

Companies (Cost Records and Audit) Rules, 2014 (as Amended)

2

This Module includes:

2.1 Companies (Cost Records and Audit) Rules, 2014 (as amended)

Companies (Cost Records and Audit) Rules, 2014 (as Amended)

SLOB Mapped against the Module

To gain in-depth knowledge about the statutory provisions of Companies (Cost Records and Audit) Rules to ensure adherence to the regulations in conducting cost audit. (CMLO 4a, b)

Module Learning Objectives:

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, where 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. After studying this module, the students will be able to –

- ▲ Learn about the Companies (Cost Records and Audit) Rules, 2014

Companies (Cost Records and Audit) Rules, 2014 (as Amended)

2.1

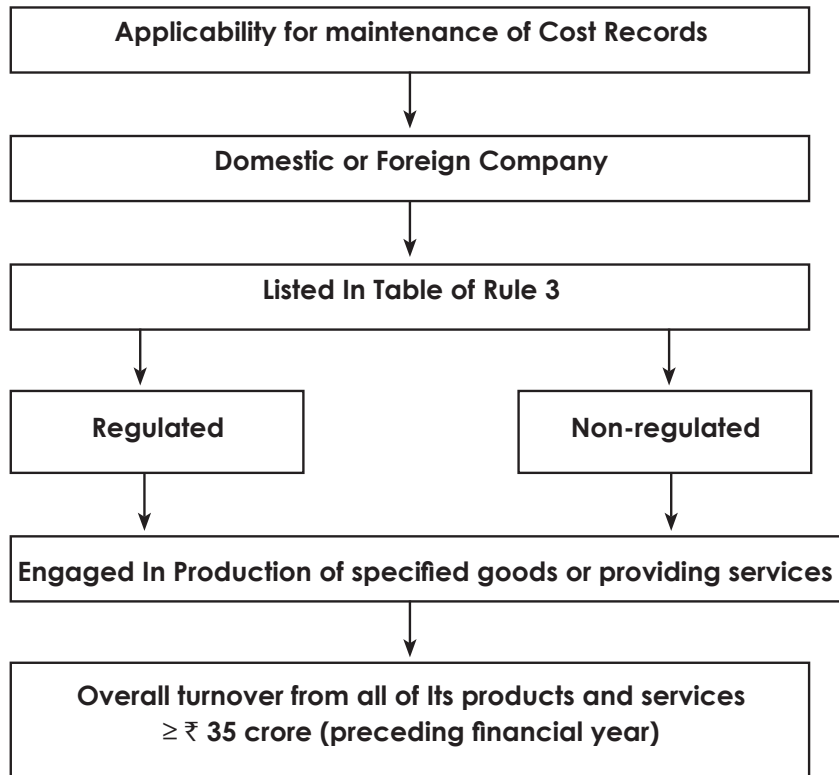
The Companies Act, 2013 empowers the Central Government to make the rules in the area of maintenance of cost records by the companies engaged in the specified industries, manufacturing / providing such goods / services; and for getting such cost records audited, vide Section 148.

Thus, it is the “subordinate legislative power” of the Central Government, to make rules for maintenance of cost records and audit thereof in respect of specific industries. Accordingly, the Central Government made, from time to time, several notifications / orders, ever since the provisions were made in the erstwhile Companies Act, 1956, as well as under the current Act of 2013. The original rules under Companies Act, 1956 were superseded and Companies (Cost Records & Audit) Rules 2014 issued. The current effective Rule is Companies (Cost Records & Audit) Amendment Rules, 2019 though Companies (Cost Records & Audit) Rules 2014 still remains the principal rules.

An Analysis through diagrammatic representation is given below:

Rules/Forms	Summary
Rule 1: Short title and commencement	(1) These rules may be called the Companies (Cost Records and Audit) Rules, 2014. (2) They shall come into force on the date of publication in the Official Gazette i.e. 30.06.2014.
Rule 2: Definitions	In these rules, defined various points - (a) Act; (aa) Customs Tariff Act Heading; (b) Cost Accountant in practice; (c) cost auditor (d) cost audit report; (e) cost records; (f) form; (fa) Indian Accounting Standards; (g) institute; (h) all other words and expressions used in these rules but not defined, and defined in the Act or in the Companies (Specification of Definition Details) Rules, 2014 shall have the same meanings as assigned to them in the Act or in the said rules.
Rule-3: Application of Cost Records	Two categories (regulated sectors and non-regulated sectors) have been retained and a general threshold of turnover of ₹35 crores or more has been prescribed for companies covered. Micro enterprise or a small enterprise as per MSMED Act, 2006 have been taken out of the purview.

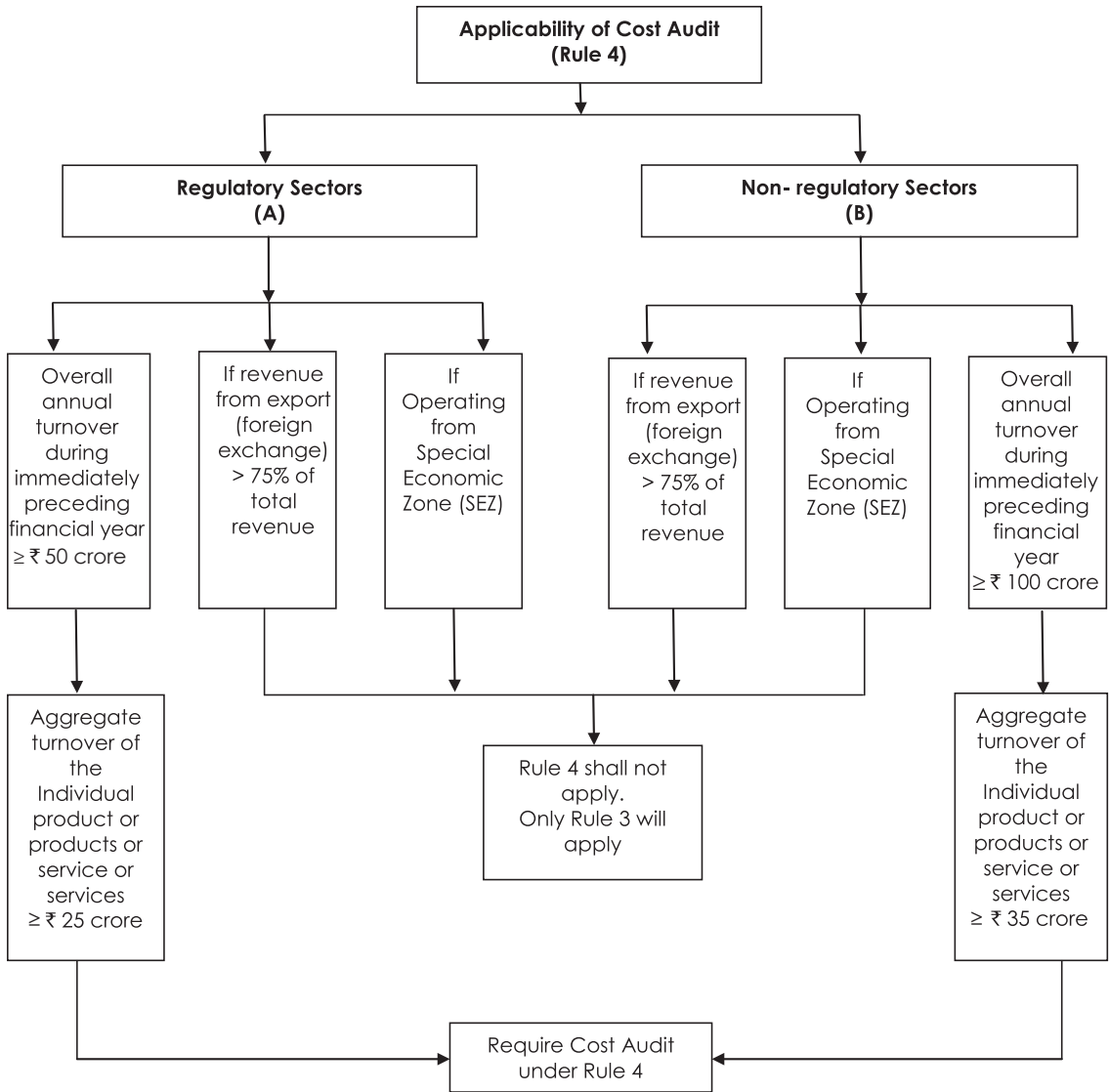
Rule 3: Diagrammatic Representation



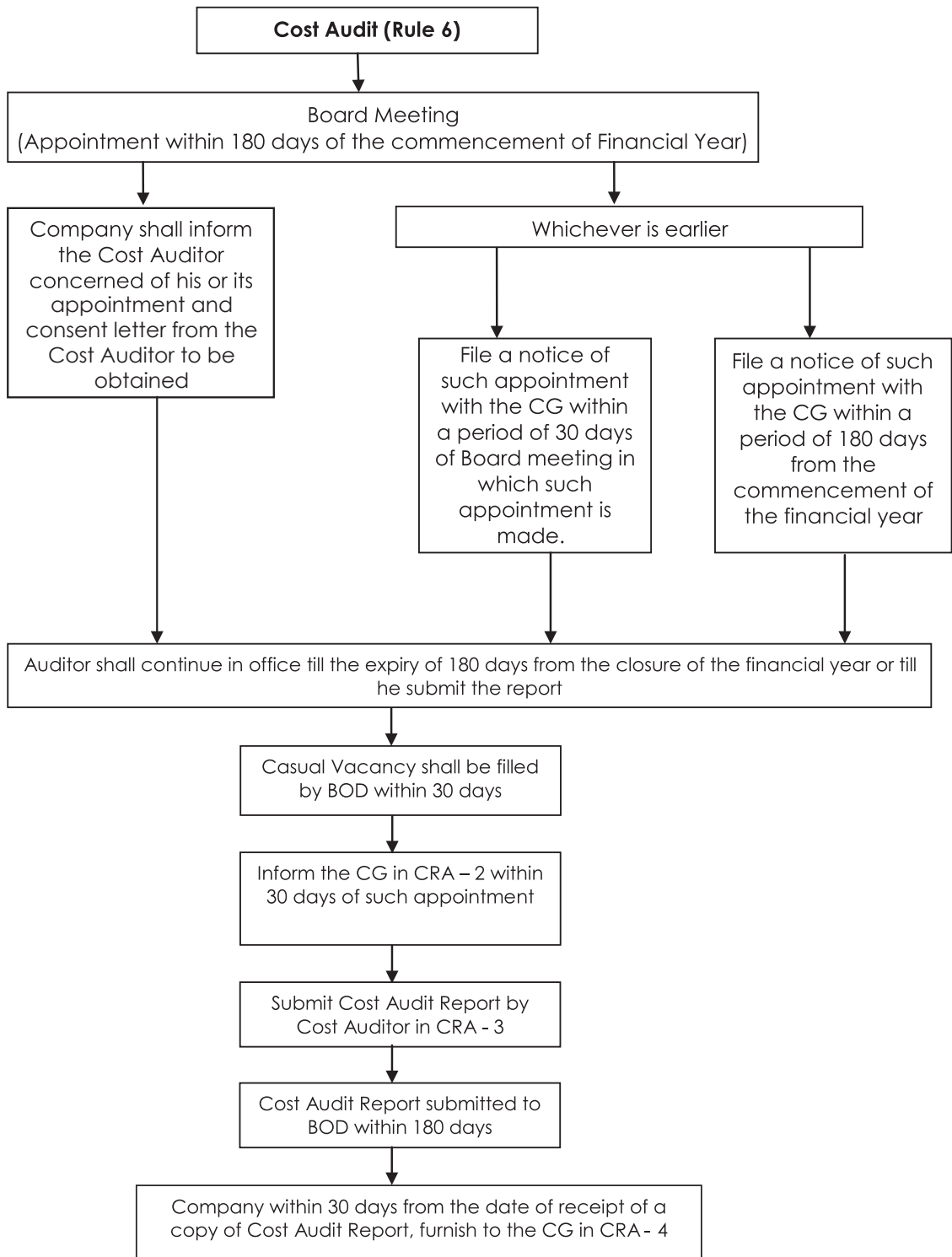
Rule-4: Applicability for Cost Audit

Even for regulated sectors like Telecommunication, Electricity, Petroleum and Gas, Drugs and Pharma, Fertilizers and Sugar, Cost audit requirement has been made subject to a turnover based threshold of ₹ 50 crores for all product and services and ₹ 25 crores for individual product or services. For Non-regulated sector the threshold is ₹ 100 crores and ₹ 35 crores respectively.

Rule 4: Diagrammatic Representation



Rule-5: Maintenance of Cost Records	The requirement to maintain cost records in Form CRA-1 were postponed to Financial Year 2015-16 for the following companies in some non-regulated sectors, namely; Coffee and Tea, Milk Powder and Electricals and electronic machinery.
Rule-6: Cost Audit	Any casual vacancy in the office of a cost auditor, whether due to resignation, death or removal to 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.



<p>CRA-1: Forms in which cost records shall be maintained</p> <p>[Pursuant to rule 5(1)]</p>	<p>The form CRA-1 prescribes the form in which cost records shall be maintained. The form categorises the requirement of maintaining proper details as per 30 headings. The headings are as follows: (1) Material Cost, (2) Employee Cost, (3) Utilities, (4) Direct Expenses, (5) Repair and Maintenance, (6) Fixed Assets and Depreciation, (7) Overheads, (8) Administrative Overheads, (9) Transportation Cost, (10) Royalty and Technical Know-how, (11) Research and Development expenses, (12) Quality Control Expenses, (13) Pollution Control Expenses, (14) Service Department Expenses, (15) Packing Expenses, (16) Finance Costs, (17) Any other item of Cost, (18) Capacity Determination, (19) Work-in-progress and finished stock, (20) Captive Consumption, (21) By-Products and Joint Products, (22) Adjustment of Cost Variances, (23) Reconciliation of Cost and Financial Accounts, (24) Related Party Transactions, (25) Expenses or Incentives on Exports, (26) Production records, (27) Sales records, (28) Cost Statements, (29) Statistical Records, (30) Records of Physical Verification, (31) Unit of Measurement (UoM).</p>
<p>CRA-2: Form of intimation of appointment of cost auditor by the company to Central Government</p> <p>[Pursuant to rule 6(2) & (3A)]</p>	<ol style="list-style-type: none"> (1) Corporate Identity Number (CIN) or Foreign Company Registration Number (FCRN) of the company (2) General Information (3) Product(s)/Service(s) to which Cost Audit relates (4) Details of all the Cost Auditor(s) appointed (5) Financial year to be covered under the Cost Audit (6) Details of previous Cost Auditor which has not been reappointed (7) Attachments <ul style="list-style-type: none"> - Copy of the Board resolution of the company - Optional attachment - if any
<p>CRA-3: Form of Cost Audit Report</p> <p>[Pursuant to rule 6(4)]</p>	<p>Clause (vii) have been added to auditor's report as under:</p> <p>Detailed unit-wise and product/service-wise cost statements and schedules thereto In respect of the product/services under reference of the company duly audited and certified by me/us are/are not kept in the company.</p>

Annexure to Cost Audit Report	Annexure has been reclassified into four parts as under:
	<p>Part-A General Information, General Details of Cost Auditors, Cost Accounting Policy, Product/Service Details –for the company as a whole.</p> <p>Part-B For Manufacturing Sector Quantitative Information, Abridged Cost Statement, Details of Materials Consumed, Details of Utilities Consumed, Details of Industry Specific Operating Expenses.</p> <p>Part-C For Service Sector Quantitative Information, Abridged Cost Statement, Details of Materials Consumed, Details of Utilities Consumed, Details of Industry Specific Operating Expenses.</p> <p>Part-D Product and Service Profitability Statement, Profit Reconciliation, Value Addition and Distribution of Earnings, Financial Position and Ratio Analysis, Related Party Transactions, Reconciliation of Indirect taxes.</p>
<p>CRA – 4: Form for filing Cost Audit Report with the Central Government [Pursuant to rule 6(6)]</p>	<ol style="list-style-type: none"> (1) Corporate Identity Number (CIN) or Foreign Company Registration Number (FCRN) of the company (2) General Information (3) Details of Industries/Sectors/Product(s)/Service(s) (CTA heading level, wherever applicable as per Rules for Regulated and Non-regulated sector) for which the Cost Audit Report is being submitted (4) Details of Industries/Sectors/Product(s)/Service(s) (CTA heading level, wherever applicable as per Rules for Regulated and Non-regulated sector) not covered in the Cost Audit Report (5) Details of the cost auditor(s) appointed (6) Details of observation of the Cost Audit report (7) Attachment <ul style="list-style-type: none"> - XBRL document in respect of the cost audit report and Company’s information and explanation on every Qualification and reservation contained therein - Optional attachment, if any.

Detailed Rule as per pronouncement by the MCA, GOI is reproduced for reference:-

The Companies (Cost Records and Audit) Rules, 2014 came into force on 30th June, 2014. These rules were amended on 31st December, 2014 giving effect to Rule 2, 3, 4, 5, 6, 7 and Form CRA 1 & CRA 3. It was further amended on 12th June'2015 to giving effect on Form CRA 2 & CRA 4. Further amendment was made on 14th July, 2016. Latest amendment has been made on 15th October, 2019.

Represented here under the existing provisions as applicable, after considering amendments till date, as mentioned above:

1. Short title and commencement

- (1) These rules may be called the Companies (cost records and audit) Rules, 2014.
- (2) They shall come into force from the date of their publication in the Official Gazette.
- (3) The companies who have already filed their Cost Audit Report in form CRA-4 for the financial year 2018-19 with the Central Government before the publication of this notification are not required to file their Cost Audit Report for the said financial year.

