Suggestions on GST Audit Manual 2019

The Institute of Cost Accountants of India

(Statutory body under an Act of Parliament)

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CBIC has brought out comprehensive GST Audit Manual to facilitate the Audit Officers for smooth conduct of Audit of the Tax payers. The audit manual is well structured and it is very essential that the working notes should be completely filled by the audit team in order to make the audit effective. In the case of certain Audits, it is noticed that the document verification is done on test check basis and the audit notes/ working papers are not well structured. Hence the review of the audit report internally by the Senior Officers should be based on the working papers and the draft audit report should be issued to the Assesse only after approval of senior official. This will ensure that the disputes are minimised.

Tax Research Department of the Institute of Cost Accountants of India, had sought suggestions/opinions from the experts dealing in Cost Audit as well as GST Audit on various practical aspects to make this Manual more useful. The suggestions here in given below are **supplementary** and purely based on the opinion of the Resource persons. Department may consider it for reference of the Audit Officers, if found meaningful.

(A) **Brief note on legal provisions of Cost Audit** in India is provided in Appendix –I for reference to the audit team.

(B) **GST Audit of Multi - Location Entities**

Introduction

When an Entity has registrations in more than one State / UT, each unit/branch is treated as a distinct person in terms of Section 25(4) and 25(5) of the CGST Act and each of these units is required to get its records audited under the GST Laws.

Importance of audit of multi-location

1. The audit should be initiated by seeking a separate Trial Balance for the GSTIN under audit. A separate Trial Balance ensures identification of all transactions related to a particular GSTIN, of course, to the extent recorded in the books of accounts under GAAP. The Trial Balance can be generated by maintaining separate books of accounts for all locations, or it can also be generated from the specific marking for a Branch against every transaction. In case of separate Trial Balance for branches under a single GSTIN, the same may be consolidated to eliminate inter branch transactions within the same GSTIN. The relevant ledger accounts as per the Trial Balance should be reviewed with the records and documents maintained at the respective locations. The balances should be 'verified figures' declared in Form GSTR 1 and GSTR 3B of each GSTIN.

2. There are many contracts which may be undertaken by a Legal Entity with a third party, whereas, its execution may require 'supply' from different locations. The inter play of supplies between branches is required to answer the correct tax payable or input tax credit availment / available for a taxable person. Transactions between different GSTIN of the same Legal Entity should be analysed very carefully. They may consist of;

   - Stock transfer of goods; and / or
   - Cross utilization of services;

Stock transfer of goods

Stock transfer of goods may be easy to identify and can be cross verified through stock records, records for movement of goods etc., whereas, cross utilization of services may not be clear from financial records. This needs analysis of each Trial Balance. Analysis of the purpose of expenditure incurred for each Trial Balance may provide an indicative evidence for cross utilization of services.

Cost sharing / Cross charge between branches

(a) Section 7(1) (c) read with Schedule I of the CGST Act considers transactions between distinct persons as supplies even when such transactions do not involve supply. Accordingly, stock transfer of goods between branches being a transaction between distinct persons comes within the ambit of the GST Laws. Similarly, services between branches would also attract GST liability.

(b) Audit of multi-location entities would require examination (among others) of the following:

   a. Cost incurred commonly at or by the Head Office, such as Marketing and Brand Building Costs;

   b. Head Office could be providing support to branches, such as Centralized Accounting Services; HR Services etc.,

   c. Branches without billings to third parties;

   d. Branches with billings to third parties but all costs not met by branch;

   e. Credit flowing to branches that do not carry corresponding invoices. Please note that there is an apparent incentive to claim CGST-SGST credit at branches in a given State even though the invoice for the supply (to which this credit relates) may belong to another State;

   f. Identification of branches which have not been registered;

   g. Identify 'location of employment' of all employees and then map their costs and invoices in each branch;

   h. E-Way bill to track supplies which have been marked as stock transfers;

   i. Basis of bifurcation of credits into ISD;

   j. Valuation of Supply especially when credits are not available in the hands of the receiving Branches.

