



Queries and Responses by Technical Cell for the term 2018-19 and 2019-20

Updated as on 28th July 2020

Query: TCMQ/001/2018-19:

Cost audit was applicable in ceramic industries (CETA: 6901 to 6914, 7001 to 7020) as per Order No. 52/26/CAB-2010 dated 06/11/2012. Turnover of company exceeds 100 crores in FY 2011-12, 2012-13, 2013-14 So Cost Audit was done for all FY. Now as per new notification Ceramic industries not covered in Notification, but turnover exceeds 100 Crores.

Will Cost Audit be applicable for FY 2016-17 & 2017-18?

Reply:

If an industry is not covered in the notified Companies (Cost Records and Audit) Rules, 2014, the Cost Audit will not be applicable for the industry.

However Glass (7003 to 7008; 7011; 7016) is included in the above mentioned notification. Please check whether your company is involved with manufacturing of any of the products represented by these CTA codes.

Application of Cost Records (Maintenance) will be governed by Rule 3, Table A & B and Applicability of Cost Audit will be governed by Rule 4 of The Companies (Cost Record and Audit) Rules, 2014.

Query: TCMQ/002/2018-19:

We purchase a Raw Material (Coil) and then do some Cutting or Drawing work on it either by self or through a Job worker and then, it is sold (Covered under CETA heading 72) and we consider it as a trading Sale. Sold item is again purchased by us after doing some work which is a Semi finished Good for us and we treat it as Purchase (which is Covered under CETA Heading 87). Now, we want to know whether the Cost Audit is Applicable on this Sale if the turnover exceeds the Prescribed Limits for Cost Audit.

Reply:

Cutting or Drawing operation on Raw Material (Coil) by self or through a Job worker will amounts to manufacturing activity. Considering it as a trading sale is not correct. At this stage itself, provisions of Rule 3 and Rule 4 of The Companies (Cost Record and Audit) Rules, 2014 should be checked to verify the applicability.

From the query it is presumed that the sales of the company are covered under CTA codes 72 & 87. Since, both the codes 72 & 87 are covered under the notified Companies (Cost



Records and Audit) Rules, 2014, the Cost Audit shall be applicable subject to the threshold limits.

Query: TCMQ/003/2018-19:

What is a criterion for cost audit in Hospital Industries? Is the cost audit applicable in Test Tube Baby Hospital Industries? Kindly suggest me and send the attachment.

Reply:

The Hospital Industry is covered under Maintenance of Cost Records and Cost Audit as per Table B Sr. No. 22 "Health services, namely functioning as or running hospitals, diagnostic centers, clinical centers or test laboratories" of The Companies (Cost Record and Audit) Amended Rules, 2014.

Thus the Test Tube Baby Hospital Industry also will get covered under the ambit of this mechanism.

Application of Cost Records (Maintenance) will be governed by Rule 3 and Applicability of Cost Audit will be governed by Rule 4 (2) of The Companies (Cost Record and Audit) Amended Rules, 2014.

Query: TCMQ/004/2018-19:

As per Notification dated 20th Dec'2017, the base for applicable of cost records and cost audit is one & only Customs tariff Act Heading. After implementation of GST all companies are preparing the sale invoices based on HSN Product or services Codes only. Except only export sales nowhere appear the Customs tariff Act Heading, even this export turnover is more than 75% of total turnover the cost audit will not applicable. Than how we can find out whether cost audit will applicable to particular company or not with bases. And also the companies will maintains the quantitative records and cost information based their HSN Code (product wise) then what is use to ask them to maintain cost records on Customs tariff act heading wise which was outdated basis. Earlier there are no codes for service. Now under GST there is identification of Codes for services also.

Hence request / suggestion is to replace the basis of Customs tariff Act Heading with GST HSN Code for all products and service which are applicable of cost records and cost audit.

Reply:

The matter shall be placed for consideration of Cost Audit Branch, Ministry of Corporate Affairs.



