

FAQs-3

***Frequently Asked Questions
on
Maintenance of Cost Records and
Audit thereof
Under the Companies Act 2013***



Technical Cell

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(Statutory body under an Act of Parliament)

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Frequently Asked Questions (FAQs – 3)

Maintenance of Cost Records and Audit thereof
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FAQ 3.1

A company is building a next generation ed-tech platform. It is providing “learning outcomes” based pedagogy to students. It has developed a proprietary tech stack for test analysis and is developing video based content for K-12, pre-UG and pre-PG. It is also providing online education and promoting personalized learning for higher education in India. Will the company be covered under the Education Services as per the Companies (Cost Records and Audit) Rules 2014?

Reply

The Companies (Cost Records and Audit) Rules, 2014 will be applicable in this case, subject to it meeting with the prescribed turnover threshold. However, if the company is engaged only in development of the software and not providing online education services, then it will not be covered under the said rules.

The Companies (Cost Records and Audit) Rules, 2014 shall not be applicable if a company is involved in only developing, printing, sale or distribution of education content, whether in soft form such as online audio or videos or in hard form such as books or other publications, but is not involved in rendering education services, whether in offline (classroom i.e. brick and mortar model) mode or in online (digital) mode. Further, the said Rules shall also not be applicable if a company is involved in rendering education services that fall under philanthropy or as part of social spend which do not form part of any business. In all other cases, the said Rules shall be applicable.

FAQ 3.2

A robotics and artificial intelligence company that develops drone based solutions to provide actionable intelligence from aerial data. It is also building deeply customized aerial remote sensing tools. Will the company be covered under the Rule 3 (B) of the Companies (Cost Records and Audit) Rules 2014?

Reply

If the company is engaged in the composite activity i.e. developing software alongwith the equipment/tools such as robotics, drones, etc. or any part thereof that is covered under CTACode Chapter Code 85, then the said Rules shall be applicable, subject to it meeting with the prescribed turnover threshold. The Companies (Cost Records and Audit) Rules,



2014 shall not be applicable if the company is engaged in developing only the software tools.

FAQ 3.3

What is a criterion for cost audit in Healthcare Services? Is the cost audit applicable in Test Tube Baby Hospitals?

Reply

The Healthcare Services are covered under the Maintenance of Cost Records and Cost Audit as per Table B Sr. No. 22 “Healthcare services, namely functioning as or running hospitals, diagnostic centers, clinical centers or test laboratories” of the Companies (Cost Record and Audit) Rules, 2014. Thus the Test Tube Baby Hospitals will get covered under the ambit of this mechanism.

Application of Cost Records (Maintenance) will be governed by Rule 3 and Applicability of Cost Audit will be governed by Rule 4 (2) of The Companies (Cost Record and Audit) Rules, 2014.

FAQ 3.4

The Company has a total turnover exceeding 100 Crore in the previous year and 35 Crore from products/services covered under cost records other than Education Services. Company is invoicing to its customers under SAC Code 999293 which under GST is defined as ‘Commercial Training and Coaching Services’ which is part of Education Services. Summary of services rendered by the company is as follows:

1. **Course fees** – Revenue from imparting Vocational training and skilling courses to individual students in BFSI sector, Logistics, Wealth Management, data science, any other education programs. It collects fees from students and after retaining its share of fees for student sourcing, is remitting the balance to the education institute.
2. **Service fees** – Revenue from student sourcing for various education institutes across the country and technology support for delivery. The billing is to the education institute.
3. **Training fees** – Revenue from providing tailor made technical, soft skill trainings to various corporates. The billing is to the Corporate client to whose employees the training is provided.

Will the Company be covered under Education services based on the above three nature of services rendered?



Reply:

Since the substance of the services rendered by the company falls under the ambit of Educational Services, the Company shall be covered under the ambit of Maintenance of Cost Records and Cost Audit subject to the prescribed threshold limits as per the Companies (Cost Records and Audit) Rules 2014.

FAQ 3.5

A company is a concessioner of National Highway Authority of India (NHAI) and engaged in the Business of Toll Plaza operation and Toll Road maintenance of a four lane project. Company has fully outsourced the work for collection of toll fee and repair & maintenance of toll road. The concession period of the company is for 20 years which shall be completed in the year 2025-26. The turnover of the company is in the form of toll fee received from road user (toll collection) is above Rs. 100 crores. Will the Company be covered under the Maintenance of Cost Records and Cost Audit?

Reply:

The company is engaged in the Business of Toll Plaza operation and Toll Road maintenance. The said activity is covered under Table B, Sr. No. 10 "Roads and other infrastructure projects corresponding to para No.(1) (a) as specified in Schedule VI of the Companies Act, 2013" of the Companies (Cost Records & Audit) Rules, 2014. Though the company has outsourced the work, it is the original supplier/vendor for execution of the project of the Four Lane expressway. Thus the company will be covered under the Maintenance of Cost Records and Cost Audit subject to the threshold Limit of turnover as specified in the CCRAR, 2014.

FAQ 3.6

One non-regulated Company's total turnover exceeds Rs.100 crores in the previous year for its two units; one is in SEZ and another is in non-SEZ area. The aggregate turnover from both units exceeds 35 crores. But turnover of non-SEZ unit does not exceed Rs.35 crores. The product comes under CTA code is 8456. Definitely, Maintenance of Cost Records is applicable but, will the Cost Audit be applicable to the Company for the year?