2. Definitions: In these rules, unless the context otherwise requires -

- (a) "Act" means the Companies Act, 2013 (18 of 2013);
- (aa) "Customs Tariff Act Heading" means the heading as referred to in the Additional Notes in the First Schedule to the Customs Tariff Act, 1975 (51 of 1975).
- (b) "Cost Accountant in practice" means a cost accountant as defined in clause (b) of sub-section (1) of section 2 of the Cost and Works Accountants Act, 1959 (23 of 1959), who holds a valid certificate of practice under sub-section (1) of section 6 of that Act and who is deemed to be in practice under sub-section (2) of section 2 thereof, and includes a firm or limited liability partnership of cost accountants;
- (c) "cost auditor" means a Cost Accountant in practice, as defined in clause (b), who is appointed by the Board;
- (d) "cost audit report" means the duly signed cost auditor's report on the cost records examined and cost statements which are prepared as per these rules, including attachment, annexure, qualifications or observations attached with or included in such report
- (e) "cost records" means books of account relating to utilisation 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;
- (f) "form" means a form annexed to these rules;
- (fa) "Indian Accounting Standards" means Indian Accounting Standards as referred to in Companies (Indian Accounting Standards) Rules, 2015.
- (g) "institute" means the Institute of Cost Accountants of India constituted under the Cost and Works Accountants Act, 1959 (23 of 1959);
- (h) all other words and expressions used in these rules but not defined, and defined in the Act or in the Companies (Specification of Definition Details) Rules, 2014 shall have the same meanings as assigned to them in the Act or in the said rules.

3. Application of Cost Records

For the purposes of sub-section (1) of Section 148 of the Act, the class of companies, 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 the Table below, 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 such products or services in their books of account, namely:-

TABLE

(A) Regulated Sectors

Sl. No	Industry/ Sector/ Product/ Service	Customs Tariff Act Heading (wherever applicable)
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 authorization 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);	Generation- 2016; 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; Other Activity- Not Applicable
4	Drugs and pharmaceuticals;	2901 to 2942; 3001 to 3006.
5	Fertilisers;	3102 to 3105
6	Sugar and industrial alcohol	1701; 1703; 2207.

(B) Non-regulated Sectors

Sl No	Industry/ Sector/ Product/ Service	Customs Tariff Act Heading (wherever applicable)
1	Machinery and mechanical appliances used in defence, space and atomic energy sectors excluding any ancillary item or items; Explanation. - For the purposes of this sub-clause, any company which is engaged in any item or items supplied exclusively for use under this clause shall be deemed to be covered under these rules.	8401; 8801 to 8805; 8901 to 8908.
2	Turbo jets and turbo propellers;	8411
3	Arms and ammunitions and Explosives	3601 to 3603; 9301 to 9306
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, motorised, whether or not fitted with weapons and parts of such vehicles, that are funded (investment made in the company) to the extent of ninety per cent 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 for a port in relation to a vessel or goods regulated by the Tariff Authority for Major Ports under 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 at the 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	Iron and 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 constituted under the Rubber Act, 1947 (XXIV of 1947).	4001 to 4017
12	Coffee and tea;	0901 to 0902
13	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, 8609
14	Cement;	2523; 6811 to 6812
15	Ores and Mineral products;	2502 to 2522; 2524 to 2526; 2528 to 2530; 2601 to 2617
16	Mineral fuels (other than Petroleum), mineral oils etc.;	2701 to 2708
17	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
18	Inorganic chemicals, organic or inorganic compounds of precious metals, rare-earth metals of radioactive elements or isotopes, and Organic Chemicals;	2801 to 2853; 2901 to 2942; 3801 to 3807; 3402 to 3403; 3809 to 3824.
19	Jute and Jute Products	5303, 5307, 5310
20	Edible Oil;	1507 to 1518
21	Construction Industry as per para No. (5) (a) as specified in Schedule VI of the Companies Act, 2013 (18 of 2013)	Not applicable.
22	Health services, namely functioning as or running hospitals, diagnostic centres, clinical centres 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
24	Milk powder;	0402
25	Insecticides;	3808
26	Plastics and polymers;	3901 to 3914; 3916 to 3921; 3925
27	Tyres and tubes;	4011 to 4013
28	Pulp and Paper;	4701 to 4704; 4801 to 4802
29	Textiles;	5004 to 5007; 5106 to 5113; 5205 to 5212; 5303; 5307; 5310; 5401 to 5408; 5501 to 5516
30	Glass;	7003 to 7008; 7011; 7016
31	Other machinery and Mechanical Appliances;	8402 to 8487
32	Electricals or electronic machinery;	8501 to 8507; 8511 to 8512; 8514 to 8515; 8517; 8525 to 8536; 8538 to 8547.
33	Production, import and supply or trading of following medical devices, namely:- (i) Cardiac stents; (ii) Drug eluting stents; (iii) Catheters; (iv) Intra ocular lenses; (v) Bone cements; (vi) Heart valves; (vii) Orthopaedic implants; (viii) Internal prosthetic replacements; (ix) Scalp vein set; (x) Deep brain stimulator; (xi) Ventricular peripheral shud; (xii) Spinal implants; (xiii) Automatic impalpable cardiac defibrillators; (xiv) Pacemaker (temporary and permanent); (xv) Patent-ductus arteriosus, atrial septal defect and ventricular septal defect closure device; (xvi) Cardiac re-synchronize therapy ; (xvii) Urethra spincture devices; (xviii) Sling male or female; (xix) Prostate occlusion device; and (xx) Urethral stents:	9018 to 9022

Provided that nothing contained in serial number 33 shall apply to foreign companies having only liaison offices.

Provided further that nothing contained in this rule shall apply to a company which is 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).

4. Applicability for Cost Audit

- (1) Every company specified in item (A) of rule 3 shall get its cost records audited in accordance with these rules if the overall annual turnover of the company from all its products and services during the immediately preceding financial year is rupees fifty crore or more and the aggregate turnover of the individual product or products or service or services for which cost records are required to be maintained under rule 3 is rupees twenty five crore or more.
- (2) Every company specified in item (B) of rule 3 shall get its cost records audited in accordance with these rules if the overall annual turnover of the company from all its products and services during the immediately preceding financial year is rupees one hundred crore or more and the aggregate turnover of the individual product or products or service or services for which cost records are required to be maintained under rule 3 is rupees thirty five crore or more.
- (3) The requirement for cost audit under these rules shall not apply to a company which is covered in rule 3; and
 - (i) whose revenue from exports, in foreign exchange, exceeds seventy five per cent of its total revenue; or
 - (ii) which is operating from a special economic zone;
 - (iii) which is engaged in generation of electricity for captive consumption through Captive Generating Plant. For this purpose, the term "Captive Generating Plant" shall have the same meaning as assigned in rule 3 of the Electricity Rules, 2005.

5. Maintenance of records

- (1) Every company under these rules including all units and branches thereof, shall, in respect of each of its financial year commencing on or after the 1st day of April, 2014, maintain cost records in **form CRA-1**.

Provided that in case of company covered in serial number 12 and serial numbers 24 to 32 of item (B) of rule 3, the requirement under this rule shall apply in respect of each of its financial year commencing on or after 1st day of April, 2015.

- (2) The cost records referred to in sub-rule (1) shall 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 for every financial year on monthly or quarterly or half-yearly or annual basis.
- (3) 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 to achieve optimum economies in utilisation of resources and these records shall also provide necessary data which is required to be furnished under these rules.

The following records (not exhaustive) would form part of Cost Accounting Records.

(i) Production

- Raw Material Consumption Record – material-wise and product-wise
- Production Report
- Rejection/Wastage/Scrap Report

- Machine Utilization Report/Machine Running Hours
- Idle/Stoppage Time Report of Machines with reasons
- Idle time of labour report with reasons
- Details such as production hours, labour hours and machine hours

(ii) Work-in-Progress and Finished Goods

- Record of Work-in-Progress Stocks, cost centre-wise and product-wise
- Record of Finished Goods Stock, Product-wise, pack-wise, type-wise etc.

(iii) Repairs & Maintenance

- Job order record/card showing material and spares consumed and labour utilized for repair jobs
- In case of workshop, additional records as described under (i) above

(iv) Utilities (Steam, Power, Water, Air Conditioning, Humidification, Effluent Treatment etc)

- Quantitative Records of Inputs and Outputs
- Records of cost centre-wise consumption of respective utilities
- Separate records showing source-wise, cost of own generation of power and purchased power

(v) Other Service Cost Centres – Quality Control, Research & Development, Pollution Control etc.

- Function of each of the Departments and how it keeps track of its time and resource deployment to the products concerned
- Basis of cost apportionment and justification for the same

(vi) Raw Materials, Process Materials, Colour and Chemicals, Consumable Stores and Spare Parts

- Goods received Record
- Bin cards
- Materials/Stores Ledgers in quantity and value
- Product wise material consumption reports in quantity and value
- Physical stock verification and shortage/excess statement, reasons for differences and its treatment in accounts

(vii) Wages & Salaries

- Attendance record and leave records
- Wages/salary Records – cost centre-wise
- Leave Wages, Bonus, Gratuity payments and other fringe benefits
- Overtime, Idle Time etc. records
- Details of VRS, Retrenchment compensation, Lay-off payment

(viii) Overheads

- Expenses analysis, cost centre-wise

(ix) Sales

- Sales analysis by products (Quality, size, variety-wise) in terms of quantity and value
- Export Sales, product –wise, country wise
- Product-wise analysis of export incentives and benefits
- Analysis of sales to related parties

(x) Records of inter-company and related party transactions, information about normal price**(xi) Cost Accounts/Records/Statements**

- Cost centre-wise assets record
- Finished product-wise movement record (Quantity reconciliation)
- Factory-wise, Product-wise, Pack-wise, Size-wise etc. Cost Statements

(xii) Reconciliation of profit/ (loss) as per cost records and financial accounts

The cost records shall be maintained on the 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 for every financial year on monthly or quarterly or half yearly or annual basis.

6. Cost Audit

- (1)** The category of companies specified in rule 3 and the thresholds limits laid down in rule 4, shall within one hundred and eighty days of the commencement of every financial year, appoint a cost auditor.

Provided that before such appointment is made, the written consent of the cost auditor to such appointment, and a certificate from him or it, as provided in sub-rule (1A), shall be obtained

- (1A)** The cost auditor appointed under sub-rule (1) shall submit a certificate that—

- the individual or the firm, as the case may be, is eligible for appointment and is not disqualified for appointment under the Act, the Cost and Works Accountants Act, 1959(23 of 1959) and the rules or regulations made thereunder;
- the individual or the firm, as the case may be, satisfies the criteria provided in section 141 of the Act, so far as may be applicable;
- the proposed appointment is within the limits laid down by or under the authority of the Act; and
- the list of proceedings against the cost auditor or audit firm or any partner of the audit firm pending with respect to professional matters of conduct, as disclosed in the certificate, is true and correct.”

- (2)** Every company referred to in sub-rule (1) 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.

- (3) Every cost auditor appointed as such shall continue in such capacity till the expiry of one hundred and eighty days from the closure of the financial year or till he submits the cost audit report, for the financial year for which he has been appointed.

Provided that the cost auditor appointed under these rules may be removed from his office before the expiry of his term, through a board resolution after giving a reasonable opportunity of being heard to the Cost Auditor and recording the reasons for such removal in writing;

Provided further that the Form CRA-2 to be filed with the Central Government for intimating appointment of another cost auditor shall enclose the relevant Board Resolution to the effect;

Provided also that nothing contained in this sub-rule shall prejudice the right of the cost auditor to resign from such office of the company;

- (3A) 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.
- (3B) The cost statements, including other statements to be annexed to the cost audit report, shall be approved by the Board of Directors before they are signed on behalf of the Board by any of the director authorised by the Board, for submission to the cost auditor to report thereon
- (4) Every cost auditor, who conducts an audit of the cost records of a company, shall submit the cost audit report along with his or its reservations or qualifications or observations or suggestions, if any, in form **CRA-3**.
- (5) Every cost auditor shall forward his duly signed report to the Board of Directors of the company within a period of one hundred and eighty days from the closure of the financial year to which the report relates and the Board of Directors shall consider and examine such report, particularly any reservation or qualification contained therein.
- (6) Every company covered under these rules shall, 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 in Extensible Business Reporting Language format in the manner as specified in the Companies (Filing of Documents and Forms in Extensible Business Reporting language) Rules, 2015 alongwith fees specified in the Companies (Registration Offices and Fees) Rules, 2014.”.

“Provided that the Companies which have got extension of time of holding Annual General Meeting under section 96(1) of the Companies Act, 2013, may file form CRA-4 within resultant extended period of filing financial statements under section 137 of the Companies Act, 2013”.

- (7) 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.

Companies (Cost Records and Audit) Rules, 2014**[as amended]****FORM CRA-1****[Pursuant to rule 5(1) of the Companies (Cost Records and Audit) Rules, 2014]****Particulars relating to the Items of Costs to be included in the Books of Accounts****1. Material Costs**

- (a) Proper records shall be maintained showing separately all receipts, issues and balances both in quantities and cost of each item of raw material required for the production of goods or rendering of services under reference.
- (b) The material receipt shall be valued at purchase price including duties and taxes, freight inwards, insurance, and other expenditure directly attributable to procurement (net of trade discounts, rebates, taxes and duties refundable or to be credited by the taxing authorities) that can be quantified with reasonable accuracy at the time of acquisition.
- (c) Finance costs incurred in connection with the acquisition of materials shall not form part of material cost.
- (d) Self-manufactured materials or captive consumption shall be valued including direct material cost, direct employee cost, direct expenses, factory overheads, share of administrative overheads relating to production but excluding share of other administrative overheads, finance cost and marketing overheads.
- (e) Spare parts shall be recognised as property, plant and equipment when they meet the definition of property, plant and equipment and depreciated accordingly. Otherwise, such items shall be classified as inventory.
- (f) Normal loss or spoilage of material prior to reaching the factory or at places where the services are provided shall be absorbed in the cost of balance materials net of amounts recoverable from suppliers, insurers, carriers or recoveries from disposal.
- (g) Losses due to shrinkage or evaporation and gain due to elongation or absorption of moisture etc., before the material is received shall be absorbed in material cost to the extent they are normal, with corresponding adjustment in the quantity.
- (h) The forex component of imported material cost shall be converted at the rate on the date of the transaction. Any subsequent change in the exchange rate till payment or otherwise shall not form part of the material cost.
- (i) Any demurrage or detention charges, or penalty levied by transport or other authorities shall not form part of the cost of materials.
- (j) Subsidy or grant or incentive and any such payment received or receivable with respect to any material cost shall be reduced from cost of the cost object in the financial year when such subsidy or grant or incentive and any such payment is recognised as income.
- (k) Issues shall be valued using appropriate method as per the provisions contained in the accounting standard applicable for the time being in force.
- (l) Where materials are accounted at standard cost, the price variances related to materials shall be treated as part of material cost.
- (m) Any abnormal cost shall be excluded from the material cost.

- (n) Wherever, material costs include transportation costs, determination of costs of transportation shall be governed by Para No. 9 on Determination of Cost of Transportation.
- (o) Self-manufactured components and sub-assemblies or captive consumption shall be valued including direct material cost, direct employee cost, direct expenses, factory overheads, share of administrative overheads relating to production but excluding share of other administrative overheads, finance cost and marketing overheads.
- (p) The material cost of normal scrap or defectives which are rejects shall be included in the material cost of goods manufactured. The material cost of actual scrap or defectives, not exceeding the normal shall be adjusted in the material cost of good production. Material Cost of abnormal scrap or defectives should not be included in material cost but treated as loss after giving credit to the realisable value of such scrap or defectives.
- (q) Material costs shall be directly traced to a Cost object to the extent it is economically feasible or shall be assigned to the cost object on the basis of material quantity consumed or similar identifiable measure and valued as per above principles.
- (r) Where the material costs are not directly traceable to the cost object, the same shall be assigned on a suitable basis like technical estimates.
- (s) Where a material is processed or part manufactured by a third party according to specifications provided by the buyer, the processing or manufacturing charges payable to the third party shall be treated as part of the material cost.
- (t) Wherever part of the manufacturing operations or activity is subcontracted, the subcontract charges related to materials shall be treated as direct expenses and assigned directly to the cost object.
- (u) The cost of indirect materials shall be assigned to the various Cost objects based on a suitable basis such as actual usage or technical norms or a similar identifiable measure.
- (v) The cost of materials like catalysts, dies, tools, moulds, patterns etc., which are relatable to production over a period of time shall be amortized over the production units benefited by such cost.
- (w) The cost of indirect material with life exceeding one year shall be included in cost over the useful life of the material.

2. Employee Cost

- (a) Proper records shall be maintained in respect of employee costs in such a manner as to enable the company to book these expenses cost centre wise or department wise with reference to goods or services under reference and to furnish necessary particulars. Where the employees work in such a manner that it is not possible to identify them with any specific cost centre or service centre or department, the employees cost shall be apportioned to the cost centre or service centres or departments on equitable and reasonable basis and applied consistently.
- (b) Employee cost shall be ascertained taking into account the gross pay including all allowances payable along with the cost to the employer of all the benefits, including the cost of retirement benefits charged in the financial statements in an accounting period. In case of companies to which Indian Accounting Standards apply, any re-measurement of such costs recognised in other comprehensive income shall not form part of the employee cost.
- (c) Bonus whether payable as a statutory minimum or on a sharing of surplus shall be treated as part of employee cost. Exgratia payable in lieu of or in addition to bonus shall also be treated as part of the employee cost.