Query: TCMQ/005/2018-19:

Company has constructed the Mall and shops are given on rent. Maintenance of mall is done by the Company. Revenue break up is as follows:-

Revenue from Mall Maintenance: **Rs. 39 Crore.**
Revenue from Rental Income: **Rs. 80 Crore.**
Total Revenue: **Rs. 119 Crore.**

Reproduced below the phrases listed in Cost Rules:-

21 Construction Industry as per para No. (5) (a) as specified in Schedule VI of the Companies Act, 2013 (18 of 2013)

Extract of Para 5(a) of Schedule VI of Companies Act, 2013: -

(5) Industrial, Commercial and Social development and maintenance, including the following namely:-

(a) real estate development, including an industrial park or special economic zone.

Whether Cost Record / Audit is applicable in the case?

Reply:

It can be construed that the activity of Constructing and Maintaining Mall and Shops falls under Table B Sr. No. 21 as specified under Rule 3 of the Companies (Cost Record and Audit) Rules, 2014.

The activity pertaining to "Revenue from Rental Income" will not be covered under these provisions. But the activity pertaining to "Revenue from Mall Maintenance" will be covered under these provisions.

Based on the turnover information provided, maintenance of Cost Records & Audit there off will be applicable to the company subject to other conditions specified under the rules.

Application of Cost Records (Maintenance) will be governed by Rule 3 and Applicability of Cost Audit will be governed by Rule 4 (2) of The Companies (Cost Record and Audit) Rules, 2014.

Query: TCMQ/006/2018-19:

I would like to draw your kind attention regarding the classification of micro & small enterprises. Recently the central government has changed the classification of micro and small enterprises. As earlier it was based on plant & machinery now it is based on turnover.

- Micro Enterprises - below 5 crore
- Small Enterprises- between 5 crore to 75 crore



As we all are aware that, as per the Companies (Cost Records & Audit) amendment rules, 2014, cost records are required to maintain where turnover of the company exceeds Rs. 35 crore for both regulated and non-regulated sector read with table A & B . Further, nothing contained in the said rules shall apply to a company which is classified as a micro or a small enterprise.

Due to these changes, only few companies may fall in the basket but numbers of companies will be out from the basket. It is expected that scope of maintaining cost records shall be reduced by 70-75 %. As now onwards, maintaining of cost records shall be applicable only whenever turnover of the company exceeds Rs. 75 crore.

I, on behalf of CMAs, request to all dignitary members of regional council and Central council to please send a request to MCA authority for removing the word "small enterprises" or take up the matter with the government on this issue as early as possible.

The actions should be taken as early as possible so that there will be no conflict with its effectiveness.

Since announcing the Companies (Cost Records & Audit) amendment rules, 2014, there have been no improvements in applicability of Cost records/cost Audit at all.

So our focus should also be on to improve scope of Cost Audit / Cost Records compliance.

How to improve scope:

1. Bring again the criteria for cost audit and cost records compliance which was during 2011 to 2014.
2. Bring again e-filing of compliance report where cost records are required to be maintained.
3. With some criteria (say turnover above 100 crore), it should be mandatory for every manufacturing company to appoint cost accountant.
4. Cost Accountant should be eligible for conducting statutory audit of accounts being maintained by any firm, company etc. whether engaged in manufacturing activity or not. The criteria may be turnover of the said entity say below Rs. 20 crore.

The word "Mandatory" will surely improve scope as well as package of our members. Generally, peoples start thinking when something is mandatory. Cost Audit/ Cost record compliance/ cost accountancy is the only future of our Institute. It is the right time to approach the government once again to raise our point of view on Cost Audit & Cost Record rules.

Reply:

The matter along with suggestions shall be placed for consideration of the appropriate Authority.



Query: TCMQ/007/2018-19:

Pursuant to Rule 5(1) of the Companies (Cost Records & Audit) Rules, 2014, in Form CRA-1, right from Para 1 till Para 15, provides under each individual heads viz., Materials, Utilities, Direct Expenses, Repairs & Maintenance, Overheads, Research & Development Expenses, Quality Control Expenses, Pollution Control expenses, Packing expenses, the Finance cost in procurement of relevant items shall not form part of the cost. The items cited under these paras are in the nature of working capital. From reading these paras, it is possible to arrive at conclusion that interest paid on working capital should not be considered as part of the cost.