Reply:

The Rule 4 (3) (ii) of the Companies (Cost Record & Audit) Rules, 2014 provides that – "The requirement for cost audit under these rules shall not apply to a company which is covered in rule 3, and which is operating from a special economic zone." The Companies (Cost Record & Audit) Rules, 2014, exempt the Company operating from a Special Economic Zone (SEZ) from the applicability of Cost Audit. But the requirements of Maintenance of Cost Records still apply to both SEZ and Non-SEZ Units.



Thus after considering the given facts and provisions of the Rules following applicability status should be noted –

1. Maintenance of Cost Records will be applicable to all the products covered under table B irrespective of location of manufacture / production (i.e. SEZ or non-SEZ)
2. Cost Audit will be applicable to all the products covered under Table B and manufactured / produced in non-SEZ location.
3. Products covered under Table B, but manufactured / produced in SEZ location will be exempted from the Cost Audit.

FAQ 3.7

There is a Company engaged in the business of construction and sale of residential flats only and earned revenue only from sale of residential apartments. Now for the current year Company's turnover is approximately INR 200 Crores that is beyond the threshold limit as per the provisions of Section 148 of Companies Act, 2013 read with rules made hereunder for maintenance of Cost Record and to go for Cost Audit.

Since Company is engaged only in construction and sale of residential flats and as per the definition of Construction Industry as specified in Schedule VI (5) of the Companies Act, 2013, only Industrial, commercial and social development and maintenance has been prescribed.

Whether revenue from sale of residential flats is covered in the definition of Construction Industry or not?

Reply:

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 including the following namely(a) “real estate development, including an industrial park or special economic zone”.

Real Estate (Regulations and Development) Act, 2016 defines Real Estate Project as *“real estate project” means the development of a building or a building consisting of apartments, or converting an existing building or a part thereof into apartments, or the development of land into plots or apartment, as the case may be, for the purpose of selling all or some of the said apartments or plots or building, as the case may be, and includes the common areas, the development works, all improvements and structures thereon, and all easement, rights and appurtenances belonging thereto;*



In view of the aforementioned provision and the definition of "real estate project", every construction activity in relation to the above sectors is covered under the Rules.

In the extant case since the company in question is involved with construction and sale of Residential Flats, the maintenance of cost records and audit thereof will be applicable to the company.

FAQ 3.8

A company is in the business of building and renting commercial projects. The company also sells part of the commercial project if required. The intention of the company is always to build and hold the commercial project and give on rent. The company maintains those buildings and charges a maintenance cost to the tenants / owners. Company's financials looks like as follows:

Scenario 1

Rental income: 240 Cr

Maintenance income 55 Cr

Electricity procurement and Distribution income: 10 Cr.

Scenario 2

Rental income: 240 Cr

Maintenance income: 25 Cr

Electricity procurement and Distribution income: 60 Cr.

Scenario 3

Rental income: 240 Cr

Maintenance income: 25 Cr

Electricity procurement and Distribution income: 20 Cr.

Will the cost audit applicable in the above scenarios?

Reply

It can be construed that the activity of Building and Renting commercial project falls under Sr. No. 21 of Table B ***Construction Industry as per para No.(5) (a) as specified in Schedule VI of the Companies Act, 2013 (18 of 2013)*** as specified under Rule 3 of the Companies (Cost Record and Audit) Rules, 2014.

The matter shall be dealt with on the basis of composite activity and not on the individual activity. Hence, in all the given scenarios since the overall turnover is more than Rs. 35 Crore, Maintenance of Cost Records will be applicable. Cost Audit will also be applicable since the overall turnover is more than 100 crores in all the scenarios.

FAQ 3.9



A company is engaged in execution of EPC projects in the areas of laying Transmission Lines & Construction of Electrical Sub-Stations for State Transco. Its turnover since financial year 2013-14 has been more than 100 crores. The revenue comes from laying of transmission lines + construction of electrical sub stations on work done & certified basis. The company executes the contracts on EPC basis. Billing is done as per terms of contract on work completed & certified. Will the Cost Audit be applicable to the Company?

Reply

Since, the construction of Electrical Sub Station is covered under the Clause 21 of the Table B of the Companies (Cost Records & Audit) Rules, 2014, namely Construction Industry as per paraNo. (5) (a) as specified in Schedule VI of the Companies Act, 2013, the Company will be covered under the Maintenance of Cost Records and Cost Audit subject to the threshold Limit of turnover as specified in the Companies (Cost Records & Audit) Rules, 2014.

FAQ 3.10

Whether Key Managerial Person (KMP) or Directors be reported in Part-D of Annexure to the Cost Audit Report? Whether remuneration paid to KMP/Directors be reported in related party transactions or not?

Reply

In Part-D of Annexure to the Cost Audit Report, transactions made in the nature of sale or purchase of goods and services with all related parties, including Key Managerial Person (KMP) or Directors, need to be reported.

Remuneration paid to KMP/ Directors, being the cost of services obtained, will also be reported in related party transactions. However, the payment to KMP/ Directors appearing in the Reconciliation Statement need not be included in the Related Party Transactions.

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