

	Frequently Asked Questions on Maintenance of Cost Accounting Records and Cost Audit under Companies Act, 2013	FAQ – 1 19/03/2015
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1.1 ¹Which Rules govern maintenance of cost accounting records and cost audit as per Section 148 of the Companies Act, 2013?

The Central Government issued Companies (Cost Records and Audit) Rules, 2014 on June 30, 2014. Subsequently, it issued Companies (Cost Records and Audit) Amendment Rules, 2014 on December 31, 2014. The Amendment Rules has introduced certain changes to the original Rules issued on June 30, 2014. The Companies (Cost Records and Audit) Rules, 2014 read with the Amendment Rules 2014 are now applicable and governs the maintenance of cost accounting records and cost audit as per Section 148 of the Companies Act, 2013.

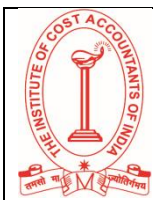
1.2 What is the applicability of the Companies (Cost Records and Audit) Rules, 2014 and what is the date on which it becomes effective and applicable?

- a) The Rules have classified sectors/industries under Regulated and Non-Regulated sectors. The sectors/industries covered under Table A of the Rules are under the Regulated Sector and sectors/industries covered under Table B are under the Non-Regulated Sector.
- b) Every company, including foreign companies defined in clause (42) of section 2 of the Act, engaged in the production of the goods or providing services, specified in Tables A and B, having an overall turnover from all its products and services of rupees thirty five crore or more during the immediately preceding financial year, shall be required to maintain cost accounting records.

However, foreign companies having only liaison office in India and engaged in production, import and supply or trading of medical devices listed in Sl. 33 of Table B are exempted. Further, companies which are classified as a micro enterprise or a small enterprise including as per the turnover criteria under sub-section (9) of section 7 of the Micro, Small and Medium Enterprises Development Act, 2006 (27 of 2006) are also excluded from the purview of the Rules.

- c) The Rules are effective from April 1, 2014 in respect of certain class of companies and for the others it is effective from April 1, 2015 as detailed below:

¹ Please forward your queries relating to FAQs on technicalcell@icmai.in to the Technical Cell led by CMA Kunal Banerjee, Former President, ICAI with CMA M Gopalakrishnan, Former President & CCM, ICAI, CMA Rakesh Singh, Former President & CCM, ICAI, CMA Dr. Sanjay R Bhargave, CCM, ICAI, CMA JK Budhiraja, Director (Professional Development), ICAI and Mrs. Anita Singh, Additional Director (Information Technology), ICAI as members



**Frequently Asked Questions
on
Maintenance of Cost Accounting Records and Cost
Audit under Companies Act, 2013**

**FAQ – 1

19/03/2015**

Rules Applicable from April 1, 2014 – Regulated Sectors		
Sl.	Industry /Sector/ Product/Service	CETA Heading
1.	Telecommunication services made available to users by means of any transmission or reception of signs, signals, writing, images and sounds or intelligence of any nature (other than broadcasting services) and regulated by the Telecom Regulatory Authority of India under the Telecom Regulatory Authority of India Act, 1997 (24 of 1997);	Not applicable
2.	Generation, transmission, distribution and supply of electricity regulated by the relevant regulatory body or authority under the Electricity Act, 2003 (36 of 2003), other than for captive generation (referred to in the Electricity Rules, 2005);	
3.	Petroleum products regulated by the Petroleum and Natural Gas Regulatory Board under the Petroleum and Natural Gas Regulatory Board Act, 2006 (19 of 2006);	2709 to 2715;
4.	Drugs and pharmaceuticals	2901 to 2942; 3001 to 3006.
5.	Fertilizers;	3102 to 3105.
6.	Sugar and industrial alcohol;	1701; 1703; 2207

Rules Applicable from April 1, 2014 – Non-Regulated Sectors		
Sl.	Industry /Sector/ Product/Service	CETA Heading
1.	Machinery and mechanical appliances used in defence, space and atomic energy sectors;	8401 to 8402; 8801 to 8805; 8901 to 8908
2.	Turbo jets and turbo propellers;	8411
3.	Arms and ammunitions;	3601 to 3603; 9301 to 9306.



