable to provider of technical or managerial services.

5. Principles of Measurement:

⁶⁵ Adapted from CIMA Terminology

5.1 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.

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

5.3 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.

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

5.5 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 Know-how fee.

5.6 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.

6. Assignment of costs

6.1 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:

- a. Units produced
- b. Units sold
- c. Sales value

6.2 The amount of Royalty fee paid for mining rights shall form part of the cost of material.

6.3 The amount of Royalty and Technical Know-how fee shall be assigned on the nature/ 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.

7. Presentation

7.1 The amount Royalty and Technical Know-how fee shall be presented as a separate cost head with suitable classification.

8. Disclosures

8.1 The cost statements shall disclose the following:

- The basis of distribution of the amount Royalty and Technical Know-how fee to the cost objects/ cost units.
- Quantity and the related rate of items of the amount of Royalty and Technical Know-how fee, as applicable.
- Royalty and Technical Know-how fee paid/ payable to related parties⁶⁶.
- Royalty and Technical Know-how fee incurred in foreign exchange.
- Any Subsidy/Grant/Incentive and any such payment reduced from the amount of Royalty and Technical Know-how fee.
- Credits/recoveries relating to the amount of Royalty and Technical Know-how fee.
- Penalties and damages excluded from the amount of Royalty and Technical Know-how fee

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

8.3 Any change in the cost accounting principles and methods applied for the measurement and assignment of the amount Royalty and Technical Know-how fee

⁶⁶ Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement

during the period covered by the cost statement which has a material effect on the amount Royalty and Technical Know-how fee. Where the effect of such change is not ascertainable wholly or partly the fact shall be indicated.

CAS-21

COST ACCOUNTING STANDARD ON QUALITY CONTROL

The following is the Cost Accounting Standard (CAS -21) issued by the Council of The Institute of Cost Accountants of India for determination of "QUALITY CONTROL". In this standard, the standard portions have been set in bold Italic type. These are to be read in context of the background material which has been set in normal type.

1. Introduction

The standard deals with the principles and methods of measurement and assignment of Quality Control cost and the presentation and disclosure in cost statement.

2. Objective

The objective of this standard is to bring uniformity, consistency in the principles, methods of determining and assigning Quality Control cost with reasonable accuracy.

3. Scope

The standards shall be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of Quality Control cost including those requiring attestation.

4. Definitions

The following terms are being used in this standard with the meaning specified.

4.1 Abnormal cost: An unusual or atypical cost whose occurrence is usually irregular and unexpected and/ or due to some abnormal situation of the production or operation.⁶⁷

4.2 Cost Object: An activity, contract, cost centre, customer, process, product, project, service or any other object for which costs are ascertained.

⁶⁷ Adopted from CAS 1 paragraph 6.5.19

4.3 Defectives: Materials, products or intermediate products that do not meet quality standards. This may include reworks or rejects.

4.3.1 Rework: Defectives which can be brought up to the standards by putting in additional resources.

Rework includes repairs, reconditioning and refurbishing.

4.3.2 Rejects: Defectives which cannot meet the quality standards even after putting in additional resources.

Rejects may be disposed off as waste or sold for salvage value or recycled in the production process.

4.4 Imputed Costs: Notional cost, not involving cash outlay, computed for any purpose

4.5 Interest and Finance charges: Interest, including any payment in the nature of interest for use of non equity funds and incidental cost that an entity incurs in arranging those funds. This will

include interest and commitment charges on bank borrowings, other short term and long term borrowings, amortisation of discounts or premium related to borrowings, amortisation of ancillary cost incurred in connection with the arrangements of borrowings, finance charges in respect of finance leases, other similar arrangements and exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest costs⁶⁸. The terms Finance costs and Borrowing costs are used interchangeably.

4.6 Overheads: Overheads comprise costs of indirect materials, indirect employees and indirect expenses.

4.7 Quality: Quality is the conformance to requirements or specifications.

The quality of a product or service is fitness of that product or service for meeting

⁶⁸ Adapted from CIMA Terminology

its intended use as required by customer.

4.8 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.

4.9 Quality Control cost: Cost of resources consumed towards quality control procedures

4.10 Scrap: Discarded material having no or insignificant value and which is usually either disposed off without further treatment (other than reclamation and handling) or reintroduced into the process in place of raw material.

4.11 Waste and spoilage:

4.11.1 Waste: Material lost during production or storage and discarded material which may or may not have any value.

4.11.2 Spoilage: Production that does not meet the quality requirements or specifications and cannot be rectified economically.

5. Principles of Measurement:

5.1 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.

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

5.3 Quality Control costs other than those referred to in paragraph 5.2 shall be determined on the basis of amount incurred in connection therewith.

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

5.5 Quality Control costs shall not include imputed costs.

5.6 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.

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

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

5.9 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.

6. Assignment of costs

6.1 Quality Control cost that is directly traceable to the cost object shall be assigned to that cost object.

6.2 Assignment of Quality Control cost to the cost objects shall be based on benefits received by them.

i) Benefits received - Quality Control cost is to be apportioned to the various cost objects in proportion to the benefits received by them.

For example: On the basis of number of tests performed for a product.

7. Presentation

7.1 Quality Control cost, if material, shall be presented as a separate cost head with suitable classification.

8. Disclosures

8.1 The cost statements shall disclose the following:

8.1.1 The basis of distribution of Quality Control cost to the cost objects/ cost units.

8.1.2 Quantity and Cost of resources used for Quality Control cost as applicable.

8.1.3 Quality Control cost paid/ payable to related parties⁶⁹.

8.1.4 Quality Control cost incurred in foreign exchange.

8.1.5. Any abnormal portion of the Quality Control cost.

8.1.6 Penalties and damages excluded from the Quality Control cost

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

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

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

⁶⁹ Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement

(CAS - 22)

COST ACCOUNTING STANDARD ON MANUFACTURING COST

The following is the **COST ACCOUNTING STANDARD - 22 (CAS - 22)** issued by the Council of The Institute of Cost Accountants of India for determination of "MANUFACTURING COST". In this Standard, the standard portions have been set in bold italic type. This standard should be read in the context of the background material which has been set in normal type.

1. Introduction

1.1 This standard deals with the principles and methods of determining the Manufacturing Cost of excisable goods.

1.2 This standard deals with the principles and methods of classification, measurement and assignment for determination of the Manufacturing Cost of excisable goods and the presentation and disclosure in cost statements.

2. Objective

The objective of this standard is to bring uniformity and consistency in the principles and methods of determining the Manufacturing Cost of excisable goods.

3. Scope

This standard should be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of Manufacturing Cost of excisable goods.

4. Definitions

The following terms are being used in this standard with the meaning specified.

4.1 **Abnormal and non-recurring cost:** An unusual or atypical cost whose occurrence is usually irregular and unexpected and/or due to some abnormal situation of the production or operation.

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

Administrative overheads need to be analysed in relation to production/manufacturing activities and other activities. Administrative overheads in relation to production/manufacturing activities shall be included in the manufacturing cost.

Administrative overheads in relation to marketing, projects management, corporate office or any other expense not related to the manufacturing activity shall be excluded from manufacturing cost.

4.3 Captive Consumption: Captive Consumption means the consumption of goods manufactured by one division or unit and consumed by another division or unit of the same organization or related undertaking for manufacturing another product(s), as defined in section 4(3) of the Central Excise Act, 1944.

4.4 Defectives: End Product and/or intermediate product units that do not meet quality standards. This may include reworks or rejects.

An intermediate product is a product that might require further processing before it is saleable to the ultimate consumer.

4.4.1 Reworks: Defectives which can be brought up to the standards by putting in additional resources.

Rework includes repairs, reconditioning, retro-fitment and refurbishing.

4.4.2 Rejects: Defectives which cannot meet the quality standards even after putting in additional resources.

Rejects may be disposed off as waste or sold for salvage value or recycled in the production process.

4.5 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 does not include impairment loss.

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.

Useful life of asset is either

- i. the period over which a depreciable asset is expected to be used by the enterprise; or
- ii the number of production or similar units expected to be obtained from the use of the asset by the entity.

Depreciation that is charged in audited financial statement should be considered.

4.6 Direct Expenses: Expenses relating to manufacture of an excisable good, which can be identified to such excisable good other than direct material cost and direct employee cost.

4.7 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 amount paid or payable on behalf of employee. This is also known as Labour Cost.

4.7.1 Direct Employee Cost: The cost of employees which can be attributed to an excisable good in an economically feasible way.

4.7.2 Indirect Employee Cost: The cost of employees which cannot be directly attributed to a particular excisable good.

4.8 Interest and Finance Costs: Costs incurred by an enterprise in connection with the borrowing of funds.

4.9 Manufacturing Cost: Manufacturing cost of an excisable good is the aggregate of costs of all resources used in the process of its manufacturing.

Manufacturing cost includes cost of Materials (including process materials), Employee Cost, Cost of Utilities, Packing Cost, Direct Expenses, Repairs & Maintenance Cost, Pollution Control Cost, Quality Control Cost, Research & Development Cost, Cost of Inputs received free of cost or received at concessional

value from the buyer of the excisable good, Depreciation and Amortisation (including amortisation cost of free tools, patterns ,dies, drawings, blue prints, technical maps, charts, engineering, development, art work, design work, plans, sketches, packaging material and the like necessary for production of excisable goods), Cost of Rework, reconditioning, retro-fitment, Manufacturing Overheads, other costs allocable to such activity, adjustment for stock of work-in-process and recoveries for sales of scrap and wastages and the like but does not include expenses of the above nature incurred for post manufacturing purposes.

Manufacturing Cost and Cost of Production are used interchangeably.

4.10 Manufacturing Overheads: Indirect costs involved in the manufacturing process

The terms Manufacturing Overheads, Factory Overheads, Works Overheads and Production Overheads have the same meaning and are used interchangeably. Manufacturing overheads shall include administration cost relating to production, factory, works or manufacturing and depot.

Manufacturing Overheads shall be classified on the basis of behaviour as Variable Manufacturing Overheads and Fixed Manufacturing Overheads.

Variable Manufacturing Overheads comprise of expenses which vary in proportion to the change in volume of production. For example, cost of utilities etc.

Fixed Manufacturing overheads comprise of expenses which does not change with the change in volume of production. For example, salaries, rent, repairs & maintenance, etc.

4.11 Material Consumed: Material Consumed includes materials directly identified for production of excisable goods such as:

- (a) Indigenous materials
- (b) Imported materials
- (c) Bought out items
- (d) Self-manufactured items
- (e) Process materials and other items

- (f) Materials received free of cost or at concessional value from the buyer
- (g) Accessories, on which cenvat credit is admissible, and which are cleared along with the final product
- (h) goods used for providing free warranty for excisable goods

Cost of material consumed consists of cost of material, duties and taxes, freight inwards, insurance and other expenditure directly attributable to procurement. Trade discount, rebates and other similar items are deducted for determining the cost of materials. Cenvat credit, credit for Countervailing Customs Duty, Sales Tax set off, VAT, duty draw back and other similar duties subsequently recovered/recoverable by the entity are also deducted.

4.12 Normal Capacity is the production achieved or achievable on an average over a period or season under normal circumstances taking into account the loss of capacity resulting from planned maintenance.

Capacity may be determined in terms of units of production or equivalent machine or man hours.

4.13 Packing Material Cost: The cost of material of any nature used for the purpose of packing of excisable good.

4.14 Quality Control Cost: The quality control cost is the expenses incurred relating to quality control activities for adhering to quality standard. These expenses include salaries & wages relating to employees engaged in quality control activity and other related expenses.

4.15 Repairs & 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.

4.16 Research and Development Cost: The research and development cost incurred for development and improvement of the process or the excisable good.

