



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

Revised
FAQ - 5
03-02-2012

5.1 Whether a cost auditor can be appointed as Internal Auditor of the company. Whether there is any restriction on the cost auditor to accept assignments from a company where he is the cost auditor.

Refer to MCA General Circular No. 68/2011 dated 30th November 2011.

A cost auditor cannot render any services to the company whether acting individually, or through the same firm or through other group firms where he or any partner has any common interest, relating to:

- (i) design and implementation of cost accounting system; or
- (ii) the maintenance of cost accounting records, or
- (iii) act as internal auditor,

However, a cost auditor can certify the compliance report or provide any other services as may be assigned by the company, excluding the services mentioned above.

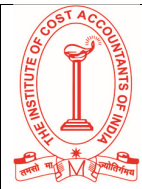
5.2 How total number of companies for which a cost auditor can accept appointment is to be computed keeping in mind restrictions imposed under Section 224(1B) of the Companies Act 1956.

Refer to MCA Master Circular No. 2/2011 dated 11th November 2011.

The specified number of companies for the purpose of section 233B (2) read with section 224 (1B) of the Companies Act, 1956 for a given financial year would be the total of:

- (a) Companies wherein he has been appointed as the cost auditor,
- (b) Companies wherein he is proposed to be appointed for which he has given his consent.
- (c) Companies in respect of which cost audit reports have not been submitted and have become overdue.

A cost auditor would be deemed to have concluded his appointment as cost auditor and eligible to accept appointment of another company within the limits of Section 224 (1B) as soon as he renders his report to the Central Government in accordance with the Cost Audit Report Rules, as applicable, with a copy to the Company. His obligation to answer queries from the Ministry of Corporate Affairs arising out of review of cost audit reports would not debar him from accepting another appointment as cost auditor of a company provided the specified number of companies contemplated in section 224 (1B) is not exceeded.



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

Revised
FAQ - 5
03-02-2012

5.3 What is the period for which a cost auditor holds office as cost auditor of a company?

Refer to MCA Master Circular No. 2/2011 dated 11th November 2011.

A cost auditor shall be deemed to be holding office as cost auditor from the time he accepts the appointment and files Form 23D with the Central Government and shall be deemed to have concluded his appointment for the relevant financial year as soon as he renders a report to the Central Government in accordance with the Cost Audit Report Rules, as applicable, with a copy to the Company.

5.4 How and in what manner a cost auditor is required to sign a cost audit report?

Refer to MCA Master Circular No. 2/2011 dated 11th November 2011.

In case where a firm of cost accountants 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 alongwith 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 alongwith his membership number.

5.5 What is the role of Audit Committee, where applicable, in dealing with the Cost Audit Report. Can the Annexure to a Cost Audit Report be approved by the Audit Committee and/or the Board of Directors by circular resolution.

Refer to MCA Master Circular No. 2/2011 dated 11th November 2011.

Sub-section (6) of section 292A of the Companies Act, 1956 states that the Audit Committee should have discussions with the auditors periodically about internal control systems, the scope of audit including the observations of the auditors and review the half yearly and annual financial statements before submission to the Board and also ensure compliance on internal control systems. Departmental Circular No. 6/2001 dated 20.08.2001 has already clarified that the term "auditors" includes cost auditor and hence "scope of audit including observations of the auditors" occurring in the above sub-section includes the scope of cost audit including observations of the cost auditors as well. The presence of the cost auditor in such committees will ensure overall cost management, efficiency in resource utilization, business vertical-wise performance evaluation, proper pricing of inter-unit/inter-company transfers and valuation of inventories. Hence, the company must place the cost audit report before the Audit Committee first, which in its duty to ensure compliance of internal control system shall also discuss the suggestions made in the cost audit report for implementation, wherever cost audit has been directed under section 233B of the Companies Act, 1956.



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

Revised
FAQ - 5
03-02-2012

The Audit Committee, after due consideration of the Cost Audit Report is required to submit the same for approval of the Board. 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 and it would not be advisable to approve the same by circular resolution.

- 5.6 As per MCA General Circular No. 67/2011 dated 30th November 2011, Companies engaged in the production, processing, manufacturing or mining activities are not covered under Companies (Cost Accounting Records) Rules 2011 till such time they commences their commercial operations. Does it mean Petroleum Blocks where there is no commercial production of oil or gas are excluded?**

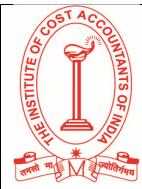
The Cost Accounting Records (Petroleum Industry) Rules 2011 is applicable for companies engaged in Petroleum activity. Survey, Exploration, Exploratory/ Developmental Drilling activities are an integral operation of the Petroleum Industry which may or may not lead to establishment of a producing property resulting in commercial production of oil or gas from the well/block. Hence, companies engaged in Survey, Exploration etc and blocks where such activities are being carried out are covered under Cost Accounting Records (Petroleum Industry) Rules 2011.

