



Frequently Asked Questions
Companies (Cost Accounting Records) Rules, 2011
and Companies (Cost Audit Report) Rules 2011

Revised
FAQ - 4
03-02-2012

The Institute has already issued Three "Frequently Asked Questions" providing clarifications on questions raised by members and Industry in connection with the Companies (Cost Accounting Records) Rules 2011 and Companies (Cost Audit Report) Rules 2011. Some of the clarifications issued in the first two FAQs have undergone changes in view of the Master Circular No. 2/2011 dated 11th November 2011, General Circular Nos. 67/2011 and 68/2011 dated 30th November 2011. Consequently, the following clarifications are now issued. Wherever earlier clarifications have undergone a change, reference has been made to the previous FAQs, where:

FAQ-1 refers to FAQ on Companies (Cost Accounting Records) Rules 2011, and

FAQ-2 refers to FAQ on Companies (Cost Audit Report) Rules 2011.

The clarifications issued below supersede the earlier clarifications, wherever applicable. The original clarifications issued and the changes are provided below.

4.1	What does turnover mean under these Rules? Is gross turnover inclusive of excise duty? [FAQ-1, Question 5].	
	<u>Earlier Clarification</u>	<u>Revised Clarification</u>
	<p>As per Rule 2(p), "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 does not include any non-operational income.</p> <p>From a reading of the Rules, it appears that the word "Gross" denotes "total". Hence, the "Turnover" under these Rules would exclude duties and taxes.</p>	<p>As per Rule 2(p), "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 does not include any non-operational income.</p> <p>The term "Turnover" defined in the Companies (Cost Accounting Records) Rules, 2011 shall exclude taxes & duties. It shall have the same meaning, wherever it appears, in all other orders/rules issued in connection with the cost accounting records and cost audit.</p>
4.2	Will the companies subject to cost audit be also required to file Compliance Report under these Rules? [FAQ-1, Question 14]	
	<u>Earlier Clarification</u>	<u>Revised Clarification</u>
	<p>Every company covered under Companies (Cost Accounting Records) Rules 2011 is required to file a Compliance Report irrespective of whether all or any of its products are covered under cost audit. Thus the Compliance Report shall include product groups covered under cost audit as well as product groups not covered under cost audit.</p>	<p>(a) If all the products/activities of a company, excluding the exempted categories, are covered under cost audit, then the company will not be required to separately file the compliance report.</p> <p>(b) If one or more product(s)/activity(s) of a company is covered under Cost Audit and there are other products covered under Companies (Cost Accounting Records) Rules</p>

	<p>2011 but not covered under Cost Audit as per company-wise or industry specific Cost Audit Orders dated 2nd May, 2011 and 3rd May, 2011 (amended by 30th June, 2011), the Company will be required to file a Compliance Report (Company as a whole) covering products under cost audit and products not under cost audit.</p> <p>(c) If one or more product(s)/activity(s) of a company is covered under Cost Audit and there are other products not covered under Companies (Cost Accounting Records) Rules 2011, then the company will not be required to file a Compliance Report since the product(s)/activity(s) other than product(s)/ activity(s) under Cost Audit are in the exempted category.</p>
4.3	A company with multiple product range is having cost audit for some of its products. What would be the applicability of cost audit on other products now covered under Companies (Cost Accounting Records) Rules 2011? [FAQ-1, Question 16]
<u>Earlier Clarification</u>	<u>Revised Clarification</u>
<p>The status of the company so far as applicability of cost audit is concerned will remain unchanged until cost audit orders are issued for its other products/activities now covered under Companies (Cost Accounting Records) Rules 2011. The company would now be required to maintain cost records for all the products/activities irrespective of whether these are under cost audit or not and also file a Compliance Report.</p>	<p>The cost audit on other products now covered under the Companies (Cost Accounting Records) Rules, 2011, will not be applicable until cost audit orders are issued for its other products/activities. However, Compliance Report is required to be submitted for the 'company as a whole' under different product groups.</p> <p>If the company's remaining products belong to the exempted categories, then Companies (Cost Accounting Records) Rules 2011 will not be applicable on such exempted category products. The requirement of the Compliance Report will be guided by clarification provided under 4.2(b) and 4.2(c) above.</p>
4.4	For how many years, does a company under these rules require to preserve the Cost details? [FAQ-2, Question 15]
<u>Earlier Clarification</u>	<u>Revised Clarification</u>
<p>The cost details, statements, schedules, etc. of every company, as specified in these Report Rules, relating to a period of not less than eight financial years immediately preceding a financial year, or where the company had been in existence for a period less than eight years, in respect of all the preceding years shall be kept in good order.</p>	<p>In respect of companies coming under the purview of the Companies (Cost Accounting Records) Rules, 2011 and the Companies (Cost Audit Report) Rules, 2011 for the first time, cost records and cost details, statements, schedules, etc. shall be kept in good order for the next eight financial years beginning with first year of application of the said Rules.</p>