4.17 Royalty: Royalty is compensation/periodic payments for the use of asset (tangible and/or intangible) to the owner for use of his asset in the production/manufacture, selling and distribution by an entity.

4.18 Scrap: Discarded material having some value in few cases and which is usually either disposed of without further treatment (other than reclamation and handling) or reintroduced into the production process.

4.19 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.

4.20 Waste and Spoilage:

4.20.1 Waste: Material lost during production or storage due to various factors such as evaporation, chemical reaction, contamination, unrecoverable residue, shrinkage, etc., and discarded material which may or may not have any value.

4.20.2 Spoilage: Production that does not meet with dimensional or quality standards in such a way that it cannot be rectified economically and is sold for a disposal value. Net Spoilage is the difference between costs accumulated up to the point of rejection and the salvage value.

5. Principles of Measurement

5.1 Manufacturing cost for each excisable good shall be measured separately.

5.2 Manufacturing cost of each excisable good shall be the aggregate of direct and indirect cost relating to manufacturing activity.

5.3 Material cost shall be measured separately for each type of material, that is, for indigenous material, imported material, bought out components and process materials, self-manufactured items, accessories for each type of excisable good.

Cost of Inputs received free of cost or at concessional value from the buyer of the excisable good shall be considered for determination of manufacturing cost.

5.4 The material cost of normal scrap/defectives which are rejects shall be included in the material cost of excisable goods manufactured. The material cost of actual scrap/ defectives, not exceeding the normal quantity shall be adjusted in the material cost of good production. Realized or realizable value of scrap or waste shall be deducted for determination of manufacturing cost. Material Cost of

abnormal scrap /defectives should not be included in material cost but treated as loss after deducting the realisable value of such scrap / defectives.

5.5 Employee Cost for each excisable good shall be measured separately.

5.6. The cost of utilities consumed for manufacturing of excisable good shall be measured for each type of utility.

5.7 Packing material cost used for each type of excisable good shall be measured separately.

If excisable goods are transferred/despached duly packed, the cost of such packing shall include cost of all types of packing in which the excisable goods are removed from the place of removal.

5.8 The Direct Expenses for manufacturing of excisable goods shall be measured for each excisable good separately.

5.9 Repairs and maintenance cost for manufacturing of excisable goods shall be measured for each excisable good separately.

5.10 Depreciation and Amortisation cost for manufacturing of excisable goods shall be measured for each excisable good separately.

5.11 Research & Development cost for manufacturing of excisable goods shall be measured for each excisable good separately.

5.12 Cost incurred for manufacturing of excisable goods after split-off point shall be measured for each Joint/By-Product.

In case the manufacturing process generates scrap or waste, realized or realizable value net of cost of disposal, of such scrap and waste shall be deducted from the cost of Joint Product.

5.13 Royalty and Technical Know-how Fee for manufacturing of excisable goods 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 Technical Know how.

Royalty paid on sales shall not form part of manufacturing cost of excisable good.

5.14 Quality Control cost incurred in-house for manufacturing of excisable goods shall be the aggregate of the cost of resources used in the Quality Control activities in relation to each excisable good. 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, taxes and duties refundable or to be credited as input credit.

5.15 Manufacturing Overheads for excisable goods 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; taxes and duties refundable or to be credited as input credit.

Manufacturing Overheads other than those referred to above shall be determined on the basis of cost incurred in connection therewith.

5.16 Any abnormal cost, where it is material and quantifiable, shall not form part of the manufacturing cost of excisable good.

5.17 Interest and other Finance costs are not part of manufacturing cost of excisable good.

5.18 Manufacturing cost of excisable good shall include cost of inputs received free of cost or at concessional value from the buyer of excisable good and amortisation cost of free tools, pattern, dies, drawings, blue prints, technical maps, charts, engineering, development, art work, design work, plans, sketches, and the like necessary for production of excisable good. It shall also include cost of rework, reconditioning, retro-fitment, Manufacturing Overheads and other costs allocable to such activity, adjustment for stock of work-in-process and recoveries from sales of scrap and wastages and the like necessary for production of excisable good.

In case any input material, whether of direct or indirect nature, including packing material, is supplied free of cost or at concessional value by the buyer of the excisable good, the cost of such material shall be included in the manufacturing cost.

For example: Amortisation Cost of Moulds, Tools, Dies & Patterns and Cost

of Packing Material etc. received free of cost or at concessional value from the buyer of excisable good shall be included in manufacturing cost.

5.19 Any Subsidy/Grant/Incentive or any such payment received/receivable, from other entity, other than the buyer with respect to any manufacturing cost of excisable good shall be deducted for ascertainment of the manufacturing cost of excisable good to which such amounts are related.

5.20 The manufacturing cost of excisable good 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.

5.21 Fines, penalties, damages, demurrage and similar levies paid to statutory authorities or other third parties shall not form part of the manufacturing cost of excisable good.

5.22 The forex component of imported material or other element of 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 manufacturing cost of excisable good.

5.23 Credits/recoveries relating to the manufacturing cost, which are material and quantifiable, shall be deducted from the total manufacturing cost to arrive at the net manufacturing cost of excisable good.

5.24 Work in process/progress stock shall be measured at cost computed for different stages of completion.

Stock of work-in-process/progress shall be valued at cost on the basis of stages of completion as per cost accounting principles. Opening and closing stock of work-in-process/progress shall be adjusted for computation of manufacturing cost of an excisable good.

6. Assignment of Cost

6.1 While assigning various elements of manufacturing cost of excisable goods, traceability to an excisable good in an economically feasible manner shall be the guiding principle. The cost which can be traced directly to each excisable good shall be directly assigned.

6.2 Assignment of manufacturing cost of excisable goods, which are not directly traceable to the excisable good shall be based on either of the following two principles;

6.2.1 Cause and Effect - Cause is the process or operation or activity and effect is the incurrence of cost.

6.2.2 Benefits received - to be apportioned to various cost objects in proportion to the benefits received by them.

6.3 The variable manufacturing/production overheads shall be absorbed based on actual production.

6.4 The fixed manufacturing/production overheads and other similar item of fixed costs such as quality control cost, research and development costs and administrative overheads relating to manufacturing shall be absorbed in the manufacturing cost on the basis of the normal capacity or actual capacity utilization of the plant, whichever is higher.

6.5 In case a production process results in more than one product being produced simultaneously, treatment of joint products and by-products shall be as under:

6.5.1 In case joint products are produced, joint costs are allocated between the products on a rational and consistent basis.

6.5.2 In case by-products are produced, the net realisable value of by-products is credited to the manufacturing cost of the main product.

6.6 Miscellaneous Income relating to production/manufacture shall be adjusted in the determination of manufacturing cost.

For example, income from sale of empty containers used for procurement of raw material shall be deducted in determination of manufacturing cost.

- Presentation

7.1 Cost statement as per Appendix 1 to this standard or as near thereto shall present following information:

7.1.1 Actual capacity utilization in absolute terms and as a percentage of normal

capacity.

7.1.2 Cost information relating to various elements of Cost shall be presented separately.

8. Disclosures

8.1 Disclosure shall be made only where material, significant and quantifiable.

8.2 If there is any change in cost accounting principles and practices during the period under review which may materially affect the manufacturing cost of excisable good in terms of comparability with previous period(s), the same shall be disclosed.

9. Effective date

This Cost Accounting Standard shall be effective from the period commencing on or after 1st April 2015 for being applied for the preparation and certification of Cost Accounting Statements for excisable goods.

Appendix 1

Cost Statement showing Manufacturing Cost of (Name of excisable good) for the period: _____

	Name of the Manufacturer			
	Address of the Manufacturer			
	Excise Registration Number			
	Name of the unit			
	Address of the unit			
	Central Excise Tariff Heading			
A	Quantitative Information	Unit	Quantity	
1	Normal/Installed Capacity			
2	Production			
3	Captive Consumption			
4	Production as %age of Normal/Installed Capacity			

B	Cost Information	Unit	Quantity	Rate	Amount	Cost per Unit
	Materials (specify)					

B	Cost Information	Unit	Quantity	Rate	Amount	Cost per Unit
1	A.					
	B.					
	C.					
	D					
	Total Materials Consumed					
2	Process Materials					
3	Utilities					
4	Direct Employee Cost					
5	Direct Expenses					
6	Consumable Stores and Spares					
7	Repairs and Maintenance Cost					
8	Quality Control Cost					
9	Research & Development Cost					
10	Technical Know-how Fee/Royalty, if any					
11	Depreciation/Amortization					
12	Other Manufacturing Overheads					

B	Cost Information	Unit	Quantity	Rate	Amount	Cost per Unit
13	Total(1 to 12)					
14	Add/Less Work-in-Progress Adjustments					
15	Less Credit for Recoveries , if any					
16	Packing Cost					
17	Cost of Inputs Received Free or at concessional value from the buyer of the excisable good					
18	Manufacturing Cost (13 to 17)					

Date: Seal & Signature of the Company's Authorised Representative

I/We have verified above data on test check basis with reference to the books of account, cost accounting records and other records. Based on the information and explanations given to me/us, and on the basis of generally accepted cost accounting principles and practices and Cost Accounting Standards followed by the entity, I/we certify that the above cost data reflects true and fair view of the manufacturing cost of the above excisable good.

Date: Seal & Signature of Cost Accountant

Place: Membership No.: Firm Regn. No.:

Note: Separate Cost Statement(s) shall be prepared for each excisable good

Cost Auditing Standards

Cost Auditing Standard - 101
Cost Auditing Standard on
Planning an Audit of Cost Statements

The following is the **Cost Auditing Standard (Cost Auditing Standard- 101)** on "**Planning an Audit of Cost Statements**". In this Standard, the standard portions have been set in *bold italic* type. This Standard should be read in the context of the background material, which has been set in normal type.

1. Introduction

Planning an audit of cost statements, records and other related documents is considered necessary to ensure achievement of audit objectives with available resources and securing coordination with the auditee on audit work.

2. Objective

The objective of this Standard is to guide the members in planning for the audit of cost statements so that it is performed in an efficient and effective manner. Audit planning shall also include establishing the overall audit strategy and audit plan for the conduct of the audit.

3. Scope

This Standard deals with the auditor's responsibility to plan an audit of cost statements, records and other related documents. The auditor shall prepare and document the overall audit strategy and audit plan.

4. Definitions

The following terms are being used in this standard with the meaning specified.

4.1 Audit: Audit is an independent examination of financial, cost and other related information of an entity whether profit oriented or not, irrespective of its size or legal form, when such an examination is

conducted with a view to expressing an opinion thereon.

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

4.3 Audit Plan: A record of the planned nature, timing and extent of risk assessment procedures and further audit procedures at the assertion level in response to the assessed risks.

4.4 Audit Risk: Audit risk is the risk that the cost auditor expresses an inappropriate audit opinion on the cost statements that are materially misstated. Audit risk is a function of the risk of material misstatement and detection risk.

(a) The risk of material misstatement has two components viz. Inherent Risk and Control risk.

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

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

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

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

4.6 *Auditee: Auditee means a company or any other entity for which cost audit is being carried out.*

4.7 *Cost Audit: Cost audit is an independent examination of cost statements, cost records and other related information of an entity including a non-profit entity, when such an examination is conducted with a view to expressing an opinion thereon.*

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

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

4.10 Initial Audit: Initial audit means an audit where:-

- (a) The entity is subject to audit for the first time, as per the applicable laws, or**
- (b) The audit of the entity for the prior period was conducted by a different audit firm.**

4.11 Misstatement: A difference between the amounts, classification, presentation or disclosure of a reported cost statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable cost reporting framework. Misstatements can arise from error or fraud.

Where the cost auditor expresses an opinion on whether the cost statements give a true and fair view, misstatements also include those adjustments of amounts, classifications, presentation, or disclosures that, in the cost auditor's judgment, are necessary for the cost statements to be presented fairly, in all material respects, or to give a true and fair view.

