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NOTE ON APPLICATION OF COMPLIANCE REPORT ON COST ACCOUNTING RECORDS UNDER SECTION 209(1)(d) OF THE COMPANIES ACT , 1956 PERSUENT TO ISSUE OF COST ACCOUNTING RECORDS RULES, 2011 VIDE NOTIFICATION NO.429 (E) DATED 3rd JUNE,2011

1. BACKGROUND:

Sections 209(1)(d) and 233B of the Companies Act, 1956, incorporated in 1965, are the backbone of cost accounting and cost audit in the Indian corporate sector. Since then, the framework put to practice, through promulgation of Cost Accounting Records Rules and Cost Audit Report Rules by the Government, has inculcated a sense of cost consciousness in large number of industries/companies. This mechanism, to a very large extent, has helped them to face the fierce competitive forces arising out of post-1991 liberalization and globalization. It served well the legal and non-legal requirements of various regulatory authorities, government agencies, tariff/price fixation bodies, research organisations, etc. But the fast changing business and economic scenario, both internal and external challenges, and the need for convergence/synchronization of global accounting practices require a change in the performance management systems including the cost management and reporting framework.

Cost accounting, through the determination and allocation of costs to various products, provides a valuable service to the managements of companies in cost analysis and control. This way, it can help improve efficiency in the use of materials, labour and plant, maximize production and increase profitability. At the same time, cost analysis furnishes useful information in respect of important matters such as gross margin, differential costs, replacement costs, etc. Cost analyses are useful to the Regulators of public utilities and provide a basis for comparing claims and assessing the validity of issues arising out of international trade.

Cost accounting is an integral part of the management process. It serves as an aid or a tool to the management in respect of its functions relating to cost control and cost analysis. The growing pressures of global competition, technological innovations, volatility in exchange rate and input prices and change in business processes have made cost management much more critical and dynamic than ever before. Cost is a strategic issue. Often, the very business model itself may need to change to ensure that the organisation remains competitive both for sustenance and growth. Because strategic issues are increasing in importance to management, cost management has moved from a traditional role of product costing and operational control to a broader, strategic focus: strategic cost management.

The present competitive economic environment has made all the organizations more conscious about the need to bring efficiency and economy in their operations. “Cost Leadership” and “Total Cost Management” is the present day mantra. Cost control and cost reduction is an on-going exercise for the management to gain competitive edge over others and for survival. Large number of companies and manufacturers keep necessary cost data even where no Rules as such are prescribed. Therefore, it has been considered necessary to review the existing provisions of cost accounting and cost audit under the Companies Act, 1956 and to make it more beneficial to various regulators, government departments/bodies to protect the interest of consumers and investors and to protect the industry from unfair trade practices (like anti-dumping, subsidies & counter-veiling measure, cartels, etc.) under WTO agreements. In addition, the ground realities under which these rules have been framed where all businesses would like to be competitive, reduce cost and strive for growth and improve their share in the market. In the above background, the redefined objectives is to synchronize with the cost base strategies. Consequently, the objectives are to migrate the corporate sector faster to a minimum floor level of acceptable costing practices as a matter of national discipline. The proposed framework should thereafter allow the corporate sector to build their competitiveness further by choosing the appropriate cost management practices.

Cost accounting has not remained static to be a mere system of “cost measurement” or “cost determination” – it has turned more and more towards “cost management”. Cost management is the use of cost information to improve efficiency, performance and profitability of an organization; to meet the requirements of the present global competitive environment; and to improve sustainability. Cost management requires both material cost and cycle time costs to be benchmarked, with close online monitoring; business process re-engineering; fixing targets and not budgets; management by objectives; control by self-assessment and fixing accountability.

It is imperative that in the present economic environment, determined by increasing competition both domestically and internationally, efficiency and economy be brought about in the operations of the manufacturing sector to catalyze and facilitate the cost competitiveness of the manufacturing sector in India. It is equally necessary to enable the industry and the Government to address issues arising from unfair trade practices such as dumping, subsidies & cartels, etc. in the International Trade.

In the provisions prior to the Notification No.429(E) dated 3rd June,2011 , the specified industries were required to maintain the records and keep it ready for verification by the Cost Audit Branch (CAB) of the Ministry of Corporate Affairs. This Provision did not provide for audit of such records as the same was covered U/s 233B of the Companies Act, 1956. However the financial auditor was required to comment about the proper maintenance of such records in CARO report annexed with the auditor's report

2. **APPLICATION OF NOTIFICATION NO.429 (E) w.e.f 3RD JUNE, 2011.**

The application clause is given in clause -3 of the rules and reads as --
"(1) These rules shall apply to every company, including a foreign company as defined under section 591 of the Act, which is engaged in the production, processing, manufacturing, or mining activities and wherein, the aggregate value of net worth as on the last date of the immediately preceding financial year exceeds five crores of rupees; or wherein the aggregate value of the turnover made by the company from sale or supply of all products or activities during the immediately preceding financial year exceeds twenty crores of rupees; or wherein the company's equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India.