- 5.7 What is the applicability of Cost Audit Order no. 52/26/CAB-2010 dated 2nd May 2011 on cost audit of Captive Power Generating Plants.**

It has been clarified, vide MCA General Circular No. 67/2011 dated 30th November 2011, that Generation of electricity for captive consumption is not covered under the above order. For this purpose, the term "Captive Generating Plant" has been defined to have the same meaning as assigned in Rule 3 of the Electricity Rules, 2005 which is reproduced below. It may, however, be noted that cost records as required under Cost Accounting Records (Electricity Industry) Rules 2011 are required to be maintained and Compliance Report would be applicable for the Captive Generating Plant, if the final products of the company are not covered under cost audit

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:*



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

Revised
FAQ - 5
03-02-2012

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.

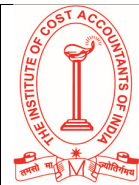
5.8 Companies covered under any of the 6 Industry/Product Specific Cost Accounting Records Rules 2011 are also subject to cost audit. Will they be required to file Compliance Report also under these Rules?

(a) If one or more product(s)/activity(s) of a company is covered under cost audit and there are other products that are not covered under Cost Audit as per company-wise cost audit orders issued in the past or industry specific cost audit orders dated 2nd May, 2011 and 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.

(b) If one or more product(s)/activity(s) of a company is covered under Cost Audit and the other product(s)/activity(s) belong to the exempted category, then the company will not be required to file a Compliance Report.

5.9 Are there any sectors exempted under Companies (Cost Accounting Records) Rules 2011?

Please refer MCA General Circular No. 67/2011 dated 30th November 2011, which states that the Companies (Cost Accounting Records) Rules, 2011 are not applicable to



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

Revised
FAQ - 5
03-02-2012

wholesale & retail trading, banking, financial, leasing, investment, insurance, education, healthcare, tourism, travel, hospitality, recreation, transport services, business/professional consultancy, IT & IT enabled services, research & development, postal/courier services, etc. unless any of these have been specifically covered under any other Cost Accounting Records Rules.

- 5.10 The manufacturing process of a company generates Steel Scrap during production of its main products which may or may not be covered under cost audit. Such scrap is cleared under Chapter 72 of the Central Excise Tariff and sold in the market. Will the company be covered under cost audit for generation of scrap?**

The company is engaged in manufacture of products and coverage of its main products under cost audit would depend on whether or not such products are covered under company specific cost audit orders issued in the past or industry specific cost audit orders dated 2nd May 2011 or 30th June 2011.

The generation of steel scrap is not a production or processing or manufacturing but is incidental to manufacture of its main products. Even though steel scrap, when sold, is liable for payment of excise duty under Chapter 72, still, generation of scrap will not be covered under cost audit.

- 5.11 A Cost Accountant is in full time employment in a company. He is also holding part time certificate of practice. Whether he can certify the Compliance Report of group companies and/or any other company.**

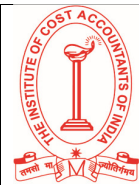
A Cost Accountant and a member of the Institute can certify the Compliance Report of the company where he is a permanent employee.

In his capacity as a part-time COP holder, he is neither authorized to certify the Compliance Report of other group companies nor any other company.

- 5.12 Whether Laminates made from Kraft paper covered under Chapter 48 of Central Excise Tariff Act is covered under Cost Audit?**

Since Laminates made from Kraft Paper are paper based products covered under Chapter 48 of Central Excise Tariff Act, the same is covered under Cost Audit as per cost audit order dated 30th June 2011 read with MCA General Circular No. 67/2011 dated 30th November 2011.

- 5.13 "Paints and Varnishes" under Chapter 32 of Central Excise Tariff are covered under Cost Audit vide order no. F.No.52/26/CAB-2010 dated 30th June, 2011. Paints, Coatings and Printing Ink etc. sold under various trade names are produced by using Varnish as primary raw material to which different Pigments are added in different qualities. These products also belong to Chapter 32 of Central Excise Tariff. Whether**



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

Revised
FAQ - 5
03-02-2012

such products would be considered as "Allied Products" of Varnish and be covered under cost audit?

As per cost audit order dated 30th June, 2011, Paints & Varnish along with their "Intermediate" and "Articles and Allied Products" thereof are covered under cost audit. In the MCA General Circular No. 67/2011 dated 30th November 2011, the terms "Intermediate" and "Articles and Allied Products" have been defined. In view of this clarification, the items produced from Varnish are covered under cost audit irrespective of trade name under which it is sold, provided they meet the criteria laid down in the said circular.

5.14 Para 9 of the Companies (Cost Audit Report) Rules 2011 requires disclosure of "Cost of Production" and "Cost of Sales" at a company level. How the same would be available when all the products/ activities are not covered under cost audit?

The Companies (Cost Accounting Records) Rules 2011 [CARR] is now applicable to all companies engaged in production, processing, manufacturing & mining. Hence, product-wise/ activity-wise cost of production and cost of sales would be available from the Cost Accounting Records of all the products/ activities, irrespective of whether these are covered under cost audit or not.