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

4.13 Risk Assessment: The audit procedures performed to obtain an understanding of the entity and its environment, including the entity's internal control, to identify and assess the risks of material misstatement, whether due to fraud or error, at the overall cost statement level and at the assertion level including items of cost, cost heads and disclosure thereof.

5. Requirements

- *Prior to entering the planning phase, the Cost Auditor shall ensure that:*
 - *the appointment as cost auditor is proper, he has received the letter of appointment and legal formalities regarding his appointment have been complied with;*
 - *the ethical requirements as per the regulations continue to be satisfied;(Refer 6.3)*
 - *an understanding of the terms of reference including the units to be covered, products/services to be covered, scope of coverage where the regulations leave it to be agreed between the auditor and the auditee.*
- *The audit partner and other key members of an audit team shall be involved in planning the audit, including planning and participating in the discussion among audit team members. (Refer 6.4)*
- *The Cost Auditor shall formulate an Overall audit strategy that sets the scope, timing and direction of the audit.*

The overall audit strategy guides the development of the audit plan.
- *In formulating the Overall audit strategy, the Cost Auditor shall consider all relevant factors.(Refer 6.5)*

These relevant factors include:

 - (h) results of preliminary activities as specified in 5.1 above
 - (i) knowledge from previous audits and other engagements with the auditee
 - (j) knowledge of business
 - (k) nature and scope of the audit
 - (l) statutory deadlines and reporting format
 - (m) relevant factors determining the direction of the audit efforts

(n) nature, timing and extent of resources required for the audit.

5.11 The Cost Auditor shall develop an audit plan.

The audit plan will include the nature, extent and timing of risk assessment, audit procedures and other activities (Refer 6.5, 6.6)

5.12 The Cost Auditor shall plan the nature, extent and timing of the direction and supervision of audit team members and the review of their work. (Refer 6.7)

5.13 The Cost Auditor shall update the Overall audit strategy and the audit plan as required during the course of audit. (Refer 6.8)

5.14 The Cost Auditor shall document the overall audit strategy, the audit plan and any significant changes made therein during the audit engagements and the reasons for the changes.

5.15 In the initial audit, the Cost Auditor shall perform procedures regarding the acceptance of the client relationship and the specific audit.

In case where the audit of the entity for the prior period was conducted by a different audit firm, the auditor shall communicate with the previous auditor. (Refer 6.9)

6. Application Guidance

6.1 The nature and extent of planning activities will vary according to the:

- (a) size and complexity of the entity's activities, the number of products to be covered, the processes and operations involved.
- (b) the audit team members' previous experience with the entity and the industry.
- (c) changes in circumstances that occur during the audit.

6.2 Planning is not a discrete phase of an audit, but rather a continuous and iterative process. Planning includes scheduling which involves determining the priority of audit procedures and their inter dependence. For example, the risk assessment procedures are planned early in the audit process.

6.3 Prior to the performance of other significant activities for the current year's audit, the auditor shall ensure that {Refer 5.1 (b)} :

- (a) After the Cost Auditor has accepted the appointment for an entity, there are no changes in his position in relation to the entity that impede his arm's length relationship with the entity. Such as, acceptance of an assignment relating to designing and implementation of cost accounting system for the entity.
- (b) Subsequent to his acceptance of the assignment, no issues about management integrity has cropped up that may affect the auditor's willingness to continue the engagement.

6.4 The involvement of the audit partner and other key members of the audit team in planning the audit draws on their experience and insights, thereby enhancing the effectiveness and efficiency of the planning process. (Refer 5.2)

6.5 Matters that are relevant in formulating the overall audit strategy and drawing up the audit plan include, in addition to those mentioned earlier, the following (Refer 5.4, 5.5):

- (i) The cost reporting framework generally prescribed, under the Companies Act and Rules prescribed there under, as well as under any other law as applicable, on the basis of which the cost information to be audited has

been prepared, including need for reconciliation with financial reporting framework.

- (j) Industry regulators' requirement as to how costs will be handled.
- (k) Unique features of an industry that influence audit requirements such as definition of product in the newspaper industry.
- (l) Reliance that can be placed on the work of financial auditors, other cost auditors appointed by the entity and internal auditors such as their attendance in annual stocktaking
- (m) State of IT (Information Technology) implementation, whether the entity is using an ERP (Enterprise Resource Planning) system or internally developed systems and the reliance that can be placed on them.
- (n) Statutory timelines for cost reporting, which can be modified by the management for early completion.
- (o) Timelines for Board/ audit committee meetings, which can set the time limits for completion of audit work.
- (p) Resources required and available in terms of manpower, equipment and others and the assignment of these to specific parts of the work.

6.6 The audit plan is more detailed than the overall audit strategy as it includes the nature, timing and extent of audit procedures to be performed by audit team members. Planning for these audit procedures takes place over the course of the audit as the audit plan for the engagement develops. For example, planning of the auditor's risk assessment procedures occurs early in the audit process. However, planning the nature, timing and extent of specific further audit procedures depends on the outcome of those risk assessment procedures. (Refer 5.5)

6.7 The nature, extent and timing of the direction and supervision of audit team members and review of their work vary depending on, among others, the size and complexity of the entities activities, risk assessment results and the

capabilities and competence of the individual team members performing the audit work.(Refer 5.6)

6.8 As a result of unexpected events, changes in conditions or the audit evidence obtained from the results of audit procedures, the auditor may need to modify the overall audit strategy and audit plan.(Refer 5.7)

6.9 Additional Consideration in Initial Audit Engagements (Refer 5.9): The purpose and objective of planning the audit are the same whether the audit is an initial or recurring engagement. However, for an initial audit, the auditor may need to expand the planning activities because the auditor does not ordinarily have the previous experience with the entity that is considered when planning recurring engagements. For the initial audit, additional matters the auditor may consider in formulating the overall audit strategy and audit plan include the following.

- 8 The planning activities may expand to cover consultations with the previous auditor, review of previous year's audit working papers, if not prohibited by other Law or regulation, and previous year's transactions having an impact on current year's cost.
- 9 Any major issues (including the application of cost accounting principles or of auditing and reporting standards) discussed with management in connection with the initial selection as cost auditor, the communication of these matters to those charged with governance and how these matters affect the overall audit strategy and audit plan.
- 10 The audit procedures necessary to obtain sufficient appropriate audit evidence regarding opening balances (such as Inventory).
- 11 Other procedures required by the firm's system of quality control for initial cost audit engagements (for example, the firm's system of quality control may require the involvement of another partner or senior individual to review

the overall audit strategy prior to commencing significant audit procedures or to review reports prior to their issuance).

6.10 In audits of small entities where the entire audit may be conducted by a small audit team comprising the audit partner working with say one team member, formulating the audit strategy and drawing up the audit plan need not be elaborate. Nonetheless it is necessary to have regard to the matters mentioned under Requirements.

7. Effective Date

This Standard is effective for audits on or after September 11, 2015.

Cost Auditing Standard – 102
Cost Auditing Standard on Cost Audit Documentation

The following is the **Cost Auditing Standard (Cost Auditing Standard- 102)** on "**Cost Audit Documentation**". In this Standard, the standard portions have been set in *bold italic* type. This Standard should be read in the context of the background material, which has been set in normal type.

1. Introduction

The purpose of this Standard is to provide guidance to the members in preparation of Audit Documentation in the context of the audit of cost statements, records and other related documents.

Nature and Purpose of Cost Audit Documentation

Cost Audit documentation that meets the requirement of this Cost Auditing Standard and the specific documentation requirements of other relevant Cost Auditing Standards provides:

- (i) Evidence of the cost auditor's basis for a conclusion about the achievement of the overall objectives of the cost auditor; and
- (ii) Evidence that the cost audit was planned and performed in accordance with Cost Auditing Standards and applicable legal and regulatory requirements.

Cost Audit documentation serves a number of additional purposes, including the following:

- (a) Assisting the audit team to plan and perform the cost audit.
- (b) Assisting members of the audit team responsible for supervision to direct and supervise the cost audit work, and to discharge their review responsibilities.
- (c) Enabling the audit team to be accountable for its work.

- (d) Retaining a record of matters of continuing significance to future cost audits.
- (e) Enabling the conduct of quality control reviews in accordance with the Guidance Manual for Audit Quality issued by Quality Review Board (QRB).
- (f) Enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements.

2. Objective

The objective of this Standard is to guide the members to prepare documentation that provides:

- (q) A sufficient and appropriate record of the basis for the Cost Auditor's Report; and*
- (r) Evidence that the audit was planned and performed in accordance with Cost Auditing Standards and applicable legal & regulatory requirements.*

3. Scope

This Standard deals with the cost auditor's responsibility to prepare audit documentation for the audit of cost statements, records and other related documents. The specific documentation requirements of other Cost Auditing Standard's do not limit the application of this Cost Auditing Standard. Laws or regulations may establish additional documentation requirements.

4. Definitions

The following terms are being used in this Standard with the meaning specified.

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

- 4.2 Audit documentation:** *Audit Documentation means the records, in physical or electronic form, including working papers prepared by and for, or obtained and retained by the Cost auditor, in connection with the performance of the audit.*
- 4.3 Audit file:** *Audit file means one or more folders or other storage media, in physical or electronic form, containing the records that comprise the audit documentation for a specific Assignment or audit.*
- 4.4 Audit Partner:** *Audit partner means the partner in the firm who is a member of the Institute of Cost Accountants of India and is in full time practice and is responsible for the audit and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.*
- 4.5 Audit Team:** *Audit team means all personnel performing an engagement, including any experts contracted by the firm in connection with that engagement.*
- 4.6 Audit working papers:** *Audit working papers are the documents which record all audit evidence obtained during audit. Such documents are used to support the audit work done in order to provide assurance that the audit was performed in accordance with the relevant Cost Auditing Standards.*
- 4.7 Cost Auditor:** *"Cost Auditor" means an auditor appointed to conduct an audit of cost records and shall be a cost accountant within the meaning of The Cost and Works Accountants Act 1959. "Cost Accountant" is a cost accountant as defined in clause (b) of sub-section (1) of section 2 of The Cost and Works Accountants Act, 1959 (23 of 1959) and who holds a valid*

certificate of practice under subsection (1) of section 6 and who is deemed to be in practice under subsection (2) of section 2 of that Act and includes a firm of cost accountants.

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

5. Requirements

5.1 The cost auditor as part of the audit documentation shall record audit procedures performed, relevant audit evidence obtained, and conclusions reached.(Refer 6.1)

5.2 The Cost Auditor shall prepare audit documentation that is sufficient to enable another competent person, having no previous connection with the said audit, including person undertaking peer review to understand:

- Conformance of audit procedures performed with legal and regulatory requirements;*
- Conformance to Cost Auditing Standards. (Refer 6.6)*
- The results of audit procedures performed*
- The audit evidence obtained*
- Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.(Refer 6.7 & 6.8)*

5.3 The Cost Auditor shall record the discussions of significant matters with client personnel and outsiders.(Refer 6.9).

5.4 The Cost Auditor shall record any departure from the standard requirement in a Cost Auditing Standard.(Refer 6.11)

5.5 In documenting the nature, timing and extent of audit procedures performed, the Cost Auditor shall record the characteristics of the specific items or matters tested, the persons responsible for performing and reviewing such procedures with relevant dates and extent of review.(Refer 6.12)

5.6 The Cost Auditor shall prepare audit documentation on a timely basis.(Refer 6.14)

5.7If, in exceptional circumstances, Cost Auditor performs any new or additional audit procedures or draws new conclusions, after the date of Cost Audit Report, then he shall document such circumstances and details of such procedures performed.(Refer 6.15)

5.8The cost auditor shall assemble the audit documentation in an audit file.(Refer 6.16)

6. Application Guidance

6.1. The Cost Audit documentation will usually contain:

(a) Checklists

Example: Checklist of compliance with:-

- (1) The Rules, regarding maintenance of Cost Records, as prescribed under the Companies Act,
- (2) The Cost Accounting Standards (CAS) as prescribed by the Institute
- (3) The Generally Accepted Cost Accounting Principles (GACAP) as prescribed by the Institute

(b) Audit programs

Example: Audit Program for Material Cost, Employee Cost and others

(c) Analysis

Cost Audit relies more on analytical review than on substantive testing to establish true and fair view.