**Frequently Asked Questions
on
Maintenance of Cost Accounting Records and Cost
Audit under Companies Act, 2013**

FAQ – 1

19/03/2015

Rules Applicable from April 1, 2014 – Non-Regulated Sectors		
Sl.	Industry /Sector/ Product/Service	CETA Heading
4.	Propellant powders; prepared explosives (other than propellant powders); safety fuses; detonating fuses; percussion or detonating caps; igniters; electric detonators;	3601 to 3603
5.	Radar apparatus, radio navigational aid apparatus and radio remote control apparatus;	8526
6.	Tanks and other armoured fighting vehicles funded to the extent of 90% or more by the Government or Government agencies;	8710
7.	Port services of stevedoring, pilotage, hauling, mooring, re-mooring, hooking, measuring, loading and unloading services rendered by a Port in relation to a vessel or goods regulated by the Tariff Authority for Major Ports under section 111 of the Major Port Trusts Act, 1963 (38 of 1963);	Not applicable.
8.	Aeronautical services of air traffic management, aircraft operations, ground safety services, ground handling, cargo facilities and supplying fuel rendered by airports and regulated by the Airports Economic Regulatory Authority under the Airports Economic Regulatory Authority of India Act, 2008 (27 of 2008);	Not applicable.
9.	Steel;	7201 to 7229; 7301 to 7326
10.	Roads and other infrastructure projects corresponding to para No.(1) (a) as specified in Schedule VI of the Companies Act, 2013;	Not applicable.
11.	Rubber and allied products being regulated by the Rubber Board	4001 to 4017



**Frequently Asked Questions
on
Maintenance of Cost Accounting Records and Cost
Audit under Companies Act, 2013**

FAQ – 1

19/03/2015

Rules Applicable from April 1, 2014 – Non-Regulated Sectors		
Sl.	Industry /Sector/ Product/Service	CETA Heading
12.	Railway or tramway locomotives, rolling stock, railway or tramway fixtures and fittings, mechanical (including electro mechanical) traffic signalling equipment's of all kind;	8601 to 8608.
13.	Cement;	2523; 6811 to 6812
14.	Ores and Mineral Products;	2502 to 2522; 2524 to 2526; 2528 to 2530; 2601 to 2617
15.	Mineral fuels (other than Petroleum), mineral oils etc.;	2701 to 2708
16.	Base metals;	7401 to 7403; 7405 to 7413; 7419; 7501 to 7508; 7601 to 7614; 7801 to 7802; 7804; 7806; 7901 to 7905; 7907; 8001; 8003; 8007; 8101 to 8113.
17.	Inorganic chemicals, organic or inorganic compounds of precious metals, rare-earth metals of radioactive elements or isotopes, and Organic Chemicals;	2801 to 2853; 2901; 2942; 3801 to 3807; 3402 to 3403; 3809 to 3824.
18.	Jute and Jute Products;	5303, 5310
19.	Edible Oil;	1507 to 1518
20.	Construction Industry as per para No.(5) (a) as specified in Schedule VI of the Companies Act, 2013 (18 of 2013)	Not applicable.
21.	Health services, namely functioning as or running hospitals, diagnostic centres, clinical centres or test laboratories;	Not applicable.



**Frequently Asked Questions
on
Maintenance of Cost Accounting Records and Cost
Audit under Companies Act, 2013**

FAQ – 1

19/03/2015

Rules Applicable from April 1, 2014 – Non-Regulated Sectors

Sl.	Industry /Sector/ Product/Service	CETA Heading
22.	Education services, other than such similar services falling under philanthropy or as part of social spend which do not form part of any business.	Not applicable.
23.	Production, import and supply or trading of following medical devices, namely:	
	Cardiac Stents, Drug Eluting Stents, Catheters, Intra Ocular Lenses, Bone Cements, Heart Valves, Orthopaedic Implants, Internal Prosthetic Replacements, Scalp Vein Set, Deep Brain Stimulator, Ventricular peripheral Shud, Spinal Implants, Automatic Impalpable Cardiac Deflobillator, Pacemaker (temporary and permanent), patent ductusarteriosus, atrial septal defect and ventricular septal defect closure device, Cardiac Re-synchronize Therapy, Urethra Spinicture Devices, Sling male or female, Prostate occlusion device, Urethral Stents	

Rules Applicable from April 1, 2015 – Non-Regulated Sectors

Sl.	Industry /Sector/ Product/Service	CETA Heading
1.	Coffee and tea;	0901 to 0902
2.	Milk powder;	0402
3.	Insecticides;	3808
4.	Plastics and Polymers;	3901 to 3914; 3916 and 3921; 3925
5.	Tyres and Tubes;	4011 to 4013
6.	Paper;	4801 to 4802
7.	Textiles;	5004 to 5007; 5106 to 5113; 5205 to 5212; 5303; 5310; 5401 to 5408; 5501 to 5516

	Frequently Asked Questions on Maintenance of Cost Accounting Records and Cost Audit under Companies Act, 2013	FAQ – 1 19/03/2015
--	---	--

Rules Applicable from April 1, 2014 – Non-Regulated Sectors		
Sl.	Industry /Sector/ Product/Service	CETA Heading
8.	Glass;	7003 to 7008, 7011, 7016
9.	Other machinery;	8403 to 8487
10.	Electricals or electronic machinery;	8501 to 8507; 8511 to 8512; 8514 to 8515; 8517; 8525 to 8536; 8538 to 8547.

- 1.3 The Institute of Cost Accountants of India (ICAI-CMA) had, from time to time, issued FAQs subsequent to implementation of Companies (Cost Accounting Records) Rules, 2011 and Companies (Cost Audit report) Rules, 2011. Will the clarifications and FAQs remain valid subsequent to Companies (Cost Records and Audit) Rules, 2014 coming into effect?**

The FAQs and clarifications issued earlier are no longer valid. The same may be considered as withdrawn and not applicable for the Companies (Cost Records and Audit) Rules, 2014 unless specifically mentioned in these FAQs.

