# Maintenance of Cost Accounting Records and Cost Audit under Companies Act, 2013

## APPLICABILITY

PRAKASH MISHRA & ASSOCIATES

COST ACCOUNTANTS

# COMPANIES (COST RECORDS AND AUDIT) RULES, 2014

*The Central Government issued Companies (Cost Records and Audit) Rules, 2014 on 30$^{th}$ June 30, 2014. Subsequently, there are various amendments to the rule as under :*

**Companies (cost records and audit) Rules, 2014** **30$^{th}$ June 2014**

| Amendments and Dates | Key Changes |
|---|---|
| Companies (Cost Records and Audit) Amendment Rules, 2014 -: Dated 31st Dec 2014 | i. Applicability Criteria changed by introducing Table A and Table B.<br>ii Definition of Central excise tariff heading introduced with Tables.<br>iii. Proviso to Rule 5(1) inserted.<br>iv. Rule 6(3A) inserted – to give the provision to fill the casual vacancy within 30 days.<br>v. Rule 7 (Rules not to apply in certain cases) omitted<br>vi. Form CRA-1 and CRA 3 substituted |
| Companies (cost records and audit) (Amendment) Rules, 2015 -:Dated 12th Jun 2015 | i. Amendment in CRA-2 & CRA-4 |
| Companies (cost records and audit) Amendment Rules, 2016 -: Dated 14th Jul 2016 | i. Cost audit Report redefined.<br>ii. Table A and Table B given under Rule 3 are substituted.<br>iii. Captive generation plant inserted in Rule 4(3)(iii).<br>iv. Consent in writing by Cost Auditor - Rule 6 (1)<br>v. Certificate from Cost Auditor - Rule 6(1A) reference to section 141<br>vi. Removal of Cost Auditor before term expiry inserted - Rule 6 (3)<br>vii. Approval of Board of Directors on Report inserted- Rule 6(3B)<br>viii. Rule 6(5) substituted for providing that cost audit report shall be submitted to board within 180 days from closure of FY.<br>ix. Rule 6(6) substituted to provide filing of cost audit report in form CRA-4-XBRL within 30 days of receipt |
| Companies (cost records and audit) Second Amendment Rules, 2017-: Dated 20th Dec 2017 | i. "Central Excise Tariff Act" substituted to "Customs Tariff Act Heading" -Rule 3 effective 1st July 2017 |

# Companies (Cost Records and Audit) Amendment Rules, 2014

- Rule-3: Application of Cost Records general threshold of turnover of INR 35 CR Micro enterprise or a small enterprise as per MSMED Act, 2006 exempted.

- Rule-4: Applicability for Cost Audit turnover based threshold of INR 50 CR for all product and services and INR 25 CR for individual product or services.
- For Non-regulated sector the threshold is INR 100 CR and INR 35 CR respectively.

The requirement for cost audit for a company covered in rule 3 will not apply for companies:
(i) whose revenue from exports in foreign exchange, exceeds 75% of its total revenue; or
(ii) which is operating from a special economic zone.

| Table | Particulars | Application of Cost | |
|---|---|---|---|
| | | Records | Audits |
| A | **Regulated Sector:**<br>1. Overall turnover of products and services OR<br>2. Individual Products/Services | INR 35 CR | INR 50 CR<br><br>INR 25 CR |
| B | **Non Regulated Sector:**<br>1. Overall turnover of products and services OR<br>2. Individual Products/Services | INR 35 CR | INR 100 CR<br><br>INR 35 CR |

- Micro or Small Enterprises including as per Turnover criteria under sub section (9) of section 7 of the Micro, Small and Medium Enterprises Development Act, 2006 both the above provisions for cost records and audit rules do not apply.

# Table – (A) Regulated Sectors

| SR. | Name of Industry / Sector/ Product / Services | 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 and regulated by the Telecom Regulatory Authority of India under the Telecom Regulatory Authority of India Act, 1997 (24 of 1997); including activities that requires authorisation or license issued by the Department of Telecommunications, Government of India under Indian Telegraph Act, 1885 (13 of 1885); | 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); | 2709 to 2715; Other Activity- Not Applicable |
| 3 | Petroleum products; including activities 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 | Fertilisers | 3102 to 3105. |
| 6 | Sugar and industrial alcohol | 1701; 1703; 2207 |