Example: Calorific value of different fuels used and average Cost per unit of calorific value and Specific Heat Consumption.

(d) Audit Query List

Contains a log of audit queries raised and their resolution

(e) Abstracts of significant contracts relating to costs and revenues

Example: Supply of materials indicating price, quality terms, O & M contracts, Terms of supply of contract labour and others

(f) Letters of confirmation

Example: Stock of materials with subcontractors.

(g) Letter of Representation from Management Correspondence (including e-mail) concerning significant matters.

Example: Correspondence regarding terms of supply of goods and services.

(h) Abstract or copies of the entity's records

6.2. Audit documentation may be in paper form or electronic form. Where it is in electronic form, special care may be required to protect against accidental deletion, or tampering.

6.3. The content and form of audit documentation will depend on a number of factors such as:

- (a) the size and complexity of the operations of the auditee,
- (b) the extent of computerization of cost records,
- (c) the assessed risks of material misstatement of cost,
- (d) the cost audit methodology and tools used. For example whether automated queries were used to get audit evidence from cost records.
- (e) the nature of the audit procedure to be performed.

6.4. In particular, it is necessary to document the basis for a conclusion, not readily determinable from other documentation. For example: consumption of materials by a product from technical norms, normal price for a related party contract from Cost Auditor's own sources of data of the industry.

6.5. Audit documentation must be sufficient and appropriate, and oral explanations by the Cost Auditor cannot substitute for such documentation.

6.6. Audit documentation must contain evidence of conformance to requirements of Cost Auditing Standards in respect of this Standard and other standards {Refer 5.2(b)}:

Typical of such evidence are:

6. an adequately documented audit plan
7. the signed appointment letter from the auditee
8. Minutes of discussion with client personnel, with names of members of audit team present, particularly of the audit partner when he is present
9. Minutes of audit team discussions, with names of members of audit team present, particularly of the audit partner when he is present.

6.7. Matters that give rise to significant risks of a material misstatement are significant matters. Those that causes a revision of the Cost Auditor's previous assessment of the risks of material misstatement is also a significant matter. The Cost Auditor may have reached a certain conclusion regarding the misstatement of the Material Cost in a Cost statement based on the availability of a well-documented Bill of Materials but his assessment of risk may undergo a change if he finds that there is considerable use of substitute and alternate materials in the actual production process. Matters that cause the Cost Auditor significant difficulty in applying necessary audit procedures are also significant, as for example heaps of bulk material in irregular shapes which

make volumetric measurement of stock in a physical stock taking unreliable.
{Refer 5.2(e)}

- 6.8. Determining what are significant matters in an audit to warrant their inclusion in the documentation must be objectively done. The conclusions reached and the application of professional judgment in respect of these also needs to be documented. For example the determination of the normal capacity for applying overheads is a significant matter in Cost Audit and requires not mere calculations but considerable judgment. These should be adequately documented.{Refer 5.2(e)}
- 6.9. Records of discussions include Minutes of discussion of significant matters with management, those charged with governance and others.It also includes Discussion with third parties seeking information or confirmation. (Refer 5.3)
- 6.10. The Cost Audit Documentation in respect of smaller entities may be less detailed than what is indicated but must include at the minimum the following:
- (a) A description of the entity, the products produced, services provided and other activities
 - (b) An organization Chart showing the responsibility centres and the person responsible
 - (c) A description, preferably a flow chart of the manufacturing process
 - (d) Internal controls over material cost, labour cost and expenses
 - (e) The risks of material misstatement assessed, for example, in respect of scrap recovery and disposal
 - (f) Tests of materiality used
 - (g) The overall audit strategy and audit plan
 - (h) Significant matters noted during the audit, and conclusions reached

- 6.11. If, in exceptional circumstances, the Cost Auditor finds it necessary to perform alternative audit procedures different from a corresponding requirement in a Cost Auditing Standards, the Cost Auditor shall document how the alternative audit procedures performed achieve the aim of that requirement, and the reasons for the departure.(Refer 5.4)
- 6.12. It is necessary in a Cost Audit to identify the specific matters or items tested. In connection with a Cost Audit these may include Purchase Orders for supply of key raw materials, Goods Receipt Notes for materials, Issue notes for materials, bills of contractors for supply of contract labour among others. Where the Cost Auditor resorts to test checking, the basis used for selection, for example issues of spares above a certain value, and the documents selected. (Refer 5.5)
- 6.13. Names of the team member preparing specific audit documents and details of their review by the Cost Auditor are a necessary part of the Audit Documentation.
- 6.14. Preparing the audit Documentation on timely basis helps to enhance the quality of audit. Documentation prepared after the audit work has been performed is likely to be less accurate than the documentation prepared during execution. (Refer 5.6)
- 6.15. Facts which become known to the Cost Auditor after the date of the audit report but which if known earlier would have caused the cost statements to be changed or the Cost Audit Report to be modified should be added to the Cost Audit Documentation. The resulting changes to the audit documentation must also be reviewed as the original documentation.(Refer 5.8)

- 6.16. The Cost Audit Documentation must be assembled as the audit goes on and the final assembly required of audited documentation must be limited. Assembly the final audit file should be completed within a reasonable time after the completion of the audit. After the assembly of the final audit file has completed, the auditor should not delete or discard audit documentation of any nature before the end of its retention period. (Refer 5.9)
- 6.17. The audit documentation is the property of the Cost Auditor. Unless otherwise specified by law or regulation, he may at his discretion, make portions of, or extracts from audit documentation available to clients
- 6.18. The Cost Audit Documentation should be retained for at least ten years from the date of the Cost Audit Report.

7. Effective Date

This Standard is effective for audits on or after September 11, 2015.

Cost Auditing Standard - 103
Cost Auditing Standard on
Overall Objectives of the Independent Cost Auditor and
the Conduct of an Audit in Accordance with Cost Auditing Standards

The following is the **Cost Auditing Standard** (Cost Auditing Standard - 103) on **"Overall Objectives of the Independent Cost Auditor and the Conduct of an Audit in Accordance with Cost Auditing Standards"**. In this Standard, the standard portions have been set in *bold italic* type. This Standard should be read in the context of the background material, which has been set in normal type.

2. Introduction

This Standard on Auditing deals with the overall objectives of the independent cost auditor, the nature and scope of a Cost audit the independent auditor's overall responsibilities when conducting an audit of cost statements in accordance with Cost Auditing Standards. It also explains the requirements establishing the general responsibilities of the independent auditor applicable in all audits, including the obligation to comply with the Cost Auditing Standards.

The independent Cost Auditor is referred to as "Cost auditor" hereafter.

3. Objectives

The objective of this Standard is to lay down the overall objectives of the Cost Auditor and ensuring the Conduct of the Audit of Cost Statements in accordance with the Cost Auditing Standards.

The Cost auditor's overall objectives are:

- a) *to obtain reasonable assurance about whether the cost statements as a whole are free from material misstatement, whether due to fraud or error, and to enable the auditor to express an opinion whether the*

Cost Statements are prepared, in all material respects, in accordance with the applicable Cost reporting framework, Cost Accounting Standards(CAS) and Generally Accepted Cost Accounting Principles (GACAP) as issued by the Institute, and give a true and fair view of the Cost of a product, activity or service. In the case of a Cost Audit under the Companies Act and Rules prescribed thereunder, the objective is to express an opinion on whether the Cost Statements subject to audit represent a true and fair view of the cost of production, cost of sales and margin of products covered by the Cost Audit.

- b) to report on the cost statements in the form required by law or by the Cost Auditing Standards in accordance with the auditor's findings.*

Where reasonable assurance cannot be obtained, the cost auditor should qualify the opinion and in extreme cases disclaim an opinion.

The CostAuditors objective may extend to making observations and suggestions where required by applicable regulations.

4. Scope

The scope of this standard is to establish overall objectives of the cost auditor while conducting an audit of cost statements, in accordance with the cost auditing standards.

It also describes management responsibility for the preparation and presentation of the Cost Statement, to identify the Cost Reporting framework and to lay down Cost Accounting policies.

5. Definitions

The following terms are being used in this standard with the meaning specified.

- a) **Audit:** *Audit is an independent examination of financial, cost and other related information of an entity whether profit oriented or not, irrespective of its size or legal form, when such an examination is conducted with a view to expressing an opinion thereon.*
- b) **Audit Partner:** *Audit partner means the partner in the firm who is a member of the Institute of Cost Accountants of India and is in full time practice and is responsible for the audit and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.*
- c) **Audit Risk:** *Audit risk is the risk that the cost auditor expresses an inappropriate audit opinion on the cost statements that are materially misstated. Audit risk is a function of the risk of material misstatement and detection risk.*
- (a) *The risk of material misstatement has two components viz. Inherent Risk and Control risk.*
- (1) *Inherent risk: the susceptibility of an assertion about the measurement, assignment or disclosure of cost to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.*
- (2) *Control risk: the risk that a misstatement that could occur in an assertion about the measurement, assignment or disclosure of cost and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or*

detected and corrected, on a timely basis by the entity's internal, operational and management control.

- (b) Detection risk: the risk that the procedures followed by the cost auditor to reduce audit risk to an acceptable low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements.*
- d) Audit Team: Audit team means all personnel performing an engagement, including any experts contracted by the firm in connection with that engagement.*
- e) Auditee: Auditee means a company or any other entity for which cost audit is being carried out.*
- f) Auditor: Auditor is used to refer to the person or persons conducting the audit, usually the audit partner or other members of the audit team, or, as applicable the firm. Auditor includes Cost Auditor*
- g) Cost Audit: Cost audit is an independent examination of cost statements, cost records and other related information of an entity including a non-profit entity, when such an examination is conducted with a view to expressing an opinion thereon.*
- h) Cost Auditor: "Cost Auditor" means an auditor appointed to conduct an audit of cost records and shall be a cost accountant within the meaning of The Cost and Works Accountants Act 1959. "Cost Accountant" is a cost accountant as defined in clause (b) of sub-section (1) of section 2 of The Cost and Works Accountants Act, 1959 (23 of 1959) and who holds a valid certificate of practice under subsection (1) of section 6*

and who is deemed to be in practice under subsection (2) of section 2 of that Act and includes a firm of cost accountants.

- i) Firm: Firm means a sole practitioner, partnership including LLP (Limited Liability Partnership) or any other entity of professional cost accountants as may be permitted by law and constituted under The Cost and Works Accountants Act & Regulations.*
- j) Management: The person(s) with executive responsibility for the conduct of the entity's operations. For some entities in some jurisdictions, management includes some or all of those charged with governance.*
- k) Misstatement: A difference between the amounts, classification, presentation or disclosure of a reported cost statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable cost reporting framework. Misstatements can arise from error or fraud.*

Where the cost auditor expresses an opinion on whether the cost statements give a true and fair view, misstatements also include those adjustments of amounts, classifications, presentation, or disclosures that, in the cost auditor's judgment, are necessary for the cost statements to be presented fairly, in all material respects, or to give a true and fair view.

- l) Non-compliance: Acts of omission or commission by the entity, either intentional or unintentional, which are contrary to the prevailing laws or regulations governing Cost Accounting, Cost Records and Cost Audit. Such acts include transactions entered into by, or in the name of, the entity, or on its behalf, by those charged with governance, management or employees. Non-compliance does not include personal misconduct*

(unrelated to the business activities of the entity) by those charged with governance, management or employees of the entity.

