



## 3<sup>rd</sup> Frequently Asked Questions on

### **Companies (Cost Accounting Records) Rules 2011**

### **and**

### **Companies (Cost Audit Report) Rules 2011**

#### **1. Whether a cost accountant appointed as cost auditor can authenticate the Compliance Report also?**

The Rules provide for authentication of Compliance Report [vide Companies (Cost Accounting Records) Rules 2011] and certifying cost audit report [vide Companies (Cost Audit Report) Rules 2011].

A cost accountant in full time practice or a firm of cost accountants appointed for conducting cost audit of a product/activity of a company is eligible to also authenticate the Compliance Report of the Company in respect of Companies (Cost Accounting Records) Rules 2011.

#### **2. A company is engaged in execution of different turnkey contracts. The company considers different contracts as a cost unit. The site related activities (like excavation, making foundation, making rough cement concreting, plain cement concreting, making structure etc.) does not attract excise duty.**

*A) What shall be considered as other production overhead [Sl. 12 of Abridged Cost Statement] in view of the fact that the company is not engaged in any production/ manufacturing activities. Since the cost accounting standards do not use nomenclature related to "process" activity, what would be the proper nomenclature?*

The Rules apply with respect to the product/activity of a company and is not related to whether the company has to pay excise duty or not.

The abridged cost statement should be read in conjunction with Note Nos. 2 and 3 given below the statement. The elements of cost, including the concept of "overheads", for the relevant industry/product/activity has to be used in this context. Reference may be made to definition of "Production Overhead" available in Para 4.13 of CAS-9 as also Para 4.8 of CAS-6 and use of the word Process Overheads will not be contradictory to the Cost Accounting Standards.

#### ***B) Since contracts are continuing one, what would be the proper method of valuation of WIP as per cost accounting principle?***

Cost of operation of service and works contract and Valuation of WIP will be done at cost in accordance with Generally Accepted Cost Accounting Principles and Cost Accounting Standards.



**C) The company also supplies parts as a part of the Service Contract. Whether supply of parts is to be considered for calculating cost of operation of service sold? Is Cost of supply of material considered in material consumed part?**

If supply of parts is a trading activity then the same would not be considered for CARR.

**3. Retail Company with service tax registration is engaged in telecommunication services. Whether it is covered under Companies (Cost Accounting Records) Rules 2011?**

Whether company is registered under service tax or not, is not relevant for the applicability of CARR, 2011.

**4. Company belongs to Electricity Industry and meets the Net worth clause. However, the company is yet to start generation of electricity. Whether the company will be required to submit cost audit report?**

Cost audit is not applicable till cost accounting records become applicable.

**5. Under Rule 6 of the Companies (Cost Audit Report) Rules 2011, no time limit has been prescribed for submission of cost accounting records to a cost auditor. How a cost auditor will submit report within 180 days if the company makes available records to cost auditor after a period of say 160/170 days from the close of the financial year?**

A company is required to maintain prescribed records on a regular basis. The cost auditor has to complete the audit within the stipulated time and submit the report.

**6. A company is required to prepare Annexure to Cost Audit Report. When the Annexure is to be prepared by the Company, how the company will give comment on the Adequacy or otherwise of Cost Accounting Policy and Observation regarding adequacy or otherwise of the Budgetary Control System?**

The Cost Accounting System and Cost Accounting Policies are a descriptive portion of the report, which is required to be set out by the company. The same position applies for Budgetary Control system also. The auditor can make his observations under Para 2 of the certificate of the Cost Audit Report.

**7. A company is covered under cost audit under Industry specific order. Whether the company will be required to get cost audit conducted even when its turnover falls below the prescribed threshold limit of Rs. 20 Crores/100 crores, as the case may be?**

Yes. Cost Audit, once applicable, will continue.



**8. The Compliance Report along with Annexures is to be signed by a Cost Accountant. Whether the Annexure is to be prepared by the company or by the Cost Accountant?**

The Company is responsible for maintenance of cost accounting records. Hence the preparation of the Annexures is the responsibility of the Company. The "cost accountant" authenticating the Compliance Report is required to certify and state whether the same has been maintained in accordance with the Rules.

**9. A company has been in existence since 1990 and is covered under cost audit for the first time in 2011-12. Whether it is mandatory to indicate previous year figure while submitting the report?**

A company coming under the purview of the Cost Audit for the first time, the cost auditor shall mention figures for the previous year (s) certifying by means of a note that the figures so stated are on the basis of information furnished by the management, for which he has obtained a certificate from them.

**10. Clause 4(2) of the Companies (Cost Accounting Records) Rules 2011 prescribes maintenance of cost records on a regular basis but is silent whether the records are required to be maintained unit-wise and product-wise. Please clarify.**

The certificate portion of the Compliance Report makes it clear that the records are required to be maintained unit-wise and product-wise.

**11. A company was covered under Chemical Industries Rules which listed about 44 types of chemicals under its coverage. The company was covered under cost audit also, which was being conducted for the chemicals listed in the schedule and other chemicals not listed were kept under the purview of cost audit. What would be the status of the cost audit coverage after introduction of Companies (Cost Accounting Records) Rules 2011?**

In the erstwhile Cost Accounting Records (Chemical Industries) Rules as amended, contained list of chemicals. With the introduction of Companies (Cost Accounting Records) Rules 2011, all the chemicals produced by a company would be covered in its entirety. If the company was under cost audit then all chemical products of the company would now be covered under cost audit.