(C) Relevance of Cost Records in effective GST Audits:

With a motto to have comprehensive GST audits by Centre and State officials, Cost Records and Audits may play an important role to have better results, beneficial for both the stakeholders and also the revenue. Cost Records, as prescribed under Company Act, 2013 are more than sufficient to have critical review of business operations. In India, Cost Records are applicable in specified companies but the same can be adopted in other business organizations for better transparency and accountability. Cost Accounting principles are same across the industry. So while conducting GST audits, especially in case of valuation of products, services and related party transactions, cost records are only tool to work out actual cost of production. Through Cost Sheets and other reports as prescribed, we can determine the cost per unit produced for goods, utilities and relationship of each element of cost with total cost of production.

Valuation of products:

In GST, under valuation rules various methods have been prescribed to work out the transaction value to charge GST. But these methods may not be correct to have better results. In first method, transaction value has been asked to charge GST but undervalued or overvalued transaction may give wrong results. Similarly, value of identical products may not give expected results as same product can be manufactured with different technology and skills. So, it is always better to have cost sheet of each product on real time basis and work out the cost of production for each one. Based on actual cost of production, GST should be charged as it minimizes the chances of over or under value of transactions.

Transactions without Consideration:

Under GST there are transactions without consideration where tax is levy-able. For example stock transfer, Inter unit transfer of assets, inputs, services or any other items within group companies. In such cases valuation is a challenge as each transaction is different from other. So, based on actual cost sheet one can work out actual cost of each item, asset and service and tax can be recovered on accurate value of the said assets, items and services without going into litigation.

Joint and By-products:

Further, with the help of cost records, we better understand the production process which further helps us to know by-products or join-products which may or may not be taxable under GST. But with the help of Cost records we can work out their actual cost of productions and point of separation. Through Cost records, we can identify the common costs, utilities or facilities for proper allocation and apportionment of overheads.

Input Credits:

As cost records help us to identify the cost centers, common production process for main products, by-products and joint products, availability or eligibility of Input tax Credits (ITC) can be made easy. Raw material records are being maintained item wise and such items being charged to production based upon the need of final products, ITC can be traced out since inception. There will be minimum chances of mis-utilization of ITC.

Block Credits:

Under GST there are many expense heads u/s 17(5) of CGST Act, where business houses can not avail ITC of inputs. To verify the same further, the treatment of said heads or expenses under Cost Records and Cost Accounting Standards will help the auditors to understand the application of expenses very well and it will reduce the chances of litigation. Auditee can also take clue while availing ITC against said expense head.

Productive and Un-productive activities:

Cost Records are 3-D view of business and help us to identify productive and unproductive activities in process. So by doing so, it help exchequer on one side to get accurate revenue and on the other side multiply the performance of the business by ensuring optimum utilization of resources. Costing techniques help us to make out estimates on technical basis and compare the results with actual, fix the variances with reasons and to apply corrective actions.

Freight Cost:

There are cases where business houses have their own fleet of vehicles/trucks, used to transport raw material of fixed goods. In case of cement, sugar, rice, mines; steel and fertilizers companies have their own fleet and use it for transportation of goods etc.

In such business houses, transportation cost plays a vital role and is part of total cost of the products or transaction value. In such cases eligible/availed ITC is a big issue. To work out the average/equalized transport cost, in cost records we have cost sheet for per kilometer cost. We also have separate costs for diesel consumed, repair & maintenance, insurance, wages etc per km. The Institute of Cost Accountants of India has developed a separate Cost Accounting Standard-5 i.e Average (Equalized) Cost of Transportation for it.

(C1) Cost Audit Report – Additional inputs

The reference in the GST Audit manual (Ref. page 63) is made only to the Annexure to the Cost Audit Report and not to the main audit report by the Cost Auditor. Emphasis should be made to refer to the cost audit report issued by the cost auditors which has the major observations and suggestions.