Provided that these rules shall not apply to a company which is a body corporate governed by any special Act;

Provided further that these rules shall not apply to the activities or products covered in any of the following rules,-

(a) Cost Accounting Records (Bulk Drugs) Rules, 1974
(b) Cost Accounting Records (Formulations) Rules, 1988
(c) Cost Accounting Records (Fertilizers) Rules, 1993
(d) Cost Accounting Records (Sugar) Rules, 1997
(e) Cost Accounting Records (Industrial Alcohol) Rules, 1997
(f) Cost Accounting Records (Electricity Industry) Rules, 2001
(g) Cost Accounting Records (Petroleum Industry) Rules, 2002
(h) Cost Accounting Records (Telecommunications) Rules, 2002

Opinion: A simple reading of the clause-3 gives an understanding that application of the rules are on all companies-

Except : (i) *to a company which is a body corporate governed by any special Act; and*

(ii) to the activities or products covered in any of the following rules,-

(a) Cost Accounting Records (Bulk Drugs) Rules, 1974
(b) Cost Accounting Records (Formulations) Rules, 1988
(c) Cost Accounting Records (Fertilizers) Rules, 1993
(d) Cost Accounting Records (Sugar) Rules, 1997
(e) Cost Accounting Records (Industrial Alcohol) Rules, 1997
(f) Cost Accounting Records (Electricity Industry) Rules, 2001
(g) Cost Accounting Records (Petroleum Industry) Rules, 2002: and
(h) Cost Accounting Records (Telecommunications) Rules, 2002

These rules apply to every other company engaged in the production, processing, manufacturing, or mining activities subject to:-

(a) wherein, the aggregate value of net worth as on the last date of the immediately preceding financial year exceeds five crores of rupees; or

(b) wherein the aggregate value of the turnover made by the company from sale or supply of all products or activities during the immediately preceding financial year exceeds twenty crores of rupees; or

(c) wherein the company's equity or debt securities are listed or

(d) are in the process of listing on any stock exchange, whether in India or outside India.

In order to understand the application or otherwise of these rules in the case of any company, two step rule may be considered.

Rule-I: Whether the company is engaged in the production, processing, manufacturing, or mining activities where-

(a) Production activity means and includes : any act, process, or method employed in relation to –
(i) transformation of tangible inputs (raw materials, semi-finished goods, or sub-assemblies) and intangible inputs (ideas, information, know how) into goods or services; or
(ii) manufacturing or processing or mining or growing a product for use, consumption, sale, transport, delivery or disposal; or
(iii) creation of value or wealth by producing goods or services

And product will mean--- means any tangible or intangible good, material, substance, article, idea, know-how, method, information, object, service, etc. that is the result of human, mechanical, industrial, chemical, or natural act, process, procedure, function, operation, technique, or treatment and is intended for use, consumption, sale, transport, store, delivery or disposal.

(b) "Processing Activity" includes any act, process, procedure, function, operation, technique, treatment or method employed in relation to
(i) altering the condition or properties of inputs for their use, consumption, sale, transport, delivery or disposal; or
(ii) accessioning, arranging, describing, or storing products; or
(iii) developing, fixing, and washing exposed photographic or cinematographic film or paper to produce either a negative image or a positive image; or
(iv) printing, publishing, finishing, perforation, trimming, cutting, or packaging; or (v) pumping oil, gas, water, sewage or any other product; or
(vi) transforming or transmitting, distributing power or electricity; or
(vii) harboring, berthing, docking, elevating, lading, stripping, stuffing, towing, handling, or warehousing products; or
(viii) preserving or storing any product in cold storage; or
(ix) constructing, reconstructing, reconditioning, repairing, servicing, refitting, finishing or demolishing of buildings or structures; or
(x) farming, feeding, rearing, treating, nursing, caring, and stocking of living organisms; or
(xi) telecasting, broadcasting, telecommunicating voice, text, picture, information, data or knowledge through any mode or medium; or (xii) obtaining, compiling, recording, maintaining, transmitting, holding or using the information or data or knowledge; or
(xiii) executing instructions in memory to perform some transformation and/or computation on the data in the computer's memory.
© "Manufacturing Activity" includes any act, process or method employed in relation to - (i) transformation of raw materials, components, sub-assemblies, or parts into semi-finished or finished products; or
(ii) making, altering, repairing, fabricating, generating, composing, ornamenting, furnishing, finishing, packing, re-packing, oiling, washing, cleaning, breaking-up, demolishing, or otherwise treating or adapting any product with a view to its use, sale, transport, delivery or disposal; or
(iii) constructing, reconstructing, reconditioning, servicing, refitting, repairing, finishing or breaking up of any products.

(e) "Mining Activity" includes any act, process or method employed in relation to the extraction of ores, minerals, oils, gases or other geological materials from the earth's crust, including sea bed or river bed

After the perusal of Rule-I if the company is not covered then no need to look for Rule-II. However in case the same is otherwise please look in rule-II as given below:

Rule-II: Whether the company is---

(f) having the aggregate value of net worth as on the last date of the immediately preceding financial year exceeding five crores of rupees; or

(g) having the aggregate value of the turnover from sale or supply of all products or activities during the immediately preceding financial year in excess of twenty crores of rupees; or
(h) having the company's equity or debt securities listed or
(i) in the process of listing on any stock exchange, whether in India or outside India.