- 1.4 What constitutes the cost records under Rule 2(e)?**

As per Rule 2(e) the Companies (Cost Records and Audit) Rules, 2014, “cost records” means ‘*books of account relating to utilization of materials, labour and other items of cost as applicable to the production of goods or provision of services as provided in section 148 of the Act and these Rules*’. There cannot be any exhaustive list of cost accounting records. Any transaction - statistical, quantitative or other details - that has a bearing on the cost of the product/activity is important and form part of the cost accounting records.

Cost records are to be kept on regular basis to make it possible to “*calculate per unit cost of production/operations, cost of sales and margin for each of its products for every financial year on monthly/quarterly/half-yearly/annual basis*”. What is required is to maintain such records and details in a structured manner on a regular basis so that accumulation is possible on a periodical basis.

	Frequently Asked Questions on Maintenance of Cost Accounting Records and Cost Audit under Companies Act, 2013	FAQ – 1 19/03/2015
---	---	--

- 1.5 The Rules state that cost records are to be maintained in Form CRA-1. However, CRA-1 does not prescribe any format but only provides principles to be followed for different cost elements. What are the role and status of Cost Accounting Standards/GACAP and its applicability vis-à-vis CRA-1?**

The principles of maintenance of cost accounting records have been notified in the Rules in CRA-1. The principles are in sync with the cost accounting standards. The Rules are principle based and no formats have been prescribed for maintenance of cost accounting records like pre-2011 industry specific rules. No separate format based records maintenance has been prescribed even for the Regulated Industry and the prescription has left it open for industry to maintain cost accounting records according to its size and nature of business so long as it determines a true and fair view of the cost of production, cost of sales and margin of the products/services. The cost audit report is required to be in conformity with the “cost auditing standards” as referred to in Section 148 of the Companies Act, 2013.

It is also to be noted that the Council of the Institute of Cost Accountants of India has made it mandatory for cost accountants in practice to follow and conform to the Cost Accounting Standards issued by it and it is incumbent on the cost auditors to report any deviations from cost accounting standards.

- 1.6 What is the meaning of “Turnover” in relation to the Companies (Cost Records and Audit) Rules, 2014?**

Sub-section 91 of Section 2 of the Companies Act, 2013 defines “turnover” as “*the aggregate value of the realization of amount made from the sale, supply or distribution of goods or on account of services rendered, or both, by the company during a financial year.* For the purposes of these Rules, “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 exclude duties and taxes. Export benefit received should be treated as a part of sales.

	Frequently Asked Questions on Maintenance of Cost Accounting Records and Cost Audit under Companies Act, 2013	FAQ – 1 19/03/2015
---	---	--

- 1.7 Whether overall annual Turnover/individual turnover definition will include other operational income like Job work income, scrap sale, trading turnover, export benefits, sales of services etc.?**

The Turnover shall include other operational income like Job work income, scrap sale, trading turnover, export benefits, sales of services etc.

- 1.8 Is maintenance of cost accounting records mandatory for a multi-product company where all the products are not covered under the Rules even if the Turnover of the individual product/s that are covered under the Rules is less than rupees thirty five crores?**

The Rules provide threshold limits for the company as a whole irrespective of whether all its products are as per the prescribed industry/sector provided under Table A or Table B. The Rules do not provide any minimum product specific threshold limits for maintenance of cost accounting records and consequently the company would be required to maintain cost accounting records for the products covered under Table-A or Table-B or both even if the turnover of such products is below rupees thirty five crores.

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

Cost Accounting Policy of a company 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, provides a flow of the cost accounting data/information across the activity flow culminating in arriving at the cost of final product/service.

- 1.10 A company meets the threshold limits for both maintenance of cost records and cost audit in Year-0 (previous year) and consequently comes under the purview of the Rules in Year-1 (current year). If the turnover of company gets reduced to lower than the prescribed threshold limit in Year-1 (current year), whether Cost Records and Cost Audit will be applicable for Year-2 (next year).**

Rule 3 of the Companies (Cost Records and Audit) Rules, 2014 states that a company engaged in the production of the goods or providing of services as prescribed having an overall turnover from all its products and services of rupees thirty five crore or more during the immediately preceding financial year, shall include cost records for

	Frequently Asked Questions on Maintenance of Cost Accounting Records and Cost Audit under Companies Act, 2013	FAQ – 1 19/03/2015
--	---	--

such products or services in their books of account. Since the threshold limit for applicability of maintenance of cost accounting records is met in Year-0, the cost records are required to be maintained from Year-1. Once the maintenance of cost records becomes applicable, it would be maintained on a continuous basis in the subsequent years also. In the same line, cost audit will be applicable from Year-1 and for every year thereafter.