Cost Audit Report:

The final stage of the audit involves drawing conclusions based on the evidence gathered and arriving at an opinion regarding the fair presentation of cost statements. The cost auditor's opinion is expressed in the cost audit report. At this stage of the audit, a cost auditor will draw on their understanding of the client, their detailed knowledge of the risks faced by the client, and the conclusions drawn when testing the entity's controls, transactions, cost heads, item of cost and related disclosures.

If there is any deficiency noticed on examination of the cost records and the annexure, the cost auditor will issue a qualified report and will indicate the same in the prescribed form of the Cost Audit Report.

The Cost Auditor in the second part of the Audit report- Observations and suggestions, based on verified data, comments on the specific observations and also provides practical solutions for the improvement to be carried out in the Company. The GST auditors must refer to the same for better understanding.

Reconciliation of Profit or Loss as per Cost Accounts and Financial Statements (Part D-2 of Annexure to CAR):

Cost records are being prepared based on cost accounting standards issued by the Institute of Cost Accountants of India and CRA-1- Rule-5 ofthe Companies Cost Audit and Record Rules 2013 as amended from time to time, whereas Financial statements are prepared as per Indian Accounting standards/ accounting Standards issued by the Institute of Chartered Accountants of India. So in various issues there are conceptual differences in their implementation. Valuation of Finished Stock, WIP, Non-cost items such as revenue from investments, donations, demurrage, notional costs, Corporate Social Responsibility etc. are some example where Cost Accounting differs from Financial Accounting. So it is only Cost records which have taken care of reconciliation of Cost Records with Financial records. Similarly, in GST Audits, reconciliation of financial statements with GST records for each GSTIN will be done and Cost Records will help in understanding the each transaction in depth when data will be available from each cost centre(s).

Note: Abnormal material consumption and resources consumption to be detailed looked into from the angle of ITC reversal.

Value Addition and Distribution of Earnings:(Part D-3 of Annexure to CAR)

The Value addition statement is prepared for the Company as a whole. Considering the amount of value addition, one can determine the amount of GST paid by the Company in cash. Negative value addition should be considered seriously and indebt analysis need to undertaken to see if any Tax evasion has happened. The only exemption being the output tax is less than the input tax paid on in the purchases (inverted duty structure). The other factor to be considered is in the case of exports, even though the exports are made without payment of tax(LUT basis), the tax shall be considered on notional basis for exports and then the additional GST payable to be considered with that of the amount of value addition.

A detailed review of the same indicates the ITC is available only on the items listed under cost of bought out inputs only. This Value added amount also indicates that the proportion of GST payable in cash in normal circumstances (assuming no exports). The same is explained with the following example-

Turnover of the Company ₹ 1,00,00,000/- (GST rate 18%)- GST amounts to ₹ 18,00,000/-

Cost of bought out inputs ₹ 60,00,000/- (GST Rate 18%) - ITC amounts tor ₹ 10,80,000/-

Value Added - ₹ 40,00,000/- (40% of Turnover)

Hence the GST payable in cash assuming no opening balance of ITC - ₹ 7,20,000/-

GST paid in cash as a percentage of Total GST Payable = (7,20,000/18,00,000 = 40%)

Product / Services Details (A4) and Indirect Tax Reconciliation (D6) in the Annexure to the Cost Audit report

The difference in Turnover as per Financial Statement and Turnover as per Excise/GST records, provide major insight to the GST Auditors with respect to the reconciliation of the Turnover. The turnover as declared in GSTR-3B in indirect tax recon sheet if it is less than that as declared in the product / services annexure (A4), further investigation has to be made for understanding the evaded/missed taxable income if any.Eg., In the case of Power Generation Companies we can note the power generation income and the income by way of fly ash, scrap sales.. etc., which attracts GST can be verified with the GST paid.

Related Party Transactions:

The Annexure In respect of related party transactions or supplies made or services rendered by a company to a company termed "related party relationship" and vice-aversa, is based on the records 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 ..