3. APPLICATION OF COST ACCOUNTING RECORDS RULES ON OTHER INDUSTRIES NOT COVERED UNDER THE NOTIFICATION NO.429 (E) DATED 3rd JUNE, 2011 AND/OR REPLACED.

The application of existing provision of maintaining records etc. under specific records rules shall continue in the following industries:

(a) Cost Accounting Records (Bulk Drugs) Rules, 1974
(b) Cost Accounting Records (Formulations) Rules, 1988
(c) Cost Accounting Records (Fertilizers) Rules, 1993
(d) Cost Accounting Records (Sugar) Rules, 1997
(e) Cost Accounting Records (Industrial Alcohol) Rules, 1997
(f) Cost Accounting Records (Electricity Industry) Rules, 2001
(g) Cost Accounting Records (Petroleum Industry) Rules, 2002: and
(h) Cost Accounting Records (Telecommunications) Rules, 2002

The application of existing cost accounting records in the case of following industries have been superseded and replaced by the instant rules:

1. **Cost Accounting Records (Cycles) Rules, 1967** published vide G.S.R. 311 dated 2nd March, 1967.

2. **Cost Accounting Records (Tyres & Tubes) Rules, 1967** published vide G.S.R. 1260 dated 10th August, 1967.

3. **Cost Accounting Records (Air-Conditioners) Rules, 1967** published vide G.S.R. 1447 dated 16th September, 1967 and subsequently amended vide G.S.R. 668(E) dated 28th September, 1999.

4. **Cost Accounting Records (Refrigerators) Rules, 1967** published vide G.S.R. 1448 dated 18th September, 1967.

5. **Cost Accounting Records (Batteries other than Dry Cell Batteries) Rules, 1967** published vide G.S.R. 1467 dated 20th September, 1967 and subsequently amended vide G.S.R. 667(E) dated 28th July, 1999.

6. **Cost Accounting Records (Electric Lamps) Rules, 1967** published vide G.S.R. 1503 dated 27th September, 1967 and subsequently amended vide G.S.R. 670(E) dated 28th September, 1999.

7. **Cost Accounting Records (Electric Fans) Rules, 1969** published vide G.S.R. 2298 dated 15th September, 1969.

8. **Cost Accounting Records (Electric Motors) Rules, 1969** published vide G.S.R. 2574 dated 24th October, 1969.

9. **Cost Accounting Records (Aluminium) Rules, 1972** published vide G.S.R. 334 dated 25th February, 1972 and subsequently amended vide G.S.R. 703(E) dated 28th September, 2001.

10. **Cost Accounting Records (Vanaspati) Rules, 1972** published vide G.S.R. 1529 dated 27th November, 1972 and subsequently amended vide G.S.R. 287 dated 29h May, 1992.

11. **Cost Accounting Records (Jute Goods) Rules, 1975** published vide G.S.R. 590(E) dated 29th December, 1975.

12. **Cost Accounting Records (Paper) Rules, 1975** published vide G.S.R. 601(E) dated 31st December, 1975.
13. **Cost Accounting Records (Rayon) Rules, 1976** published vide G.S.R. 606 dated 20th April, 1976 and subsequently amended vide G.S.R. 694 dated 31st August, 2000.

14. **Cost Accounting Records (Dyes) Rules, 1976** published vide G.S.R. 605 dated 22nd April, 1976.

15. **Cost Accounting Records (Polyester) Rules, 1977** published vide G.S.R. 126(E) dated 24th March, 1977 and subsequently amended vide G.S.R. 692(E) dated 31st August, 2000.

16. **Cost Accounting Records (Nylon) Rules, 1977** published vide G.S.R. 157(E) dated 1st April, 1977 and subsequently amended vide G.S.R. 695(E) dated 31st August, 2000.

17. **Cost Accounting Records (Textiles) Rules, 1977** published vide G.S.R. 417(E) dated 28th June, 1977 and subsequently amended vide G.S.R. 29(E) dated 19th January, 1994.

18. **Cost Accounting Records (Dry Cell Batteries) Rules, 1978** published vide G.S.R. 45(E) dated 31st January, 1979.

19. **Cost Accounting Records (Steel Tubes and Pipes) Rules, 1984** published vide G.S.R. 506(E) dated 10th May, 1984.

20. **Cost Accounting Records (Engineering Industries) Rules, 1984** published vide G.S.R. 688 dated 25th June, 1984 and subsequently amended vide G.S.R. 279(E) dated 24th April, 2001.

21. **Cost Accounting Records (Electric Cables and Conductors) Rules, 1984** published vide G.S.R. 767 dated 7th July, 1984.

22. **Cost Accounting Records (Bearings) Rules, 1985** published vide G.S.R. 664 dated 1st July, 1985.

23. **Cost Accounting Records (Steel Plant) Rules, 1990** published vide G.S.R. 574 dated 31st July, 1990 and subsequently amended vide G.S.R. 281(E) dated 24th April, 2001.