- (d) Remuneration payable to Managerial Personnel including Executive Directors on the Board and other officers of a corporate body under a statute shall be considered as part of the employee cost of the year under reference whether the whole or part of the remuneration is computed as a percentage of profits. Remuneration paid to non-executive directors shall not form part of employee cost but shall form part of administrative overheads.
- (e) Separation costs related to voluntary retirement, retrenchment, termination etc. shall be amortised over the period benefitting from such costs.
- (f) Employee cost shall not include imputed costs.
- (g) Cost of Idle time is ascertained by the idle hours multiplied by the hourly rate applicable to the idle employee or a group of employees.
- (h) Where employee cost is accounted at standard cost, variances due to normal reasons related to employee cost shall be treated as part of employee cost. Variances due to abnormal reasons shall be treated as part of abnormal cost.
- (i) Subsidy or grant or incentive and any such payment received or receivable with respect to any employee cost shall be reduced from cost of the cost object in the financial year when such subsidy or grant or incentive and any such payment is recognised as income.
- (j) Any abnormal cost where it is material and quantifiable shall not form part of the employee cost.
- (k) Penalties, damages paid to statutory authorities or other third parties shall not form part of the employee cost.
- (l) The cost of free housing, free conveyance and any other similar benefits provided to an employee shall be determined at the total cost of all resources consumed in providing such benefits.
- (m) Any recovery from the employee towards any benefit provided, namely, housing shall be reduced from the employee cost.
- (n) Any change in the cost accounting principles applied for the determination of the employee cost shall be made only if it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an enterprise.
- (o) Where the employee services are traceable to a cost object, such employees' cost shall be assigned to the cost object on the basis such as time consumed or number of employees engaged etc. or similar identifiable measure.
- (p) While determining whether a particular employee cost is chargeable to a separate cost object, the principle of materiality shall be adhered to.
- (q) Where the employee costs are not directly traceable to the cost object, these may be assigned on suitable basis like estimates of time based on time study.
- (r) The amortised separation costs related to voluntary retirement, retrenchment, and termination etc. for the period shall be treated as indirect cost and assigned to the cost objects in an appropriate manner. However unamortised amount related to discontinued operations, shall not be treated as employee cost.
- (s) Recruitment costs, training cost and other such costs shall be treated as overheads and dealt with accordingly.
- (t) Overtime premium shall be assigned directly to the cost object or treated as overheads depending on the economic feasibility and the specific circumstance requiring such overtime.
- (u) Idle time cost shall be assigned direct to the cost object or treated as overheads depending on the economic feasibility and the specific circumstances causing such idle time.

3. Utilities

- (a) Proper records shall be maintained showing the quantity and cost of each major utility such as power, water, steam, effluent treatment and other related utilities produced and consumed by the different cost centres in such detail as to have particulars for each utility separately.
- (b) Each type of utility shall be treated as a distinct cost object.
- (c) Cost of utilities purchased shall be measured at cost of purchase including duties and taxes, transportation cost, insurance and other expenditure directly attributable to procurement (net of trade discounts, rebates, taxes and duties refundable or to be credited) that can be quantified with reasonable accuracy at the time of acquisition.
- (d) Cost of self-generated utilities for own consumption shall comprise direct material cost, direct employee cost, direct expenses and factory overheads.
- (e) In case of utilities generated for the purpose of inter unit transfers, the distribution cost incurred for such transfers shall be added to the cost of utilities determined as above.
- (f) Cost of utilities generated for the intercompany transfers shall comprise direct material cost, direct employee cost, direct expenses, factory overheads, distribution cost and share of administrative overheads.
- (g) Cost of utilities generated for the sale to outside parties shall comprise direct material cost, direct employee cost, direct expenses, factory overheads, distribution cost, share of administrative overheads and marketing overheads. The sale value of such utilities shall also include the margin.
- (h) Finance costs incurred in connection with the utilities shall not form part of cost of utilities.
- (i) The cost of utilities shall include the cost of distribution of such utilities. The cost of distribution will consist of the cost of delivery of utilities up to the point of consumption.
- (j) Cost of utilities shall not include imputed costs.
- (k) Where cost of utilities is accounted at standard cost, the price variances related to utilities shall be treated as part of cost of utilities and the portion of usage variances due to normal reasons shall be treated as part of cost of utilities. Usage variances due to abnormal reasons shall be treated as part of abnormal cost.
- (l) Subsidy or grant or incentive and any such payment received or receivable with respect to any cost of utilities shall be reduced from cost of the cost object in the financial year when such subsidy or grant or incentive and any such payment is recognised as income.
- (m) The cost of production and distribution of utilities shall be determined based on the normal capacity or actual capacity utilization whichever is higher and unabsorbed cost, if any, shall be treated as abnormal cost. Cost of a Stand-by Utility shall include the committed costs of maintaining such a utility.
- (n) Any abnormal cost where it is material and quantifiable shall not form part of the cost of utilities.
- (o) Penalties, damages paid to statutory authorities or other third parties shall not form part of the cost of utilities.
- (p) Credits or recoveries relating to the utilities including cost of utilities provided to outside parties, material and quantifiable, shall be deducted from the total cost of utility to arrive at the net cost of utility.
- (q) Any change in the cost accounting principles applied for the measurement of the cost of utilities shall be made only if, it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an organisation.
- (r) While assigning cost of utilities, traceability to a cost object in an economically feasible manner shall be the guiding principle.

- (s) Where the cost of utilities is not directly traceable to cost object, it shall be assigned on the most appropriate basis.
- (t) The most appropriate basis of distribution of cost of a utility to the departments consuming services is to be derived from usage parameters.

4. Direct Expenses

- (a) Proper records shall be maintained in respect of direct expenses in such a manner as to enable the company to book these expenses cost centre wise or cost object or department wise with reference to goods or services under reference and to furnish necessary particulars.
- (b) Direct expenses incurred for the use of bought out resources shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of trade discounts, rebates, taxes and duties refundable or to be credited.
- (c) Other direct expenses shall be determined on the basis of amount incurred in connection therewith.
- (d) Direct expenses paid or incurred in lump-sum or which are in the nature of 'one-time' payment, shall be amortised on the basis of the estimated output or benefit to be derived from such direct expenses.
- (e) If an item of direct expenses does not meet the test of materiality, it can be treated as part of overheads.
- (f) Finance costs incurred in connection with the self-generated or procured resources shall not form part of direct expenses. Direct expenses shall not include imputed costs.
- (g) Where direct expenses are accounted at standard cost, variances due to normal reasons shall be treated as part of the direct expenses. Variances due to abnormal reasons shall not form part of the direct expenses.
- (h) Subsidy or grant or incentive and any such payment received or receivable with respect to any direct expenses shall be reduced from cost of the cost object in the financial year when such subsidy or grant or incentive and any such payment is recognised as income.
- (i) Any abnormal portion of the direct expenses where it is material and quantifiable shall not form part of the direct expenses.
- (j) Penalties, damages paid to statutory authorities or other third parties shall not form part of the direct expenses.
- (k) Credits or recoveries relating to the direct expenses, material and quantifiable, shall be deducted to arrive at the net direct expenses.
- (l) Any change in the cost accounting principles applied for the measurement of the direct expenses should be made only if, it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an organisation.
- (m) Direct expenses that are directly traceable to the cost object shall be assigned to that cost object.

5. Repairs and Maintenance

- (a) Proper records showing the expenditure incurred by the workshop, tool room and on repairs and maintenance in the various cost centres or departments shall be maintained under different heads.
- (b) Repairs and maintenance cost shall be the aggregate of direct and indirect cost relating to repairs and maintenance activity. Direct cost shall include the cost of materials, consumable stores, spares, manpower, equipment usage, utilities and other identifiable resources consumed in such activity. Indirect cost shall include the cost of resources common to various repairs and maintenance activities such as manpower, equipment usage and other costs allocable to such activities.

- (c) Cost of in-house repairs and maintenance activity shall include cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources used in such activity.
- (d) Cost of repairs and maintenance activity carried out by outside contractors inside the entity shall include charges payable to the contractor and cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other costs incurred by the entity for such jobs.
- (e) Cost of repairs and maintenance jobs carried out by contractor at its premises shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discount), taxes and duties refundable or to be credited. This cost shall also include the cost of other resources provided to the contractors.
- (f) Cost of repairs and maintenance jobs carried out by outside contractors shall include charges made by the contractor and cost of own materials, consumable stores, spares, manpower, equipment usage, utilities and other costs used in such jobs.
- (g) Each type of repairs and maintenance shall be treated as a distinct activity, if material and identifiable.
- (h) Cost of repairs and maintenance activity shall be measured for each major asset category separately.
- (i) Cost of spares replaced which do not enhance the future economic benefits from the existing asset beyond its previously assessed standard of performance shall be included under repairs and maintenance cost.
- (j) The cost of major overhaul shall be amortised on a rational basis.
- (k) Finance costs incurred in connection with the repairs and maintenance activities shall not form part of Repairs and maintenance costs.
- (l) Repairs and maintenance costs shall not include imputed costs.
- (m) Price variances related to repairs and maintenance, where standard costs are in use, shall be treated as part of repairs and maintenance cost. The portion of usage variances attributable to normal reasons shall be treated as part of repairs and maintenance cost. Usage variances attributable to abnormal reasons shall be excluded from repairs and maintenance cost.
- (n) Subsidy or grant or incentive and any such payment received or receivable with respect to repairs and maintenance activity shall be reduced from cost of the cost object in the financial year when such subsidy or grant or incentive and any such payment is recognised as income.
- (o) Any repairs and maintenance cost resulting from some abnormal circumstances, e.g., major fire, explosions, flood and similar events, if material and quantifiable, shall not form part of the repairs and maintenance cost.
- (p) Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the repairs and maintenance cost.
- (q) Credits or recoveries relating to the repairs and maintenance activity, material and quantifiable, shall be deducted to arrive at the net repairs and maintenance cost.
- (r) Any change in the cost accounting principles applied for the measurement of the repairs and maintenance cost shall be made only if, it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an organisation.
- (s) Repairs and maintenance costs shall be traced to a cost object to the extent economically feasible.
- (t) Where the repairs and maintenance cost is not directly traceable to cost object, it shall be assigned based on either of the following the principles of (1) Cause and Effect - Cause is the process or operation or activity and effect is the incurrence of cost and (2) Benefits received – overheads are to be apportioned to the various cost objects in proportion to the benefits received by them.

- (u) If the repairs and maintenance cost (including the share of the cost of reciprocal exchange of services) is shared by several cost objects, the related cost shall be measured as an aggregate and distributed among the cost objects.

6. Fixed Assets and depreciation

- (a) Proper and adequate records shall be maintained for assets used for production of goods or rendering of services under reference in respect of which depreciation has to be provided for. These records shall, inter-alia, indicate grouping of assets under each good or service, the cost of acquisition of each item of asset including installation charges, date of acquisition and rate of depreciation.
- (b) The depreciation and amortisation shall be the amount recognised as an expense for the year in the financial statements, which shall be measured as per the provisions contained in schedule II of the Companies Act, 2013 and the accounting standards applicable for the time being in force. The amount of Depreciation and Amortisation not recognised as expense in the financial statements shall be treated as a non-cost item.
- (c) Depreciation on an asset which is temporarily retired from production of goods and services shall be considered as abnormal cost for the period when the asset is not in use.
- (d) Impairment loss on assets shall be excluded from cost of production.
- (e) Spare parts, stand-by equipment and servicing equipment shall be recognised as property, plant and equipment when they meet the definition of property, plant and equipment and depreciated accordingly. Otherwise, such items shall be classified as inventory.
- (f) Depreciation shall be traced to the cost object to the extent economically feasible.
- (g) Where the depreciation is not directly traceable to cost object, it shall be assigned based on either of the following two principles; namely:-
 - (i) Cause and Effect - Cause is the process or operation or activity and effect is the incurrence of cost and
 - (ii) Benefits received - overheads are to be apportioned to the various cost objects in proportion to the benefits received by them.

7. Overheads

- (a) Proper records shall be maintained for various items of indirect expenses comprising overheads pertaining to goods or services under reference. These expenses shall be analysed, classified and grouped according to functions.
- (b) Overheads representing procurement of resources shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discounts), taxes and duties refundable or to be credited.
- (c) Overheads other than those referred to above shall be determined on the basis of cost incurred in connection therewith.
- (d) Any abnormal cost where it is material and quantifiable shall not form part of the overheads.
- (e) Finance costs incurred in connection with procured or self-generated resources shall not form part of overheads.
- (f) Overheads shall not include imputed cost.
- (g) Overhead variances attributable to normal reasons shall be treated as part of overheads. Overhead variances attributable to abnormal reasons shall be excluded from overheads.

- (h) Subsidy or grant or incentive and any such payment received or receivable with respect to overheads shall be reduced from cost of the cost object in the financial year when such subsidy or grant or incentive and any such payment is recognised as income.
- (i) Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the overheads.
- (j) Credits or recoveries relating to the overheads, material and quantifiable, shall be deducted from the total overhead to arrive at the net overheads. Where the recovery exceeds the total overheads, the balance recovery shall be treated as other income.
- (k) Any change in the cost accounting principles applied for the measurement of the overheads shall be made only if, it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an entity.
- (l) While assigning overheads, traceability to a cost object in an economically feasible manner shall be the guiding principle. The cost which can be traced directly to a cost object shall be directly assigned.
- (m) Overheads shall be classified according to functions, viz., works, administration, selling and distribution. Works overheads, also known as Production Overheads, Operation Overheads, Factory Overheads or Manufacturing Overheads, shall be the indirect costs involved in the production of a product or in providing service. Administrative overheads shall be the aggregate of cost of resources consumed in activities relating to general management and administration of an organisation. Selling and distribution overheads shall be the aggregate of cost of resources consumed in the selling and distribution activities of the organization.
- (n) Assignment of overheads to the cost objects shall be based on either of the following two principles; (1) Cause and Effect - Cause is the process or operation or activity and effect is the incurrence of cost and (2) Benefits received – overheads are to be apportioned to the various cost objects in proportion to the benefits received by them.
- (o) The variable production overheads shall be absorbed to products or services based on actual capacity utilisation.
- (p) The fixed production overheads shall be absorbed based on the normal capacity.
- (q) In case of leased assets, if the lease is an operating lease, the entire rentals shall be included in the administrative overheads. If the lease is a financial lease, the finance cost portion shall be segregated and treated as part of finance costs.
- (r) Selling and Distribution Overheads, the benefits of which are expected to be derived over a long period, shall be amortized on a rational basis.
- (s) Any demurrage or detention charges or penalty levied by the transportation or other authorities in respect of distribution activity shall not form part of Selling and Distribution Overheads.

8. Administrative Overheads

9. Transportation Cost

- (a) Proper records shall be maintained for recording the actual cost of transportation showing each element of cost such as freight, cartage, transit insurance and others after adjustment for recovery of transportation cost. Abnormal costs relating to transportation, if any, are to be identified and recorded for exclusion of computation of average transportation cost.
- (b) In case of a manufacturer having his own transport fleet, proper records shall be maintained to determine the actual operating cost of vehicles showing details of various elements of cost, such as salaries and wages

of driver, cleaners and others, cost of fuel, lubricant grease, amortized cost of tyres and battery, repairs and maintenance, depreciation of the vehicles, distance covered and trips made, goods hauled and transported to the depot.

- (c) In case of hired transport charges incurred for despatch of goods, complete details shall be recorded as to date of despatch, type of transport used, description of the goods, destination of buyer, name of consignee, challan number, quantity of goods in terms of weight or volume, distance involved, amount paid and other related details.
- (d) Records shall be maintained separately for inward and outward transportation cost specifying the details particulars of goods despatched, name of supplier or recipient, amount of freight etc.
- (e) Separate records shall be maintained for identification of transportation cost towards inward movement of material (procurement) and transportation cost of outward movement of goods removed or sold for both home consumption and export.
- (f) Records for transportation cost from factory to depot and thereafter shall be maintained separately.
- (g) Records for transportation cost for carrying any material or product to job-workers place and back shall be maintained separately so as include the same in the transaction value of the product.
- (h) Records for transportation cost for goods involved exclusively for trading activities shall be maintained separately and the same shall not be included for claiming any deduction for calculating assessable value excisable goods cleared for home consumption.
- (i) Records of transportation cost directly allocable to a particular category of products shall be maintained separately so that allocation can be made.
- (j) For common transportation cost, both for own fleet or hired ones, proper records for basis of apportionment shall be maintained.
- (k) Records for transportation cost for exempted goods, taxable goods cleared for export shall be maintained separately.
- (l) Separate records of cost for mode of transportation other than road like ship or air are to be maintained, which shall be included in total cost of transportation.
- (m) Inward transportation costs shall form the part of the cost of procurement of materials which shall be identified for proper allocation or apportionment to the materials or products.
- (n) Outward transportation cost shall form the part of the cost of sale and shall be allocated or apportioned to the materials and goods on a suitable basis.
- (o) The following basis shall be used, in order of priority, for apportionment of outward transportation cost depending upon the nature of products, unit of measurement followed and type of transport used, namely:-
 - (i) Weight;
 - (ii) Volume of goods;
 - (iii) Tonne-Km;
 - (iv) Unit or Equivalent unit;
 - (v) Value of goods;
 - (vi) Percentage of usage of space.

- (p) Once a basis of apportionment is adopted, the same shall be followed consistently.
- (q) For determining the transportation cost per unit, distance shall be factored in to arrive at weighted average cost.
- (r) Abnormal and non recurring cost shall not be a part of transportation cost.

10. Royalty and Technical Know-how

- (a) Adequate records shall be maintained showing royalty or technical know-how fee including other recurring or non-recurring payments of similar nature, if any, made for the goods or services under reference to collaborators or technology suppliers in terms of agreements entered into with them.
- (b) Royalty and technical know-how Fee paid or incurred in lump-sum or which are in the nature of 'one-time' payment, shall be amortised on the basis of the estimated output or benefit to be derived from the related asset. Amortisation of the amount of royalty or technical know-how fee paid for which the benefit is ensued in the current or future periods shall be determined based on the production or service volumes estimated for the period over which the asset is expected to benefit the entity.
- (c) Amount of the royalty and technical know-how fee shall not include finance costs and imputed costs.
- (d) Subsidy or grant or incentive and any such payment received or receivable with respect to amount of royalty and technical know-how fee shall be reduced from cost of the cost object in the financial year when such subsidy or grant or incentive and any such payment is recognised as income.
- (e) Penalties, damages paid to statutory authorities or other third parties shall not form part of the amount of royalty and technical know-how fee.
- (f) Credits or recoveries relating to the amount royalty and technical know-how fee, material and quantifiable, shall be deducted to arrive at the net amount of royalty and technical know-how fee.
- (g) Any change in the cost accounting principles applied for the measurement of the amount of royalty and technical know-how fee should be made only if, it is required by law or for compliance with the requirements of a cost accounting standard, or a change would result in a more appropriate preparation or presentation of cost statements of an organisation.
- (h) Royalty and technical know-how fee that is directly traceable to a cost object shall be assigned to that cost object. In case such fee is not directly traceable to a cost object then it shall be assigned on any of the following basis, namely:-
 - (i) Units produced
 - (ii) Units sold
 - (iii) Sales value
- (i) The amount of royalty fee paid for mining rights shall form part of the cost of material.
- (j) The amount of royalty and technical know-how fee shall be assigned on the nature or purpose of such fee. The amount of royalty and technical know-how fee related to product or process know how shall be treated as cost of production; if it is related to trademarks or brands shall be treated as cost of sales.