Further, in Para 16, it is provided that 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;

It is further provided at clause (c) of Para 16 that "Finance Costs directly attributable to the acquisition or construction or production of a qualifying assets shall included in the cost of the asset. Of course, interest on borrowing can be added to cost of the qualifying assets but what is the treatment to be given once the said qualifying assets is put to use and interest liability continues.

It is further provided at clause (h) of Para 16 of Companies (Cost Records & Audit) Rules, 2014, as Assignment of Finance costs 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 incurrance of cost and
- (2) Benefits received - to be apportioned to the various cost objects in proportion to the benefits received by them

Again, the Format of Abridged Cost Statement at serial number 29, one row is provided for entering "Finance Cost". The question is that when interest on working capital is not to be considered and interest attributable to Non-current assets are to be added to related qualifying assets, then, it leaves doubt as to which interest is contemplated in the Abridged Cost Statement? Some companies are just entering their entire Finance cost (interest element) in Abridged Cost statement at serial number 29, since it is specifically provided in the format. The point to be answered here is that when rules specifically provides for exclusion of interest from considering as part of the cost, then it cannot be negated by the format prescribed under the rules. The nature of rule is mandatory whereas format may be taken as advisory. Format appended to rule cannot override the provisions of rules.

It is humbly requested that learned Technical committee members may release some guideline on urgent basis on treating of Interest element in Cost Records.



Reply:

Interest paid/payable on procurement/acquisition on items mentioned in para 1 till para 15 of the Companies (Cost Records & Audit) Rules, 2014, in Form CRA-1, should not be considered as part of cost of the respective cost elements. It should be considered as "Finance Cost" para 16 (a).

The Continued interest liability will be considered as "Finance Cost". Refer para 16 (a) of CRA-1. The continued interest liability should be dealt with as provided in para 16 (h).

The interest charge appearing in Statement of Profit and Loss is the interest contemplated in the Abridged Cost Statement.

Rules specifically provide for exclusion of interest cost to be considered / included as a part of cost of the respective cost elements. However the interest as mentioned above very much forms the part of "Finance Cost". There is complete consistency between the Rules and the Abridged Cost Statement serial no. 29.

Query: TCMQ/008/2018-19:

We find that the classification based on CETA Code for applicability of Cost Records and Audit Rules, is very clumsy and improper. It ignores many CETA Codes which excludes many products of the same industry. The classification for coverage under section 148, should be:

- All Listed companies.
- All FMCG companies.
- All MNC companies and
- All borrowing companies above a threshold limit of Loans from Banks.

It is also essential to include HSN Code wise Quantity Account should be reconciled with GST Records and reconciliation should appear in Cost Audit Report.

Reply:

The matter along with suggestions shall be placed for consideration of the appropriate Authority.

Query: TCMQ/009/2018-19:

Query regards to whether Cost Record & Audit shall be applicable to a company which is service industry, Cost audit was applicable for 14-15, 15-16 & 16-17, but for 17-18 the turnover has dropped below [a] 100 Cr & [b] no turnover.

Query whether Cost Audit shall be applicable to the said company for 17-18?



One more query in continuation to the above as to whether a company has discontinued operations will it attract cost audit.

Reply:

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

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

(b) Table B if the overall turnover of the company is Rs. 100 crore.

Since the threshold limit for applicability of Cost Audit is met in previous years, cost audit will be applicable in 17-18 even if the turnover has dropped below Rs. 100 crore. Once the Cost Audit becomes applicable, it will be continued every year.

In case the company has discontinued operations, it should inform the cost audit branch accordingly to get exemption from maintaining cost records and audit thereof.

Query: TCMQ/010/2018-19:

I have a query about Calculation of installed capacity of Solar Project's. I am working on given below two Method So please Suggest me the best method for calculating of installed capacity of solar project's.