# Table – (B) Non-regulated Sectors………

| CETA Heading | Table- B (Reference) | Indicative Products | CETA Heading | Table- B (Reference) | Indicative Products |
|---|---|---|---|---|---|
| 0402 | 24 | Milk powder | 7301 to 7326 | 9 | Iron and Steel |
| 0901 to 0902 | 12 | Coffee and tea | 7401 to 7403 | 17 | Base metals |
| 1507 to 1518 | 20 | Edible Oil | 7405 to 7413 | 17 | Base metals |
| 2502 to 2522 | 15 | Ores and Mineral | 7419 | 17 | Base metals |
| 2523 | 14 | Cement | 7501 to 7508 | 17 | Base metals |
| 2524 to 2526 | 15 | Ores and Mineral | 7601 to 7614 | 17 | Base metals |
| 2528 | 15 | Ores and Mineral | 7801 to 7802 | 17 | Base metals |
| 2701 to 2708 | 16 | Mineral fuels | 7804 | 17 | Base metals |
| 2801 to 2853 | 18 | Chemicals | 7806 | 17 | Base metals |
| 2901 to 2942 | 18 | Chemicals | 7901 to 7905 | 17 | Base metals |
| 3402 to 3403 | 18 | Chemicals | 7907 | 17 | Base metals |
| 3601 to 3603 | 4 | Propellant powders | 8001 | 17 | Base metals |
| 3601 to 3603 | 3 | Arms and Explosives | 8003 | 17 | Base metals |
| 3801 to 3807 | 18 | Chemicals | 8007 | 17 | Base metals |
| 3808 | 25 | Insecticides | 8101 to 8113. | 17 | Base metals |
| 3809 to 3824 | 18 | Chemicals | 8401 | 1 | Machinery and Appliances |
| 3901 to 3914 | 26 | Plastics and polymers | 8402 to 8487 | 31 | Mechanical Appliances |
| 3916 to 3921 | 26 | Plastics and polymers | 8411 | 2 | Turbo Jets |
| 3925 | 26 | Plastics and polymers | 8501 to 8507 | 32 | Electricals or Electronic M/c |
| 4001 to 4017 | 11 | Rubber and allied products | 8511 to 8512 | 32 | Electricals or Electronic M/c |
| 4011 to 4013 | 27 | Tyres and tubes | 8514 to 8515 | 32 | Electricals or Electronic M/c |
| 4801 to 4802 | 28 | Paper | 8517 | 32 | Electricals or Electronic M/c |
| 5004 to 5007 | 29 | Textiles | 8525 to 8536 | 32 | Electricals or Electronic M/c |
| 5106 to 5113 | 29 | Textiles | 8526 | 5 . | Radar apparatus |
| 5205 | 29 | Textiles | 8538 to 8547 | 32 | Electricals or Electronic M/c |
| 5303; 5310 | 19 | Jute and Jute Products | 8601 to 8608. | 13 | Railway or tramway loco |
| 6811 to 6812 | 14 | Jute and Jute Products | 8710 | 6 | Tanks and others |
| 7003 to 7008 | 30 | Glass | 8801 to 8805 | 1 | Machinery and Appliances |
| 7011 | 30 | Glass | 8901 to 8908 | 1 | Machinery and Appliances |
| 7016 | 30 | Glass | 9018 to 9022 | 33 | Medical Devices |
| 7201 to 7229 | 9 | Iron and Steel | 9301 to 9306. | 3 | Arms, ammu. and Explosives |

# Table – (B) ……Non-regulated Sectors

| CETA Heading | Table- B (Reference) | Industry/ Sector/ Product/ Service |
|---|---|---|
| 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 Airport s Economic Regulatory Authority under the Airports Economic Regulatory Authority of India Act ,2008 (27 of 2008); |
| Not applicable. | 10 | Roads and other infrastructure projects corresponding to para No. (1) (a) as specified in Schedule VI of the Companies Act, 2013 (18 of 2013) i.e. 1) Roads, 2) National Highways, 3) State Highways,4) Major District Roads, 5) Other District Roads and Village Roads, 6) Toll Roads, 7) Bridges Highways, 8) Road Transport Providers and Other Road Related Services. |
| Not applicable. | 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; |
| Not applicable. | 22 | Health services, namely functioning as or running hospitals, diagnostic centers, clinical centers or test laboratories; |
| Not applicable. | 23 | 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. | 21 | Construction Industry as per para No. (5) (a) as specified in Schedule VI of the Companies Act, 2013 (18 of 2013) i.e. Real Estate Development Including 1) Industrial Park & 2) Special Economic Zone |

# Companies (Audit and Auditors) Rules, 2014

The provision of Companies (Audit and Auditors) Rules, 2014 shall also apply, mutatis mutandis (appropriate modifications), to a cost auditor during the performance of his duties under section 148 and section 204 respectively.

**(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.

*** "who is a cost accountant in practice", the words "who is a cost accountant" is substituted 7th May 18.**

Note: The principal rules were published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i) vide number G.S.R. 246(E), dated the 31st March, 2014 and subsequently amended as follows:-

1. G.S.R. 722 (El dated the 14th October,2014;
2. G.S.R. 972 (El dated the 14th December,2OLS1,
3. G.S.R. 3O7(E) dated the 30th March, 2017;
4. G.S.R. 621(E) dated the 22nd June 2017; and
5. G.S.R. 174(E) dated the 16th February, 2018.

# Companies (Cost Records and Audit) Rules, 2014 - TIMELINE

**Cost statements.-** Cost statements (monthly, quarterly and annually) to include details in respect of all major items of costs constituting cost of production of goods or services along with quantitative details as defined in rule 5.

1. **Appointment of Auditor :**
   - The company shall within **180 days** of the commencement of every financial year , appoint cost auditor.
   - The auditor shall be informed about his appointment and notice of his appointment shall be filed within **30 days of his appointment** in **Form CRA-2.**
2. **Tenure of cost auditor:** Every auditor shall continue his office till the expiry of **180 days from the closure of the financial year or** till he submits his cost audit report.
3. **Removal of Cost Auditor:** Cost Auditor may be removed before expiry of his term, through a board resolution after giving him reasonable opportunity of being heard.
4. **Casual Vacancy:** Any casual vacancy of cost auditor whether due to resignation, death or removal, shall be filled by board of directors within **30 days of such occurrence** and company shall inform CG in **E-Form CRA-2** within **30 days of appointment** of cost auditor.
5. **Signing of Cost Statements:** Cost Statements to be annexed to the cost audit report, shall be approved by the Board of directors before signing on behalf of the board by any director, for submission to the cost auditor to report thereon.
6. **Cost Audit Report:** Cost Audit Report shall be made in form CRA-3 and shall be forwarded to Board of Directors **within a period of 180 days** from the closure of the financial year.
7. **Filing with ROC:** Cost Audit Report shall be filed in XBRL format within **30 days** of receipt of report in **E-Form CRA-4.**
8. **Applicability of Sec.148(12):** The provisions regarding disclosure of fraud by auditor in its Audit report under Sec.148(12) shall be applicable to Cost Auditor.

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