**12. In Cost Audit Report Para 11, can reconciliation of the taxes mentioned be given on separate sheets e.g. separately for Excise, Service Tax and VAT. Further is the information to be reconciled with books of accounts?**

Yes.

**13. In Cost Audit Report Para 5, is it necessary to give abridged cost statements for all product groups or should it be given only for product groups covered under audit?**



Abridged cost statement in Para 5 is required to be given only for the product-group(s) under cost audit.

**14. In Cost Audit Report Para 10, how should the normal price be derived in case of unique products i.e. product sold to related party is not sold to others?**

Reference may be made to Guidelines Issued by ICWAI on Arms Length Pricing for determination of Normal Price for Transactions with Related Party.

**15. Whether cost consultant of a company can issue compliance certificate to the same company?**

A person who is a cost accountant as defined under the Rules can certify compliance report. It is immaterial whether he is also a cost consultant or rendering service in any other capacity. Please also refer to Question 6 of FAQ on Cost Accounting Records Rules issued by ICWAI.

**16. Whether cost audit report has to be prepared plant-wise or for the company as whole?**

Cost Audit Report is to be prepared for the company as a whole in respect of the product/activity coming under cost audit.

**17. What are circumstances under which a company can apply for exemption from application of the Companies (Cost Accounting Records) Rules 2011 or Companies (Cost Audit Report) Rules 2011?**

There is no exemption available to a company from the provisions of Companies (Cost Accounting Records) Rules 2011 or Companies (Cost Audit Report) Rules 2011.

**18. A company is manufacturing steel and producing power. The company is having 6 plants, 4 plants are manufacturing steel and two plants are producing power for captive consumption and power is sold from one plant only another is being used for captive consumption.**

**a) How many cost audit reports need to be prepared?**

**b) How many cost audit reports need to be filed with MCA?**

Cost Audit Report is to be prepared for the company as a whole in respect of the product/activity coming under cost audit. It should contain details of Product Groups covered under cost audit.

**19. A Company is manufacturer of automobile parts and is using paints for coloring some of such parts. Does this amount to processing of paints and is the company liable for cost audit in respect of paints also?**

No. The company is using paint as a raw material. Hence Paint in this case not subjected to cost audit.



**20. Whether all manufacturing companies having Turnover exceeding Rs.100 cores and/or listed in a stock exchange covered under Companies (Cost audit Report) Rules 2011 and get cost audit conducted?**

All companies covered under cost audit orders dated 2nd May 2011, 3rd May 2011 (amended on 30th June 2011) and companies wherein cost audit orders were issued earlier in respect of products/activities covered by any or all of the Cost Accounting Records Rules as they existed before their supersession by the Companies (Cost Accounting Records) Rules 2011 published vide GSR 429(E) dated 3rd June 2011 are covered under cost audit. Companies not falling under any of the above categories are not covered under cost audit.

**21. The maximum period prescribed for presenting Compliance Report and/or Cost Audit Report is 180 days from date of close of the financial year. If Financial Accounts of a company is not ready before the stipulated time period, how cost audit report will be completed reconciled with the financial books of the company?**

Maintenance of cost accounting records is a continuous process. No time limit has been prescribed in the Rules for "submission" of records to cost auditor. The time limit of 180 days as prescribed in the Rules is for submission of Compliance report regarding maintenance of cost accounting records and cost audit report in case cost audit is also applicable to the company.

In case financial accounts are not ready or are yet to be adopted in the AGM, the same was clarified by the Cost Audit Branch earlier. In such cases the cost auditor can submit the report based on provisional accounts and submit a supplementary report of reconciliation in case there are materials differences in the final adopted accounts.

**22. Company X Ltd. has Five Units:**

Unit 1 & 2 manufacturing Steel.

Unit 3 manufacturing Steel and Generating Electricity.

Unit 4 manufacturing Aluminium.

Unit 5 manufacturing Textile Machinery.

Unit 1 to 4 are covered by Orders Sec 233B and have separate Cost Auditors, whose appointment are deemed to be approved by MCA (separate approval) as per the revised procedure for appointment of Cost Auditors.

Unit 5 is not covered by Sec 233B and hence does not have a Cost Auditor. The management



proposes to get the authentication done by its own full time Cost Accountant, who is qualified to do so under the Companies (Cost Accounting Record) Rules 2011.

**Based on the above facts, will the Cost Audit Report be also part of Compliance Report (Form A of the Rules)? If so, whose name will appear against Point 4 of the Form and whose digital signature will be affixed in the Form?**

Cost audit report is not a part of the compliance report. In the instant example, Compliance Report of the company will contain details of all the 5 units, i.e., units under audit and units not under audit.

The query states that the company is getting compliance report of Unit 5 authenticated by an employee of the company, which the company can do at its discretion. However, the company will also be required to designate either an employee or any of the cost auditors or some other cost accountant to file the Compliance Report of the company containing details of all 5 units, i.e., for the company as a whole.

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