It may further be noted that in such a situation, the company would also be required to file a compliance report and for this purpose, product-wise/ activity-wise cost of production and cost of sales would be determined to prepare the reconciliation statement as required in the compliance report.

5.15 Whether there is any sequence of filing compliance report and cost audit report for a company which is required to file both?

Compliance report and Cost Audit Report are mutually exclusive to each other and it does not make any difference as to which report is submitted first.

5.16 Whether separate Form 23C is required to be filed by a company having two or more different types of products covered under cost audit?

The company would be required to file individual Form 23C for each product under reference even if the same auditor is appointed for all the products.

5.17 A Company having turnover above Rs. 100 crore undertakes works contracts for pipe line execution for Drinking, Sewerage and Irrigation purpose. The required pipes for the projects, falling under Chapter 68 of CETA, are manufactured by the Company itself. A part of the production is also sold outside. Whether Cost Audit is applicable for Pipe manufacture.



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

Revised
FAQ - 5
03-02-2012

Applicability of cost audit is based on turnover of the total company. 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 30th June 2011.

Whether the company under reference will attract cost audit for its pipe manufacturing activity will now depend on whether the captive consumption is made for a product which is under cost audit. In this case it is not so and the pipe manufacturing will attract cost audit under this test.

However, if the production of pipes is an ancillary activity as defined in MCA General Circular No. 67/2011 dated 30th November 2011, then pipe manufacturing would be outside purview of cost audit.

5.18	A company is engaged in construction of 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 Accounting Records) Rules 2011 would be applicable to the company?	
	<u>Earlier Clarification</u>	<u>Revised Clarification</u>
	<p>As per MCA General Circular No. 67/2011 dated 30th November 2011, if a company is engaged in construction business as a contractor or a sub-contractor, then the company will not be covered under Companies (Cost Accounting Records) Rules 2011.</p> <p>However, construction undertaken by a company on its own, say development of a commercial complex, office blocks, residential flats, roads, bridges and other infra-structural facilities etc. with the ultimate object of either selling the same to customers or permitting their use on chargeable basis (say, Toll Charges for roads/bridges, renting of office complex) would be covered under Companies (Cost Accounting Records) Rules 2011. This would also include above activities under BOT/BOOT mode.</p>	<p>The Institute had earlier issued a clarification under FAQ 5 [Query 5.18]. Subsequently, the Ministry of Corporate Affairs, Cost Audit Branch has clarified the following in relation to Construction Industry:</p> <p>As per the provisions of MCA General Circular No. 67/2011 dated 30th November 2011, all companies engaged in the construction business either as contractors or as sub-contractors, who meet with the threshold limits laid down in Rule 3 of the Companies (Cost Accounting Records) Rules, 2011 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 file a compliance report with the Central Government in accordance with the provisions of the Companies (Cost Accounting Records) Rules, 2011. This includes companies engaged in the construction and/or development of residential, commercial or industrial estates i.e. development of township, residential units, commercial complex, office blocks, industrial parks [including SEZ] etc. or construction of highways, rails, roads, bridges, industrial & non-industrial structures, or other infrastructure facilities etc.</p>



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

Revised
FAQ - 5
03-02-2012

	<p>The provisions of Companies (Cost Accounting Records) Rules, 2011 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.</p> <p>However, if a company is engaged in the contracting or sub-contracting activities and is paid only the job work or conversion charges, then the company will not be covered under Companies (Cost Accounting Records) Rules, 2011. Such contractors or sub-contractors who are doing construction jobs without using own materials and are thus paid either the job work charges or the conversion charges only will not be covered under the Companies (Cost Accounting Records) Rules, 2011.</p> <p>These Rules also do not apply to such Joint Ventures that are non-corporate entities [i.e. not companies registered under the Companies Act] or to unlisted companies having net worth less than Rs.5 crore & turnover less than Rs.20 crore or to a body corporate governed by any special Act.</p>
5.19	<p>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. [Query 4.5 under FAQ-4]</p>
<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>If the power generated by the 2 wind mills is</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 30th June 2011 or 24th January 2012.</p> <p>To determine whether an electricity generating plant used for captive consumption as well as selling surplus power outside is covered under cost audit or</p>



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

Revised
FAQ - 5

03-02-2012

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.

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.

not, the following tests may be applied:

- a) The generating plant meets the criteria of being defined as a "captive generating plant" as defined under Electricity Rules 2005 [vide MCA General Circular No. 67/2011 dated 30th November 2011], the unit will be outside the purview of cost audit.
- b) The generating plant does not meet the criteria of being defined as a "captive generating plant" but generation of electricity is an ancillary activity of the company incidental to its main operations (i.e. products/activities that do not constitute their main line of business) as defined in MCA General Circular No. 67/2011 dated 30th November 2011. In such case also the company will not be required to get cost audit conducted for Electricity under the cost audit order dated 2nd May, 2011.
- c) In all other cases, the generating plant will be covered under cost audit.

It may, however, be noted that the Cost Accounting Records (Electricity Industry) Rules 2011 would be applicable under any circumstances and Compliance Report would be required to be filed with the Central Government.

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