1.11 How to identify products covered under 4-digit CETA Code as mentioned in the Rules?

Central Excise Tariff Act Heading has been defined in Rule 2(aa) of Companies (Cost Records and Audit) Rules 2014. It states *“Central Excise Tariff Act Heading” means the heading as referred to in the Additional Notes in the First Schedule to the Central Excise Tariff Act, 1985 [5 of 1986].*

First Schedule to the Central Excise Tariff Act, 1985 states – *“heading” in respect of goods, means a description in list of tariff provisions accompanied by a four-digit number and includes all sub-headings of tariff items the first four-digits of which correspond to that number.*

1.12 The Rules prescribed in 2011 had introduced the concept of reporting under “Product Group”. The present Rules are silent about Product Group. What is the requirement of preparation of cost statements of products/services so far as maintenance of cost accounting records is concerned and reporting thereof in the cost audit report?

The concept of “Product Group” has been dispensed with in the present Rules. The cost records referred to in sub-rule (1) of Rule 5 is required to be maintained on regular basis in such manner as to facilitate calculation of per unit cost of production or cost of operations, cost of sales and margin for ***each of its products and activities.*** Hence, it is imperative that the cost accounting records are required to be maintained and cost statements prepared for each and every product/service/activity that the company is engaged in.

So far as reporting is concerned, Abridged Cost Statement for every product identified with the CETA Code is required to be provided. For activities/services for which CETA Code is not applicable, the Abridged Cost Statement shall be for each service/activity.

	Frequently Asked Questions on Maintenance of Cost Accounting Records and Cost Audit under Companies Act, 2013	FAQ – 1 19/03/2015
--	---	--

1.13 Whether separate Form CRA-2 is required to be filed by a company having two or more different types of products covered under cost audit?

CRA-2 Form (intimation for appointment of cost auditor to Central Government) has replaced the earlier Form 23C (application seeking approval for appointment of cost auditor). A single Form CRA-2 is required to be filed providing details of the sectors/industries covered under cost audit and details of cost auditor. For Companies appointing multiple cost auditors, only one single Form CRA-2 is required to be filed. Provision has been made in the Form to accommodate details of multiple cost auditors.

1.14 The Tables listing the industry/sector/product/service in the Rules have described the same by way of description as well as CETA Heading, wherever applicable. For certain sectors, the coverage under the CETA Heading are apparently not in line with the description of the sector. How to determine the coverage in such cases?

The description and the CETA Heading have to be read harmoniously and construed to be supplementing each other. The CETA Heading has been provided in the amended Rules in addition to what was provided in the original Rules issued in June 2014. The CETA Codes are inclusive and all products covered under the codes are covered irrespective of the description.

For example, in case of Petroleum Industry, the description states “Petroleum products regulated by the Petroleum and Natural Gas Regulatory Board under the Petroleum and Natural Gas Regulatory Board Act, 2006 (19 of 2006)” and the CETA Headings are 2709 to 2715. Hence, all products covered under CETA Headings 2709 to 2715 are included as well as activities like storage, transportation, distribution of Crude Oil or Gas etc. and any other activity that is defined under the Petroleum and Natural Gas Regulatory Board Act, 2006 and regulated by the PNGRB are covered.

Similarly, Rubber and allied products would include all rubber products as specified under CETA Codes 4001 to 4017 and will not be restricted only to such rubber products regulated by the Rubber Board.

Companies engaged in manufacturing Machinery and mechanical appliances falling under CETA Codes 8401 to 8402; 8801 to 8805; 8901 to 8908 are similarly covered irrespective of its ultimate customer/consumer, subject to the company meeting the

	Frequently Asked Questions on Maintenance of Cost Accounting Records and Cost Audit under Companies Act, 2013	FAQ – 1 19/03/2015
--	---	--

threshold limits prescribed and it is not necessary that the products have to be exclusively used in defence, space and atomic energy sectors.

1.15 What is meant by Telecommunication Services and what is its coverage?

The Companies (Cost Records and Audit) Rules, 2014 has covered *“Telecommunication services made available to users by means of any transmission or reception of signs, signals, writing, images and sounds or intelligence of any nature (other than broadcasting services) and regulated by the Telecom Regulatory Authority of India under the Telecom Regulatory Authority of India Act, 1997 (24 of 1997)”*. The Telecom Regulatory Authority of India Act, 1997 defines "telecommunication service" as *“service of any description (including electronic mail, voice mail, data services, audio text service, video text services, radio paging and cellular mobile telephone services) which is made available to users by means of any transmission or reception of signs, signals, writing, images and sounds or intelligence of any nature, by wire, radio, visual or other electro-magnetic means but shall not include broadcasting services”*.

Subsequently, the Central Government has included broadcasting services within the ambit of telecommunication services by notifying *“broadcasting services and cable services to be telecommunication service”*. [Notification No. 39 issued by Ministry of Communication and Information Technology dated 9 January 2004, S.O. No. 44(E) issued by TRAI, vide F. No. 13-1/2004].