- m) *Overall Audit Strategy: Overall Audit Strategy sets the scope, timing and direction of the audit, and guides the development of the detailed audit plan.*
- n) *Professional Judgment: The application of relevant training, knowledge and experience, within the context provided by cost auditing standards, cost accounting standards and ethical requirements, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement.*
- o) *Professional Scepticism: An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatements due to error or fraud, and a critical assessment of audit evidence.*
- p) *Risk Assessment: The audit procedures performed to obtain an understanding of the entity and its environment, including the entity's internal control, to identify and assess the risks of material misstatement, whether due to fraud or error, at the overall cost statement level and at the assertion level including items of cost, cost heads and disclosure thereof.*
- q) *Those charged with governance: The person(s) or organisation(s) (e.g., a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a*

governance board of a private or public sector entity, or an owner-manager.

6. Requirements

- a) *The cost auditor shall comply with the relevant ethical requirements including those pertaining to independence in respect of cost audit engagements. (refer 6.1)*
- b) *While conducting an audit, the cost auditor shall comply with each of the Cost Auditing Standards relevant to the audit. A Cost Auditing Standard is relevant to the audit when the Cost Auditing Standard is in effect and the circumstances addressed by the Cost Auditing Standard exist. (refer 6.2)*
- c) *The cost auditor shall have an understanding of the entire text of the Cost Auditing Standard, including its application and other explanatory material, to understand its objectives and to apply its requirements properly.*
- d) *The cost auditor shall not represent compliance with the cost auditing standards in the cost auditor's report unless the auditor has complied fully with all of the Cost Auditing Standards relevant to the audit.*
- e) *In exceptional circumstances, the cost auditor may judge it necessary to depart from a relevant requirement in a Cost Auditing Standard. In such circumstances, the auditor shall perform alternative audit procedures to achieve the aim of that requirement. {Refer 6.2(c)}*
- f) *The cost auditor shall plan and perform an audit with an attitude of professional scepticism recognizing that circumstances may exist that cause the Cost Statements to be materially misstated. (refer 6.3)*

- g) The auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion.(refer 6.4)*
- h) The cost auditor shall exercise professional judgment in planning and performing the audit.*
- i) The cost auditor shall determine whether the Cost Reporting Framework followed by management in preparing cost statements is in line with the Companies Act and the Rules prescribed thereunder. (refer 6.5)*

5.10 The cost auditor shall not be required to perform audit procedures regarding the entity's compliance with laws and regulations governing cost audit in the absence of identified or suspected non-compliance. (refer 6.6)

5.11 If an objective in a relevant Cost Auditing Standard cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the audit and thereby requires the auditor, in accordance with the Cost Auditing Standards, to modify the auditor's opinion.

6 Application Guidance:

6.1 Audit and Ethics: The cost auditor should comply with relevant ethical requirements as per Code of Ethics issued by the Institute of Cost Accountants of India. This code establishes fundamental principles of professional ethics relevant to the auditor while conducting an audit and provides a conceptual framework for applying these principles. The fundamental principles with which the auditor is required to comply are Independence, Integrity, Objectivity, Professional competence and due care,

Confidentiality and Professional conduct. In case of an audit engagement, it is in the public interest that the auditor should be independent of the entity subject to the audit. The cost auditor's independence from the entity safeguards the cost auditor's ability to form an opinion without being affected by influences that might compromise that opinion. Independence enhances the auditor's ability to act with integrity to be objective and to maintain an attitude of professional skepticism.(Refer 5.1)

For Example: The provision of services for maintenance of cost records, design and implementation of Cost Systems and internal audit are considered to erode the independence.

6.2 Conduct of audit: (Refer 5.2)

- (a) The Cost Auditing Standards provide the standards for the cost auditor's work in fulfilling the overall objectives of the cost auditor. The Cost Auditing Standards deal with general responsibilities of the cost auditor, as well as cost auditor's further considerations relevant to the application of those responsibilities to specific topics.
- (b) In performing an audit, the cost auditor may be required to comply with legal or regulatory requirements in addition to Cost Auditing Standards. In such cases in addition to complying with each of the Cost Auditing Standard relevant to the cost audit, it may be necessary for the cost auditor to perform additional audit procedures in order to comply with the legislative and regulatory requirements. The Cost Auditing Standards do not override law or regulations that govern audit process.

The form of the cost auditor's opinion will depend upon the applicable cost reporting framework and any applicable laws or regulations such as Companies Act and Rules prescribed thereunder.

- (c) The need for the auditor to depart from a relevant requirement is expected to arise only where the requirement is for a specific procedure to be performed and, in the specific circumstances of the audit, that procedure would be ineffective in achieving the aim of the requirement. (Refer 5.5)

6.3 Professional skepticism: An attitude of professional skepticism means the cost auditor makes a critical assessment, with a questioning mind, of the validity of audit evidence obtained and be alert to audit evidence that contradicts or brings into question the reliability of documents and responses to inquiries and other information obtained from management and those charged with governance. An attitude of professional skepticism is necessary throughout the cost audit process for the auditor to reduce the risk of overlooking unusual circumstances, of over generalizing when drawing conclusions from cost audit observations, and of using faulty assumptions in determining the nature, timing and extent of the cost audit procedures and evaluating the results thereof. When making inquiries and performing other cost audit procedures, the cost auditor should not be satisfied with less-than-persuasive audit evidence based on a belief that management and those charged with governance are honest and have integrity. Accordingly, representations from management are not a substitute for obtaining sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the cost auditor's opinion. (Refer 5.6)

- (a) A cost auditor conducting an audit in accordance with Cost Auditing Standards obtains reasonable assurance that the Cost Statements taken as a whole are free from material misstatement, whether due to fraud or error. Reasonable assurance is a concept relating to the accumulation of the audit evidence necessary for the auditor to conclude that there are no material misstatements in the Cost

Statements taken as a whole. Reasonable assurance relates to the whole audit process.

A cost auditor cannot obtain absolute assurance because there are inherent limitations in an audit that affect the cost auditor's ability to detect material misstatements. These limitations result from factors such as the following:

- The use of sample testing.
- The inherent limitations of internal control (for example, the possibility of management override or collusion).
- The fact that most audit evidence is persuasive rather than conclusive.

Also, the work undertaken by the cost auditor to form an audit opinion is permeated by judgment, in particular regarding:

- (1) The gathering of audit evidence, for example, in deciding the nature, timing and extent of audit procedures; and
- (2) The drawing of conclusions based on the audit evidence gathered, for example, assessing the reasonableness of the estimates made by management in preparing the Cost Statements.

- 12 Further, other limitations may affect the persuasiveness of audit evidence available to draw conclusions on particular assertions. (For example, transactions between related parties). In these cases certain Cost Auditing Standard identify specified audit procedures which will, because of the nature of the particular assertions, provide sufficient appropriate audit evidence in the absence of:

- 12.3 Unusual circumstances which increase the risk of material misstatement beyond that which would ordinarily be expected; or
- 12.4 Any indication that a material misstatement has occurred.

Accordingly, because of the factors described above, an audit is not a guarantee that the Cost Statements are free from material misstatement, because absolute assurance is not attainable. Further, an audit opinion does not assure the future viability of the entity nor the efficiency or effectiveness with which management has conducted the affairs of the entity.

6.4 Audit Risk and Materiality: Entities pursue strategies to achieve their objectives, and depending on the nature of their operations and industry, the regulatory environment in which they operate, and their size and complexity, they face a variety of business risks. Management is responsible for identifying such risks and responding to them. However, not all risks relate to the preparation of the Cost Statements. The auditor is ultimately concerned only with risks that may affect the cost statements.(Refer 5.7)

- (a) The cost auditor obtains and evaluates audit evidence to obtain reasonable assurance about whether the Cost Statements give a true and fair view or in accordance with the applicable cost reporting framework. The concept of reasonable assurance acknowledges that there is a risk the audit opinion is inappropriate. The risk that the cost auditor expresses an inappropriate audit opinion when the Cost Statements are materially misstated is known as "audit risk."The cost auditor reduces audit risk by designing and performing audit procedures to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base an audit opinion. Reasonable

assurance is obtained when the auditor has reduced audit risk to an acceptably low level.

- (b) Audit risk is a function of the risk of material misstatement in the cost statements (or simply, the "risk of material misstatement") (i.e., the risk that the Cost Statements are materially misstated prior to audit) and the risk that the auditor will not detect such misstatement ("detection risk"). The cost auditor performs audit procedures to assess the risk of material misstatement and seeks to limit detection risk by performing further audit procedures based on that assessment. The audit process involves the exercise of professional judgment in designing the audit approach, through focusing on what can go wrong (i.e., what are the potential misstatements that may arise) at the assertion level and performing audit procedures in response to the assessed risks in order to obtain sufficient appropriate audit evidence.
- (c) The cost auditor is concerned with material misstatements, and is not responsible for the detection of misstatements that are not material to the Cost Statements taken as a whole. The cost auditor considers whether the effect of identified uncorrected misstatements, both individually and in the aggregate, is material to the Cost Statements taken as a whole. Materiality and audit risk are related

In order to design audit procedures to determine whether there are misstatements that are material to the cost statements taken as a whole, the cost auditor considers the risk of material misstatement at two levels:

- (1) the overall cost statement level and
- (2) In relation to cost heads, items of cost and disclosures and the related assertions.

- (d) The cost auditor considers the risk of material misstatement at the overall cost statement level, which refers to risks of material misstatement that relate pervasively to the Cost Statements as a whole and potentially affect many assertions. Risks of this nature often relate to the entity's control environment (although these risks may also relate to other factors, such as declining economic conditions), and are not necessarily risks identifiable with specific assertions at the cost heads, items of cost or disclosure level. Rather, this overall risk represents circumstances that increase the risk that there could be material misstatements in any number of different assertions, for example, through management override of internal control. Such risks may be especially relevant to the cost auditor's consideration of the risk of material misstatement arising from fraud. The auditor's response to the assessed risk of material misstatement at the overall cost statement level includes consideration of the knowledge, skill, and ability of personnel assigned significant engagement responsibilities, including whether to involve experts; the appropriate levels of supervision;
- (e) The cost auditor also considers the risk of material misstatement at the cost heads, items of cost and disclosure level because such consideration directly assists in determining the nature, timing, and extent of further audit procedures at the assertion level. The cost auditor seeks to obtain sufficient appropriate audit evidence at the cost heads, items of cost, and disclosure level in such a way that enables the auditor, at the completion of the audit, to express opinion on the Cost Statements taken as a whole at an acceptably low level of cost audit risk. Auditors use various approaches to accomplish that objective. The discussion in the following paragraphs provides an explanation of the components of audit risk.

(f) The risk of material misstatement at the assertion level consists of two components as follows:

(1) "Inherent risk" is the susceptibility of an assertion to a misstatement that could be material, either individually or when aggregated with other misstatements, assuming that there are no related controls. The risk of such misstatement is greater for some assertions and related cost heads, items of cost and disclosures than for others. For example, complex calculations are more likely to be misstated than simple calculations. Cost heads consisting of amounts derived from cost estimates that are subject to significant measurement uncertainty pose greater risks than do cost heads consisting of relatively routine, factual data.

External circumstances giving rise to business risks may also influence inherent risk. For example, technological developments might make a change to a manufacturing process rendering the existing classification of variable and fixed costs inappropriate and cause product contribution to be misstated. In addition to those circumstances that are peculiar to a specific assertion, factors in the entity and its environment that relate to several or all of the classes of cost heads, items of cost, or disclosures may influence the inherent risk related to a specific assertion. These latter factors include, for example, external market constraints may cause normal capacity as an unreliable basis for determining unit costs.