"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. The RPT annexure also indicates the basis adopted to determine Normal price (Comparable uncontrolled price method/ Resale price method/ Cost plus method/ Profit split method/ Transactional net margin method/ Any other method, to be specified)

The RPT annexure enable determination of the reasonableness of transaction rates with that of normal rates, in so far as they are in any way related to goods or services .

QUANTITATIVE INFORMATION (B1):

The annexure provides details of available capacity, actual production, production as per Excise/GST records, capacity utilisation (in-house), stock purchased for trading , stock and other adjustments, quantity available for sales, wastage and actual sales. The annexure also provides details of production of goods or services rendered by way of self-produced, third party on job work , loan license basis etc., .

Abridged Cost Statement (B2):

On-going through Quantitative details (B1) and the abridged cost statement (B2) the GST auditors should verify the captive consumption details and ensure if any consumption is for exempted products or the consumption has happened outside the State of the registration of particular unit.

(D) Some Other Aspects

(a) **SAP and ERP System mechanism**

In the case of SAP and other ERP systems, the material consumption is recorded and the purchase is theoretically derived figure. Some Companies only maintain the GR/IR account, but not the purchase register. Hence the GST audit team should insist on the purchase register in addition to ITC register. ITC register (T. Code F.12) in case of SAP is not having the complete details of GSTN of the Vendor, Vendor Name, Nature of product/services. Generally the Companies update the GST monthly returns based on the GL entries in the respective GST payable and GST Receivable Account. There is no standard Sales Register in case of SAP and only customised reports are generated of the sales register is manually maintained to meet the statutory requirement. Invoices raised for supply of samples, may not be reported in the manually maintained sales register. Though the value of sales as per sales register and GL may match, the sample invoices raised may be missed.

(b) **Anti-profiteering**

Though the provisions of Sec 171 of the CGST Act is only for the initial two years, the same has much relevance. The GST audit team should refer to the compliance of the anti-profiteering provision by the company with proper working papers. It is noticed that the substantial amount of transitional credit has been availed by companies/organisations which were earlier not entitled due to exemption from central excise. However the companies/organisations have not reduced the product/service prices after availing the benefit the benefit due to change in tax. Similarly reduction in Tax rates, whether the price reduction is offered to customers are not has to be verified.

(c) **Refunds**

Detailed scrutiny of the Refund applications should be made and ensure the corresponding entries are available in the books of accounts. Eg., the GST amount debited in the Electronic Credit Ledger may not be accounted in the General Ledger till the time of refund is actually received. The ITC claimed from major vendors, purchases and the corresponding vendor accounts has to be scrutinized in order to verify the actual payment and no major book adjustments are made. If the amount is outstanding for more than 180 days, the ITC amount has to be reversed as per the GST Law.

(d) **Service Industry**

In the case of service industry the financials report the turnover of the outside supplies only and not the captive consumption, which details are only available in cost records. In the case of Telecom/Electricity the total units should be considered and the internal/captive consumption should be analyzed whether used in taxable services or exempted services, whether the services are captively consumed in other States, for which the GST liability arises. Further the outward supply is mainly to unregistered customers and hence it should be verified whether the Invoicing is done properly. Supply to unregistered customer should not be billed to registered customers in order to enable them to avail the ITC.

(e) **Stock Ledger**

One of the important document in the case of GST/Cost records is the Stores Ledger. We notice in the services sector and in organisaitons where the inventory and finance is not integrated, proper stock ledger/Bin Card is not maintained. The GST audit team should mandatorily verify the stock ledger maintained by the assesse and sing on the register hard copy(print) on the date of physically present at the assesse business premises. Traders generally avoid the recording of the stock movement form one godown to another godown within the State.