In view of the above, Telecommunication Services made available to users and regulated by the Telecom Regulatory Authority of India under the Telecom Regulatory Authority of India Act, 1997 would include all such services being regulated by TRAI including broadcasting services.

1.16 What is the coverage of “Roads and other infrastructure projects” under Item 10 of Table B of the Rules?

“Roads and other infrastructure projects” has been defined to be corresponding to para No.(1)(a) as specified in Schedule VI of the Companies Act, 2013. Sub-clause (a) to Para (1) of Schedule VI of the Companies Act, 2013 covers *“Roads, national highways, state highways, major district roads, other district roads and village roads, including toll roads, bridges, highways, road transport providers and other road-related services”*. Hence, every activity including construction and maintenance of the above projects are covered under the Rules.

	Frequently Asked Questions on Maintenance of Cost Accounting Records and Cost Audit under Companies Act, 2013	FAQ – 1 19/03/2015
--	---	--

1.17 What is the coverage of Construction Industry under Item 21 of Table B of the Rules?

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” and covers “real estate development, including an industrial park or special economic zone” as per sub-clause (a). Hence, every construction activity in relation to the above are covered under the Rules.

1.18 What is the coverage of Aeronautical Services?

Clause 3(B)(8) of the Companies (Cost Records and Audit) Rules, 2014 covers under the ambit of the Rules *“Aeronautical services of air traffic management, aircraft operations, ground safety services, ground handling, cargo facilities and supplying fuel rendered by airports and regulated by the Airports Economic Regulatory Authority under the Airports Economic Regulatory Authority of India Act, 2008 (27 of 2008)”*.

The Airports Economic Regulatory Authority of India Act, 2008 has defined “aeronautical services” as follows:

- (i) For navigation, surveillance, and supportive communication thereto for air traffic management;
- (ii) For the landing, housing or parking of an aircraft or any other ground facility offered in connection with aircraft operations at an airport;
- (iii) For ground safety services at an airport;
- (iv) For ground handling services relating to aircraft, passengers and cargo at an airport;
- (v) For the cargo facility at an airport;
- (vi) For supplying fuel to the aircraft at an airport;

The Rule has covered all the above services under the ambit of maintenance of cost accounting records and cost audit subject to threshold limits.

However, all airports and aircraft operations belonging to or subject to the control of the Armed Forces or paramilitary Forces of the Union are excluded from the scope of these Rules.

	Frequently Asked Questions on Maintenance of Cost Accounting Records and Cost Audit under Companies Act, 2013	FAQ – 1 19/03/2015
---	---	--

1.19 Whether maintenance of cost accounting records and cost audit thereof, subject to threshold limits prescribed, is applicable to products which are for 100% captive consumption?

The Companies (Cost Records and Audit) Rules, 2014 has specified different products and services for which maintenance of cost accounting records and cost audit thereof, subject to threshold limits prescribed, is mandatory.

In case a product is manufactured and 100% captively consumed for production of some other product which is also covered under these Rules and is subject to cost audit, then the cost of such captively consumed product would form part of the final product which is also under cost audit and as such a separate cost audit report for the captively consumed product will not be necessary.

However, if the product is partly for captive consumption and partly sold, or if the product is 100% captively consumed for production of some other product which is not covered under these Rules, then cost audit would be applicable for such captively consumed product(s).

1.20 What would be the treatment of cost consumption of electricity from a captive generating plant and applicability of cost audit to such captive generating plants?

Rule 3(A)(2) dealing with generation, transmission, distribution and supply of electricity has excluded captive generation as defined in the Electricity Rules, 2005. It may be noted that in case of a company whose product(s)/service(s) are covered under the Rules and it consumes electricity from the captive generating plant, determination of cost of generation, transmission, distribution and supply of electricity as per CRA-1 would be mandatory since the cost of consumption of electricity has to be at cost. Hence, maintenance of cost records for generation, transmission, distribution and supply of electricity would be applicable. However, cost audit will not be applicable to such captive plants, provided the entire generation is consumed captively and no portion is sold outside.

1.21 A Company is engaged in both Regulated and Non-Regulated sectors and all its products are not covered under the Rules. How to determine applicability of cost audit for the products covered under the Regulated and Non-Regulated sectors since different threshold limits have been prescribed under Rule 4?

Rule 4 states that cost audit would be applicable for products under:

	Frequently Asked Questions on Maintenance of Cost Accounting Records and Cost Audit under Companies Act, 2013	FAQ – 1 19/03/2015
---	---	--

- (a) Table A if the overall turnover of the company is at least Rs. 50 crore and
- (b) Table B if the overall turnover of the company is Rs. 100 crore.

Hence, the coverage of cost audit for a company where all its products are covered under Table A or Table B or a combination of the two would be guided by these threshold limits.

