

Frequently Asked Questions on Companies (Cost Audit Report) Rules, 2011



1. Under which authority the Companies (Cost Audit Report) Rules are issued?

Central Government, in exercise of the powers conferred by clause (b) of sub-section (1) of section 642 read with sub-section (4) of section 233B, and sub-section (1) of section 227 of the Companies Act, 1956 (1 of 1956), and in supersession of the Cost Audit Report Rules, 2001 has issued these rules.

2. From which date is Companies (Cost Audit Report) Rules, 2011 effective from?

The Companies (Cost Audit Report) Rules, 2011 have been issued by the Ministry of Corporate Affairs vide Notification no. 430(E) dated 3rd June 2011. Cost Audit Reports submitted on or after 1st day of April, 2012, irrespective of the financial year for which the cost audit report is submitted, shall be governed by these Rules. Cost Audit Reports submitted till 31.3.2012 will be governed by the Cost Audit Report Rules, 2001.

3. Who is a “Cost Auditor” within the scope of Cost Audit Report Rules, 2011?

“Cost Auditor” means an auditor appointed to conduct an audit of cost records, under sub-section (2) of section 233B of the Act and shall be a cost accountant within the meaning of the Cost and Works Accountants Act, 1959. “Cost Accountant” for the purpose of these rules means a cost accountant as defined in clause (b) of sub-section (1) of section 2 of the Cost and Works Accountants Act, 1959 (23 of 1959) and who holds a valid certificate of practice under subsection (1) of section 6 and who is deemed to be in practice under subsection (2) of section 2 of that Act and includes a firm of cost accountants.

4. Can a Cost Accountant in employment be a Cost Auditor?

No person in employment can be appointed as a cost auditor.

5. What is the applicability of the Companies (Cost Audit Report) Rules, 2011 to different types of Companies?

These rules shall apply to every company in respect of which an audit of the cost records has been ordered by the Central Government under sub-section (1) of section 233B of the Act.

6. After superseding of 36 cost accounting records rules, what will happen to company-wise orders already issued under the superseded Rules?

All companies wherein cost audit orders had been issued so far 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 G.S.R. 429(E) dated 3rd June 2011 shall continue to comply with the said cost audit orders until these are superseded by fresh orders.

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The earlier orders issued in respect of companies engaged in certain activities falling under the superseded Cost Accounting Records Rules have now been issued fresh orders including other companies engaged in these activities where cost audit orders were not issued earlier. All such companies will now comply with cost audit orders issued vide No. 52/26/CAB-2010 dated 3rd May 2011 and 30th June 2011.

Hence, the companies wherein fresh orders have not yet been issued so far would continue to comply with the earlier orders still in vogue.

7. Is it mandatory to submit Performance Appraisal Report to company management or can it be a NIL report? Can Form III relating to Performance Appraisal be modified or it has to be strictly followed as prescribed?

Vide sub-rule 5 of Rule 4 of the Companies (Cost Audit Report) Rules, 2011, every cost auditor, who submits a cost audit report shall also furnish Performance Appraisal Report, duly authenticated by the cost auditor, to the Board/Audit Committee of the company in the prescribed format (Form III). There cannot be NIL report since list of the areas to be covered in the report as per Form III are relating to company's operations being audited by the cost auditor. However, the frequency of this report viz. half yearly/annual (or even quarterly) is to be decided by the Company Management.

The contents of the Performance Appraisal Report as given in Form III are "indicative". Depending on the nature of business and activity of the company, the management and the cost auditor in consultation with each other can add or delete the indicative areas to be covered under the Performance Appraisal Report. The intention of the law appears to assign a role to the cost auditor to provide an independent view of the performance of the company to enable the management to take corrective steps wherever necessary. The Institute is also going to bring out a Guidance Note on the subject.

8. What is the time limit within which the central government can seek clarification from the cost auditor?

There is no time limit within which the Central Government can seek clarification from the cost auditor. The Rules have now specified that the Company would be required to maintain the cost accounting records for the preceding eight financial years in good order. The cost auditor is required to provide reply to any clarification sought for by the Central Government from the cost auditor in writing within 30 days of the receipt of the communication addressed to him calling for such clarifications.

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- 9. The revised structure of the Compliance Report as well as the Cost Audit Report has stipulated reporting at the “Product Group” level. What would be the basis of determining a “Product Group” for a multi-product company?**

“Product” and “Product Group” have been defined under both the Companies (Cost Accounting Records) Rules 2011 and Companies (Cost Audit Report) Rules 2011. To assist the members and the industry, the Institute is going to issue a detailed Guidance Note on the subject.

- 10. The Information under Para 3, 4, 5 & 6 is required to be furnished for the Company as a whole. In case of companies manufacturing the same product or rendering same service at different units, should the “product group wise cost sheets” of all units be merged into one and shown as a “cost sheet of single product group” or to be shown separately for each Unit?**

The unit-wise product-wise cost statements duly certified by the cost auditor and the management are to be kept in the Company. The “product group-wise” cost statement of all the products and all units combined together will form part of the cost audit report.