24. **Cost Accounting Records (Insecticides) Rules, 1993** published vide G.S.R. 258(E) dated 3rd March, 1993.

25. **Cost Accounting Records (Soaps & Detergents) Rules, 1993** published vide G.S.R. 677(E) dated 29th October, 1993.

26. **Cost Accounting Records (Cosmetics & Toiletries) Rules, 1993** published vide G.S.R. 678(E) dated 29th October, 1993.
27. **Cost Accounting Records (Footwear) Rules, 1996** published vide G.S.R. 186(E) dated 12th April, 1996.

28. **Cost Accounting Records (Shaving Systems) Rules, 1996** published vide G.S.R. 202(E) dated 6th May, 1996.

29. **Cost Accounting Records (Industrial Gases) Rules, 1996** published vide G.S.R. 271(E) dated 9th July, 1996.

30. **Cost Accounting Records (Motor Vehicles) Rules, 1997** published vide G.S.R. 537(E) dated 11th September, 1997 and subsequently amended vide G.S.R. 328(E) dated 3rd June, 1998, G.S.R. 329(E) dated 3rd June, 1998 and G.S.R. 280(E) dated 24th April, 2001.

31. **Cost Accounting Records (Cement) Rules, 1997** published vide G.S.R. 536(E) dated 11th September, 1997.

32. **Cost Accounting Records (Milk Food) Rules, 2001** published vide G.S.R. 704(E) dated 28th September, 2001.

33. **Cost Accounting Records (Mining and Metallurgy) Rules, 2001** published vide G.S.R. 276(E) dated 24th April, 2001.

34. **Cost Accounting Records (Electronic Products) Rules, 2001** published vide G.S.R. 277(E) dated 24th April, 2001.

35. **Cost Accounting Records (Plantation Products) Rules, 2002** published vide G.S.R. 685(E) dated 8th October, 2002.

36. **Cost Accounting Records (Chemicals) Rules, 2004** published vide G.S.R. 562(E) dated 2nd September, 2004.

Subsequent to supersession of the above 36 Cost Accounting (Records) Rules, Government of India, Ministry of Corporate Affairs vide its order No. F.No.52/26/CAB-2010 dated :30th June,2011 has sought the compliance of Cost Accounting (Report) Rules,2011 with reference to and relating to following industries having relevant chapter headings of the Central Excise Tariff Act, 1985.

Since maintenance of the records is pre-requisite for the compliance of the report rules, these tariff headings signify the application of the records rules as well under same tariff heads. Maintenance of the records under the tariff headings as above shall become guidance for the submission of compliance report etc. as Product Group (s).

The relevant order is enclosed as Annexure-II.

The Industries and Tariff headings as as below:-

Sno.	Name of the Industry	Relevant Chapter Heading of the Central Excise Tariff Act, 1985
1.	Cement	Chapter 25, 38 and 68
2.	Tyres & Tubes	Chapter 40
3.	Steel	Chapter 72 and 73
4.	Paper	Chapter 47 and 48
5.	Insecticides*	Chapter 38
6.	Glass	Chapter 70
7.	Paints & Varnishes	Chapter 32
8.	Aluminum	Chapter 76

Note: Intermediate products and articles or allied products of above industries if included under any other Chapter of the Central Excise Tariff Act, 1985 not mentioned above shall also be covered under these orders.

**Includes all classes of Insecticides as defined under clause (e) of Section 3 of the Insecticides Act. 1968 (46 of 1968) and included in the schedule annexed to the said Act and as amended from time to time.*

4. MAINTENANCE OF COST ACCOUNTING RECORDS

The provision for the maintenance of record rules is detailed in clause-4 of the rules which are reproduced below:

"Maintenance of records- (1) Every company to which these rules apply, including all units and branches thereof shall, in respect of each of its financial year commencing on or after the 1st day of April, 2011, keep cost records.

(2) The cost records referred to in sub-rule (1) shall be kept on regular basis in such manner so as to make it possible to calculate per unit cost of production or cost of operations, cost of sales and margin for each of its products and activities for every financial year on monthly/quarterly/half-yearly/annual basis.

(3) The cost records shall be maintained in accordance with the generally accepted cost accounting principles and cost accounting standards issued by the Institute; to the extent these are found to be relevant and applicable. The variations, if any, shall be clearly indicated and explained.

(4) The cost records shall be maintained in such manner so as to enable the company to exercise, as far as possible, control over the various operations and costs with a view to achieve optimum economies in utilization of resources. These records shall also provide necessary data which is required to be furnished under these rules.

(5) All such cost records and cost statements, maintained under these rules shall be reconciled with the audited financial statements for the financial year specifically indicating expenses or incomes not considered in the cost records or statements so as to ensure accuracy and to reconcile the profit of all product groups with the overall profit of the company. The variations, if any, shall be clearly indicated and explained.

(6) All such cost records, cost statements and reconciliation statements, maintained under these 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.

(7) It shall be the duty of every person, referred to in sub-section (6) and (7) of section 209 of the Companies Act, 1956 (1 of 1956), to take all reasonable steps to secure compliance by the company with the provisions of these rules in the same manner as he is liable to maintain accounts required under sub-section (1) of section 209 of the said Act."