In case of a multi-product company where all its products are not covered under Table A or Table B or a combination of both, then the following would apply:

- a) If the overall turnover of the company is more than Rs.50 crore but less than Rs.100 crore, then only products covered under Table-A will be covered under cost audit provided the sum total of all the products of the company covered under Table A and Table B is more than Rs.25 crore.
- b) If the overall turnover of the company is more than Rs.100 crore, then:
 - i. products under both Table A and Table B will be covered under cost audit provided the sum total of all the products of the company covered under Table A and Table B is more than Rs.35 crore
 - ii. only products of Table A will be covered if the sum total of all the products of the company covered under Table A and Table B is more than Rs.25 crore but less than Rs.35 crore.

Explanation: Rule 4 has defined threshold limits for Table A and Table B separately but the aggregate turnover of the individual product or products or service or services has been defined to be all products for which cost records are required to be maintained under rule 3.

1.22 A company does job work for others. The raw materials are supplied to the company by the principal and the job worker gets conversion charges only. The Job Worker company pays the excise duty which is reimbursed by the principal. Will the job worker be covered under the Companies (Cost Records and Audit) Rules, 2014?

The Rules are applicable to a company. If the products of the Job Worker is listed under Table A or Table B of the Rules and the Job Worker company meets the threshold limits as prescribed, then the job worker company will be required to maintain cost accounting records. If the threshold criteria of the cost audit as prescribed are met, the company would be covered under cost audit also. Payment of

	Frequently Asked Questions on Maintenance of Cost Accounting Records and Cost Audit under Companies Act, 2013	FAQ – 1 19/03/2015
---	---	--

excise duty by the Job Worker and in turn getting reimbursement for it is immaterial for application of the Rules.

1.23 Whether companies registered under Section 8 of the Companies Act, 2013 (corresponding to Section 25 of the Companies Act, 1956) and One Person Company (OPC) introduced in Companies Act, 2013 covered under the Rules?

The Companies (Cost Records and Audit) Rules, 2014 are applicable to every company registered under the Companies Act, 2013 which are engaged in production of goods or providing of services listed in Table-A or Table-B of Rule 3. Different threshold limits have been prescribed in the Rules for applicability of maintenance of cost accounting records and coverage under cost audit. Exemption has been granted only to companies which are classified as a micro enterprise or a small enterprise including as per the turnover criteria under sub-section (9) of section 7 of the Micro, Small and Medium Enterprises Development Act, 2006 (27 of 2006) and foreign companies having only liaison offices engaged in Production, import and supply or trading of medical devices specified under Item 33 of Table-B of Rule 3. Any other legal entity registered as a company that meets the conditions stated in Rule 3 and Rule 4 are covered.

1.24 The manufacturing process of a company generates Metal Scrap during production of its main products which may or may not be covered under cost audit. Such scrap is sold in the market after the same is cleared under CETA Codes that are covered in the Rules. Will the company be covered under cost audit for generation of scrap?

Generation of scrap is not a production or processing or manufacturing but is incidental to manufacture of its main products. The Rules are applicable to production of goods or providing of services. CETA Codes have been inducted in the Rules for proper identification of Products that are manufactured. The act of payment of Excise Duty is immaterial in the context of application of the Rules. The generation of scrap and its consequent sale in the market cannot be construed to be covered under the Rules.

1.25 Whether Value Addition and Distribution of Earnings [Part D, Para 3] is to be computed based on Cost record data or audited financial data?

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

	Frequently Asked Questions on Maintenance of Cost Accounting Records and Cost Audit under Companies Act, 2013	FAQ – 1 19/03/2015
---	---	--

1.26 Whether Financial Position and Ratio Analysis [Part D, Para 4] is to be computed based on Cost record data or audited financial data?

Financial Position and Ratio Analysis is to be computed based on audited financial accounts. This reporting Para has been aligned with the nomenclature of Schedule III of the Companies Act, 2013.

1.27 What is the procedure for appointment of cost auditor under the Companies Act, 2013?

The cost auditor is to be appointed by the Board of Directors on the recommendation of the Audit Committee, where the company is required to have an Audit Committee. The cost auditor proposed to be appointed is required to give a letter of consent to the Board of Directors. The company shall inform the cost auditor concerned of his or its appointment as such and file a notice of such appointment with the Central Government within a period of thirty days of the Board meeting in which such appointment is made or within a period of one hundred and eighty days of the commencement of the financial year, whichever is earlier, through electronic mode, in **form CRA-2**, along with the fee as specified in Companies (Registration Offices and Fees) Rules, 2014.

Any casual vacancy in the office of a cost auditor, whether due to resignation, death or removal, shall be filled by the Board of Directors within thirty days of occurrence of such vacancy and the company shall inform the Central Government in Form CRA-2 within thirty days of such appointment of cost auditor.

1.28 Who can be appointed as a cost auditor?

Only a Cost Accountant, as defined under section 2(28) of the Companies Act, 2013, can be appointed as a cost auditor.

Clause (b) of sub-section (1) of section 2 of the Cost and Works Accountants Act, 1959 defines “Cost Accountant”. It means a Cost Accountant who holds a valid certificate of practice under sub-section (1) of section 6 of the Cost and Works Accountants Act, 1959 and is in whole-time practice. Cost Accountant includes a Firm of Cost Accountants and a LLP of cost accountants.