The cost records for raw materials, consumables and stores are maintained showing separately all receipts, issues and balance both in quantities and cost of each items of materials required for the production of goods or rendering of series. Material Cost of abnormal scrap or defectives are not included in material cost but treated as loss after giving credit to the realisable value of such scrap or defectives. The GST Auditor can refer to the other adjustments and abnormal wastage, compare the same to the extent of ITC reversed or to be reversed.

(f) **Business Premises Visit**

The date of visit to the business premises to understand the transactions and recording of the transactions in the ERP/Accounting system, the documents verified etc., should be part of the audit working paper. In the absence of the same, the GST audit teams will avoid the visits and will not be in a position to understand the ground reality (Generally noticed in the case of VAT Audits in the earlier regime). The travel expenses for the visit to the assesse premises should be borne by the department and assesse should not be burdened with the transportation cost.

(g) **Journal Voucher**

Study of JVs may reveal accounting system followed by a unit. For example, a company following the system of cost centres may account for consumption of raw material for each centre on a monthly basis. In such cases, the raw material consumption by non production department like construction department or maintenance department may be found out from the study of JVs which is passed at the end of each month. The said JVs may also be useful in quantifying the amount of wrong availment of ITC for entire year as only one JV is required to be examined for each month.

(h) **Adjustment entries**

Adjustment entries passed for transferring the balance of one account to another related account may also be found out from the study of JVs. For example, Recovery of Packing and Forwarding Charges Account may be transferred to Packing and Forwarding Expenses account and for this purpose a JV is passed.

(i) **Real Estate Sector**

In the case of Real Estate Sector, the costing principal requires that the project wise details are maintained, similar is the requirement of GST Law also. In the case of Real Estate Sector the cost Records and profitability statement project wise can be verified to have better insight and the compliance of the GST Law. Though the financial books reflect the details of all the projects together. Cost centre accounting is used to track the expenses project wise/plant/business area reports should be verified in order to analyse the ITC availed project wise and also the allocation of the Common Expenses.

To have effective GST Audit, auditors may require following documents to understand the overall view of business and its transactions:

List of documents/records auditor may require while conducting special audit:

- Cost Accounting policy
- Cost Records including cost sheets as per practices adopted duly reconciled with Financial Statements or Cost sheets for products manufactured
- Cost Audit reports if any or any such compliance certificate as applicable to the assesses
- Cost Accounting Standards
- Production flow chart
- GST Returns filed along with reconciliation statements for Turnover, ITC and Taxes Paid.
- Financial statements or Balance sheet & P/L Accounts including notes to accounts and ledgers duly tallied/reconciled with SAP/Tally or other software as used by the assesses for the year under audit.
- Process of manufacturer
- Internal Audit of Cost Records – Report there on.
- Internal Auditors and/or any specific audit reports
- Fixed Assets register containing details regarding assets and location thereof.
- BOD and /or Independent Directors reports
- Income tax Returns i.e ITRs, TDS/TCS etc, as applicable and filed by the assesses
- Organization Chart and list of authorized officials
- ESI, PF and any other returns filed under Factory Acts or Labour laws – to reconcile/ ensure the count of manpower deployment.
- Annual returns filed with regulators such as TRAI, IREDA, District Industry Centre, ROC, CERA Or State Electricity Commission or as the case may be,
- Returns filed with state Pollution Control Boards and Electricity Boards
- Monthly/Quarterly/Yearly MIS reports as generated by the business entity
- Copies of Purchase Orders, LOIs and Work orders issued by the assesses

- Bases of price or cost determination for goods manufactured or services provided and /or batch costing
- Inter Unit/Branches transfer of goods or services
- Related parties agreements if any
- Reports on Physical verification as conducted from time to time by the assesses
- Methods for inventory valuations as adopted and working papers for stock valuation as shown in balance sheet (Opening and Closing both)
- Insurance policies, claims filed, settled and major break down if any
- Records as maintained at Stores, Purchase, Security Gate and Quality Assurance departments.
- Material, Inventory or assets written off or disposed off during the year
- Free gifts, donations, samples or FOC items as provided during the year
- Post Sale Warranty services provided and networking
- Marketing net work, Dealers agreements, Branches, warehouse, Dumps setups,
- Contractual Labour or such other contracts
- Pending cases or appeals filed and notices issued if any
- SAP modules, data, MIS reports generated, accounts head wise dump etc.
- Tally or other software as the case may be complete dump/data.
- Annual pricing agreement of most of the export service oriented companies.