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4.5 A company has 2 wind mills. Turnover from the two wind mills is Rs. 2 crores. The company's total turnover is more than Rs. 100 crores. None of the products of the company is covered under cost audit at present. Whether, the company will need to get cost audit done of electricity generation activities under Cost Audit Order 52/26/CAB-2010 dated 02.05.2011. [FAQ-2, Illustration 3]

<u>Earlier Clarification</u>	<u>Revised Clarification</u>
<p>Applicability of cost audit is based on turnover of the total company. Hence, any activity of a company, irrespective of the turnover of the particular activity, would be covered under cost audit if that particular activity is one of the activities listed in the cost audit order Nos. 52/26/CAB-2010 dated 2nd May 2011 or 52/26/CAB-2010 dated 3rd May 2011 (modified vide Order dated 30th June 2011).</p> <p>In the instant case, the company will be covered under cost audit for electricity generation, transmission and distribution.</p>	<p>Applicability of cost audit is based on turnover of the total company. Hence, any activity of a company, irrespective of the turnover of the particular activity, would be covered under cost audit if that particular activity is one of the activities listed in the cost audit order Nos. 52/26/CAB-2010 dated 2nd May 2011 or 52/26/CAB-2010 dated 3rd May 2011 (modified vide Order dated 30th June 2011).</p> <p>If the power generated by the 2 wind mills is sold outside but the total turnover from the sale does not exceed 2% of the total turnover of the company or Rs.20 crores, whichever is lower, then the power generation would be considered as an ancillary activity of the company incidental to its main operations (i.e. products/activities that do not constitute their main line of business) and the Cost Accounting Records (Electricity Industry) Rules 2001 will not be applicable. Consequently, the company will not be required to get cost audit conducted for the electricity activity in this case.</p> <p>If the power generated by the 2 wind mills is captively consumed by the company, then Cost Audit Order No. 52/26/CAB-2010 dated 2nd May 2011 will not apply. [Please refer General Circular No. 67/2011 dated 30th November 2011]. For this purpose, the term "Captive Generating Plant" shall have the same meaning as assigned in Rule 3 of the Electricity Rules, 2005, which is annexed hereto.</p>

The above clarification is superseded and the correct position is given in FAQ-5 vide Question 5.19

4.6 A company has one 1500 KVA captive Power Plant. Turnover of the company is more than Rs. 100 crores.

a) Whether *Cost Accounting Records (Electricity Industry) Rules, 2001* shall be applicable to the company.

b) Whether cost audit is to be conducted for electricity activities under Cost Audit Order 52/26/CAB-2010 dated 2nd May 2011:

(i) When the company is using the entire generated power for captive consumption;

