Kishore Bhatia
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FAQ on
Maintenance of Cost Accounting Records and Cost Audit under Companies Act, 2013

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- CETA Codes
- turnover
- Threshold Issues
- Inclusions/Exclusions
- Duties of Company
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Old FAQs not valid

- 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.

- "The FAQs, circulars and clarifications issued earlier are no longer valid. The same may be considered as withdrawn and not applicable for the Companies (Cost Records and Audit) Rules, 2014 unless specifically mentioned in these FAQs."

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4-digit CETA Code

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

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

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4-digit CETA Code

- Petroleum Industry : All products covered under CETA Headings 2709 to 2715 are included as well as activities like storage, transportation, distribution of Crude Oil or Gas etc. and any other activity that is defined under the Petroleum and Natural Gas Regulatory Board Act, 2006 and regulated by the PNGRB are covered.

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

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4-digit CETA Code

- Machinery and mechanical appliances falling under CETA Codes 8401 to 8402; 8801 to 8805; 8901 to 8908 are similarly covered irrespective of its ultimate customer/consumer, subject to the company meeting the threshold limits prescribed and it is **not necessary that the products have to be exclusively used in defence, space and atomic energy sectors.**

Turnover

- Sub-section 91 of Section 2 of the Companies Act, 2013 defines *"turnover"* as *"the aggregate value of the realization of amount made from the sale, supply or distribution of goods or on account of services rendered, or both, by the company during a financial year*. For the purposes of these Rules, "Turnover" means gross turnover made by the company from the sale or supply of all products or services during the financial year.

- **It includes any turnover from job work or loan license operations but exclude duties and taxes. Export benefit received should be treated as a part of sales.** The Turnover shall include other operational income like Job work income, scrap sale, trading turnover, export benefits, sales of services etc.

- The Rules **do not provide any minimum product specific threshold** limits for maintenance of cost accounting records and companies would be required to maintain cost accounting records for the products covered under Table-A or Table-B or both even if the turnover of such products is below Rs. 35 crores.

- Once the maintenance of cost records becomes applicable, it would be maintained on a continuous basis in the subsequent years also. In the same line, cost audit will be applicable from Year-1 and for every year thereafter.

Product Combinations

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

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

- b) If the overall turnover of the company is more than Rs.100 crore, then:
- i. products under both Table A and Table B will be covered under cost audit provided the sum total of all the products of the company covered under Table A and Table B is more than Rs.35 cr
- ii. only products of Table A will be covered if the sum total of all the products of the company covered under Table A and Table B is more than Rs.25 cr but less than Rs.35 cr
- Rule 4 has defined threshold limits for Table A and Table B separately but the aggregate turnover of the individual product or products or service or services has been defined to be all products for which cost records are required to be maintained under rule 3.

Jobwork

- If the products of the Job Worker is listed under Table A or Table B of the Rules and the Job Worker company meets the threshold limits as prescribed, then the job worker company will be required to maintain cost accounting records. If the threshold criteria of the cost audit as prescribed are met, the company would be covered under cost audit also. Payment of excise duty by the Job Worker and in turn getting reimbursement for it is immaterial for application of the Rules.
- As per MCA circular, these companies were exempt in 2011 Rules
- What about principle company which gets the products manufactured by Job Worker? Will it be covered for records maintenance/audit?

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Scrap

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

Captive Consumption

- In case a product is manufactured and 100% captively consumed for production of some other product which is also covered under these Rules and is subject to cost audit, then the cost of such captively consumed product would form part of the final product which is also under cost audit and as such a separate cost audit report for the captively consumed product will not be necessary.
- However, if the product is partly for captive consumption and partly sold, or if the product is 100% captively consumed for production of some other product which is not covered under these Rules, then cost audit would be applicable for such captively consumed product(s).
- Can we take imputed value of Captive Consumption for threshold calculation?