Opinion: The simple reading of the rule gives us to understand that—

(a) company to which these rules apply, including all units and branches thereof shall, in respect of each of its financial year commencing on or after the 1st day of April, 2011, keep cost records;

(b) The records shall be kept on regular basis in such manner so as to make it possible to calculate

(i) per unit cost of production or cost of operations, cost of sales and margin for each of its products and activities for every financial year on monthly/quarterly/half-yearly/annual basis.

(c) The cost records shall be maintained in accordance with the generally accepted cost accounting principles and cost accounting standards issued by the Institute of Cost and Works Accountants of India;

to the extent these are found to be relevant and applicable.

The variations, if any, shall be clearly indicated and explained.

Where the generally accepted cost accounting principles mean--- the principles of cost accounting issued by the Institute of Cost and Works Accountants of India.

And Cost Accounting standards mean-- the standards of cost accounting, issued by the Institute of Cost and works Accountants of India.;

(d) The cost records shall be maintained in such manner so as to enable the company to:

(i) exercise, as far as possible, control over the various operations and costs with a view to achieve optimum economies in utilization of resources; and

(ii) These records shall also provide necessary data which is required to be furnished under these rules.

All such cost records and cost statements, shall be reconciled with the audited financial statements for the financial year specifically indicating expenses or incomes not considered in the cost records or statements so as to ensure accuracy and to reconcile the profit of all product groups with the overall profit of the company. The variations, if any, shall be clearly indicated and explained.

Where product group will mean—

" "Product Group" in relation to tangible products means a group of homogenous and alike products, produced from same raw materials and by using similar or same production process, having similar physical or chemical characteristics and common unit of measurement, and having same or similar usage or application; and in relation to intangible products means a group of homogenous and alike products or services, produced by using similar or same process or inputs, having similar characteristics and common unit of measurement, and having same or similar usage or application.

Therefore the maintenance of records shall mean---

1. Define Company and/or unit/branches;

2. Define Product Group;

3. Define Product / activities;

4. Define service / trading groups;

5. Separate income / expenses not to be considered in cost;

6. Prepare cost statements to show per unit cost of production or cost of operations, cost of sales and margin for each of its products and activities;

7. reconcile the profit of all product groups with the overall profit of the company;

8. Explain the reason for variances, if any; and

9. Make this exercise on a regular basis, preferably to prepare and reconcile every month.

5. COMPLIANCE OF RECORDS RULES:

Compliance mechanism is covered under Clause -5 to 7 of the Rules. In simple terms---

Every such company who is responsible to maintain cost records/annexures as prescribed under the instant rules shall within 180 days from the close of its financial year starting 1st of April, 2012 get its records certified by a cost accountant (such cost accountant can be a cost accountant in the permanent employment of the company or who is having a valid certificate of practice) and approved by the Board of Directors before submitting the compliance report.

6. Penalties:

(1) If default is made by the cost accountant in complying with the provisions of these rules, he shall be punishable with fine, which may extend to five thousand rupees.

(2) If a company contravenes any provisions of these rules, the company and every officer thereof who is in default, including the persons referred to in sub-section (6) of section 209 of the Act, shall be punishable as provided under sub-section (2) of section 642 read with sub-sections (5) and (7) of section 209 of Companies Act, 1956 (1 of 1956).

7. FORM OF THE COMPLIANCE REPORT

FORM-A	**Form for filing Compliance Report and other documents with the Central Government**
[Pursuant to section 209(1)(d), 600(3)(b) of the Companies Act, 1956 and rule 2 of The Companies (Cost Accounting Records) Rules, 2011]	

PART I - GENERAL INFORMATION

Note: All fields marked in * are to be mandatorily filled.

1	(a)	*Corporate identity number (CIN) or foreign company registration number of the company		**Pre-Fill**
	(b)	Global location number (GLN) of company		

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2 (a) *Name of the company

(b) *Address of the registered office or of the principal place of business in India of the company

(c) *E-mail Address of the company

3 (a) *Financial year covered by the compliance report From (DD/MM/YYYY)

To (DD/MM/YYYY)

(b) *Date of Board of directors' meeting in which annexure to the compliance report was approved (DD/MM/YYYY)

4. **Details of the cost accountant**

(a) *Category of the cost accountant ○ Individual ○ Cost accountant's firm

(b) In case of individual, whether the cost accountant is in permanent employment of the company or in practice ○ In Employment ○ In Practice

(c) *Name of the cost accountant or the cost accountant's firm who has certified the cost records of the company

(d) *Income tax permanent account number of the cost accountant or the cost accountant's firm

(e) *Membership number of cost accountant or cost accountant's firm's registration number

(f) Address of the cost accountant or cost accountant's firm

(i) Line I
Line II
(ii) City
(iii) State
(iv) Country
(v) Pin Code

(g) *E-mail ID of the cost accountant or cost accountant's firm

5. ***Quantitative Information**

Sno.	Name of the Product / Service Group	Unit	Annual Production (Qty.)	Net Sales	
				(Qty.)	**(Value in Rupees)**
A	Produced / Manufactured Product Groups				
	1.				
	2.				
	3. etc.				
B	Services Groups				
	1.				