11. Research and Development Expenses

- (a) Research and development costs shall include all the costs that are directly traceable to research and/or development activities or that can be assigned to research and development activities strictly on the basis of (a) cause and effect or (b) benefits received. Such costs shall include the following elements:
 - (i) the cost of materials and services consumed in research and development activities.

- (ii) cost of bought out materials and hired services as per invoice or agreed price including duties and taxes directly attributable thereto net of trade discounts, rebates, taxes and duties refundable or to be credited.
 - (iii) the salaries, wages and other related costs of personnel engaged in research and development activities;
 - (iv) the depreciation of equipment and facilities, and other tangible assets, and amortisation of intangible assets to the extent that they are used for research and development activities;
 - (v) overhead costs, other than general administrative costs, related to research and development activities.
 - (vi) costs incurred for carrying out research and development activities by other entities and charged to the entity; and
 - (vii) expenditure incurred in securing copyrights or licences;
 - (viii) expenditure incurred for developing computer software;
 - (ix) costs incurred for the design of tools, jigs, moulds and dies;
 - (x) other costs that can be directly attributed to research and development activities and can be identified with specific projects.
- (b) Subsidy or grant or incentive and any such payment received or receivable with respect to research and development activity shall be reduced from cost of the cost object in the financial year when such subsidy or grant or incentive and any such payment is recognised as income.
 - (c) Any abnormal cost where it is material and quantifiable shall not form part of the research and development cost.
 - (d) Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the research and development cost.
 - (e) Research and development costs shall not include imputed costs.
 - (f) Credits or recoveries relating to research and development cost, if material and quantifiable, including from the sale of output produced from the research and development activity shall be deducted from the research and development cost.
 - (g) Research and development costs attributable to a specific cost object shall be assigned to that cost object directly. Research and development costs that are not attributable to a specific product or process shall not form part of the product cost.
 - (h) Development cost which results in the creation of an intangible asset shall be amortised over its useful life. Assignment of development costs shall be based on the principle of “benefits received”.
 - (i) Research and development costs incurred for the development and improvement of an existing process or product shall be included in the cost of production. In case the Research and development activity related to the improvement of an existing process or product continues for more than one accounting period, the cost of the same shall be accumulated and amortised over the estimated period of use of the improved process or estimated period over which the improved product will be produced by the entity after the commencement of commercial production, as the case may be, if the improved process or product is distinctly different from the existing process or product and the product is marketed as a new product. The amount allocated to a particular period shall be included in the cost of production of that period. If the expenditure is only to improve the quality of the existing product or minor modifications in attributes, the principle shall not be applied.
 - (j) Development costs attributable to a saleable service namely, providing technical know-how to outside parties shall be accumulated separately and treated as cost of providing the service.

12. Quality control expenses

- (a) Adequate records shall be maintained to indicate the expenses incurred in respect of quality control department

or cost centre or service centre for goods or services under reference. Where these services are also utilized for other goods or services of the company, the basis of apportionment to goods or services under reference and to other goods or services shall be on equitable and reasonable basis and applied consistently.

- (b) Quality control cost incurred in-house shall be the aggregate of the cost of resources consumed in the quality control activities of the entity. The cost of resources procured from outside shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discounts), taxes and duties refundable or to be credited by the Tax Authorities. Such cost shall include cost of conformance to quality: (a) prevention cost; and (b) appraisal cost.
- (c) Identification of quality control costs shall be based on traceability in an economically feasible manner.
- (d) Quality control costs other than those referred to above shall be determined on the basis of amount incurred in connection therewith.
- (e) Finance costs incurred in connection with the self-generated or procured resources shall not form part of quality control cost.
- (f) Quality control costs shall not include imputed costs.
- (g) Subsidy or grant or incentive and any such payment received or receivable with respect to any quality control cost shall be reduced from cost of the cost object in the financial year when such subsidy or grant or incentive and any such payment is recognised as income.
- (h) Any abnormal portion of the quality control cost where it is material and quantifiable shall not form part of the cost of quality control.
- (i) Penalties, damages paid to statutory authorities or other third parties shall not form part of the quality control cost.
- (j) Any change in the cost accounting principles applied for the measurement of the quality control cost shall be made only if, it is required by law or for compliance with the requirements of a cost accounting standard, or a change would result in a more appropriate preparation or presentation of cost statements of an organisation.
- (k) Quality control cost that is directly traceable to the cost object shall be assigned to that cost object. Assignment of quality control cost to the cost objects shall be based on benefits received by them on the principles, namely:-
 - (i) Cause and effect - Cause is the process or operation or activity and effect is the incurrence of cost and
 - (ii) Benefits received - overheads are to be apportioned to the various cost objects in proportion to the benefits received by them.

13. Pollution control expenses

- (a) Adequate records shall be maintained to indicate the expenses incurred in respect of pollution control. The basis of apportionment to goods or services under reference and to other goods or services shall be on equitable and reasonable basis and applied consistently.
- (b) Pollution control costs shall be the aggregate of direct and indirect cost relating to pollution control activity. Direct cost shall include the cost of materials, consumable stores, spares, manpower, equipment usage, utilities, resources for testing and certification and other identifiable resources consumed in activities such as waste processing, disposal, remediation and others. Indirect cost shall include the cost of resources common to various pollution control activities such as pollution control registration and such like expenses.
- (c) Costs of pollution control which are internal to the entity shall be accounted for when incurred. They shall be measured at the historical cost of resources consumed.
- (d) Future remediation or disposal costs which are expected to be incurred with reasonable certainty as part of onerous contract or constructive obligation, legally enforceable shall be estimated and accounted based on the quantum of pollution generated in each period and the associated cost of remediation or disposal in future.

- (e) Contingent future remediation or disposal costs e.g. those likely to arise on account of future legislative changes on pollution control shall not be treated as cost until the incidence of such costs become reasonably certain and can be measured.
- (f) External costs of pollution which are generally the costs imposed on external parties including social costs are difficult to estimate with reasonable accuracy and are excluded from general purpose cost statements.
- (g) Social costs of pollution are measured by economic models of cost measurement. The cost by way of compensation by the polluting entity either under future legislation or under social pressure cannot be quantified by traditional models of cost measurement. They are best kept out of general purpose cost statements.
- (h) Cost of in-house pollution control activity shall include cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources used in such activity.
- (i) Cost of pollution control activity carried out by outside contractors inside the entity shall include charges payable to the contractor and cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other costs incurred by the entity for such jobs.
- (j) Cost of pollution control jobs carried out by contractor at its premises shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discount), taxes and duties refundable or to be credited. This cost shall also include the cost of other resources provided to the contractors.
- (k) Cost of pollution control jobs carried out by outside contractors shall include charges made by the contractor and cost of own materials, consumable stores, spares, manpower, equipment usage, utilities and other costs used in such jobs.
- (l) Each type of pollution control e.g., water, air, soil pollution shall be treated as a distinct activity, if material and identifiable.
- (m) Finance costs incurred in connection with the pollution control activities shall not form part of pollution control costs.
- (n) Pollution control costs shall not include imputed costs.
- (o) Price variances related to pollution control, where standard costs are in use, shall be treated as part of pollution control cost. The portion of usage variances attributable to normal reasons shall be treated as part of pollution control cost. Usage variances attributable to abnormal reasons shall be excluded from pollution control cost.
- (p) Subsidy or grant or incentive and any such payment received or receivable with respect to pollution control activity shall be reduced from cost of the cost object in the financial year when such subsidy or grant or incentive and any such payment is recognised as income.
- (q) Any Pollution control cost resulting from abnormal circumstances, if material and quantifiable, shall not form part of the pollution control cost.
- (r) Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the pollution control cost.
- (s) Credits or recoveries relating to the pollution control activity, material and quantifiable, shall be deducted to arrive at the net pollution control cost.
- (t) Research and development cost to develop new process, new products or use of new materials to avoid or mitigate pollution shall be treated as research and development costs and not included under pollution control costs. Development costs incurred for commercial development of such product, process or material shall be included in pollution control costs.

- (u) Any change in the cost accounting principles applied for the measurement of the pollution control cost shall be made only if, it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an organisation.
- (v) Pollution Control costs shall be traced to a cost object to the extent economically feasible.
- (w) Direct costs of pollution control such as treatment and disposal of waste shall be assigned directly to the product, where traceable economically.
- (x) Where these costs are not directly traceable to the product but are traceable to a process which causes pollution, the costs shall be assigned to the products passing through the process based on the quantity of the pollutant generated by the product.
- (y) Where the pollution control cost is not directly traceable to cost object, it shall be treated as overhead and assigned based on either of the following two principles; namely:-
 - (1) Cause and Effect - Cause is the process or operation or activity and effect is the incurrence of cost and
 - (2) Benefits received - overheads are to be apportioned to the various cost objects in proportion to the benefits received by them.

14. Service department expenses

- (a) Proper records shall be maintained in respect of service departments, i.e., cost centres which primarily provides auxiliary services across the enterprise, to indicate expenses incurred in respect of each such service cost centre like engineering, work shop, designing, laboratory, safety, transport, computer cell, welfare etc.
- (b) Each identifiable service cost centre shall be treated as a distinct cost object for measurement of the cost of services subject to the principle of materiality.
- (c) Cost of service cost centre shall be the aggregate of direct and indirect cost attributable to services being rendered by such cost centre.
- (d) Cost of in-house services shall include cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources used in such service.
- (e) Cost of other resources shall include related overheads.
- (f) Cost of services rendered by contractors within the facilities of the entity shall include charges payable to the contractor and cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources provided to the contractors for such services.
- (g) Cost of services rendered by contractors at their premises shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discount), taxes and duties refundable or to be credited. This cost shall also include the cost of resources provided to the contractors.
- (h) Cost of services for the purpose of inter unit transfers shall also include distribution costs incurred for such transfers.
- (i) Cost of services for the purpose of inter-company transfers shall also include distribution cost incurred for such transfers and administrative overheads.
- (j) Cost of services rendered to outside parties shall also include distribution cost incurred for such transfers, administrative overheads and marketing overheads.
- (k) Finance costs incurred in connection with the service cost Centre shall not form part of the cost of Service Cost Centre.
- (l) The cost of service cost centre shall not include imputed costs.

- (m) Where the cost of service cost centre is accounted at standard cost, the price and usage variances related to the services cost Centre shall be treated as part of cost of services. Usage variances due to abnormal reasons shall be treated as part of abnormal cost.
- (n) Subsidy or grant or incentive and any such payment received or receivable with respect to any service cost centre shall be reduced from cost of the cost object in the financial year when such subsidy or grant or incentive and any such payment is recognised as income.
- (o) The cost of production and distribution of the service shall be determined based on the normal capacity or actual capacity utilization whichever is higher and unabsorbed cost, if any, shall be treated as abnormal cost. Cost of a stand-by service shall include the committed costs of maintaining such a facility for the service.
- (p) Any abnormal cost where it is material and quantifiable shall not form part of the cost of the service cost centre.
- (q) Penalties, damages paid to statutory authorities or other third parties shall not form part of the cost of the service cost centre.
- (r) Credits or recoveries relating to the service cost centre including charges for services rendered to outside parties, material and quantifiable, shall be reduced from the total cost of that service cost centre.
- (s) Any change in the cost accounting principles applied for the measurement of the cost of Service cost centre shall be made, only if it is required by law or for compliance with the requirements of a cost accounting standard, or a change would result in a more appropriate preparation or presentation of cost statements of an enterprise.
- (t) While assigning cost of services, traceability to a cost object in an economically feasible manner shall be the guiding principle.
- (u) Where the cost of services rendered by a service cost centre is not directly traceable to a cost object, it shall be assigned on the most appropriate basis.
- (v) The most appropriate basis of distribution of cost of a service cost centre to the cost centres consuming services is to be derived from logical parameters related to the usage of the service rendered. The parameter shall be equitable, reasonable and consistent.

15. Packing expenses

- (a) Proper records shall be maintained separately for domestic and export packing showing the quantity and cost of various packing materials and other expenses incurred on primary or secondary packing indicating the basis of valuation.
- (b) The packing material receipts shall be valued at purchase price including duties and taxes, freight inwards, insurance, and other expenditure directly attributable to procurement (net of trade discounts, rebates, taxes and duties refundable or to be credited) that can be quantified at the time of acquisition.
- (c) Finance costs directly incurred in connection with the acquisition of packing material shall not form part of packing material cost.
- (d) Self-manufactured packing materials shall be valued including direct material cost, direct employee cost, direct expenses, job charges, factory overheads including share of administrative overheads comprising factory management and administration and share of research and development cost incurred for development and improvement of existing process or product.
- (e) Normal loss or spoilage of packing material prior to receipt in the factory shall be absorbed in the cost of balance materials net of amounts recoverable from suppliers, insurers, carriers or recoveries from disposal.
- (f) The forex component of imported packing material cost shall be converted at the rate on the date of the transaction. Any subsequent change in the exchange rate till payment or otherwise shall not form part of the packing material cost.

- (g) Any demurrage, detention charges or penalty levied by the transport agency or any authority shall not form part of the cost of packing materials.
- (h) Subsidy or grant or incentive and any such payment received or receivable with respect to packing material shall be reduced from cost of the cost object in the financial year when such subsidy or grant or incentive and any such payment is recognised as income.
- (i) Issue of packing materials shall be valued using appropriate method as per the provisions contained in the accounting standard applicable for the time being in force.
- (j) Wherever, packing material costs include transportation costs, determination of costs of transportation shall be governed by Cost Accounting Standard on determination of average (equalized) cost of transportation.
- (k) Packing material costs shall not include imputed costs.
- (l) Where packing materials are accounted at standard cost, the price variances related to such materials shall be treated as part of packing material cost and the portion of usage variances due to normal reasons shall be treated as part of packing material cost. Usage variances due to abnormal reasons shall be treated as part of abnormal cost.
- (m) The normal loss arising from the issue or consumption of packing materials shall be included in the packing materials cost.
- (n) Any abnormal cost where it is material and quantifiable shall be excluded from the packing material cost.
- (o) The credits or recoveries in the nature of normal scrap arising from packing materials if any, should be deducted from the total cost of packing materials to arrive at the net cost of packing materials.
- (p) Packing material costs shall be directly traced to a cost object to the extent it is economically feasible.
- (q) Where the packing material costs are not directly traceable to the cost object, these may be assigned on the basis of quantity consumed or similar measures like technical estimates.
- (r) The packing material cost of reusable packing shall be assigned to the cost object taking into account the number of times or the period over which it is expected to be reused.
- (s) Cost of primary packing materials shall form part of the cost of production.
- (t) Cost of secondary packing materials shall form part of distribution overheads.

16. Finance Costs

- (a) Finance costs are costs incurred by an enterprise in connection with the borrowing of fund or other costs which in effect represent payment for the use of non- equity fund.
- (b) Finance costs incurred shall be identified for-
 - (i) acquisition or construction or production of qualifying assets including fixed assets; and
 - (ii) other finance costs for production of goods or operations or services rendered which cannot be classified as qualifying assets.
- (c) Finance costs directly attributable to the acquisition or construction or production of a qualifying asset shall be included in the cost of the asset.
- (d) Finance costs shall not include imputed costs.
- (e) Subsidy or grant or incentive and any such payment received or receivable with respect to finance costs shall be reduced from cost of the cost object in the financial year when such subsidy or grant or incentive and any such payment is recognised as income.

- (f) Penal Interest for delayed payment, fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the finance costs. In case the company delays the payment of statutory dues beyond the stipulated date, interest paid for delayed payment shall not be treated as penal interest.
- (g) Interest paid for or received on investment shall not form part of the other financing charges for production of goods or operations or services rendered;
- (h) Assignment of finance costs to the cost objects shall be based on either of the following two principles; namely:-
 - (1) Cause and Effect - Cause is the process or operation or activity and effect is the incurrence of cost and
 - (2) Benefits received - to be apportioned to the various cost objects in proportion to the benefits received by them.

17. Any other item of cost

Proper records shall be maintained for any other item of cost being indispensable and considered necessary for inclusion in cost records for calculating cost of production of goods or rendering of services, cost of sales, margin in total and per unit of the goods or services under reference.

18. Capacity determination

- (a) Capacity shall be determined in terms of units of production or services or equivalent machine or man hours.
- (b) Installed capacity is determined based on:
 - (i) Manufacturers' Technical specifications
 - (ii) Capacities of individual or interrelated production centres
 - (iii) Operational constraints or capacity of critical machines or
 - (iv) Number of shifts
- (c) In case manufacturers' technical specifications are not available, the estimates by technical experts on capacity under ideal conditions shall be considered for determination of installed capacity. In case any production facility is added or discarded the installed capacity shall be reassessed from the date of such addition or discard. In case the same is reassessed as per direction of the Government, it shall be in accordance with the principles laid down in the said directives. In case of improvement in the production process, the installed capacity shall be reassessed from the date of such improvement.
- (d) Normal capacity shall be determined vis-a-vis installed capacity after carrying out following adjustments :
 - (i) Holidays, normal shut down days and normal idle time,
 - (ii) Normal time lost in batch change over,
 - (iii) Time lost due to preventive maintenance and normal break downs of equipment's,
 - (iv) Loss in efficiency due to ageing of the equipment, or
 - (v) Number of shifts;
- (e) Capacity utilization is actual production measured as a percentage of installed capacity.