(2) "Control risk" is the risk that a misstatement that could occur in an assertion and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal

control. That risk is a function of the effectiveness of the design and operation of internal control in achieving the entity's objectives relevant to preparation of the entity's Cost Statements. Some control risk will always exist because of the inherent limitations of internal control.

Inherent risk and control risk are the entity's risks; they exist independently of the audit of the Cost Statements. The auditor is required to assess the risk of material misstatement at the assertion level as a basis for further audit procedures, though that assessment is a judgment, rather than a precise measurement of risk. When the auditor's assessment of the risk of material misstatement includes an expectation of the operating effectiveness of controls, the auditor performs tests of controls to support the risk assessment. The Cost Auditing Standard do not ordinarily refers to inherent risk and control risk separately, but rather to a combined assessment of the "risk of material misstatement." Although the Cost Auditing Standard ordinarily describe a combined assessment of the risk of material misstatement, the auditor may make separate or combined assessments of inherent and control risk depending on preferred audit techniques or methodologies and practical considerations. The assessment of the risk of material misstatement may be expressed in quantitative terms, such as in percentages, or in non-quantitative terms. In any case, the need for the auditor to make appropriate risk assessments is more important than the different approaches by which they may be made.

- (g) "Detection risk" is the risk that the cost auditor will not detect a misstatement that exists in an assertion that could be material, either individually or when aggregated with other misstatements. Detection

risk is a function of the effectiveness of an audit procedure and of its application by the auditor. Detection risk cannot be reduced to zero because the auditor usually does not examine all of cost heads, items of cost, or disclosure and because of other factors. Such other factors include the possibility that a cost auditor might select an inappropriate audit procedure, misapply an appropriate audit procedure, or misinterpret the audit results. These other factors ordinarily can be addressed through adequate planning, proper assignment of personnel to the audit team, the application of professional skepticism, and supervision and review of the audit work performed.

Detection risk relates to the nature, timing, and extent of the auditor's procedures that are determined by the auditor to reduce audit risk to an acceptably low level. For a given level of audit risk, the acceptable level of detection risk bears an inverse relationship to the assessment of the risk of material misstatement at the assertion level. The greater the risk of material misstatement the auditor believes exists, the less the detection risk that can be accepted. Conversely, the less risk of material misstatement the auditor believes exist, the greater the detection risk that can be accepted.

6.5 Responsibility for the Cost Statements: The cost auditor is responsible for forming and expressing an opinion on the Cost Statements. (Refer 5.9)

The term "Cost Statements" refers to a structured representation of the cost information, which ordinarily includes accompanying notes, derived from cost accounting records and intended to communicate an entity's use of economic resources and the output obtained in accordance with a Cost reporting framework. The term can refer to for example, a cost statement, reconciliation with financial accounts and related explanatory notes.

- (a) The requirements of the Cost reporting framework determine the form and content of the Cost Statements and what constitutes a complete set of Cost Statements. For certain Cost reporting frameworks, a single cost statement as such and the related explanatory notes constitute a complete set of Cost Statements. For example: a Cost Statement under Cost Accounting Standard 4.
- (b) The Cost auditor is not responsible for preparing and presenting the cost statements in accordance with the applicable Cost reporting framework including inter-alia:
 - (1) Designing, implementing and maintaining internal control relevant to the preparation and presentation of Cost Statements that are free from material misstatement, whether due to fraud or error;
 - (2) Selecting and applying appropriate Cost accounting policies; and
 - (3) Making cost estimates that are reasonable in the circumstances.

6.6 Non-compliance: The cost auditor shall request management to provide written representation that all known instances of non-compliance or suspected non-compliance with laws and regulations governing Cost Accounting, Cost Records and Cost Audit have been disclosed to the cost auditor. The representations provide necessary audit evidence about management knowledge of identified or suspected non-compliance with laws and regulations whose effects may have a material effect on the cost statement however, written representation do not provide sufficient audit evidence on their own, and accordingly do not affect the nature and extent of other audit evidence that is to be obtained by the cost auditor.(Refer 5.10)

7. Effective Date

This Standard is effective for audits on or after September 11, 2015.

Cost Auditing Standard- 104
Cost Auditing Standard on
Knowledge of Business, its Processes and the Business Environment

The following is the *Cost Auditing Standard (Cost Auditing Standard -104)* on "Knowledge of Business, its Processes and the Business Environment". In this Standard, the standard portions have been set in ***bold italic*** type. This standard should be read in the context of the background material, which has been set in normal type.

1. Introduction

In performing an audit of cost statement, records and other related documents, the cost auditor should have the knowledge of the client's business to enable him to understand the processes and express his opinion on the cost statements.

The cost auditor's level of knowledge for a cost audit engagement should include a general knowledge of the economy and the industry within which the entity operates, and a more particular knowledge of how the entity operates.

2. Objective

The objective of this standard is to enable the cost auditor to have knowledge of the client's business which is sufficient to identify and understand the events, transactions and practices that, in the cost auditor's judgment may have a significant effect on the examination of cost statements or on the preparation of the cost audit report.

3. Scope

This standard deals with obtaining the knowledge of the client's business, its processes and business environment as it is important for the cost

auditor and members of the audit team working on an audit engagement.

4. Definitions

The following terms are being used in this standard with the meaning specified.

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

4.2 Audit Plan: *A record of the planned nature, timing and extent of risk assessment procedures and further audit procedures at the assertion level in response to the assessed risk.*

4.3 Audit Risk: *Audit risk is the risk that the cost auditor expresses an inappropriate audit opinion on the cost statements that are materially misstated. Audit risk is a function of the risk of material misstatement and detection risk.*

(a) The risk of material misstatement has two components viz. Inherent Risk and Control risk.

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

(2) Control risk: the risk that a misstatement that could occur in an assertion about the measurement, assignment or disclosure of cost and that could be material, either individually or when

aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal, operational and management control.

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

4.4 Auditee: *Auditee means a company or any other entity for which cost audit is being carried out.*

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

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

4.7 Risk Assessment : *The audit procedures performed to obtain an understanding of the entity and its environment, including the entity's internal control, to identify and assess the risks of material misstatement, whether due to fraud or error, at the overall cost statement level and at the assertion level including items of cost, cost heads and disclosure*

thereof.

5. Requirements

5.3 The Cost Auditor shall have adequate level of understanding of the knowledge of Business, its Processes and the Business Environment to develop a reasonable assurance in order to express an opinion on the cost statements on which he is expressing an opinion.(refer 6.1)

5.4 The Entity and Its Environment: The cost auditor should obtain an understanding of the following:

(e) The nature of the entity, (including its operations covering Business processes, major inputs, Joint & By-Products and Wastages and major outputs etc) and the entity's ownership and governance structure.

(f) Relevant industry, regulatory, and other external factors including the applicable cost and financial reporting framework.(refer 6.2)

(g) The entity's selection and application of cost accounting policies.(refer 6.3)

(h) The measurement and review of the entity's performance. (refer 6.4)

5.3 The Entity's Internal Control: The cost auditor shall obtain an understanding of internal controls relevant to the audit.(refer 6.5)

(f) Control Environment: The cost auditor shall evaluate whether management has created and maintained a culture of honesty and ethical behaviour.

(g) The entity's risk assessment process: The cost auditor shall obtain an understanding of whether the entity has a process for: (refer 6.6, 6.7, 6.8)

- (6) Identifying business risks relevant to cost reporting objectives;*
- (7) Assessing the likelihood of their occurrence;*
- (8) Estimating the significance of the risks; and*
- (9) Deciding about actions to address those risks.*

(h) Cost Information System/ Management Information System: The cost auditor shall obtain an understanding of the Information System including Management Information System, relevant to cost reporting, including the following areas: (refer 6.9)

- (1) The classes of transactions and their analysis, that are significant to the cost statements;*
- (2) The procedures, by which those transactions and their analysis are initiated, recorded, processed, and reported in the management information systems and cost statements;*
- (3) The related cost accounting records, supporting information that are used to initiate, record, process and report transactions; and*
- (4) The reporting process used to prepare the entity's cost statements, including significant estimates and disclosures.*

(i) Control Activities: The auditor shall obtain an understanding of the control activities, relevant to the audit.(refer 6.10)

(j) Monitoring of controls:

- (3)The auditor shall obtain an understanding of the major activities, that the entity uses to monitor internal control over reporting.(refer 6.11)*
- (4)The cost auditor shall evaluate the adequacy of the internal*

audit function in relation to cost records. (refer 6.12)

5.6 IT (Information Technology) Environment and Control: The cost auditor shall evaluate and assess: (refer 6.13)

- (1) IT Architecture, Systems and programmes in use in the entity;*
- (2) Controls on access to data;*
- (3) Controls on changes to data in master files, systems or programmes; an*
- (4) Integrity of information and security of the data*

5.7 Identifying and Assessing the Risks of Material Misstatement: The cost auditor shall identify and assess the risks of material misstatement at the cost statement level; and at the assertion level including items of cost, cost heads and disclosures thereof. For this purpose, the cost auditor shall: (refer 6.14, 6.15, 6.16)

- (1) Identify risks including relevant controls that relate to the risk of material misstatements or a risk of fraud;*
- (2) Assess whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention;*
- (3) Assess whether the risk involves significant transactions with related parties;*
- (4) Assess the degree of subjectivity in the measurement of information related to the risk.*
- (5) Assess whether there arises a need for revising the assessment of risk based on additional audit evidence obtained.*

5.6 Documentation: The auditor shall document:

- (iv) Key elements of the understanding obtained regarding each of the aspects of the entity and its environment specified in paragraph 5.1 & 5.2 above and of each of the internal control components specified in paragraphs 5.3 above; the sources of information from which the understanding was obtained; and the risk assessment procedures performed;*
- (v) The identified and assessed risks of material misstatement at the cost statement level and at the assertion level including items of cost, cost heads and disclosure thereof as required by paragraph 5.5 above; and*
- (vi) The risks identified, and related controls about which the auditor has obtained an understanding, as a result of the requirements in paragraphs 5.5 above.*

6 Application Guidance

- 6.1 Obtaining an understanding of the entity and its environment, including the entity's internal control, is a continuous and dynamic process of gathering, updating and analysing information throughout the audit. The understanding establishes a frame of reference within which the cost auditor plans the audit and exercises professional judgment throughout the audit, for example, when:(Refer 5.2)
- Assessing risks of material misstatement of the cost statements;
 - Considering the appropriateness of the selection and application of cost accounting policies, and the adequacy of cost statement disclosures;
 - Identifying areas where special audit consideration may be necessary, for example, abnormal losses, lower yields, higher wastages, higher utilities consumption, related party transactions etc.
 - Developing Models for use in performing analytical procedures;
 - Responding to the assessed risks of material misstatement, including

designing and performing further audit procedures to obtain sufficient appropriate audit evidence; and

- Evaluating the sufficiency and appropriateness of audit evidence obtained, such as the appropriateness of assumptions and of management's oral and written representations.

6.2 Relevant industry factors include industry conditions such as the competitive environment, supplier and customer relationships, and technological developments etc. Examples of matters the cost auditor may consider include: {Refer 5.2(b)}

- (a) The market and competition
- (b) Cyclical or seasonal activity
- (c) Changes in product technology
- (d) Business risk (for example, high technology, high fashion, ease of entry for competition)
- (e) Declining or expanding operations
- (f) Adverse conditions (for example, declining demand, excess capacity, serious price competition)
- (g) Key ratios and operating statistics
- (h) Specific cost accounting practices and problems
- (i) Specific or unique practices (for example, relating to labour contracts, financing methods, accounting methods).
- (j) Energy supply sources and cost
- (k) Environmental requirements and problems

6.3 An understanding of the entity's selection and application of cost accounting policies may encompass matters such as: {Refer 5.2(c)}

- (a) The methods the entity uses to account for significant and unusual transactions (abnormal events).
- (b) The effect of significant cost accounting policies in controversial or

emerging areas for which there is a lack of authoritative guidance or consensus.