(ii) When the company is consuming part of the generated power for captive consumption and part is sold outside. [FAQ-2, Illustration 4]	
<u>Earlier Clarification</u>	<u>Revised Clarification</u>
<p>In the instant case, the Cost Accounting Records (Electricity Industry) Rules, 2001 is applicable to the company for its captive power plant and the cost of generation determined is to be considered for captive consumption of power.</p> <p>When the company is utilizing the entire generated power for captive consumption and until such time no part of its generated power is sold outside, then cost audit will not be applicable for its electricity activity.</p> <p>When the company is consuming part of the generated power for captive consumption and part is sold outside, then cost audit is to be conducted as per Cost Audit Order 52/26/CAB-2010 dated 2nd May 2011, provided that the company meets the criteria of turnover or net worth or listing of equity or debt.</p>	<p>a) In the instant case, the Cost Accounting Records (Electricity Industry) Rules, 2001 is applicable to the company for its captive power plant and the cost of generation determined is to be considered for captive consumption of power.</p> <p>b) Whether or not cost audit would be required to be conducted in case the entire generated power is used for captive consumption and where part is sold would be governed by definition of "captive generating plant" as defined in Rule 3 of Electricity Rules 2005, which has been explained under question 4.5 above.</p>



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Extract from Electricity Rules 2005

Clause 3: Requirements of Captive Generating Plant.-

(1) No power plant shall qualify as a 'captive generating plant' under section 9 read with clause (8) of section 2 of the Act unless-

(a) in case of a power plant -

- (i) not less than twenty six percent of the ownership is held by the captive user(s), and
- (ii) not less than fifty one percent of the aggregate electricity generated in such plant, determined on an annual basis, is consumed for the captive use:

Provided that in case of power plant set up by registered cooperative society, the conditions mentioned under paragraphs at (i) and (ii) above shall be satisfied collectively by the members of the co-operative society;

Provided further that in case of association of persons, the captive user(s) shall hold not less than twenty six percent of the ownership of the plant in aggregate and such captive user(s) shall consume not less than fifty one percent of the electricity generated, determined on an annual basis, in proportion to their shares in ownership of the power plant within a variation not exceeding ten percent;

(b) in case of a generating station owned by a company formed as special purpose vehicle for such generating station, a unit or units of such generating station identified for captive use and not the entire generating station satisfy (s) the conditions contained in paragraphs (i) and (ii) of sub-clause (a) above including -

Explanation:-

(1) *The electricity required to be consumed by captive users shall be determined with reference to such generating unit or units in aggregate identified for captive use and not with reference to generating station as a whole; and*

(2) *the equity shares to be held by the captive user(s) in the generating station shall not be less than twenty six per cent of the proportionate of the equity of the company related to the generating unit or units identified as the captive generating plant.*

Illustration: In a generating station with two units of 50 MW each namely Units A and B, one unit of 50 MW namely Unit A may be identified as the Captive Generating Plant. The captive users shall hold not less than thirteen percent of the equity shares in the company (being the twenty six percent proportionate to Unit A of 50 MW) and not less than fifty one percent of the electricity generated in Unit A determined on an annual basis is to be consumed by the captive users.

(2) It shall be the obligation of the captive users to ensure that the consumption by the Captive Users at the percentages mentioned in sub-clauses (a) and (b) of sub-rule (1) above is

maintained and in case the minimum percentage of captive use is not complied with in any year, the entire electricity generated shall be treated as if it is a supply of electricity by a generating company.

Explanation.- (1) For the purpose of this rule.-

- a. "Annual Basis" shall be determined based on a financial year;
- b. "Captive User" shall mean the end user of the electricity generated in a Captive Generating Plant and the term "Captive Use" shall be construed accordingly;
- c. "Ownership" in relation to a generating station or power plant set up by a company or any other body corporate shall mean the equity share capital with voting rights. In other cases ownership shall mean proprietary interest and control over the generating station or power plant;
- d. "Special Purpose Vehicle" shall mean a legal entity owning, operating and maintaining a generating station and with no other business or activity to be engaged in by the legal entity.