19. Work-in-progress and finished stock

The method followed for determining the cost of work-in-progress and finished stock of the goods and for services under delivery or in-process shall be appropriate and shall be indicated in the cost records so as to reveal the cost element that have been taken into account in such computation. All conversion costs incurred

in bringing the inventories to their present location and condition shall be taken into account while computing the cost of work-in-progress and finished stock. The method adopted for determining the cost of work-in-progress and finished goods shall be followed consistently.

20. Captive consumption

If the goods or services under reference are used for captive consumption, proper records shall be maintained showing the quantity and cost of each such goods or services transferred to other departments or cost centres or units of the company for self-consumption and sold to outside parties separately.

21. By-Products and Joint Products

- (a) Proper records shall be maintained for each item of by-product, if any, produced showing the receipt, issues and balances, both in quantity and value. The basis adopted for valuation of by-product for giving credit to the respective process shall be equitable and consistent and should be indicated in cost records. Records showing the expenses incurred on further processing, if any, and actual sales realisation of by-product shall be maintained. The proper records shall be maintained in respect of credits or recoveries from the disposal of by-products.
- (b) The cost up to the point of separation of products or services shall be apportioned to joint products or services on reasonable and equitable basis and shall be applied consistently. The basis on which such joint costs are apportioned to different products or services arising from the process shall be indicated in the cost records. Proper records shall be maintained in respect of credits or recoveries from the disposal of joint products or services.

22. Adjustment of cost variances.

Where the company maintains cost records on any basis other than actual such as standard costing, the records shall indicate the procedure followed by the company in working out the cost of the goods or services under such system. The cost variances shall be shown against separate heads and analyzed into material, labour, overheads and further segregated into quantity, price and efficiency variances. The method followed for adjusting the cost variances in determining the actual cost of the goods or services shall be indicated clearly in the cost records. The reasons for the variances shall be duly explained in the cost records and statements.

23. Reconciliation of cost and financial accounts

The cost statements shall be reconciled with the financial statements for the financial year specifically indicating the expenses or incomes not considered in the cost records or statements so as to ensure accuracy and to adjust the profit of the goods or services under reference with the overall profit of the company. The variations, if any, shall be clearly indicated and explained.

24. Related party transactions

- (a) Related Party means related party as defined sub-section 76 of Section 2 of the Companies Act, 2013 (18 of 2013).
- (b) “Normal” price means price charged for comparable and similar products in the ordinary course of trade and commerce where the price charged in the sole consideration of sale and such sale is not made to a related party. Normal price can be construed to be a price at which two unrelated and non-desperate parties would agree to a transaction and where such transaction is not clouded due to the proximity of the parties to the transaction and free from influence though the parties may have shared interest.
- (c) The basis adopted to determine Normal price should be classified as under:
 - (i) Comparable uncontrolled price method;

- (ii) Resale price method;
 - (iii) Cost plus method;
 - (iv) Profit split method;
 - (v) Transactional net margin method; or
 - (vi) Any other method, to be specified.
- (d) In respect of related party transactions or supplies made or services rendered by a company to a company termed “related party relationship” and vice-a-versa, records shall be maintained showing contracts entered into, agreements or understanding reached in respect of -
- (i) purchase and sale of raw materials, finished good(s), rendering of service(s), process materials and rejected goods including scraps, etc. ;
 - (ii) utilisation of plant facilities and technical know-how;
 - (iii) supply of utilities and any other services;
 - (iv) administrative, technical, managerial or any other consultancy services;
 - (v) purchase and sale of capital goods including plant and machinery; and
 - (vi) any other payment related to the production of goods or rendering of services under reference.
- (e) These records shall also indicate the basis followed for arriving at the rates charged or paid for such goods or services so as to enable determination of the reasonableness of such rates in so far as they are in any way related to goods or services under reference.

25. Expenses or incentives on exports

- (a) Proper records showing the expenses incurred on the export sales, if any, of the goods or services under reference shall be separately maintained so that the cost of export sales can be determined correctly. Separate cost statements shall be prepared for goods or services exported giving details of export expenses incurred or incentive earned.
- (b) Proper records shall be maintained giving the details of export commitments license-wise and the fulfillment of these commitments giving the reasons for non-compliance, if any. In case, duty free imports are made, the cost statements shall reflect this fact. If the duty free imports have been made after actual production, the statement shall reflect this fact also.

26. Production Records

Quantitative records of all finished goods (packed or unpacked) or services rendered showing production, issues for sales and balances of different type of the goods or services under reference, shall be maintained. The quantitative details of production of goods or services rendered shall be maintained separately for self-produced, third party on job work, loan license basis etc.

27. Sales records

Separate details of sales shall be maintained for domestic sales at control price, domestic sales at market price, export sales under advance license, export sales under other obligations, export sales at market price, and sales to related party or inter unit transfer. In case of services, details of domestic delivery or sales at control price, domestic delivery or sales at market price, export delivery or sales under advance license, export delivery or sales under other obligations, export delivery or sales under market price, and delivery or

sales to related party or inter unit transfer. Such details shall be maintained separately for each plant or unit wise or service center wise for total as well as per unit sales realization.

28. Cost statements

- (a) Cost statements (monthly, quarterly and annually) showing quantitative information in respect of each goods or service under reference shall be prepared showing details of available capacity, actual production, production as per excise records, production as per GST records, capacity utilisation (in-house), stock purchased for trading, stock and other adjustments, quantity available for sale, wastage and actual sale, total quantity of outward supplies as per cost records and total outward supplies as per GST records during current financial year and previous year.
- (b) Such statements shall also include details in respect of all major items of costs constituting cost of production of goods or services, cost of sales of goods or services and margin in total as well as per unit of the goods or services. The goods or services emerging from a process, which forms raw material or an input material or service for a subsequent process, shall be valued at the cost of production or cost of service up to the previous stage.
- (c) Cost statements (monthly, quarterly and annually) in respect of reconciliation of indirect taxes showing details of total clearances of goods or services, assessable value, duties or taxes paid, CENVAT or VAT or Service Tax or GST Credit utilised, duties or taxes recovered and interest or penalty paid.
- (d) If the company is operating more than one plant, factory or service centre, separate cost statements as specified above shall be prepared in respect of each plant, factory or service centre.
- (e) Any other statement or information considered necessary for suitable presentation of costs and profitability of goods or services produced by the company shall also be prepared.

29. Statistical Records

- (a) The records regarding available machine hours or direct labour hours in different production departments and actually utilized shall be maintained for production of goods or rendering of services under reference and shortfall suitably analyzed. Suitable records for computation of idle time of machines or labour shall also be maintained and analyzed.
- (b) Proper records shall be maintained to enable the company to identify the capital employed, net fixed assets and working capital separately for the production of goods or rendering of services under reference and other goods or services to the extent such elements are separately identifiable. Non-identifiable items shall be allocated on a suitable and reasonable basis to different goods or services. Fresh investments on fixed assets for production of goods or rendering of services under reference that have not contributed to the production of goods or rendering of services during the relevant period or year shall be indicated in the cost records. The records shall, in addition, show assets added as replacement and those added for increasing existing capacity.

30. Records of Physical Verification

Records of physical verification may be maintained in respect of all items held in the stock such as raw materials, process materials, packing materials, consumables stores, machinery spares, chemicals, fuels, finished goods and fixed assets etc. Reasons for shortages or surplus arising out of such verifications and the method followed for adjusting the same in the cost of the goods or services shall be indicated in the records.

31. Unit of Measurement (UoM)

The Unit of Measurement (UoM) for each Customs Tariff Act Heading, wherever applicable, shall be the same as provided for in the Customs Tariff Act, 1975 (51 of 1975) corresponding to that particular Customs Tariff Act Heading.

FORM NO. CRA-2

[Pursuant to section 148(3) of Companies Act, 2013 and rule 6(2) & 6(3A) of the Companies (cost records and audit) Rules, 2014]



Form of intimation of appointment of cost auditor by the company to Central Government

Form language English Hindi

Note: Refer the instruction kit for filing the form.
IN CASE OF REVISED CRA-2, ALL THE DETAILS MUST BE FILLED AFRESH.

1.(a) *Corporate identity number (CIN) or foreign company registration number (FCRN) of the company

(b) Global location number (GLN)

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 ID of the company

(d) *Phone(with STD code) -

(e) *Nature of intimation of appointment of cost auditor(s)

I

(i) *Firm registration number(FRN) of the Cost auditor/Cost Auditor's firm/LLP

(ii) *Name of the Cost Auditor/Cost Auditor's firm/LLP

(iii) *Date of casual vacancy

(iv) *Reason of casual vacancy

3. *Product(s)/ Service(s) to which Cost Audit relates -

(a) Number of Industries/Sectors/Products/Services (CTA Heading Level, wherever applicable as per rules) covered under regulated sectors

Details of such industries/sectors/products/services

Industries/sectors/products/services	CTA heading (wherever Applicable)	No. of tariff items/ Products/ services
<input type="text"/>	<input type="text"/>	<input type="text"/>

(b) Number of Industries/Sectors/Products/Services (CTA Heading Level, wherever applicable as per rules) covered under non-regulated sectors

Details of such industries/sectors/products/services

Industries/sectors/products/services	CTA heading (wherever Applicable)	No. of tariff items/ Products/ services
<input type="text"/>	<input type="text"/>	<input type="text"/>

(4) *Details of all the cost auditor(s) appointed

Number of cost auditor(s)

I (a). *Category of the auditor Individual Partnership firm Limited liability partnership (LLP)

(b) (i) *Membership number of the cost auditor or member representing the firm/LLP

(ii) *Name of the cost auditor or member representing the firm/LLP

(iii) *Firm Registration Number(FRN) of the Cost Auditor/Cost Auditor's firm/LLP

(iv) *Name of the Cost auditor's firm/LLP

(c) (i) Address * Line I

Line II

(ii) *City

(iii) *State

(iv) *Country

(v) * Pin code

(vi) *e-mail ID of the firm or member

(d) *Date of the board meeting in which cost auditor was appointed (DD/MM/YYYY)

(e) *Type of appointment

Original Appointment due to casual vacancy Appointment for new products/services/location

(f) *Scope of audit of the cost auditor/firm/LLP

5.* Financial year to be covered by the cost auditor(s)

From (DD/MM/YYYY) To (DD/MM/YYYY)

(6)(a) *Is there any change in cost auditor(s) appointed from the previous financial year Yes No Not applicable

Attachments

(1). *Copy of Board resolution of the company

Attach

(2). Optional attachment, if any

Attach

List of attachments

Remove attachment

Declaration

I am authorized by the Board of Directors of the Company vide resolution number* dated * to sign this form and declare that all the requirements of Companies Act, 2013 and the rules made thereunder in respect of the subject matter of this form and matters incidental thereto have been complied with. I also declare that all the information given herein above is true, correct and complete including the attachments to this form and nothing material has been suppressed.

*To be digitally signed by

*Designation

*Director identification number of the director; or PAN of the Manager or CEO or CFO or authorized representative; or Membership number of the Company Secretary

Note: Attention is drawn to provisions of Section 448 and 449 which provide for punishment for false statement / certificate and punishment for false evidence respectively.

Modify

Check Form

Prescrutiny

Submit

This 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 company

Form CRA-3

[Pursuant to rule 6(4) of the Companies (Cost Records and Audit) Rules, 2014]

FORM OF THE COST AUDIT REPORT

I/We, having been appointed as Cost Auditor(s) under sub-section (3) of Section 148 of the Companies Act, 2013 (18 of 2013) 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 audited the Cost Records maintained under section 148 of the said Act, in compliance with the cost auditing standards, in respect of the.....[mention name(s) of Product(s)/service(s)] for the period/year.....(mention the financial year) maintained by the company and report, in addition to my/our observations and suggestions in para 2.

- (i) 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 audit.
 - (ii) In my/our opinion, proper cost records, as per rule 5 of the Companies (Cost Records and Audit) Amendment Rules, 2014 have/have not been maintained by the company in respect of product(s)/service(s) under reference.
 - (iii) In my/our opinion, proper returns adequate for the purpose of the cost audit have/have not been received from the branches not visited by me/us.
 - (iv) In my/our opinion and to the best of my/our information, the said books and records give/do not give the information required by the Companies Act, 2013, in the manner so required.
 - (v) In my/our opinion, the company has/does not have adequate system of internal audit of cost records which to my/our opinion is commensurate to its nature and size of its business.
 - (vi) In my/our opinion, information, statements in the annexure to this cost audit report gives/does not give a true and fair view of the cost of production of product(s)/rendering of service(s), cost of sales, margin and other information relating to product(s)/service(s) under reference.
 - (vii) Detailed unit-wise and product/service-wise cost statements and schedules thereto in respect of the product / service under reference of the company duly audited and certified by me/us are/are not kept in the company.
2. Observations and suggestions, if any, of the Cost Auditor, relevant to the cost audit.

Dated: this day of 20.....
at (mention name of place of signing this report)

SIGNATURE AND SEAL OF THE COST AUDITOR(S)
MEMBERSHIP NUMBER(S)

Notes:

- (1) Delete words not applicable.
- (2) If as a result of the examination of the books of account, the cost auditor desires to point out any material deficiency or give a qualified report, he/she shall indicate the same against the relevant para (i) to (vii) in the prescribed form of the Cost Audit Report giving details of discrepancies he/she has come across.
- (3) The report, suggestions, observations and conclusions given by the cost auditor under this paragraph shall be based on verified data, reference to which shall be made here and shall, wherever practicable, be included after the company has been afforded an opportunity to comment on them.

Annexure to the Cost Audit Report**Part - A****1. General Information**

1	Corporate identity number or foreign company registration number	
2	Name of company	
3	Address of registered office or of principal place of business in India of company	
4	Address of corporate office of company	
5	Email address of company	
6	Date of beginning of reporting financial year	dd/mm/yyyy
7	Date of end of reporting financial year	dd/mm/yyyy
8	Date of beginning of previous financial year	dd/mm/yyyy
9	Date of end of previous financial year	dd/mm/yyyy
10	Level of rounding used in cost statements (in INR)	Absolute/thousands/ lakhs/crores
11	Whether Indian Accounting Standards are applicable to the company	Yes/No
12	Number of cost auditors for reporting period	
13	Date of board of directors meeting in which annexure to cost audit report was approved	
14	Whether cost auditors report has been qualified or has any reservations or contains adverse remarks	
15	Consolidated qualifications, reservations or adverse remarks of all cost auditors	
16	Consolidated observations or suggestions of all cost auditors	
17	Whether company has related party transactions for sale or purchase of goods or services	

2. General Details of Cost Auditor

1	Whether cost auditor is lead auditor	
2	Category of cost auditor	
3	Firm's registration number	
4	Name of cost auditor/cost auditor's firm	
5	PAN of cost auditor/cost auditor's firm	
6	Address of cost auditor or cost auditor's firm	

7	Email id of cost auditor or cost auditor's firm	
8	Membership number of member signing report	
9	Name of member signing report	
10	Name(s) of product(s) or service(s) with CTA headings	
11	SRN number of Form CRA-2	
12(a)	Number of audit committee meeting(s) during year for which cost auditor was invited	
12(b)	Number of audit committee meeting(s) attended by cost auditor during the year	
13	Date of signing cost audit report and annexure by cost auditor	
14	Place of signing cost audit report and annexure by cost auditor	

3. Cost Accounting Policy

- (1) Briefly describe the cost accounting policy adopted by the Company and its adequacy or otherwise to determine correctly the cost of production/operation, cost of sales, sales realization and margin of the product(s)/service(s) under reference separately for each product(s)/service(s). The policy shall cover, inter alia, the following areas:
 - (a) Identification of cost centres/cost objects and cost drivers.
 - (b) Accounting for material cost including packing materials, stores and spares etc., employee cost, utilities and other relevant cost components.
 - (c) Accounting, allocation and absorption of overheads.
 - (d) Accounting for depreciation/amortization.
 - (e) Accounting for by-products/joint-products or services, scraps, wastage etc.
 - (f) Basis for Inventory Valuation.
 - (g) Methodology for valuation of Inter-Unit/Inter Company and Related Party transactions.
 - (h) Treatment of abnormal and non-recurring costs including classification of other non-cost items.
 - (i) Other relevant cost accounting policy adopted by the Company.
- (2) Briefly specify the changes, if any, made in the cost accounting policy for the product(s)/service(s) under audit during the current financial year as compared to the previous financial year.
- (3) Observations of the Cost Auditor regarding adequacy or otherwise of the Budgetary Control System, if any, followed by the company.

4. PRODUCT/SERVICE DETAILS (for the company as a whole)

Name of Product(s)/Service(s)	UOM	CTA Heading (Wherever applicable)	Whether Covered under Cost Audit Yes/No	Net Operational Revenue (net of taxes, duties etc.)	
				Current Year (₹)	Previous Year (₹)
1.					
2.					
3.					
4.					
.....					
Total Net Operational Revenue of Manufactured Product or Service					
Other Operative Incomes of the Company					
Total Operative Incomes of the Company					
Other Incomes of Company					
Total Revenue as per Financial Accounts					
Exceptional and Extra Ordinary Income					
Other Comprehensive Income, If any					
Total Revenue including Exceptional, Extra Ordinary and Other Comprehensive Income, if any					
Turnover as per Excise/Service Tax/ GST Records					

Note: Explain the difference, if any, between Turnover as per Financial Statements and Turnover as per Excise/Service Tax/GST Records.