	Frequently Asked Questions on Maintenance of Cost Accounting Records and Cost Audit under Companies Act, 2013	FAQ – 1 19/03/2015
---	---	--

1.29 What are the eligibility criteria for appointment as a cost auditor?

Eligibility Criteria under Section 141 of the Companies Act, 2013 read with Rule 10 of the Companies (Audit and Auditors) Rules, 2014 and Section 148 of the Companies Act, 2013. The following persons are not eligible for appointment as a cost auditor:

- a) A body corporate. However, a Limited Liability partnership registered under the Limited Liability Partnership Act, 2008 can be appointed. [Section 141(3)(a)].
- b) An officer or employee of the company. [Section 141(3)(b)].
- c) A person who is a partner, or who is in the employment, of an officer or employee of the company. [Section 141(3)(c)].
- d) A person who, or his relative or partner is holding any security of or interest in the company or any of its subsidiary or of its holding or associate company or a subsidiary of such holding company. [Section 141(3)(d)(i)].
- e) Relatives of any partner of the firm holding any security of or interest in the company of face value exceeding Rs. 1 lakh. [Section 141(3)(d)(i) and Rule 10(1) of Companies (Audit and Auditors) Rules, 2014].
- f) A person who is indebted to the company or its subsidiary, or its holding or associate company or a subsidiary or such holding company, for an amount exceeding Rs. 5 lakhs. [Section 141(3)(d)(ii) and Rule 10(2) of Companies (Audit and Auditors) Rules, 2014].
- g) A person who has given any guarantee or provided any security in connection with the indebtedness of any third person to the company or its subsidiary, or its holding or associate company or a subsidiary of such holding company, for an amount exceeding Rs. 1 lakh. [Section 141(3)(d)(iii) and Rule 10(3) of Companies (Audit and Auditors) Rules, 2014].
- h) A person or a firm who, whether directly or indirectly, has business relationship with the company or its subsidiary, or its holding or associate company or subsidiary of such holding company or associate company. [Section 141(3)(e) and Rule 10(4) of Companies (Audit and Auditors) Rules, 2014].

“Business Relationship” is defined in Rule 10(4) of Companies (Audit and Auditors) Rules, 2014 and the same shall be construed as any transaction entered into for a commercial purpose, except commercial transactions which are in the nature of professional services permitted to be rendered by a cost auditor or a cost audit

	Frequently Asked Questions on Maintenance of Cost Accounting Records and Cost Audit under Companies Act, 2013	FAQ – 1 19/03/2015
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firm under the Act and commercial transactions which are in the ordinary course of business of the company at arm's length price - like sale of products or services to the cost auditor, as customer, in the ordinary course of business, by companies engaged in the business of telecommunications, airlines, hospitals, hotels and such other similar businesses.

- i) A person whose relative is a director or is in the employment of the company as a director or key managerial personnel of the company. *[Section 141(3)(f)]*.
- j) A person who is in the full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor if such person or persons is at the date of such appointment or reappointment holding appointment as auditor of more than twenty companies. *[Section 141(3)(g)]*.
- k) A person who has been convicted by a court for an offence involving fraud and a period of ten years has not elapsed from the date of such conviction. *[Section 141(3)(h)]*.
- l) Any person whose subsidiary or associate company or any other form of entity, is engaged as on date of appointment in consulting and providing specialised services to the company and its subsidiary companies: *[Section 141(3)(i) and Section 144]*.
 - (a) accounting and book keeping services
 - (b) internal audit
 - (c) design and implementation of any financial information system
 - (d) actuarial services
 - (e) investment advisory services
 - (f) investment banking services
 - (g) rendering of outsourced financial services
 - (h) management services

1.30 The Companies Act, 2013 has introduced provision regarding rotation of auditors. Is the provision of rotation of auditors applicable to cost auditors also?

The provisions for maintenance of cost accounting records and cost audit are governed by Section 148 of the Companies Act, 2013. The provisions of Section 148 clearly states that no person appointed under Section 139 as an auditor of the company shall be appointed for conducting audit of cost records of the company.

	Frequently Asked Questions on Maintenance of Cost Accounting Records and Cost Audit under Companies Act, 2013	FAQ – 1 19/03/2015
--	---	--

Section 148 also provides that qualifications, disqualifications, rights, duties and obligations applicable to auditors (financial) shall apply to a cost auditor appointed under this section. The eligibility, qualifications and disqualifications are provided in Section 141 of the Act and powers and duties are provided in Section 143. Section 143(14) specifically states that the provisions of Section 143 shall *mutatis mutandis* apply to a cost auditor appointed under Section 148. There are no other provisions governing the appointment of a cost auditor.