(c) Changes in the entity's cost accounting policies.

(d) Cost reporting framework, and laws and regulations that are new to the entity and when and how the entity will adopt such requirements.

6.4 Management will measure and review those things they regard as important. Performance measures, whether external or internal, create pressures on the entity. These pressures, in turn, may motivate management to take action to improve the business performance or to misstate the cost or financial statements. Accordingly, an understanding of the entity's performance measures assists the cost auditor in considering whether pressures to achieve performance targets may result in management actions that increase the risks of material misstatement, including those due to fraud. Examples of internally-generated information used by management for measuring and reviewing financial performance, and which the cost auditor may consider, include: {Refer 5.2(d)}

13 Key performance indicators and key ratios (financial and non-financial).

14 Key trends and operating statistics.

15 Period-on-period financial performance analyses.

16 Budgets, forecasts, variance analyses, segment information and divisional, departmental or other unit level performance reports.

17 Employee performance measures and incentive compensation policies.

18 Comparisons of an entity's performance with that of competitors.

6.5 While understanding controls that are relevant to the audit, cost auditor should evaluate the design of those controls and determine whether they have been implemented properly, by performing procedures in addition to discussions with the entity's personnel.(Refer 5.3)

- 6.6 If the entity has established risk assessment process, the cost auditor should obtain an understanding of it, and the results thereof. If the cost auditor identifies risks of material misstatement that management failed to identify, the cost auditor should evaluate whether there was an underlying risk of a kind that the cost auditor expects would have been identified by the entity's risk assessment process. If there is such a risk, the cost auditor should obtain an understanding of why that process failed to identify it, and evaluate whether the process is appropriate to its circumstances or determine if there is a significant deficiency in internal control with regard to the entity's risk assessment process.{Refer 5.3(b)}
- 6.7 As part of the risk assessment, the cost auditor should determine whether any of the risks identified are, in the cost auditor's judgment, a significant risk. In exercising this judgment, the cost auditor should exclude the effects of identified controls related to the risk.{Refer 5.3(b)}
- 6.8 An understanding of the business risks facing the entity increases the likelihood of identifying risks of material misstatement, since most business risks will eventually have financial consequences and, therefore, an effect on the cost statements. However, the cost auditor does not have a responsibility to identify or assess all business risks because not all business risks give rise to risks of material misstatement.{Refer 5.3(b)}
- 6.9 The cost auditor should understand the related cost accounting records, supporting information and specific accounts in the financial statements that are used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information is transferred primarily to the accounting system and subsequently to cost accounting statement.{Refer 5.3(c)}

- 6.10 The cost auditor should obtain an understanding of control activities relevant to cost/ management information system in order to assess the risks of material misstatement at the assertion level and design further audit procedures responsive to assessed risks. An audit does not require an understanding of all the control activities related to each significant class of transactions and disclosure in the cost statements or to every assertion relevant to them.{Refer 5.3(d)}
- 6.11 The cost auditor should obtain an understanding of the major activities that the entity uses to monitor internal control relevant to cost reporting, including those related to those control activities relevant to the audit, and how the entity initiates remedial actions to deficiencies in its controls.{Refer 5.3(e)(1)}
- 6.12 If an entity has an internal audit function, inquiries of the appropriate individuals within the function may provide information that is useful to the cost auditor in obtaining an understanding of the entity and its environment, and in identifying and assessing risks of material misstatement at the cost statement and assertion levels. If based on responses to the cost auditor's inquiries, it appears that there are findings that may be relevant to the entity's audit; the cost auditor may consider it appropriate to read related reports of the internal audit function.{Refer 5.3(e)(2)}
- 6.13 The cost auditor should assess the following with regard to IT environment and controls.(Refer 5.4)
- Reliance on systems or programs that are inaccurately processing data, processing inaccurate data, or both.
 - Unauthorized access to data that may result in destruction of data or improper changes to data, including the recording of unauthorized or non-

- existent transactions, or inaccurate recording of transactions. Particular risks may arise where multiple users access a common database.
- The possibility of IT personnel gaining access to privileges beyond those necessary to perform their assigned duties thereby breaking down segregation of duties.
 - Unauthorized changes to data in master files.
 - Unauthorized changes to systems or programs.
 - Failure to make necessary changes to systems or programs.
 - Inappropriate manual interventions.
 - Potential loss of data or inability to access data as required.

6.14 Risks at the cost statement level may derive in particular from a deficient control environment (although these risks may also relate to other factors, such as declining economic conditions). For example, deficiencies such as management's lack of competence may have a more pervasive effect on the cost statements and may require an overall response by the auditor.(Refer 5.5)

6.15 Risks of material misstatement at the cost statement level refer to risks that relate pervasively to the cost statements as a whole and potentially affect many assertions. Risks of this nature are not necessarily risks identifiable with specific assertions at the class of transactions, or disclosure level. Rather, they represent circumstances that may increase the risks of material misstatement at the assertion level, for example, through management override of internal control. Cost statement level risks may be especially relevant to the auditor's consideration of the risks of material misstatement arising from fraud.(Refer 5.5)

6.16 The auditor's assessment of the identified risks at the assertion level provides a basis for considering the appropriate audit approach for designing

and performing further audit procedures. For example, the auditor may determine that only by performing tests of controls may the auditor achieve an effective response to the assessed risk of material misstatement for a particular assertion. (Refer 5.5)

7 Effective Date

This Standard is effective for audits on or after September 11, 2015.

Annexure 12

INTERFACE WITH COST AUDIT REPORT					
Clause No.	Clause Description	Impact under Excise	Impact under Service Tax	Customs	Impact under Foreign Trade
B1 Quantitative Info	Installed capacity	Disclosures in ER-7 - comparison with actual production			
B1 Quantitative Info	Capacity available through loan license/third parties	Procedure w.r.t. Loan Licensee and compliances thereof			
B1 Quantitative Info	Capacity available through leasing arrangements	Procedure w.r.t. material movement and compliances thereof			
B1 Quantitative Info	Capacity enhanced during the year				
B1 Quantitative Info	Capacity utilisation	Compare with maintenace records of machines / production declared			
B1 Quantitative Info	Stock purchased for Trading	Reconcile with Trading Returns and records			
B1 Quantitative Info	Stock Adjustments	Impact of excise duty on the stock adjustments including cenvat reversal			

B1 Quantitative Info	Annual Production / Sales	Comparison with production reported in returns - variation, if any - issues w.r.t. mismatch in stocks, clandestine removal			
Annexure - 5	Material consumption - imported / indigenous / self manufactured	1) Disclosures made in ER-5 / ER-6 / ER- 4 2) Trend analysis w.r.t. cenvat availment taking into consideration the material consumption. 3) Variations in material consumption and clandestine removals			
B-2 Cost Sheet	Valuation	Correctness of Valuation adopted for interunit transfer under CAs 4 / variation in normal price determination and transfer price / determination of differential prices at end of year			
B-2 Cost Sheet	Cost of Production / Cost of Sales	Comparison with valuation as per			

		CAS-4			
B-2 Sheet	Cost	Amortization of the cost of Free supply of the Moulds, patterns, Dies	Valuation aspects	Valuation aspects	
B-2 Sheet	Cost	Overvaluation / under valuation of closing stock			
B-2 Sheet	Cost	Job work charges received / paid	Whether manufactured through jobworker / processed through jobworker	Treatment in case of exempted goods	
B-2 Sheet	Cost	Realisable value of such scrap / defectives	Comparison with details of scrap removed and disclosure thereof		
B-2 Sheet	Cost	Joint Products	Accounting w.r.t the joint products - production, sales, etc		
B-2 Sheet	Cost	By Products	Accounting w.r.t the joint products - production, sales, etc		
B-2 Sheet	Cost	Export Incentives			Reconciliation w.r.t. the actual status of claims filed, received, forgone

B-2 Cost Sheet	Abnormal lossess	Cenvat reversal / Remission of duties w.r.t. finished goods issued for captive consumption			
B-2 Cost Sheet	Repairs / maintenance records	Reconcile production based on the maintenance schedule prescribed vis-à-vis the actual production / capacity utilisation declared			
B-2 Cost Sheet	Self generated Power, fuel	Treatment of cenvat credit on various consumables etc			
D-2 Profit Reconciliation	Write off of material	Cenvat reversal / disclosure in return			
D-5 RPT	Related Party transactions	Valuation of goods sold to related party			
D-5 RPT	Related Party transactions			SVB Valuation	
D-6 IDT	Reconciliation of Indirect Taxes	Duties payable vis- à-vis duties paid to be cross checked with returns	Taxes payable vis-à-vis duties paid to be cross checked with returns		

Annexure 13**Turnover Reconciliation Statement**

Name of Company				
Year				
<u>Reconciliation of Turnover as per audited Profit & Loss Account and Excise Returns</u>			<u>Reconciliation of Turnover as per audited Profit & Loss Account and Service Tax Return</u>	
Particulars	Amt. (Rs. In Lakh)		Particulars	Amt. (Rs. In Lakh)
Total Turnover of sales as per Audited P&L			Total Turnover of sales as per Audited P&L	
Add:			Add:	
Add: Increase in value due to addition in case of exclusive supply to related party as per Central Excise Valuation (determination of price of excisable goods) Rules, 2000			Advances received from customer	
Add: Inter unit transfers not included in sales			Amount taxable for services provided for which bills/invoices/ challans or any other documents have not been issued	
Add: Manufactured goods cleared on behalf of 3 rd party			Money equivalent of other considerations charged, if any, in a form other than money	
Add: Free supply of manufactured goods			Value of declared services i.e. agreeing to the	

			obligation to refrain from an act, or to tolerate an act or a situation, or to do an act;	
Add: Value of goods / services received free of cost received from customer for manufacture of goods or providing of service			Less:	
			Amount charged as Pure Agent if included in the turnover as per financial	
Add: value of scrap sale other than manufactured scrap				
			Amount claimed as abatement	
Add:/Less : Difference in value between FOB value of export and terms of payment considered in accounts				
			Value of services provided falling under negative list of services	
Add/ Less :Increase/ (decrease) in value of Domestic Sales of Manufactured Goods cleared for Stock Transfer to branches in terms of Rule 7 of Central Excise Valuation (determination of price of excisable goods) Rules, 2000				
			Add/Less: Net impact due to(increase)/decrease in exchange rates	
Add/Less: (Increase)/decrease in sales value due to transfer pricing adjustment				

			Add/Less: Value of Debit/ (Credit) notes not considered in Excise\Service Tax Records	
Add/Less:Value of Debit/ (Credit) notes not considered in Excise\Service Tax Records				
Add/Less:Net impact due to(increase)/decrease in exchange rates				
Add/Less:Net Impact increase/(decrease)in Opening & Closing Stock in Transit				
Less:				
Add/Less: value of abatement in case of MRP based products(Difference between transaction value nad MRP less abatement)				
Less value of traded sales not included in Excise/Service Tax records				
Less: value of sale of raw material if accounted in financial turnover				
Total value of sales after reco adjustments			Total value of sales after reco adjustments	
Total Turnover of sales as per Excise Returns			Total Turnover of sales as per Service Tax Returns	
Difference			Difference	

Product Details Statement

PART A			
4. Product/ Service Details (for the company as a whole)			
Name Of Products/Services	Impact Under Service Tax	Impact Under Excise	Impact Under VAT
Income from Operation			
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	Difference is gross turnover to be checked & impact on liability to be checked	Difference is gross turnover to be checked & impact on liability to be checked	Difference is gross turnover to be checked & impact on liability to be checked
Note			