Part-B
FOR MANUFACTURING SECTOR

1. QUANTITATIVE INFORMATION (for each product with CTA heading separately)			
Name of Product			
CTA heading			
Particulars	Unit	Current Year	Previous Tear
1. Available Capacity			
(a) Installed Capacity			
(b) Capacity enhanced during the year, if any			
(c) Capacity available through leasing arrangements, if any			
(d) Capacity available through loan license / third parties			
(e) Total available Capacity			
2. Actual Production			
(a) Self manufactured			
(b) Produced under leasing arrangements			
(c) Produced on loan license / by third parties on job work			
(d) Total Production			
3. Production as per Excise/GST Records			
4. Capacity Utilization (in-house)			
5. Finished Goods Purchased			
(a) Domestic Purchase of Finished Goods			
(b) Imports of Finished Goods			
(c) Total Finished Goods Purchased			
6. Stock and Other Adjustments			
(a) Change in Stock of Finished Goods			
(b) Self/Captive Consumption (incl. samples etc.)			
(c) Other Quantitative Adjustments, if any (wastage etc.)			
(d) Total Adjustments			
7. Total Available Quantity for Sale [2(d) +5(c) + 6(d)]			
8. Actual Sales			
(a) Domestic Sales of Product			
(b) Domestic Sales of Traded Product			
(c) Export Sale of Product			
(d) Export Sale of Traded Product			
(e) Total Quantity Sold			

2. ABRIDGED COST STATEMENT (for each product with CTA heading separately)							
	Name of Product						
	CTA heading						
	Unit of Measure						
		Production	Finished Goods Purchased	Finished Stock Adjustment	Captive Consumption	Other Adjustments	Quantity Sold
	Current Year						
	Previous Year						
Sl No.	Particulars			Current Year		Previous Year	
				Amount (₹)	Rate per Unit (₹)	Amount (₹)	Rate per Unit (₹)
1	Materials Consumed (specify details as per Para 2A)						
2	Process Materials/chemicals						
3	Utilities (specify details as per Para 2B)						
4	Direct Employees Cost						
5	Direct Expenses						
6	Consumable Stores and Spares						
7	Repairs & Maintenance						
8	Quality Control Expenses						
9	Research & Development Expenses						
10	Technical know-how Fee / Royalty						
11	Depreciation/Amortization						
12	Other Production Overheads						
13	Industry Specific Operating Expenses (specify details as per Para 2C)						
14	Total (1 to 13)						
15	Increase/Decrease in Work-in-Progress						
16	Less: Credits for Recoveries, if any						
17	Primary Packing Cost						
18	Cost of Production/Operations (14 + 15 to 17)						
19	Cost of Finished Goods Purchased						
20	Total Cost of Production and Purchases (18 +19)						
21	Increase/Decrease in Stock of Finished Goods						
22	Less: Self/Captive Consumption (incl. Samples, etc.)						
23	Other Adjustments (if any)						

24	Cost of Production/Operation of Product Sold (20 + 21 to 23)				
25	Administrative Overheads				
26	Secondary Packing Cost				
27	Selling & Distribution Overheads				
28	Cost of Sales before Finance charges (24 to 27)				
29	Finance Cost				
30	Cost of sales (28 + 29)				
31	Net sales Realization (Net of Taxes and Duties)				
32	Margin [Profit/(Loss) as per Cost Accounts] (31 – 30)				

Notes:

1.	Separate Cost Statement shall be prepared for each CTA heading representing the product.
2.	In case the same product has different unit of measure, separate cost statement shall be provided for different unit of measures.
3.	The items of cost shown In the Proforma are Indicative and the same should be reflected keeping in mind the materiality of the item of cost in the product. The Proforma may be suitably modified to meet the requirement of the industry/product.
4.	In case the company follows a pre-determined or standard costing system, the above cost statement should reflect figures at actuals after adjustment of variances if any.

2A. Details of Materials Consumed

Name of Product									
CTA heading									
Sl. No	Description of Material	Category	UOM	Current Year			Previous Year		
				Quantity	Rate per Unit (₹)	Amount (₹)	Quantity	Rate per Unit (₹)	Amount (₹)
1.									
2.									
3.									
4.									
5.									
6.									
7.									
8.									
9.									
10.									

Category: Indigenous/ Imported/ Self Manufactured

2B. Details of Utilities Consumed

Name of Product								
CTA heading								
Sl. No.	Description of Utilities Consumed	UOM	Current Year			Previous Year		
			Quantity	Rate per Unit (₹)	Amount (₹)	Quantity	Rate per Unit (₹)	Amount (₹)
1.								
2.								
3.								
4.								
5.								
6.								
7.								
8.								
9.								
10.								

2C. Details of Industry Specific Operating Expenses

Name of Product			
CTA heading			
Sl. No.	Description of Industry Specific Operating Expenses	Current Year	Previous Year
		Amount (₹)	Amount (₹)
1.			
2.			
3.			
4.			
5.			
6.			
7.			
8.			
9.			
10.			

Part - C
FOR SERVICE SECTOR

1. QUANTITATIVE INFORMATION (for each service separately)			
Name of Service			
Service Code (if applicable)			
Particulars	Unit of Measurement	Current Year	Previous Year
1. Available Capacity			
(a) Installed capacity			
(b) Capacity enhanced during the year, if any			
(c) Total available capacity			
2. Actual Services Provided			
(a) Own services			
(b) Services under contractual arrangements			
(c) Outsourced services			
(d) Total services			
3. Total Services Provided as per Service Tax/ GST Records			
4. Capacity Utilization (in-house)			
5. Other Adjustments			
(a) Self or captive consumption			
(b) Other quantitative adjustments, if any			
(c) Total other adjustments			
6. Total Available Services for Sale [2(d)+5(c)]			
7. Actual Services Sold			
(a) Services rendered – Domestic			
(b) Services rendered – Export			
(c) Total services rendered			

2. ABRIDGED COST STATEMENT (for each service separately)					
Name of Service					
Service Code (if applicable)					
Unit of Measure					
		Services Provided	Captive Consumption	Other Adjustments	Services rendered
	Current Year				
	Previous Year				
Sl. No.	Particulars	Current Year		Previous Year	
		Amount (₹)	Rate per Unit (₹)	Amount (₹)	Rate per Unit (₹)
1	Materials Consumed (specify details as per Para 5A)				
2	Utilities (specify details as per Para 5B)				
3	Direct Employees Cost				
4	Direct Expenses				
5	Consumable Stores and Spares				
6	Repairs & Maintenance				
7	Quality Control Expenses				
8	Research & Development Expenses				
9	Technical know-how Fee / Royalty				
10	Depreciation/Amortization				
11	Other Overheads				
12	Industry Specific Operating Expenses (specify details as per Para 2 C)				
13	Total (1 to 12)				
14	Less: Credits for Recoveries, if any				
15	Cost of Services provided (13 - 14)				
16	Cost of Outsourced/Contractual Services				
17	Total Services available				
18	Less: Self/Captive Consumption				
19	Other Adjustments (if any)				
20	Cost of Services Sold (17 - 18 + 19)				
21	Administrative Overheads				
22	Selling & Distribution Overheads				
23	Cost of Sales before Finance charges (20+21+22)				
24	Finance cost				
25	Cost of Sales (23 + 24)				
26	Net Sales Realization (Net of Taxes and Duties)				
27	Margin [Profit/(Loss) as per Cost Accounts] (26 - 25)				

NOTES:	
1.	Separate Cost Statement shall be prepared for each service
2.	The items of cost shown in the proforma are indicative and the same should be reflected keeping in mind the materiality of the Item of cost in the service.
3.	The Proforma may be suitably modified to meet the requirement of the Industry/service.
4.	In case the Company follows a pre-determined or standard costing system, the above cost statement should reflect figures at actuals after adjustment of variances, if any.

2A. Details of Materials Consumed

Name of Service									
Service Code (if applicable)									
Sl. No.	Description of Material	Category	UOM	Current Year			Previous Year		
				Quantity	Rate per Unit (₹)	Amount (₹)	Quantity	Rate per Unit (₹)	Amount (₹)
1.									
2.									
3.									
4.									
5.									
6.									
7.									
8.									
9.									
10.									

Category: Indigenous/ Imported/ Self Manufactured

2B. Details of Utilities Consumed

Name of Service								
Service Code (if applicable)								
Sl. No.	Description of Utilities Consumed	UOM	Current Year			Previous Year		
			Quantity	Rate per Unit (₹)	Amount (₹)	Quantity	Rate per Unit (₹)	Amount (₹)
1.								
2.								
3.								
4.								
5.								
6.								
7.								
8.								
9.								
10.								

2C. Details of Industry Specific Operating Expenses

Name of Service			
Service Code (if applicable)			
Sl. No.	Description of Industry Specific Operating Expenses	Current Year	Previous Year
		Amount (₹)	Amount (₹)
1.			
2.			
3.			
4.			
5.			
6.			
7.			
8.			
9.			
10.			

Part - D**1. PRODUCT AND SERVICE PROFITABILITY STATEMENT (for audited products/services)**

Sl. No.	Particulars	Current Year			Previous Year		
		Sales (₹)	Cost of Sales (₹)	Margin (₹)	Sales (₹)	Cost of Sales (₹)	Margin (₹)
	Product 1						
	Product 2						
	Product 3						
etc.						
	Service 1						
	Service 2						
	Service 3						
 etc.						
	Total						

2. PROFIT RECONCILIATION (for the company as a whole)

Sl. No.	Particulars	Current Year (₹)	Previous Year (₹)
1	Profit or Loss as per Cost Accounts		
	(a) For the audited product(s)/service(s)		
	(b) For the un-audited product(s)/service(s)		
2	Add: Incomes not considered in cost accounts (specify details)		
	(a)		
	(b)		
	(c)		
	(d)		
	(e)		
	(f)		
	(g)		
	(h)		
	(i)		
	(j)		
3	Less: Expenses not considered in cost accounts (specify details)		
	(a)		
	(b)		
	(c)		
	(d)		
	(e)		
	(f)		
	(g)		
	(h)		
	(i)		
	(j)		
4	Difference In Valuation of stock between financial accounts and cost accounts		
5	Other adjustments, if any		
6	Profit or Loss as per Financial Accounts (excluding other comprehensive income for companies following Ind AS)		
Note: Show abnormal wastages, expenses on strikes/lock-outs and any other items of expenses or incomes of abnormal nature etc. not considered in cost separately			

3. VALUE ADDITION AND DISTRIBUTION OF EARNINGS (for the company as a whole)

Sl. No.	Particulars	Current Year (₹)	Previous Year (₹)
	<u>Value Addition:</u>		
1	Revenue from Operations		
2	Less: Taxes and Other Duties		
3	Net Revenue from Operations		
4	Add: Export Incentives		
5	Add/less: Adjustment in Stocks		
6	Less: Cost of bought out inputs		
	(a) Cost of Materials Consumed		
	(b) Process Materials / Chemicals		
	(c) Consumption of Stores & Spares		
	(d) Utilities (e.g. power & fuel)		
	(e) Others, if any		
	Total Cost of bought out inputs		
7	Value Added		
8	Add: Income from any other sources		
9(i)	Exceptional & Extra Ordinary Income		
9(ii)	Other Comprehensive Income, if any		
10	Earnings available for distribution		
	<u>Distribution of Earnings to:</u>		
1	Employees as salaries & wages, retirement benefits, etc.		
2	Shareholders as dividend		
3	Company as retained funds		
4	Government as taxes (specify)		
5	Exceptional and Extra Ordinary Expenses, if any		
6	Others, if any (specify)		
7	Total distribution of earnings		

4. FINANCIAL POSITION AND RATIO ANALYSIS (for the company as a whole)

Sl. No.	Particulars	Units	Current Year	Previous Year
A.	Financial Position			
1	Share Capital			
2	Reserves & Surplus			
3	Long Term Borrowings			
4	(a) Gross Fixed Assets (b) Net Fixed Assets			
5	(a) Current Assets (b) Less: Current Liabilities (c) Net Current Assets			
6	Capital Employed			
7	Net Worth			
B.	Financial Performance			
1	Value Added			
2	Net Revenue from Operations of Company			
3	Profit before Tax (PBT)			
C.	Profitability Ratios			
1	PBT to Capital Employed (B3/A6)	%		
2	PBT to Net worth (B3/ A7)	%		
3	PBT to Value Added (B3/B1)	%		
4	PBT to Net Revenue from Operations (B3/B2)	%		
D.	Other Financial Ratios			
1	Debt- Equity Ratio			
2	Current Assets to Current Liabilities			
3	Value Added to Net Revenue from operations	%		
E.	Working Capital Ratios			
1	Raw Materials Stock to Consumption	Months		
2	Stores & Spares to Consumption	Months		

- Notes:**
1. In this table, in case of companies to which Indian Accounting Standards apply:
 - (a) Share capital shall mean 'Equity Share Capital'
 - (b) Reserves & Surplus shall mean 'Other Equity'
 - (c) Long Term Borrowings shall mean 'Borrowing under Non Current Liabilities'
 - (d) Net Fixed Assets shall mean the sum total of 'Property, Plant and Equipment', 'Capital Work in Progress', 'Goodwill', 'Other intangible assets', 'Intangible assets under development' and 'Biological assets other than bearer plants'.
 2. Capital Employed means average of "Net fixed assets (excluding effect of revaluation plus Non-current investments and net current assets" existing at the beginning and close of the financial year.
 3. Net Worth is as defined under clause (57) of Section 2 of the Companies Act, 2013
 4. In case of companies to which Indian Accounting Standards apply:
 - (a) Revenue shall be net of taxes & duties
 - (b) PBT shall not include "Other Comprehensive Income"

5. RELATED PARTY TRANSACTIONS (for the company as a whole)

Sl. No.	Name & CIN of the Related Party	Name of the Product / Service	Nature of Transaction (Sale, Purchase etc.)	Quantity	Transfer Price	Amount (₹)	Normal Price	Basis adopted to determine the Normal Price
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								

- Notes:** 1. Details should be furnished for each Related Party and Product /Service separately.
2. Details of Related Party transactions without Indicating the Normal Price and the basis thereof shall be considered as incomplete Information.

6. RECONCILIATION OF INDIRECT TAXES (for the Company as a whole)

Particulars	Taxable Value/ Assessable Value	Excise Duty/ VAT, CST, Cess etc./ Other State Taxes, if any	Goods & Services Tax			
			CGST	SGST/ UTGST	IGST	Cess and Others
	(₹)	(₹)	(₹)	(₹)	(₹)	(₹)
Excise Duty						
1 Domestic						
2 Export						
3 Stock Transfers (Net)						
4 Others, if any						
5 Total Excise Duty (1 to 4)	-	-				
6 VAT, CST, Cess etc.						
7 Other State Taxes, if any						
Goods & Services Tax						
8 Outward Taxable Supplies (other than zero rated, nil rated and exempted)						
9 Outward Taxable Supplies (zero rated)						
10 Inward Supplies (liable to reverse charge)						
11 Other Outward Supplies (nil rated, exempted)						
12 Non-GST Outward Supplies						
13 Total (8 to 12)	-		-	-	-	-
14 Total Duties / Taxes Payable (5+6+7+13)		-	-	-	-	-
Duties/Taxes paid [by Utilisation of Input Tax Credit and Payment through Cash Ledger, as the case may be]						

Input Tax Credit Utilised							
15	CGST/CENVAT						
16	SGST/UTGST/VAT						
17	IGST						
18	CESS						
19	Transitional Credit						
20	Others, if any, specify						
21	Total Input Tax Credit Utilised (15 to 20)			-	-	-	-
22	Payment through Cash Ledger						
23	Total Duties/Taxes Paid (21+22)			-	-	-	-
	Difference between Taxes Paid and Payable (14-23)			-	-	-	-
24	Interest/Penalty/Fines Paid						

SIGNATURE	SIGNATURE	SIGNATURE
NAME	NAME	NAME
COST AUDITOR	COMPANY SECRETARY/DIRECTOR	DIRECTOR
MEMBERSHIP NUMBER	MEMBERSHIP/DIN NUMBER	DIN NUMBER
SEAL	STAMP	STAMP
DATE	DATE	DATE

Note:

- (1) Wherever, there is any significant variation in the current year's figure over the previous year's figure for any item shown under each para of the Annexure to the Cost Audit Report, reasons thereof shall be given by the Cost Auditor.
- (2) Wherever, duration of the current year or the previous year is not 12 (twelve) months, same shall be clearly indicated in the Report.
- (3) The Unit of Measurement (UoM) for each Customs Tariff Act Heading, wherever applicable, shall be the same as provided for in the Customs Tariff Act, 1975 (51 of 1975) corresponding to that particular Customs Tariff Act Heading.

FORM NO. CRA-4
[Pursuant to Sub-rule (6) of rule 6]



Form for filing Cost Audit Report with the Central Government

Form Language English Hindi

Note: Refer the instruction kit for filing the form. All fields marked in (*) are to be mandatorilly filled.

1.(a) *Corporate identity number (CIN) or foreign company registration number (FCRN) of the company

(b) Global location number (GLN) of company

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 ID of the company

(d) *SRN of 23C/ CRA-2 filed for appointment of Cost Auditor(s)

3. (a) *Financial year for which cost auditor was initially appointed
From (DD/MM/YYYY) To (DD/MM/YYYY)

(b) *Whether any change in Financial Year Yes No

(c) *Change Financial Year for Which report is being filed From (DD/MM/YYYY) To (DD/MM/YYYY)

(d) *Date of Board of Directors meeting in which Annexure to the cost audit report was approved (DD/MM/YYYY)

4. (a) *State number of Industries/ Sectors/ Product(s)/ Service(s) (CTA heading level, wherever applicable as per Rules) for which the Cost Audit Report is being submitted

(i) Regulated

(ii) Non-Regulated

(b) Details of such Industries/ Sectors/ product(s)/ service(s) of the company

(i) Details of such industries/sectors/products/services under regulated sectors

Industries/sectors/products/services	CTA heading (wherever Applicable)	No. of tariff items/Products/ services
<input type="text"/>	<input type="text"/>	<input type="text"/>

(ii) Details of such industries/sectors/products/services under non-regulated sectors

Industries/sectors/products/services	CTA heading (wherever Applicable)	No. of tariff items/Products/ services
<input type="text"/>	<input type="text"/>	<input type="text"/>

5 (a) *State number of Industries/ Sectors/ Product(s)/ Service(s) (CTA heading level, wherever applicable as per Rules) not covered in the Cost Audit Report

- (i) Regulated
- (ii) Non-Regulated

(b) (i) Details of such Industries/ Sectors/ product(s)/ service(s) of the company under regulated sector

Industries/sectors/products/services	CTA heading (wherever Applicable)	No. of tariff items/Products/ services
<input type="text"/>	<input type="text"/>	<input type="text"/>

(b) (ii) Details of such Industries/ Sectors/ product(s)/service(s) of the company under non-regulated sector

Industries/sectors/products/services	CTA heading (wherever Applicable)	No. of tariff items/Products/ services
<input type="text"/>	<input type="text"/>	<input type="text"/>

(6) Details of the cost auditor(s) appointed

* (i) Number of cost auditor(s) appointed

(a) *Category of the auditor Individual Partnership firm Limited liability partnership (LLP)

(b)(i) *Membership number of the Cost Auditor/ member representing the Cost Auditor's Firm/LLP

(ii) * Name of the Cost Auditor/ member representing the Cost Auditor's Firm/LLP

(iii) * Firm registration number(FRN) of the Cost Auditor/Cost Auditor's firm/LLP

(iv) * Name of the Cost Auditor's firm/LLP

(c) (i) Address * Line I
Line II

(ii) *City

(iii) *State

(iv) Country

(v) * Pin code

(vi) *e-mail ID of the firm or member

(d) *Date of the board meeting in which cost auditor was appointed (DD/MM/YYYY)

(e) *Type of appointment Original Appointment due to casual vacancy

Appointment for new products/services/locations

(f) *Scope of audit of the cost auditor/firm/LLP

(g) *Date of receipt of copy of cost audit report by the company (DD/MM/YYYY)

7. (a) *Whether the cost auditor's report has been qualified

Yes No

If yes, please state

(b) *Whether cost auditor's report has any reservations

Yes No

If yes, please state

(c) *Whether the cost auditor's report has any adverse remarks

Yes No

If yes, please state

(d) *Whether the cost auditor's report contain any observations or suggestions

Yes No

If yes, cost auditor's observations/ suggestions

Attachments

(1) *XBRL document in respect of the cost audit report and company's information and explanations on every qualification and reservation contained therein

Attach

List of attachments

(2). Optional attachment, if any.