Method's

1) $10\text{MW} \times 365\text{days} \times 24\text{Hrs.}$

Or

2) $10\text{MW} \times 365\text{days} \times 12\text{Hrs.}$

And If you Have another method for calculation of installed capacity of Solar Project's, kindly provide me your valuable suggestion or method regarding installed capacity of Solar Project's.

Reply:

Cost Accounting Standard (CAS -2) on Capacity Determination defines - **Installed capacity:** Installed capacity is the maximum capacity of producing goods or providing services, according to the manufacturer's specifications or determined through an expert study.

Accordingly installed capacity needs to be determined based on manufacturer's specifications or through and expert study. There are multiple factors required to be considered under different parameters and hence no straight jacketed computation is advisable.



Query: TCMQ/011/2018-19:

What is the treatment of sitting fees paid to related parties in cost audit report?

Reply:

CRA 1 clearly defines Related Party Transactions under point 24 (d). It lists the related party transactions in respect of which records shall be maintained as per of Cost Records. Sitting Fees paid to the related party does not form part of any of the activities mentioned under the said rule. Hence the same shall not form part of “Related Party Transactions” as presented in Part D-5 of CRA 3.

Query: TCMQ/012/2018-19:

I hereby bring to your kind notice that the following anomaly in respect of applicability of cost audit in case turnover falls short of threshold limit. In the crar 2011 it was clearly mentioned that any company once came into cost audit fold shall continue to be under cost audit even if the turn over falls below prescribed threshold limit whereas this is missing in crar 2014. As such the same shall be inserted at appropriate place in crar 2014 in the ensuing amendment to crar 2014.

Reply:

Since the threshold limit for applicability of Cost Audit is met in previous years, cost audit will be applicable in future also even if the turnover has dropped below Rs. 100 crore. Once the Cost Audit becomes applicable, it will be continued every year.

However, the suggestion shall be placed for consideration of Cost Audit Branch, Ministry of Corporate Affairs.

Query: TCMQ/013/2018-19:

Cost Auditor appointed by the Company for the Financial Year 2017-18 has resigned as Cost Auditor of the said Company due to his / their pre-occupation. Please guide in the matter of acceptance of the resignation letter of the Cost Auditor and re-appointment of the new Cost Auditor with RoC compliance with respect to the Financial Year 2017-18 and the Financial Audit for 2017-18 is near for completion.



Reply:

The cost auditor is to be appointed by the Board of Directors on the recommendation of the Audit Committee, where the company is required to have an Audit Committee. 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.

Query: TCMQ/014/2018-19:

Our company is engaged in production of bio-diesel in India but its price is not controlled by the ministry of petroleum and natural gas. Does the rule as to maintenance of cost records and cost audit is applicable to us? Turnover will be below 100 crores and paid-up capital more than 150 crores. Please clarify.

Reply:

In case of Petroleum Industry, the description states “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)” and the CTA Headings are 2709 to 2715.

Hence, all petroleum products, including those covered under CTA Headings 2709 to 2715, are included as well as other petroleum products activities like storage; transportation and distribution of Crude Oil or Gas etc. and any other activity including those defined under the Petroleum and Natural Gas Regulatory Board Act, 2006 and regulated by the PNGRB are covered.

Query: TCMQ/015/2018-19:

We would like to know that is this recommendatory to change the data of Previous year i.e. 2016-2017 while reporting Cost Audit Report for the Financial Year 2017-18, in case of the Organization where IND AS is applicable. Due to regrouping of data related to previous Year as per IND AS profit and other expenses in the Financial Records has been changed. At the time of providing data related to previous year in XBRL Format, there will not be any parity of Cost Mechanism, due to applicability of IND AS in the Current year. Please pass your valuable comments on this.



Reply:

It is advisable to change the data of Previous Year i.e. 2016-2017 while reporting Cost Audit Report for the Financial Year 2017-18, in case of the Organization where IND AS is applicable. However the concept of “Materiality” should be the guiding principle. If the changes in profit and other expenses / Income are not material, the cost records may not be re-casted for the previous year. Full disclosure should be given to this effect along with quantum of change in figure of profit/loss.