Note: Above list is not an exhaustive and it may vary from Industry to industry or business to business depending upon the intensity of the case.

Appendix – I

A **cost audit** represents the verification of cost accounts and checking on the adherence to cost accounting plan. Cost audit ascertains the accuracy of cost accounting records to ensure that they are in conformity with cost accounting principles, plans, procedures and objectives.

The basic objective of cost audit is to ensure that the cost of production as well as cost of sales includes only those factors which are absolutely necessary and that those factors are used in the most efficient way and to report on the optimum utilisation of national resources, to the government.

Cost audit report means the duly signed cost auditor's report on the cost records examined and cost statements which are prepared as per these rules, including attachment, annexure, qualifications or observations attached with or included in such report.

Cost Accounting is necessary for efficient resources utilization as well as monitoring and improving the efficiency of the organizations leading to overall productivity and profitability improvement in the interest of investors, workers, consumers at large, financial institutions, lender, statutory authorities, and industry for its own.

The **maintenance of cost records** introduced in the year 1965 in India was industry specific in the earlier years. Due to its immense importance in shaping the Indian Economy, the base was widened in the year 2011 by making it applicable virtually to all industries in manufacturing, mining, and processing and production activity base on the criteria of net worth and turnover. In the year 2014, maintenance of cost records was made applicable to the class of companies engaged in the production of goods or providing services based on turnover with the criteria of CETA Heading (now CTA) for industries /sectors/product/ services categorized in two groups as regulated sectors and non-regulated sectors.

Ministry of Corporate Affairs through its notification dated 31st July 2018 has amended the Companies (Accounts) Rules, 2014. As per the amendments, the **board's report** of every company (except one person company or small company) should also include a disclosure as to whether maintenance of cost records as specified by the central government (u/s 148(1) of the 2013 Companies Act), is required by the company and accordingly, such accounts and records are made and maintained.

Maintenance of Cost Records – Provisions under the Companies Act, 2013

The Companies Act, 2013 contains the provisions relating to maintenance of Cost Records by certain class of companies. The relevant section reads as under-

Section 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.

It is clear from the provisions of the Act that the maintenance of the cost records will be applicable to the companies which are engaged in production of goods or providing of services only. Thus the essential criterion for maintenance of cost records is "production of goods" or "providing the services". This section very broadly prescribes for the maintenance of cost records relating to various item of cost. The cost records so maintained will form the part of Books of Account to be kept by the companies. Section 128 of the Companies Act, 2013 lays down the provisions regarding books of account etc., to be kept by company.

Provisions under The Companies (Cost Records & Audit) Rules, 2014

Under the powers conferred by sub-sections (1) and (2) of section 469 and section 148 of the Companies Act, 2013, the central government has made the rules called as "the Companies (Cost Records and Audit) Rules, 2014". These Rules were notified for the first time in the year 2014 and have been amended from time to time.

APPLICABILITY OF MAINTENCE OF COST RECORDS

The Companies (Cost Records and Audit) Rules, 2014 as amended prescribe the criteria for the companies which will be subject to maintenance of cost records, Rule 3 of the said Rules prescribes application of cost records as under-

Application of Cost Records- For the purpose of sub-section (1) of section 148 of the Act, the class of companies, including foreign companies, defined in clause (42) of section 2 of the Act, engaged in the production of the goods or providing services, 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, should include cost records for such products or services in their books of account, namely:-