Attach

Remove attachment

Declaration

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

I have been authorized by the Board of Directors *resolution number

*dated
(DD/MM/YYYY)

It is confirmed that the attached XBRL document(s) are the XBRL converted copy(s) of the duly signed cost audit report as required under Section 148(2) and company's information and explanations as required under Section 148(6) of the Companies Act, 2013 and the rules made thereunder. It is further confirmed that such document(s) have been prepared using XBRL taxonomy as notified by the Ministry of Corporate Affairs for this purpose.

***To be digitally signed by**

DSC BOX

Director or Manager or CEO or CFO or Secretary of the company
(in case of Indian company) or authorised representative
(in case of Foreign company)

*Designation

*Director identification number of the Director; or PAN of the
Manager or CEO or CFO or authorized representative;
or membership number of the Company Secretary

Note: Attention is drawn to provisions of Section 448 and 449 of the Companies Act, 2013 which provide for punishment for false statement / certificate and punishment for false evidence respectively.

Modify

Check Form

Prescrutiny

Submit

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

Illustration 1.

The following figures are extracted from the statement prepared by the Cost Accountant and the Trial Balance of ABC Ltd., which is a single product company:

(₹ In lakhs)

	31.03.2023	31.03.2022	31.03.2021
Net Sales	1,745	1,705	1,610
Raw Materials consumed	1,140	1,060	975
Direct Wages	35	32	27
Power and Fuel	30	27	24
Stores and Spares	6	5	4
Depreciation charged to production cost centres	16	15	13
Factory overheads:			
Salaries and wages	5	4	3
Depreciation	2	2	2
Rates and Taxes	1	1	1
Other overheads	6	5	4
Administrative overheads:			
Salaries and Wages	10	9	8
Rates and Taxes	2	2	2
Other overheads	162	154	148
Selling and distribution overheads:			
Salaries and Wages	7	6	5
Packing and Forwarding	6	6	5
Depreciation	1	1	1
Other overheads	124	118	108
Interest	85	74	68
Bonus and Gratuity	12	10	9
Gross Current Assets	840	724	640
Current Liabilities and Provisions	324	305	246

You are required to compute the following ratios as per requirement of Part D, Para 3 & 4 of the Annexure to Cost Audit Report under the Companies (Cost Records and Audit) Rules, 2014 for 3 years:

- (i) Operating Profit as percentage of Value Addition.
- (ii) Value Addition as percentage of Net Sales.
- (iii) Note: The computation should be based on EBDIT as Operating Profit.

Solution:

	Year Ending (₹ In lakhs)		
	31.03.23	31.03.22	31.03.21
Net sales (A)	1,745	1,705	1,610
Cost of Sales excluding depreciation & Interest			
Raw Material consumed	1,140	1,060	975
Direct Wages	35	32	27
Power and Fuel	30	27	24
Stores and Spares	6	5	4
Factory overheads (excluding depreciation)	12	10	8
Administrative overheads (excluding depreciation)	174	165	158
Selling and distribution overheads (excluding depreciation)	137	130	118
Bonus and Gratuity	12	10	9
Total (B)	1,546	1,439	1,323
Operating Profit (A) - (B) =	199	266	287

Value addition is defined in Part D, Para 3 & 4 of the Annexure to Cost Audit Report under the Companies (Cost Records and Audit) Rules, 2014 as “the difference between the net output value (Net Sales) and cost of bought out materials and services for the product under reference”.

The working will be :

	Year Ending		
	31.03.23	31.03.22	31.03.21
(X) Net sales	1,745	1,705	1,610
Less : (i) Cost of Bought Out Materials & Service (Raw Materials and Stores & Spares)	1,146	1,065	979
(ii) Power & Fuel, other bought out services	30	27	24
(iii) Over heads (excluding Salaries & Wages, Rates & Taxes and depreciation)	298	283	265
(Y) = (i) + (ii) + (iii)	1,474	1,375	1,268
Value Addition : (X) - (Y) =	271	330	342

	Year Ending		
	31.03.23	31.03.22	31.03.21
Hence,			
(a) Operating profit as % of Value Added	199/271	266/330	287/342
i.e.	73.43%	80.6%	83.92%
			= 84%
(b) Value Addition as % of Net Sales	271/1745	330/1705	342/1610
i.e.	15.53%	19.35%	21.24%

Illustration 2.

The following figures are obtained from the Cost Accounting Records of Sinjini Ltd. a single product manufacturing company:

Year ended 31st March	2023	2022
	(Amount in ₹ lakh)	
Net Sales	4,800	3,840
Other Income	300	200
Increase in Value of Stock of Finished Goods	20	10
Raw materials Consumed	1,760	1,440
Direct wages, Salaries, Bonus, Gratuity etc.	440	352
Power & Fuel	240	192
Stores and Spares	160	140
Cess and local Taxes	120	100
Other manufacturing Overheads	430	370
Administrative Overheads:		
Audit fees	36	30
Salaries & Commission to Directors	48	40
Other Overheads	260	220
Selling and Distribution Overheads:		
Salaries & Wages	36	30
Packing and Forwarding	20	16
Other Overheads	250	200
Total Depreciation	120	120
Interest Charges:		
On Working Capital Loans from Bank	60	25
On Fixed Loans from IDBI	90	70
On Debentures	30	30
Provision for Taxes	316	200
Proposed Dividends	420	230

You are required to calculate the following parameters as stipulated PART-D, PARA-3 of the Annexure to Cost Audit Report under the Companies (Cost Records and Audit) Rules, 2014 for the year ended March 31, 2023 and March 31, 2022:

- (i) Value Addition
- (ii) Earnings available for Distribution
- (iii) Distribution of Earnings to the different claimants.

Solution:

Sinjini Ltd.
Calculation of Value Addition

(Amount in ₹ lakh)

	2023	2022
Year ended March 31,		
VALUE ADDITION:		
Net Sales	4,800	3,840
Add: Export Incentives	-	-
Add/Less: Adjustment in Finished stocks	20	10
	4,820	3,850
Less: Cost of bought out input:		
(i) Cost of Raw materials consumed	1,760	1,440
(ii) Consumption of stores and spares	160	140
(iii) Power & Fuel	240	192
(iv) Other overheads	1,056	861
(430+36+260+20+250+60) = 1,056		
(370+30+220+16+200+25) = 861		
Total cost bought out input	3,216	2,633
(i) VALUE ADDED	1,604	1,217
Add: Other Income	300	200
(ii) Earnings Available for distribution	1,904	1,417
(iii) Distribution of earnings to:		
(a) Employees as salaries and wages, bonus, gratuity etc.	476	382
Directors- Salaries and Commission	48	40
(b) Shareholders as dividend	420	230
(c) Company as retained funds (including depreciation)	404	365
(d) Government as taxes		
Local Taxes:	120	100
Income Taxes	<u>316</u>	<u>200</u>
	436	300
(e) Providers of Capital/Fund as Interest on Debentures		
Interest on debentures	30	30
Interest on Fixed loans from IDBI	<u>90</u>	<u>70</u>
	120	100
Total distribution of earnings	1,904	1,417

Working of Retained Earnings:

	₹ in lakhs
Earning Available for Distribution	1904
Employee Cost	– 476
Directors Salaries & Commission	– 48
Dividend	– 420
Taxes	– 436
Interest	– 120
	<u>404</u>

Illustration 3.

The following figures are obtained from the Cost Accounting Records of Vennela Ltd. :

Year ended 31st March	2023	2022
Particulars	(Amount in ₹ lakhs)	
Net Sales	7,120	5,700
Other Income	450	300
Export Incentives	80	60
Increase in Value of Stock of Finished Goods	30	15
Raw materials consumed	2,640	2,160
Direct wages, salaries, bonus, gratuity etc.	660	528
Power & Fuel	360	288
Stores and spares	240	210
Other manufacturing overheads	645	555
Administrative Overheads :		
Audit fees	54	45
Salaries & commission to directors	72	60
Other overheads	390	330
Selling and distribution overheads :		
Salaries & Wages	54	45
Packing and forwarding Other overheads	30	24
	375	300
Total depreciation	180	180
Interest Charges :		
On working capital loans from Bank	90	75
On fixed loans from IDBI	135	105
On Debentures	45	45
Tax paid including provisions	474	300
Dividend paid	630	345
Dividend Distribution Tax	110	60

You are required to calculate the following parameters as stipulated PART-D, PARA-3 of the Annexure to Cost Audit Report under the Companies (Cost Records and Audit) Rules, 2014 for the year ended March 31, 2023 and March 31, 2022:

- (i) Value addition
- (ii) Earning available for Distribution
- (iii) Distribution of Earning to the different claimants

Solution:

Annexure to Cost Audit Report:

 Part D-3: Value Addition And Distribution Of Earnings (For **Vennela Ltd.** as a whole)

(Amount In ₹ lakhs)

Sl. No.	Particulars	Current Year 2022-23	Previous Year 2021-22
	Value Addition:		
1.	Net Sales	7120	5700
2.	Add: Export incentives	80	60
3.	Add:/(Less) Adjustment In Finished Stocks	30	15
		7,230	5,775
	Less: Cost of bought out input:		
	(a) Cost of Raw materials consumed	2,640	2,160
	(b) Consumption of stores and spares	240	210
	(c) Power & Fuel	360	288
	(d) Other overheads	1,584	1,329
	(645+54+390+30+375+90) = 1584		
	(555+45+330+24+300+75) = 1329		
	Total cost bought out inputs	4,824	3,987
4.	Value Added:	2,406	1,788
5.	Add: Other income	450	300
6.	Add: Extra ordinary income	---	----
7.	Earnings available for distribution	2,856	2,088
	Distribution of earnings to:		
(a)	Employees as salaries and wages, bonus, gratuity etc.	714	573
	Directors- Salaries and commission	72	60
(b)	Shareholders as dividend	630	345
(c)	Company as retained funds (including depreciation)	676	600
(d)	Government as taxes		
	Dividend Distribution Taxes	110	60
	Income taxes paid (including provisions)	474	300
		584	360
(e)	Providers of Capital/Fund as Interest on Debentures:		
	Interest on Debentures:	45	45
	Interest on Fixed Loans from IDBI	135	105
		180	150
	Total distribution of earnings	2,856	2,088

Working of Retained Earnings:

₹ in lakhs

Earning Available for Distribution	2856
Employee Cost	- 714
Directors Salaries & Commission	- 72
Dividend	- 630
Taxes	- 584
Interest	- 180
	<u>676</u>

Illustration 4.

In the Financial Accounts of Chemicals & Fertilizers Ltd. for the year ended March 31, 2023 the profit was ₹8,98,07,500. The profit as per Cost Accounting records for the same period was less. The following details are extracted from the accounting schedules and Cost Accounting records of the company.

	Financial Accounts ₹ '000	Cost Accounts ₹ '000
Opening : Semi Finished Goods	31700	35210
: Finished Goods	83220	78590
Closing : Semi Finished Goods	35260	39420
: Finished Goods	89320	80450
Urea & Transport subsidy	348	
Expenses on CSR	56	
Profit on sale of Fixed Assets	150	
Chemical used internally	382	365
Favourable Exch. Rate variation	294	
Post-retirement Medical grant	584	
Purchase Tax Refund	453	
Litigation Recovery-Prior year	125	

You are required to prepare a Reconciliation Statement and arrive at the Profit as per Cost Records for the year ended March 31, 2023.

Solution:**Chemicals & Fertilizers Ltd.**

Reconciliation of financial profit and costing profit for the year ended March 31, 2023

Amount in ₹ thousand

Profit or loss as per Financial Accounts		89807.50
A. Less: Incomes not considered in Cost Accounts:		
i. Profit on sale of Fixed Assets	150	
ii. Urea & Transport Subsidy	348	
iii. Litigation Recovery-Prior year	125	
iv. Favorable Exch. Rate Variation	294	
v. Purchase tax Refund	453	
vi. Own consumption (chemicals) valuation difference (382-365)	17	(1387.00)
B. Add: Expenses not considered in Cost Accounts		
i. Expenses on CSR	56	
ii. Post-retirement medical grant	584	640.00
C. Less:		
Difference in Valuation of stock between Financial Accounts and Cost Accounts (9660-6070) (workings)		(3590.00)
Profit as per Cost Accounts		85470.50

Workings:

Current Year (2022-23)

(Amount in ₹ thousand)

	Financial Accounts	Cost Accounts
Opening Semi finished	31700	35210
Finished	83220	78590
Total	114920	113800
Closing semi finished	35260	39420
Finished	89320	80450
Total	124580	119870
Variation in inventory	9660	6070

Increase in Difference of stock valuation towards financial accounts = ₹3590

Illustration 5.

Auto Parts Manufacturing Company Ltd. showed a profit for the year 2022-23 as ₹ 35,46,700. During the course of Cost Audit, the followings transactions were noticed:

- (i) an old machine with net value of ₹ 6,54,000 was sold off for ₹ 9,30,000,
- (ii) dividend income was received amounting to ₹ 84,500 from investments,
- (iii) a sum of ₹ 58,000 was spent towards CSR commitment,
- (iv) the company was engaged in trading activity where purchase of goods was ₹ 13,50,000 and sales was ₹ 13,42,300, after incurring ₹ 40,800 as expenditure,
- (v) some renovation work was carried out at a cost of ₹ 7,75,000 and its useful life was only for five years, and
- (vi) the closing inventory of raw material was undervalued ₹ 29,600 and that of finished goods was overvalued ₹ 65,400 in the financial records. Work out the Profit as per the Cost Accounts.

Solution:

Reconciliation of Profit between Cost Accounts and the Financial Accounts of Auto Parts Manufacturing Company Ltd. for the year 2022-23.

Particulars	₹	₹
Profit as per the Financial Accounts		35,46,700
Add: Trading Loss	48,500	
4/5th of Renovation Expenses Amortized	6,20,000	
CSR Contribution	<u>58,000</u>	7,26,500
Less: Profit on Sale of Assets	2,76,000	
Income from Investments	84,500	
Net overvaluation of closing inventory in the Financial records ₹ (65,400 - 29,600)	<u>35,800</u>	(-) 3,96,300
Profit as per the Cost Accounts		38,76,900

Illustration 6.

The profit as per financial accounts of M/s Kalingpong Himalaya Private Company for the year 2022-23 was ₹ 1,54,28,642. The profit as per Cost Accounting Records for the same period was less. You are required to prepare a reconciliation statement and arrive at the profit as per Cost Records. The following details are collected from the financial schedules and cost accounting records:

	Financial Accounts	Cost Accounts
Valuation of Stock		
Opening: WIP	25,62,315	22,65,710
Finished Goods	2,65,47,520	2,92,18,950
Closing : WIP	42,75,640	37,36,346
Finished Goods	3,72,59,430	4,35,25,149
Interest income from inter-corporate deposits	6,15,340	—
Donations given	4,85,560	—
Loss on Sale of Fixed Assets	1,22,546	—
Value of cement taken for own consumption	3,82,960	3,65,426
Cost of Power drawn from own Wind Mill		
— At EB tariff	—	49,56,325
— At cost	36,20,370	—
Non-operating income	45,36,770.	—
Voluntary retirement compensation	16,76,540	—
Insurance claim relating to previous year received during the year		
	14,35,620	—

Solution:

Working:

Computation in difference in Valuation of Stock

	Financial Accounts	Cost Accounts
Opening (WIP & FG)	2,91,09,835	3,14,84,660
Closing (WIP & FG)	4,15,35,070	4,72,61,495
	1,24,25,235	1,57,76,835

Reconciliation of Financial Profit and Costing Profit

	₹	₹
Profit as per Financial Accounts		1,54,28,642
Add: Difference in Stock Valuation	33,51,600	
Loss on Sale of Fixed Assets	1,22,546	
Donation not considered in Cost Records	4,85,560	
Voluntary retirement compensation not included in cost	<u>16,76,540</u>	<u>56,36,246</u>
		2,10,64,888
Less: Non-operating income	45,36,770	
Less: Interest income from intercorporate deposit	6,15,340	
Difference in value of cement taken for own consumption	17,534	
Difference in valuation of windmill power (₹49,56,325 – 36,20,370)	13,35,955	
Insurance claim relating to previous year	<u>14,35,620</u>	79,41,219
Profit as per Cost Accounts		1,31,23,669

Illustration 7.