- 11. What is the difference between Cost Accounting policy and Cost Accounting system?**

Cost Accounting Policy of a company should state the policy adopted by the company for treatment of individual cost components in cost determination.

The Cost Accounting system of a company, on the other hand, would provide a flow of the cost accounting data/information across the activity flow culminating in arriving at the cost of final product/activity.

- 12. Whether Value Addition is to be computed based on Cost record data or audited financial data?**

Value Addition statement is to be computed based on audited financial data.

- 13. How export benefits are to be treated and shown in the Abridged Cost Statement?**

Export Benefit is to be considered as a part of Sales.

- 14. Who are the persons responsible for authentication of the Cost Audit Report and Annexures thereto?**

The Annexure prescribed with the cost audit report shall be approved by the Board of Directors before submitting the same to the Central Government by the cost auditor. The Annexure, duly audited by the cost auditor, shall also be signed by the Company Secretary and at least one Director on behalf of the company. In the absence of Company Secretary in the company, the same shall be signed by at least two Directors. The Cost Audit Report is to be signed by the Cost Auditor.

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15. For how many years, does a company under these rules require to preserve the Cost details?

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.

16. What is the Time limit for submission of Report?

The cost auditor shall forward his report referred to in sub rule (1) of the rule 4 to the Central Government and to the concerned company within one hundred and eighty days from the close of the company's financial year to which the report relates.

17. What are the duties of the Company under the Cost Audit Report Rules, 2011?

Every company as specified in sub-rule (1) shall, within ninety days of the commencement of every financial year, file an application with the Central Government seeking prior approval for appointment of the cost auditor, through electronic mode, in the prescribed form, along with the prescribed fee as per the Companies (Fees on Applications) Rules, 1999, and requisite enclosures. However, where a company is covered under cost audit for the first time vide cost audit order dated 30th June 2011, the period of 90 days shall be counted from the date of this order.

Every company shall follow the procedure prescribed vide Ministry of Corporate Affairs' General Circular No. 15/2011 [File No. 52/5/CAB-2011] dated April 11, 2011.

The company and every officer thereof, including the persons referred to in subsection (6) of section 209 of the Companies Act, 1956 shall make available to the cost auditor, such cost accounting records, cost statements, other books and documents, and Annexure to the Report, duly completed, as would be required for conducting the cost audit, and shall render necessary assistance to the cost auditor so as to enable him to complete the cost audit and submit his report within the time limit specified in rule 5, i.e., within 180 days from the close of the Company's financial year to which the report relates.

The Annexure prescribed with the cost audit report shall be approved by the Board of Directors before submitting the same to the Central Government by the cost auditor.

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Certain Illustrative Examples:

- 1. A steel tube manufacturing company is having turnover of Rs. 80 crores from all its activities. The company has filed its prospectus with SEBI for a public issue of equity shares and it hopes to complete the public offering by September 2011 end. Whether cost audit will become applicable to the company even when its turnover is less than Rs. 100 crore? If yes, then from which financial year will cost audit become applicable?**

In the instant case, the company's equity is in the process of listing on a stock exchange in India. Hence, it meets the requirement of Rule 3(1) of the Companies (Cost Accounting Records) Rules 2011. Consequently, the said Rules are applicable to the company in place of erstwhile Cost Accounting Records (Steel Pipes & Tubes) Rules 1984.

The cost audit order No. 52/26/CAB-2010 dated 3rd May 2011 has brought under the ambit of cost audit every company engaged in 6 specific industries, which includes Steel Tubes & Pipes. Though the turnover criteria of Rs. 100 crores is not met by the company, the company's equity is in the process of listing on a stock exchange in India. Hence, cost audit will be applicable to the company under the order dated 3rd May 2011 on and from the financial year 2011-12.

- 2. A newly constructed cement factory will be operational from end June 2011. The projected turnover for the next 2 years is Rs. 500 crores per annum. Whether in coming years, the company will have to get cost audit done. If yes, then under which cost audit order number.**

The company will come into commercial production in June 2011. Assuming that the turnover for the first year of operation is Rs. 100 crores or more, cost audit will be applicable to the company from the financial year 2011-12. In case the first year turnover is less than Rs. 100 crores but the company is a listed company or is in the process of getting listed, then also cost audit will be applicable from 2011-12. If both these criteria are not met during the first year of operation, the cost audit will be applicable from 2012-13.

The cost audit will have to be conducted under cost audit order No. 52/26/CAB-2010 dated 3rd May 2011 modified vide Order dated 30th June 2011.

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Companies (Cost Audit Report) Rules, 2011



3. 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.

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).

In the instant case, the company will be covered under cost audit for electricity generation, transmission and distribution.

4. 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.

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.

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.

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.