Section 139(3) of the Act, applicable to appointment of auditors (financial), and Rule 6 of Companies (Audit and Auditors) Rules, 2014 deals with the provision of rotation of auditors and these provisions are applicable only to appointment of auditors (financial). The Act does not provide for rotation in case of appointment of cost auditors and the same is not applicable to a cost auditor. It may, however, be noted that though there is no statutory provision for rotation of cost auditors, individual companies may do so as a part of their policy, as is the practice with Public Sector Undertakings.

1.31 What is the procedure to be followed for fixing the remuneration of a cost auditor?

Rule 14 of the Companies (Audit and Auditors) Rules, 2014 has laid down the procedure of appointment and fixing the remuneration of a cost auditor. It states as follows:

Remuneration of the Cost Auditor: For the purpose of sub-section (3) of section 148,—

(a) in the case of companies which are required to constitute an audit committee—

- (i) the Board shall appoint an individual, who is a cost accountant in practice, or a firm of cost accountants in practice, as cost auditor on the recommendations of the Audit committee, which shall also recommend remuneration for such cost auditor;*
- (ii) the remuneration recommended by the Audit Committee under (i) shall be considered and approved by the Board of Directors and ratified subsequently by the shareholders;*

(b) in the case of other companies which are not required to constitute an audit committee, the Board shall appoint an individual who is a cost accountant in practice or a firm of cost accountants in practice as cost auditor and the remuneration of such cost auditor shall be ratified by shareholders subsequently.

	Frequently Asked Questions on Maintenance of Cost Accounting Records and Cost Audit under Companies Act, 2013	FAQ – 1 19/03/2015
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1.32 What are the duties of the Companies in relation to provisions of Section 148 of the Companies Act, 2013 and the Rules framed thereunder?

Every company required to get cost audit conducted under Section 148(2) of the Companies Act, 2013 shall:-

- a) Appoint a cost auditor within one hundred and eighty days of the commencement of every financial year;
- b) Inform the cost auditor concerned of his or its appointment;
- c) File a notice of such appointment with the Central Government within a period of thirty days of the Board meeting in which such appointment is made or within a period of one hundred and eighty days of the commencement of the financial year, whichever is earlier, through electronic mode, in **form CRA-2**, along with the fee as specified in Companies (Registration Offices and Fees) Rules, 2014;
- d) Within a period of thirty days from the date of receipt of a copy of the cost audit report, furnish the Central Government with such report alongwith full information and explanation on every reservation or qualification contained therein, in **form CRA-4** along with fees specified in the Companies (Registration Offices and Fees) Rules, 2014.

1.33 Is a cost auditor required to audit and certify monthly, quarterly, half-yearly and yearly cost statements?

As per Rule 5, every company under these rules including all units and branches thereof are required, in respect of each of its financial year, to maintain cost records in form CRA-1. The cost records are required to be maintained on regular basis in such manner so as to facilitate calculation of 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 or quarterly or half-yearly or annual basis. The cost auditor is appointed to conduct audit of the cost records and make report thereon for the financial year for which he is appointed. It is not incumbent upon the cost auditor to certify monthly, quarterly, half-yearly cost statements.

1.34 CRA-3 requires Details of Material Consumed, Details of Utilities Consumed and Details of Industry Specific Operating Expenses respectively [Part B and Part C, Para 2(a), 2(b) and 2(c)]. In case of companies where number of materials or utilities or

	Frequently Asked Questions on Maintenance of Cost Accounting Records and Cost Audit under Companies Act, 2013	FAQ – 1 19/03/2015
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industry specific operating expenses is more than 10 each, which items should be disclosed in the respective paras?

It is to be noted that the cost audit report is required to be filed in XBRL mode and there is no provision for extending the number of items under any of the heads to accommodate more than 10 items. Hence, in cases where number of such items is more than 10 under any of the heads of material or utility or industry specific operating expenses, the 9 main items in terms of value should be provided separately and the balance items should be clubbed together under “Others” and shown as the tenth item.

1.35 Whether figures are to be provided for Rupees per Unit or Amount in Rupees in the Product and Service Profitability Statement [CRA-3, Part D, Para 1]?

Amount in Rupees are required to be provided under this Para. The number of products or services will be equal to the number of products and services covered under cost audit and for which Abridged Cost Statement has been provided.

1.36 Is there any obligation on the part of cost auditor to report offence of fraud being or has been committed in the Company by its officers or employees?

Sub-rule (7) of Rule 6 of the Companies (Cost Records and Audit) Rules 2014 states that *“the provisions of sub-section (12) of section 143 of the Act and the relevant rules made thereunder shall apply mutatis mutandis to a cost auditor during performance of his functions under section 148 of the Act and these rules”*.

As per sub-section (12) of section 143 of the Companies Act 2013, *extract of which is given above*, it is obligatory on the part of cost auditor to report offence of fraud which is being or has been committed in the company by its officers or employees, to the Central Government as per the prescribed procedure under the Rules.

As per the proviso to above sub-section, it has been stated that in case of a fraud involving lesser than the specified amount, the auditor shall report the matter to the audit committee constituted under section 177 or to the Board in other cases within such time and in such manner as may be prescribed.