The Cost Accountant of TRINCUS TEXTILES MILLS LTD. has arrived at a Profit of ₹ 20,10,500 based on Cost Accounting Records for the year ended March 31, 2023. Profit as per Financial Accounts is ₹ 22,14,100.

As a Cost Auditor, you find the following differences between the Financial Accounts and Cost Accounts:

	₹
(1) Profit on Sale of Fixed Assets	2,05,000
(2) Loss on Sale of Investments	33,600
(3) Voluntary Retirement Compensation included in Salary & Wages in F/A	50,25,000
(4) Donation Paid	75,000
(5) Insurance Claim relating to previous year received during the year	5,08,700
(6) Profit from Retail trading activity	32,02,430
(7) Interest Income from Inter-Corporate Deposits	6,15,000
(8) Decrease in value of Closing WIP and Finished goods inventory	
as per Financial Accounts	3,82,06,430
as per Cost Accounts	3,90,12,500

You are required to prepare a Reconciliation Statement between the two Accounts for the year ended March 31, 2023.

Solution:

Reconciliation of Profit between Cost and Financial Accounts
for the year ended March 31, 2023

	₹	₹
Profit as per Financial Accounts:		22,14,100
Add: Loss on sale of investments	33,600	
Add: Voluntary Retirement compensation included in salary and wages in F/A - Not included in cost A/c	50,25,000	
	75,000	51,33,600
Add: Donation paid		73,47,700
Less: Profit on Sale of Fixed Assets-Not considered in cost A/c	2,05,000	
Less: Receipts of insurance claim related to previous year	5,08,700	
Less: Profit from Retail trading activity	32,02,430	
Less: Interest income from inter-corporate deposit-not considered in cost accounts	6,15,000	
Less: Difference in valuation of stock:		
Decrease in inventories as per cost accounts	3,90,12,500	
Decrease in inventories as per financial accounts	(–) 3,82,06,430	8,06,070
		53,37,200
Profit as per Cost Accounts		20,10,500

Illustration 8.

The Financial Profit and Loss of M/s. VGM Manufacturing company Ltd. for the year is ₹28,75,000. During the course of cost audit, it is noticed the followings:

- (i) Some Old assets sold off which fetched a profit of ₹ 1,25,000
- (ii) Interest was received amounting to ₹ 45,000 from outside the business investment.
- (iii) Work-in-progress valuation for financial accounts does not as a practice take into account factory overhead. Factory overhead is ₹ 2,15,000 in opening W-I-P and ₹ 2,45,000 in closing W-I-P.
- (iv) The Company was engaged in Trading activity by purchasing goods of ₹ 11,15,845 and selling at ₹ 13,12,850 after incurring ₹ 35,000 as expenditure.
- (v) A major overhaul of machinery was carried out at a cost of ₹ 5,50,000 and next such overhaul will be done only after five years.
- (vi) Opening stock of raw material and finished goods was overvalued for ₹ 2,00,000 and closing stock was overvalued ₹ 1,85,000 in financial records.

Work out the profit as per Cost Accounts.

Solution:

Reconciliation of Profit between Cost Accounts and Financial Accounts of M/s. VGM Manufacturing Company Ltd.

Particulars	₹	₹
Profit as per Financial Accounts		28,75,000
Add: Difference in valuation of W-I-P	30,000	
Proportionate charge i.e. four-fifth for overhaul of machinery	4,40,000	
Overvaluation of Opening Stock in the financial records	<u>2,00,000</u>	6,70,000
Less: Profit on sale of old assets not included in Cost A/cs	1,25,000	
Interest received from outside investment	45,000	
Trading profit not included in cost accounts	1,62,005	
Overvaluation of closing stock in the financial records	<u>1,85,000</u>	<u>(-) 5,17,005</u>
Profit as per Cost Accounts		<u>30,27,995</u>

Illustration 9.

- (a) Ambica Textile Mills produced cloth and fabrics. In addition, they undertook customer’s job order for processing of cloth towards optimum utilisation of its spare capacity and earned from loan licence. From the following Income figures.

Find out the turnover of the company as per the Companies (Cost Records and Audit) Rules:

Income	(₹ in lakh)
Sales	19,300
Trading Sales from Depots	1,250
Export Income	2,100
Export Duty	450
Income from Job Processing	1,100
Scrap Sale	235
Income from Loan Licence operations	560

- (b) The financial profit and loss account for the year 2022-23 of a company shows a net profit of ₹29,60,000. During the course of Cost Audit, it was noticed that:
- The company was engaged in trading activity by purchasing goods at ₹ 6,00,000 and selling it for ₹ 7,50,000 after incurring repacking cost of ₹ 25,000,
 - Some discarded assets sold off with no scrap value for ₹ 90,000,
 - Some renovation of machinery was carried out at a cost of ₹ 6,00,000, having a productive life of five years, but entire amount was charged to financial accounts
 - Interest was received amounting to ₹ 1,40,000 from outside investments
 - Voluntary Retirement payment of ₹3,50,000 was not included in the Cost Accounts,

- (vi) Insurance claim of previous year was received to the extent of ₹ 2,50,000 but was not considered in the Cost Accounts.
- (vii) Opening stock or raw materials and finished goods was overvalued by ₹ 2,40,000 and closing stock of finished goods was overvalued by ₹1,10,000 in the financial accounts, and
- (viii) Donation of ₹80,000 towards CSR commitment was not considered in the Cost Accounts.

Work out the profit as per the Cost Accounts and briefly explain the adjustment, if any, carried out.

Solution:

(a) As per the Companies Act, 2013, Turnover means gross turnover made by the company from the sale or supply of all products and services during a financial year but excluding duties and taxes.

Income	₹ in Lakh
Sales	19,300
Trading Sales from Depots	1,250
Export Income	2,100
Income from Job Processing	1,100
Scrap Sale	235
Income from Loan License Operations	560
Total Turnover	24,545

(b) Profit Reconciliation as per Cost and Financial Records for the year 2022-23

	Particulars	₹ in '000	₹ in '000
1	Profit as per Financial Accounts for Audited Products		29,60,000
2	Less : Incomes not considered in the Cost Accounts		
	a) Trading Profit (7,50,000-6,00,000-25,000)	1,25,000	
	b) Profit on Sale of Old Assets	90,000	
	c) Interest received from Outside Investments	1,40,000	
	d) Insurance claim for previous year received	2,50,000	
	Total		(-) 6,05,000
3	Add : Expenses not considered in the Cost Accounts		
	a) Donation towards CSR Commitment	80,000	
	b) VRS Expenses	3,50,000	
	c) Renovation (4/5th Outlay of 600000)	4,80,000	
	Total		9,10,000
4	Valuation of stocks (240000-110000)(Overvaluation of opening stock and closing stock in financial accounts)		1,30,000
5	Other adjustments		—
	Profit as per the Cost Accounts		33,95,000

Solved Cases on Applicability of Rule 4 read with Rule 3 – coverage of Cost Audit under different turnover criteria

Case 1: M/s. XYZ & Co. Ltd. furnishes the following information in regard to the immediately preceding Financial Year:

Turnover of Table A Products under Rule 3 is ₹ 6 crore

Turnover of Table B Products under Rule 3 is ₹ 9 crore

Turnover of other products is ₹ 18 crore

Find out the applicability of :

- (a) Cost Records under Rule 3 of the Companies (Cost Records and Audit) Rules, 2014 (as amended)
- (b) Cost Audit under Rule 4 of the Companies (Cost Records and Audit) Rules, 2014 (as amended)

Solution:

In this case the following position emerges:

- (a) Overall Turnover is ₹ 33 crore i.e. \leq ₹ 35 crore. Therefore Cost Records are not required to be maintained for Table A and Table B Products.
- (b) Since the Cost Records are not required to be maintained under Rule 3, the question of Cost Audit does not arise.

Case 2: M/s. ABC Ltd. furnishes the following information in regard to the immediately preceding Financial Year:

Turnover of Table A Products under Rule 3 is ₹ 7 crore

Turnover of Table B Products under Rule 3 is ₹ 8 crore

Turnover of other products is ₹ 24 crore

Find out the applicability of :

- (a) Cost Records under Rule 3 of the Companies (Cost Records and Audit) Rules, 2014 (as amended)
- (b) Cost Audit under Rule 4 of the Companies (Cost Records and Audit) Rules, 2014 (as amended)

Solution:

In this case the following position emerges:

- (a) Overall Turnover is ₹ 39 crore i.e. \geq ₹ 35 crore. Therefore Cost Records are required to be maintained for Table A and Table B Products irrespective of individual turnover of the products.
- (b) Overall Turnover is ₹ 39 crore i.e. \leq ₹ 50 crore and aggregate Turnover of the Products under Rule 3 (Table A & Table B products) is Rs. 15 Crore, which is less than the threshold limit of ₹ 25 crore. Since the Conditions of Rule 4(1) and 4(2) of the Companies (Cost Records and Audit) Rules, 2014 (as amended) are not fulfilled, hence Cost Audit is not applicable for products either under Table A or Table B.

Case 3: M/s. B. K. Pvt. Ltd. furnishes the following information in regard to the immediately preceding Financial Year:

Turnover of Table A Products under Rule 3 is ₹ 11 crore

Turnover of Table B Products under Rule 3 is ₹ 14 crore

Turnover of other products is ₹ 28 crore

Find out the applicability of :

- (a) Cost Records under Rule 3 of the Companies (Cost Records and Audit) Rules, 2014 (as amended)
- (b) Cost Audit under Rule 4 of the Companies (Cost Records and Audit) Rules, 2014 (as amended)

Solution:

In this case the following position emerges:

- (a) Overall Turnover is ₹ 53 crore i.e. \geq ₹ 35 crore. Therefore Cost Records are required to be maintained for Table A and Table B Products.
- (b) Overall Turnover is ₹ 53 crore i.e. \geq ₹ 50 crore and aggregate Turnover of the Products under Rule 3 (Table A & Table B products) is ₹ 25 Crore. Since the conditions of Rule 4(1) of the Companies (Cost Records and Audit) Rules, 2014 (as amended) are fulfilled, therefore Cost Audit is applicable only for Table A Products.

Case 4: M/s. Sun Enterprise Ltd. furnishes the following information in regard to the immediately preceding Financial Year:

Turnover of Table A Products under Rule 3 is ₹ 19 crore

Turnover of Table B Products under Rule 3 is ₹ 15 crore

Turnover of other products is ₹ 76 crore

Find out the applicability of :

- (a) Cost Records under Rule 3 of the Companies (Cost Records and Audit) Rules, 2014 (as amended)
- (b) Cost Audit under Rule 4 of the Companies (Cost Records and Audit) Rules, 2014 (as amended)

Solution:

In this case the following position emerges:

- (a) Overall Turnover is ₹ 110 crore i.e. \geq ₹ 35 crore. Therefore Cost Records are required to be maintained for Table A and Table B Products.
- (b) Overall Turnover is ₹ 110 crore i.e. \geq ₹ 100 crore and aggregate Turnover of the Products under Rule 3 (Table A & Table B products) is ₹ 34 Crores i.e. \geq ₹ 25 Crore but \leq ₹ 35 crore. Conditions of Rule 4(1) of the Companies (Cost Records and Audit) Rules, 2014 (as amended) are fulfilled and cost audit is applicable for Table A Products.

Though the overall turnover is more than ₹ 100 crore, aggregate Turnover of the Products under Rule 3 (Table A & Table B products) is less than ₹ 35 crore [Rule 4(2)]. That is why, Table B products are not covered under cost audit.

Case 5: M/s. Alpha Pvt. Ltd. furnishes the following information in regard to the immediately preceding Financial Year:

Turnover of Table A Products under Rule 3 is ₹ 20 crore

Turnover of Table B Products under Rule 3 is ₹ 22 crore

Turnover of other products is ₹ 63 crore

Find out the applicability of :

- (a) Cost Records under Rule 3 of the Companies (Cost Records and Audit) Rules, 2014 (as amended)
- (b) Cost Audit under Rule 4 of the Companies (Cost Records and Audit) Rules, 2014 (as amended)

Solution:

In this case the following position emerges:

- (a) Overall Turnover is ₹ 105 crore i.e. \geq ₹ 35 crore. Therefore Cost Records are required to be maintained for Table A and Table B Products.
- (b) Overall Turnover is ₹ 105 crores i.e. \geq ₹ 100 crores and aggregate Turnover of the Products under Rule 3 (Table A & Table B products) is ₹ 42 Crores i.e. \geq ₹ 35 crores. Since the conditions of Rule 4(1) and Rule 4(2) of the Companies (Cost Records and Audit) Rules, 2014 (as amended) are fulfilled, Cost Audit is applicable for both Table A and Table B Products.

Exercise

Theoretical Questions

Multiple Choice Questions

1. The applicability of cost audit under Companies (Cost Records & Audit) – Rules, 2014 for regulated industries having overall annual turnover during immediate preceding financial year is _____.
 - (a) ₹25.00 crores or more
 - (b) ₹35.00 crores
 - (c) ₹50.00 crores or more
 - (d) ₹100.00 crores
2. The Company has to upload CRA-4 electronically to the MCA under the rule _____ of Companies (Cost Records & Audit) Rules, 2014
 - (a) Rule 5 (1)
 - (b) Rule 6 (2)
 - (c) Rule 4 (6)
 - (d) Rule 6 (6)
3. The form in which the cost records shall be maintained _____.
 - (a) CRA-1
 - (b) CRA-2
 - (c) CRA-3
 - (d) CRA-4
4. Which of the following type of Electricity Company is under the purview of regulated sector?
 - (a) Engaged in Generation
 - (b) Engaged in Transmission
 - (c) Engaged in Distribution & Supply
 - (d) All the above
5. Which one of the below is not a regulated industry?
 - (a) Telecommunication
 - (b) Electricity
 - (c) Drugs & Pharmaceuticals
 - (d) Automobile

6. Any casual vacancy in the office of a cost auditor, whether due to resignation, death or removal to be filled by the Board of Directors within _____ days of occurrence of such vacancy.
 - (a) 30 days
 - (b) 60 days
 - (c) 90 days
 - (d) 7 days

7. Cost Audit Report is to be Filed in Form _____ on MCA Portal
 - (a) CRA 1
 - (b) CRA 2
 - (c) CRA 3
 - (d) CRA 4

8. CRA 1 pertains to
 - (a) Cost Accounting Records
 - (b) Cost Accounting Standards
 - (c) Financial Accounting Records
 - (d) Secretarial Records

9. Cost Audit Report is to be prepared in Form
 - (a) CRA I
 - (b) CRA II
 - (c) CRA III
 - (d) CRA IV

10. In Cost Audit Report, General Information is reported in
 - (a) Part – A – 1
 - (b) Part – A- 2
 - (c) Part – A-3
 - (d) Part – A- 4

11. Sr No ____ Table B covers Companies engaged in Heath Services
 - (a) 5
 - (b) 10
 - (c) 20
 - (d) 22

12. Every company shall file a notice of appointment of Cost Auditor with in Form
- CRA 1
 - CRA 2
 - CRA 3
 - CRA 4

⊙ **State True or False**

- Micro enterprise or a small enterprise or a medium enterprise as per MSMED Act, 2006, with a overall turnover of ₹ 37.00 crores, have been taken out of the purview of Companies (Cost Records & Audit) Rules, 2014.
- The requirement for maintenance of cost record under the rule 3 of Companies (Cost Records & Audit) Rules, 2014 shall apply to a company whose total revenue is ₹ 200 crores and revenue from exports, in foreign exchange, exceeds seventy-five per cent of its total revenue.
- Every cost auditor shall forward his duly signed report to the Audit Committee of the company within a period of 180 days from the closure of the financial year.
- The tenure of Cost Auditor expires on the completion of one hundred and eighty days from the closure of the financial year.
- Provisions of section 139, 143, 144 and 145 of the Companies Act, 2013 is applicable to Cost auditor.

⊙ **Fill in the Blanks**

- Every cost auditor, who conducts an audit of the cost records of a company, shall submit the cost audit report in form _____.
- Company should furnish the Cost Audit report within a period of _____ days from the date of receipt of a copy of the cost audit report to the Central Government.
- The cost auditor shall forward his duly signed report to the Board of Directors of the company within a period of 180 days from the closure of the financial year i.e. _____ September of the relevant financial year.
- The maximum fine for default in provisions of section 148 of the Companies Act, 2013 is _____

⊙ **Short Essay Type Questions**

- A company has units in SEZ and in non-SEZ areas. The Companies (Cost Records and Audit) Rules 2014 has exempted companies operating in special economic zones from cost audit. What would be applicability of the Companies (Cost Records and Audit) Rules 2014 on such a company in respect of maintenance of cost accounting records and cost audit?

Answer:

Multiple Choice Questions

1.	(c) ₹ 50.00 Crore
2.	(d) Rule 6 (6)
3.	(a) CRA-1
4.	(d) All the Above
5.	(d) Automobile
6.	(a) 30 days
7.	(d) CRA 4
8.	(a) Cost Accounting Records
9.	(c) CRA III
10.	(a) Part – A – 1
11.	(d) 22
12.	(b) CRA 2

State True or False

1.	False- As per Rule-3 of Companies (Cost Records & Audit) Rules, 2014 only a micro enterprise or a small enterprise as per MSMED Act, 2006 have been taken out of the purview.
2.	False- As per Rule-4 (3) of Companies (Cost Records & Audit) Rules, 2014 the requirement for cost audit shall not apply to a company whose revenue from exports, in foreign exchange, exceeds seventy-five per cent of its total revenue even though it is covered in rule 3.
3.	False- Every cost auditor shall forward his duly signed report to the Board of Directors of the company within a period of 180 days from the closure of the financial year.
4.	False- As per Rule-6 (3) of Companies (Cost Records & Audit) Rules, 2014, the tenure of Cost Auditor expires of one hundred and eighty days from the closure of the financial year or till he submits the cost audit report, for the financial year for which he has been appointed.
5.	True (Ref. sec. 148(8)(B))

Fill in the Blanks

1.	CRA-3
2.	30 days
3.	27 th of September
4.	₹ 5.00 Lacs