A. Industry/Sector/Product/Services in Regulated Sectors

B. Industry/Sector/Product/Services in Non-Regulated Sectors

(A) Regulated Sectors

Sl. No.	Industry /Sector/ Product/Service	Customs Tariff Act 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 and regulated by the Telecom Regulatory Authority of India under the Telecom Regulatory Authority of India Act, 1997 (24 of 1997); including activities that requires authorisation or license issued by the Department of Telecommunications, Government of India under Indian Telegraph Act, 1885 (13 of 1885);	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);	*Generation – 2016;* Other Activity – Not Applicable
3.	Petroleum products; including activities 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; Other Activity – Not Applicable
4.	Drugs and pharmaceuticals;	2901 to 2942; 3001 to 3006.
5.	Fertilisers;	3102 to 3105.
6.	Sugar and industrial alcohol;	1701; 1703; 2207.

(B) Non-regulated Sectors

Sl. No.	Industry/ Sector/ Product/ Service	Customs Tariff Act Heading [8](wherever applicable)
1.	Machinery and mechanical appliances used in defence, space and atomic energy sectors excluding and 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; 8801 to 8805; 8901 to 8908
2.	Turbo jets and turbo propellers;	8411
3.	Arms and ammunitions and Explosives;	3601 to 3603; 9301 to 9306.

4.	Propellant powders; prepared explosives (other than propellant powders); safety fuses; detonating fuses; percussion or detonating caps; igniters; electric detonators;	3601 to 3603
5.	Radar apparatus, radio navigational aid apparatus and radio remote control apparatus;	8526
6.	Tanks and other armoured fighting vehicles, 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-mooring, hooking, measuring, loading and unloading services rendered for[9] a Port in relation to a vessel or goods regulated by the Tariff Authority for Major Ports under the Major Ports Trusts Act, 1963 (38 of 1963)[10];	Not applicable.
8.	Aeronautical services of air traffic management, aircraft operations, ground safety services, ground handling, cargo facilities and supplying fuel rendered at the[11] 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.	Iron and 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 signaling equipment's of all kind;	8601 to 8608; 8609[12].
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 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 to 2942; 3801 to 3807; 3402 to 3403; 3809 to 3824.
19.	Jute and Jute Products;	5303, 5307[13], 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 to3921; 3925
27.	Tyres and Tubes;	4011 to 4013
28.	Pulp and [14]Paper;	4701 to 4704[15]; 4801 to 4802
29.	Textiles;	5004 to 5007; 5106 to 5113; 5205 to 5212; 5303; 5307;[16] 5310; 5401 to 5408; 5501 to 5516
30.	Glass;	7003 to 7008; 7011; 7016
31.	Other machinery and Mechanical Appliances;	8403 to 8487
32.	Electricals or electronic machinery;	8501 to 8507; 8511 to 8512; 8514 to 8515; 8517; 8525 to 8536; 8538 to 8547.

3.	Production, import and supply or trading of following medical devices, namely:- (i) Cardiac stents; (ii) Drug elutingstents;	9018 to 9022
	(iii) Catheters; (iv) Intra ocular lenses;; (v) Bone cements; (vi) Heart valves; (vii) Orthopedic implants (viii) Internal prostheticre placements; (ix) Scalp vein set; (x) Deep brain stimulator (xi) Ventricular peripheral shud; (xii) Spinal implants; (xiii) Automatic impalpable cardiacdefibrillators[17]; (xiv) Pacemaker (temporary and permanent); (xv) Patent ductusarteriosus, atrial septal defect and ventricular septal defect closure device; (xvi) Cardiac re-synchronize therapy; (xvii) Urethra spinicture devices (xviii) Sling male or female; (xix) Prostate occlusion device; and (xx) Urethral stents;	

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 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).

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.

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.

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 which is engaged in generation of electricity for captive consumption through Captive Generating Plant. For this purpose, the term "Captive Generating Plant" shall have the same meaning as assigned in rule 3 of the Electricity Rules, 2005; 19

4. **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 utilization of resources and these records shall also provide necessary data which is required to be furnished under these rules.