	2.					
	3. etc.					
C	Trading Activities (Product Group-wise)					
	1.					
	2.					
	3. etc.					
D	Other Income					
Total Income as per Financial Accounts						
PART-II						

Attachments:

1 Compliance report as per The Companies (Cost Accounting Records) Rules, 2011 **Attach**

2 Optional attachments(s) – if any **Attach**

List of attachments

Remove attachment

Verification:

To the best of my knowledge and belief, the information given in this form and its attachments is correct and complete.

☐ I have been authorised by the Board of directors' resolution number ☐ dated ☐ (DD/MM/YYYY) to sign and submit this form.

☐ I am authorised to sign and submit this form.

To be digitally signed by:

Managing Director or director or manager or secretary (in case of an Indian company)

or an authorised representative (in case of a foreign company)

Digital Signatures

*Designation

*Director identification number of the director or Managing Director; or Income-tax PAN of the manager or of authorised representative; or Membership number, if applicable or income-tax PAN of the secretary (secretary of a company who is not a member of ICSI may quote his/her income-tax PAN)

Director of the company

Digital Signatures

Director identification number of the director

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Modify	Check Form	Pre-scrutiny	Submit

This e-form has been taken on file maintained by the Central Government through electronic mode and on the basis of statement of correctness given by the filing company

FORM-B

FORM OF COMPLIANCE REPORT

[See rule 2, and rule 5]

I/We .... being in permanent employment of the company / in practice, and having been appointed as cost accountant under Rule 5 of the Companies (Cost Accounting Records) Rules, 2011 of ……………………………………………………. *(mention name of the company)* having its registered office at .... *(mention registered office address of the company)* (hereinafter referred to as the company), have examined the books of account prescribed under clause (d) of sub-section (1) of section 209 of the said Act, and other relevant records for the period/year .... *(mention the financial year)* and certify as under:

1 I/We have/have not obtained all the information and explanations, which to the best of my/our knowledge and belief were necessary for the purpose of this compliance report.

2 In my/our opinion, proper cost records, as per Companies (Cost Accounting Records) Rules, 2011 prescribed under clause (d) of sub-section (1) of section 209 of the Companies Act, 1956, have/have not been maintained by the company so as to give a true and fair view of the cost of production/operation, cost of sales and margin of all the products/activities of the company.

3 Detailed unit-wise and product/activity-wise cost statements and schedules thereto in respect of the product groups/activities are/are not kept in the company.

4 In my/our opinion, the said books and records give/do not give the information required by the Companies Act, 1956 in the manner so required.

5 In my/our opinion, the said books and records are/are not in conformity with the generally accepted cost accounting principles and cost accounting standards issued by The Institute of Cost and Works Accountants of India, to the extent these are found to be relevant and applicable.

Dated: this ____ day of _________ 20__ at _________________ (*mention name of place of signing this report*)

SIGNATURE & SEAL OF THE COST ACCOUNTANT (S)
MEMBERSHIP NUMBER (S)

NOTES:

(i) Delete words not applicable.

(ii) If as a result of the examination of the books of account, the cost accountant desires to point out any material deficiency or give a qualified report, he shall indicate the same against the relevant para.

(iii) Briefly give your observations and suggestions, if any, relevant to the maintenance of cost accounting records by the company.

(iv) Cost accountant may use separate sheet(s) for (ii) and (iii) above, if required.

9. **Order No: F.No.52/26/CAB-2010**

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F. No. 52/26/CAB-2010
Government of India
Ministry of Corporate Affairs
Cost Audit Branch
*****

B-1 Wing, 2nd Floor,
Paryavaran Bhawan,
CGO Complex, Lodhi Road,
New Delhi-110 003

Dated the 30th June, 2011

ORDER

Consequent upon notification of the Companies (Cost Accounting Records) Rules, 2011 published vide G.S.R. 429(E) dated 3rd June 2011 and in modification of the earlier Order of even number dated 3rd May 2011, the Central Government hereby makes the following Order.

In exercise of the powers conferred by sub-section (1) of section 233B of the Companies Act, 1956 (1 of 1956), the Central Government, being of the opinion that it is necessary to do so, hereby directs that all companies to which the Companies (Cost Accounting Records) Rules, 2011 apply, and which are engaged in the production, processing, manufacturing or mining of the following products/activities, including intermediate products and articles or allied products thereof, and wherein the aggregate value of the turnover made by the company from sale or supply of all products or activities during the immediately preceding financial year exceeds hundred crores of rupees; or wherein the company's equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India, shall get its cost accounting records, in respect of each of its financial year commencing on or after the 1st day of April, 2011, audited by a cost auditor who shall be, either a cost accountant or a firm of cost accountants, holding valid certificate of practice under the provisions of Cost and Works Accountants Act, 1959 (23 of 1959).