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Captive Power

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

Electricity Rules

- Requirements of Captive Generating Plant.-
- (1) No power plant shall qualify as a 'captive generating plant' under section 9 read with clause (8) of section 2 of the Act unless-
- (a) in case of a power plant - (i) not less than twenty six percent of the ownership is held by the captive user(s), and
- (ii) not less than fifty one percent of the aggregate electricity generated in such plant, determined on an annual basis, is consumed for the captive use: Provided that in case of power plant set up by registered cooperative society, the conditions mentioned under paragraphs at (i) and (ii) above shall be satisfied collectively by the members of the co-operative society;
- Provided further that in case of association of persons, the captive user(s) shall hold not less than twenty six percent of the ownership of the plant in aggregate and such captive user(s) shall consume not less than 51% of the

Electricity Rules

- electricity generated, determined on an annual basis, in proportion to their shares in ownership of the power plant within a variation not exceeding ten percent;
- (b) in case of a generating station owned by a company formed as special purpose vehicle for such generating station, a unit or units of such generating station identified for captive use and not the entire generating station satisfy (s) the conditions contained in paragraphs (i) and (ii) of sub-clause (a) above including -
- Explanation :-
- (1) The electricity required to be consumed by captive users shall be determined with reference to such generating unit or units in aggregate identified for captive use and not with reference to generating station as a whole; and
- (2) the equity shares to be held by the captive user(s) in the generating station shall not be less than 26% of the proportionate of the equity of the company related to the generating unit or units identified as the captive generating plant.
- "Captive User" shall mean the end user of the electricity generated in a Captive Generating Plant and the term "Captive Use" shall be construed accordingly

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Telecom

- The Telecom Regulatory Authority of India Act, 1997 defines "telecommunication service" as *“service of any description (including electronic mail, voice mail, data services, audio text service, video text services, radio paging and cellular mobile telephone services) which is made available to users by means of any transmission or reception of signs, signals, writing, images and sounds or intelligence of any nature, by wire, radio, visual or other electro-magnetic means but shall not include broadcasting services”*.
- Subsequently, the Central Government has included broadcasting services within the ambit of telecommunication services by notifying *“**broadcasting services and cable services** to be telecommunication service”*. *[Notification No. 39 issued by Ministry of Communication and Information Technology dated 9 January 2004, S.O. No. 44(E) issued by TRAI, vide F. No. 13-1/2004]*.
- **EG. Radio Mirchi, ZEE TV, Den Networks, etc**

Frequency of Costing

- CRA 1 mentions "Cost statements (monthly, quarterly and annually) showing...."
- Cost records are to be kept on regular basis **to make it possible** to *"calculate per unit cost of production/operations, cost of sales and margin for each of its products for every financial year on monthly/quarterly/half-yearly/annual basis".* What is required is to maintain such records and details in a structured manner on a regular basis so that accumulation is possible on a periodical basis.
- ....It is not incumbent upon the cost auditor to certify monthly, quarterly, half-yearly cost statements.

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Duties of Company

- Appoint cost auditor within 180 days of the commencement of every FY & inform the cost auditor concerned of his or its appointment;
- File a notice of such appointment with the Central Government within a period of 30 days of the Board meeting in which such appointment is made or within a period of 180 days of the commencement of the financial year, whichever is earlier, through electronic mode, in **form CRA-2, along with the fee (Rs 600) as specified in Companies (Registration Offices and Fees) Rules, 2014;**
- Remuneration ratification in Shareholders' meeting
- Within a period of 30 days from the date of receipt of a copy of the cost audit report, furnish the Central Government with such report alongwith full information and explanation on every reservation or qualification contained therein, in **form CRA-4 along with fees specified in the Companies (Registration Offices and Fees) Rules, 2014.**

Other Points in FAQ

- Appointment, Eligibility, Remuneration, Qualifications & Disqualifications of Cost Auditor
- Non Applicability of Auditor Rotation to Cost Auditor
- Issues relating to data to be provided in CRA 3
- Obligation on the part of cost auditor to report offence of fraud being or has been committed in the Company by its officers or employees

Queries

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

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Thank You

Disclaimer

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