Quantitative Information of Services

INTERFACE WITH COST AUDIT REPORT			
PART B			
1. Quantitative Information (for each service separately)			
Name of the product			
Product/Service code (If applicable)			
Particulars	Impact Under Excise	Impact Under Service Tax	Impact Under VAT
1. Available Capacity			
(a) Installed capacity	Cross check with ER-7		
(b) Capacity enhanced during the year, if any	Cross check with ER-7		
(c) Capacity available through leasing arrangements, if any		Check financial lease & condition of lease.	Check financial lease & condition of lease.
(d) Capacity available through loan license/third party	Rule 6 of Cenvat credit rules		Check whether included in VAT return
(e) Total available capacity			
2. Actual services provided			
(a) Own Services			
(b) Services under contractual arrangements			
(c) Outsourced services			

(d)Total Services			
3. Total Services as per service tax records			
4. Capacity Utilisation (in house)			
5. Actual Sales			
(a)Goods Exported/Services rendered-Domestic	ER-1 and reco. of stock transfer and branch sale		
(b)Goods Exported/Services rendered-Export	ARE-1 rebate/bond & refund under Rule 5		

Cost Statement for Services:

INTERFACE WITH COST AUDIT REPORT				
PART B				
2. Abridged Cost Statement (for each service separately)				
Name of Service/product				
Service Code/CETA (if applicable)				
Unit of Measure				
2014-15				
2013-14				
Sr No	Particulars	Impact Under Service Tax	Impact Under Excise	Impact Under VAT
1	Material Consumed (specify details as per para 2A)		Cross check with quantitative information ER-1 * ER-5 = ER-6 = Overall cost statements	
2	Utilities (specify details as per 2B)			
3	Direct employees cost	Check Recoveries and impact on service tax		
4	Direct expenses			

5	Consumable stores & spares		Input Credit	
6	Repairs & maintenance	Service tax liability w.r.t. works contract		
7	Quality control expenses			
8	Research & Development expenses			
9	Technical know-how fees/Royalty	Service tax liability w.r.t. import of services & abatement for R & D cess		
10	Depreciation / Amortization		Ensure CENVAT is not taken	
11	Other production overheads			
12	Industry specific Operating expenses (specify details as per para 2C)			
13	Total (1 to 12)			
14	Less: Credit for recoveries, if any		Excise duty payment	
15	Cost of Service/Product Provided (13-14)			
16	Cost of outsourced /Contractual Services	Service tax liability w.r.t. Manpower Supply Service		
17	Total Services / Product Available			
18	Less: Self/Captive Consumption		CAS-4 valuation	
19	Other Adjustments (if any) (WIP)			
20	Cost of Services/Goods Sold			

	(17-18+19)			
21	Administrative Overheads			
22	Selling & Distribution Overheads	Check sponsorship	Cenvat credit on outward freight and courier	
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:				

Details of Material & Utilities Consumed and Industry Specific Expenses

INTERFACE WITH COST AUDIT REPORT									
PART B									
2A Details Of Material Consumed									
Name of Service/product		Construction service							
Service Code/CETA (if applicable)									
Sr No	Description of material	Category	UOM	2014-15			2013-14		
				Quantity	Rate per unit (Rs)	Amount	Quantity	Rate per unit (Rs)	Amount
	Total								

Category : Indegenous/imported/self manufactured								
2B Details Of Utilities Consumed								
Name of Service/prod uct								
Service Code/CETA (if applicable)								
Sr No	Description of material	UOM	2014-15			2013-14		
			Quantity	Rat e per unit (Rs)	Amoun t	Quanti ty	Rate per unit (Rs)	Amoun t
	Total							

2C Details of Industry Specific Operating expenses

Name of Service/product								
Service Code/CETA (if applicable)								
Sr No	Description of Industry Specific	2014- 15	2013-14					

	Operating Expenses		
		Amount	Amount
	Total		

Product and Service Profitability Statement

INTERFACE WITH COST AUDIT REPORT							
PART D							
1.Product And Service Profitability Statement (for audit's product/services)							
							Rs.in Lacs
Sr.No	Particulars	2014-15			2013-14		
		Sales (Rs)	Cost of sales (Rs)	Margin (Rs)	Sales (Rs)	Cost of sales (Rs)	Margin (Rs)
		-	-	-	-	-	-
	Total	-	-	-	-	-	-

Profit Reconciliation Statement

INTERFACE WITH COST AUDIT REPORT			
PART D			
2. Profit Reconciliation (for the company as a whole)			
Sr.no.	Particulars	Impact Under Service Tax	Impact Under Excise
1	Profit or loss as per cost accounting records		
	(a)for the audited product/services		
	(b)for the un-audited product/services		
	Total		
2	Add : Incomes not considered in cost Accounts(specify details)		
	a) Interest Income		
	b) Dividend Income		
	c) Profit on sale of Investments		
	d) Profit on sale of fixed assets		
	e) Write back		
	f) Project Management Fees	Service tax liability	
	g) Other Income		
	i) Scrap sale		
	Total		
3	Less : Expenses not considered in cost accounts(specify details)		
	a) Misc expenses		
	d) Provision for Expenses		
	e) Interest and Finance Charges		

	f) Defect Liability Expense	Service tax liability under declared service	
	g) Provisions on doubtful debts and on losses to completion		
	h) Provisions and balances write off		Credit reversal on inventory write off & capital goods
	i) Donation	Check impact of service tax	
	j) Loss on sale of fixed assets		Reversal of cenvat on CG
	k) Foreign Exchange Loss		
	l) Loss on sale of Investment		
	m) Abnormal Loses		
	Total		
4	Difference in valuation of stock between financial accounts and cost accounts		Valuation
5	Other adjustment if any		
6	Profit or loss as per financial accounts		

Value Addition and Distribution of Earnings Statement

INTERFACE WITH COST AUDIT REPORT			
PART D			
3. Value Addition and Distribution of Earnings (for the company as a whole)			
Sr. no.	Particulars	Impact Under Service Tax	Impact Under Excise
	Value Addition:		Check value addition % with PLA and CENVAT ratio
1	Gross Sales(excluding Returns)		
2	Less: Excise and other duties		Cross check with duty liability as per returns
3	Net Sales		Export Incentives availed by the unit
4	Add: Export Incentives of company		
5	Add/Less: Adjustments in work-in-progress and finished stocks		
6	Less: Cost of bought out inputs of company		
	(a) Cost of Material Consumed		
	(b) Cost of Process Materials or Chemicals		
	(c) Stores & Spares Consumed		
	(d) Cost of Utilities Consumed		
	(e) Cost of other bought out inputs		
	Total Cost of bought out inputs		
7	Value Added of company		
8	Add: Other Incomes of Company		
9	Add: Extra ordinary income		
10	Earnings as available for		

	distribution		
	Distribution of Earnings:		
	Employees as salaries, wages, retirement benefits and others		
	Shareholders as dividend		
	Company as retained funds		
	Government as taxes		
	Extra ordinary expenses (Loss on sale of FA, Loss on sale of investments, Diminution in value of Long Term Investment, FE Loss, Doubtful debts provided)		
	Other if any (Finance Cost)		
	Total distribution of Earnings		

Financial Position Statement

INTERFACE WITH COST AUDIT REPORT			
PART D			
4. Financial Position and Ratio Analysis (for the company as a whole)			
Sr.No.	Particulars	Impact Under Service Tax	Impact Under Excise
A.	Financial Position of Company		
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		
	PBT to Capital Employed (B3/A6)		
	PBT to Net Worth (B3/A7)		
	PBT to Net Revenue from Operations (B3/B2)		
	PBT to Value Added (B3/B1)		
D	Other Financial Ratios		
	Debt- Equity Ratio		

	Current Assets to Current Liabilities		
	Value Added to Net Revenue from Operations		
E	Working Capital Ratios		
	Net Working Capital to Cost of Sales excl. depreciation		
	Raw Material Stock to Consumption		
	Stores & Spares to Consumption		
	Work-in-Progress Stock to Cost of Production		
	Finished Goods Stock to Cost of Sales		

Related Party Transaction Statement

INTERFACE WITH COST AUDIT REPORT					
PART D					
5. Related Party Transactions (for the company as a whole)					
Sr. No.	Name & Address of the Related Party	Name of the Product/ Service Group	Impact Under Service Tax	Impact Under Customs	Impact Under Excise
			Check with applicability of service tax- including that of reverse charge on import of services	SVB valuation	Check section 4 read with Excise valuation Rules
Notes:					

Reconciliation of Indirect Taxes Statement

INTERFACE WITH COST AUDIT REPORT				
PART D				
6	Reconciliation of Indirect Taxes (For the Company as a whole)			
	Particulars	Impact Under Service Tax	Impact Under Excise	Impact Under VAT
	Duties/ Taxes Payable	Cross check with returns	Cross check with returns	Cross check with returns
	Excise Duty			
1	Domestic			
2	Export			
3	Stock transfer (Net)			
4	Duty Free Clearance, others etc			
5	Total Excise Duty (1 to 4)			
6	Service Tax			
7	VAT, CST etc			
8	Other States 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			
Determine correct tax liability in accordance with law and not summary of ER-1/ER-2 and ST-3 returns				
Check payment made/ cenvat debited for earlier financial years				

Annexure 24**Statement Showing Details of ER1/ER2**

Sr. No.	Area to be verified	Impact under Excise	Impact under Service Tax	Impact under Customs	Impact under Foreign Trade	Specific issues for EOU
1	Clearances					
1.1	Physical Exports	Quantities& value wise details of export				
		Export under bond				
		Export under rebate				
		Export duty paid if any				
		Proof of export received with 180 days				
1.2	Deemed Exports	Quantities& value wise details of deemed export-				
		Re-warehousing with in 90 days closed				
		Exemption under Rule 6 of Cenvat Credit Rule or otherwise				
1.3	DTA Sales	Quantities& value wise details of DTA sale				
		Entitlement of exemption Notification				
		Duty paid on DTA sale (Concessional / Normal Excise Duty				

Sr. No.	Area to be verified	Impact under Excise	Impact under Service Tax	Impact under Customs	Impact under Foreign Trade	Specific issues for EOU
		or Exempted)				
		Similar Goods / Identical Goods				
2	Production	Production quantity, opening-closing stock, clearance details				
		Consolidated DSA or item-wise DSA				
		Withdrawal for Self Use				
		Rule 16 of Central Excise Rules				
3	CENVAT Credit					
3.1	Input Goods	Cenvat availment to be tallied with accounts and Cenvat register				
		Input Removal as such reversal of cenvat credit vis-à-vis Rule 6 (Sub-rule 3A)				
3.2	Capital Goods	Cenvat availment to be tallied with accounts and Cenvat register				
		50% Cenvat credit in subsequent years				
		Fixed Asset Register / Gross Block				

Sr. No.	Area to be verified	Impact under Excise	Impact under Service Tax	Impact under Customs	Impact under Foreign Trade	Specific issues for EOU
		Capital Goods Removal as such reversal of cenvat credit vis-à-vis Rule 6 (Sub-rule 3A)				
3.3	Input Services	Cenvat availment to be tallied with accounts and Cenvat register				
3.4	Utilization of CENVAT Credit	cenvat utilized +duty paid through GAR -7 challan should tally with duty payable	Cenvat utilized for payment of service tax			
		Credit utilized when input/capital goods are removed as such				
4	Details of duty free indigenous procurement	Quantities & value wise details of goods purchased under CT3-				
5	Details of duty free imported procurement	Quantities& value wise details of goods purchased under PC-				
6	Consumption					
7	Miscellaneous Issues					
8	Other Issues (If any)					

Sr. No.	Area to be verified	Impact under Excise	Impact under Service Tax	Impact under Customs	Impact under Foreign Trade	Specific issues for EOU
9	Details of other payments made	Details of arrears and interest payment				