Sno.	Name of the Industry	Relevant Chapter Heading of the Central Excise Tariff Act, 1985
1.	Cement	Chapter 25, 38 and 68
2.	Tyres & Tubes	Chapter 40

3.	Steel	Chapter 72 and 73
4.	Paper	Chapter 47 and 48
5.	Insecticides*	Chapter 38
6.	Glass	Chapter 70
7.	Paints & Varnishes	Chapter 32
8.	Aluminum	Chapter 76

Note: Intermediate products and articles or allied products of above industries if included under any other Chapter of the Central Excise Tariff Act, 1985 not mentioned above shall also be covered under these orders.

**Includes all classes of Insecticides as defined under clause (e) of Section 3 of the Insecticides Act. 1968 (46 of 1968) and included in the schedule annexed to the said Act and as amended from time to time.*

2. Every company to which these orders apply shall follow the revised procedure for appointment of cost auditor as laid down vide Ministry of Corporate Affairs' General Circular No. 15/2011 [52/5/CAB-2011] dated 11th April 2011. For companies covered first time under these modified orders and wherein their financial year has already commenced between the 1st day of April, 2011 and the date of these orders, the period of ninety days for e-filing their applications with the Central Government in the prescribed form 23C for appointment of cost auditors shall be counted from the date of these orders.

3. The audit shall be conducted in such manner as will enable the cost auditor to prepare the report in accordance with the Companies (Cost Audit Report) Rules, 2011 published vide G.S.R. 430(E) dated 3rd June 2011. The report of the cost auditor shall be forwarded to the Central Government in the prescribed format within the time stipulated under the said Rules.

4. These orders do not apply to a company which is a body corporate governed by any special Act.

5. All companies covered by these orders and wherein cost audit orders have 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 orders until these orders become applicable on them.

6. If a company contravenes any provisions of these orders, the company and every officer thereof who is in default, including the persons referred to in sub-section (6) of section 209 of the Companies Act, 1956, shall be punishable as provided under sub-section (2) of section 642 read with sub-section (11) of section 233B of the Companies Act, 1956 (1 of 1956).

(B.B.Goyal)
Adviser (Cost)

Copy to:

1. E-Governance Cell, Ministry of Corporate Affairs, Shastri Bhavan, New Delhi with a request to upload this order on the MCA's website.
2. The President, Institute of Cost and Works Accountants of India, 12, Sudder Street, Kolkata – 700016 with a request to bring this order to the general information of all Members in practice and of the corporate sector.

10.Frequently Asked Questions on Companies (Cost Accounting Records) Rules, 2011
(As Clarified by the ICWAI)

1. What is the legal authority of the Companies (Cost Accounting Records) Rules 2011?
Central Government, in exercise of the powers conferred by clause (b) of sub-section (1) of section 642 read with clause (d) of section 209 of the Companies Act, 1956 (1 of 1956), has notified Companies (Cost Accounting Records) Rules 2011.

2. What is the effective date from which Companies (Cost Accounting Records) Rules 2011 come into force?
The Companies (Cost Accounting Records) Rules, 2011 have been published vide G.S.R. 429(E) dated 3rd June, 2011. As per sub-rule (2) of Rule 1, these rules have come into force on the date of publication in the Official Gazette.

3. What is the status of the 44 Cost Accounting Records Rules issued till the date of issue of Companies (Cost Accounting Records) Rules 2011 and what is its applicability?

The Companies (Cost Accounting Records) Rules 2011 has superseded 36 cost accounting record rules [refer Annexure 1 of this FAQ]. The said Rules are applicable to all companies engaged in production, processing, manufacturing and mining activities as defined under Rules 2(j), 2(k), 2(l) or 2(o) respectively and where:
a) the aggregate value of net worth as on the last date of the immediately preceding financial year exceeds five crores of rupees; or

b) the aggregate value of the turnover made by the company from sale or supply of all products or activities during the immediately preceding financial year exceeds twenty crores of rupees; or

c) the company's equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India.

Any company meeting the above criteria would be required to maintain cost accounting records and file a Compliance Report in the prescribed format from financial year commencing on and from 1st April 2011. These Rules are not applicable to a company which is a body corporate governed by a Special Act. Further, the Companies (Cost Accounting Records) Rules 2011 is not applicable to activities or products covered in any of the following rules:
(a) Cost Accounting Records (Bulk Drugs) Rules, 1974
(b) Cost Accounting Records (Formulations) Rules, 1988
(c) Cost Accounting Records (Fertilizers) Rules, 1993
(d) Cost Accounting Records (Sugar) Rules, 1997
(e) Cost Accounting Records (Industrial Alcohol) Rules, 1997
(f) Cost Accounting Records (Electricity Industry) Rules, 2001
(g) Cost Accounting Records (Petroleum Industry) Rules, 2002
(h) Cost Accounting Records (Telecommunications) Rules, 2002
In case a company is engaged in activities, in addition to the activities covered by the above 8 Rules, such activities shall be covered under the Companies (Cost Accounting Records) Rules 2011.

4. The Companies (Cost Accounting Records) Rules 2011 have not prescribed any specific formats for the cost statements. In what manner and format would the cost statements be kept under these Rules?

As per sub rule (2) of Rule 4, the companies are required to maintain cost records on regular basis in such manner so as to make it possible to calculate per unit cost of production or cost of operations, cost of sales and margin for each of its products and activities for every financial year on monthly/quarterly/half-yearly/annual basis. The cost statements are to be prepared for every unit and every product produced, processed, manufactured or mined. As per sub rule (3), the cost records are to be maintained in accordance with the generally accepted cost accounting principles and cost accounting standards issued by the Institute; to the extent these are found to be relevant and applicable. These Rules have not prescribed any specific formats for the cost statement. A guidance note on the subject is under preparation by ICWAI, inter alia, containing model formats for cost records, statements, schedules etc.

5. What does turnover mean under these Rules? Is gross turnover Inclusive of excise duty?

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. 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.
***6.* Who can authenticate the Compliance Report as per the Companies (Cost Accounting Records) Rules 2011?**

As per Rule 5, the Compliance Report and annexure thereto is required to be certified by a "cost accountant" as defined under Rule 2(c)**.** As per Rule 7, the annexure to the Compliance Report is to be duly approved by the Board of Directors. A "cost accountant" within the definition of these Rules does not include:
a) A member holding a part-time certificate of practice; or
b) A member who is in full time employment whose membership fees are in arrears;

c) A member of ICWAI who has been admitted as a member through reciprocal arrangement of membership by virtue of being a member of Institute of Management Accountants USA.

7. Will companies engaged in the eight (8) products/activities, which have been excluded from the purview under Rule 3(a) to 3(h) of Companies (Cost Accounting Records) Rules 2011, be required to file Compliance Report?

Companies engaged in activities or products to which the cost accounting records rules listed under Rule 3(a) to 3(h) apply will not be required to file a Compliance Report until these Rules are amended. However, if the concerned company is also engaged in other activities covered under the Companies (Cost Accounting Records) Rules 2011, in that case the company would be required to file a Compliance Report.

8. Is there any ceiling on the number of Compliance Reports which can be authenticated by a practicing cost accountant or a cost accountant in permanent employment of the company?

There is no ceiling on the number of Compliance Reports that can be authenticated by a cost accountant in whole-time practice. A cost accountant working as permanent employee can authenticate the Compliance Report of the company where he is employed provided his membership dues are not in arrears. He cannot authenticate Compliance Report of any other company even under the same group.

9. Can a cost accountant who is working as permanent employee of a company and responsible for maintenance of cost records therein authenticate Compliance Report of the same company?

Yes.

10. Can a cost accountant who has been appointed as cost auditor of the company authenticate the Compliance Report of that company?

Yes.

11.What constitutes the cost records under Rule 2(e)? Whether the format of "Abridged Cost statement" prescribed in the Companies (Cost Audit Report) Rules, 2011 can be considered as a sample cost statement?

Books of account and other records relating to utilization of materials, labour and other items of cost that provides data/information to compute the cost of production, cost of sales and margin of each of the products/activities of the company on monthly/quarterly/half-yearly/annual basis are considered part of the cost records. It includes statistical, quantitative and other records which enable the company to exercise, as far as possible, control over the various operations and costs with a view to achieve optimum economies in utilization of resources. Cost records

are required to be maintained on continuous basis from the basic stage of inputs to the final output. There cannot be any exhaustive list of cost records. This would depend on the materiality of cost components in the cost of the product/activity. The abridged cost statement can be used as a sample cost statement. This may be modified according to the need of the company.

12.Whether production, processing, manufacturing or mining involving manual operation, without the use of power will be also cov
ered under these Rules?

Yes. The definition of product in Rule 2(m) includes manual operation as well. Therefore, any production, processing, manufacturing or mining activity – whether by use of power or not – are included for the purposes of these Rules.
13.Whether product manufactured for 100% captive / self consumption shall be covered under the Companies (Cost Accounting Records) Rules 2011?

The test of inclusion under the Rules is whether it is a production, processing, manufacturing or mining activity resulting in a product [*for definition of "product" refer to Rule 2(m)*] intended for use, consumption, sale, transport, store, delivery or disposal and whether the company carrying out the activity falls within the criteria mentioned under Rule 3(1). If the company meets requirement of Rule 3(1), the activity – whether or not for captive/self consumption – will come under the ambit of these Rules.

14. Will the companies subject to cost audit be also required to file Compliance Report under these Rules?

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.

15.Whether the Compliance Report is to be prepared for the 'company as a whole'.

Yes, the Compliance Report is to be prepared for the 'company as a whole' under different product groups.

16. 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?

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.

17. Is it necessary to first prepare "unit wise" and "product/activity-wise" cost statements and then merge into product group-wise cost statement for the company as a whole?

It is mandatory to prepare unit-wise and product/activity-wise cost statements as per the Companies (Cost Accounting Records) Rules 2011. For Compliance Certificate purposes, no cost statement is required to be submitted. However, if any or all the products/activities of the company is also covered under Cost Audit, then for the purposes of submission of Cost Audit Report under the Companies (Cost Audit Report) Rules 2011, a consolidated cost statement for the product group(s) under cost audit is required to be prepared.