Query: TCMQ/016/2018-19:

One Company is already in insolvency proceedings as per Insolvency and Bankruptcy code, 2016. Board of Directors of the Company is suspended / dissolved. Since one year, NCLT/Resolution Professional (R.P.) is the main authority in Company. Company's Financial Accounts, Statements are not ready and not audited for F.Y.2017-18. Company has already applied to Government for extension of Annual general Meeting and informed me that before 27th September 2018 Financial Audit of the Company is not possible. So, company cannot provide me audited Financial accounts, statements for F.Y.2017-18. We all know that, some of the Paras of Annexure to the Cost Audit Report i.e. Product/Service Details, Value Addition, Financial Position, Profit Reconciliation Statement etc. have to be reconciled with Audited Financial Accounts, Statements.

On request of the company till date, I, as a Cost auditor has visited and checked the various quantitative details and planning to visit the near future but, the annexure to the Cost Audit Report may not be approved by 27th September 2018 by appropriate authority (i.e. NCLT/R.P.)

1. Can Company file Provisional Cost Audit Report for F.Y.2017-18 based on provisional financial accounts? And thereafter can company file supplementary Cost Audit report when Financial Accounts are audited?
2. As Cost Auditor, what safeguards should I take in above matter?

Reply:

As per the Companies Cost (Record and Audit) Rules, 2014 there is no laid down procedure for Extension for Filing Cost Audit Report or Filing of Provisional Cost Audit Report. It should be noted that under XBRL mechanism the form CRA4 can be filed only once, thus filing of supplementary cost audit report will not be practically possible. Thus it is recommended that the Cost Audit Report should be submitted only after the Audited Financial Records are available.

As a Cost Auditor following action is suggested –



1. Collect all the relevant documents from the company regarding the application of extension for Financial Audit and approval for the same by MCA.
2. Written representation from the NCLT / RP intimating the delay in compilation of Cost Records to be presented to the Cost Auditor for Cost Audit should be obtained by the Cost Auditor.
3. NCLT/RP should write a letter to MCA, with a copy to the Cost Auditor clearly bringing out the facts that the Extension for Financial Audit submission is received and the compilation of Cost Records and Annexure to the Cost Audit Report is also likely to get delayed and hence requesting the MCA to grant extension for filing of the Cost Audit Report.
4. Cost Auditor should also write similar letter to the MCA with a copy to the Company for his safeguard.

Query: TCMQ/017/2018-19:

One non-regulated Company's total turnover exceeds Rs.100 crores for F.Y.2017-18 for its two units; One in SEZ and other in non-SEZ area. The aggregate turnover from both units exceeds 35 crores. (But turnover of non-SEZ unit does not exceed Rs.35 crores). The product comes under CETA / CTA code is 8456. Definitely, maintenance of cost records is applicable but, will the Cost Audit be applicable to the Company for F.Y.2018-19?

Request to guide me.

Reply:

Maintenance of Cost Records will be applicable to the company.

The Companies (Cost Record & Audit) Amendment Rules, 2014, Rule 4 (3) (ii) exempts the Company Operating from Special Economic Zone from the applicability of Cost Audit. But the requirements of Maintenance of Cost Records still apply to both SEZ and Non-SEZ Units.

The Companies (Cost Record & Audit) Amendment Rules, 2014 4 (2) provides that – “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.”

Thus to check the applicability of Cost Audit combined Turnover Threshold Limit of all products covered under Table “B” is to be checked.

Based on the information provided in the query, it is clear that the Turnover of the company is above Rs. 100 crores and the combined turnover of all the products covered



under Table B is above Rs. 35 Crores. Thus Cost Audit will be applicable for all the products covered under table B.

However additional information provided in the query states that some of the products are manufactured in SEZ. In this respect The Companies (Cost Record & Audit) Amendment Rules, 2014 4 (3) (ii) provides that – “The requirement for cost audit under these rules shall not apply to a company which is covered in rule 3, and - which is operating from a special economic zone.”

Thus after considering the facts of the given case and provisions of the rules following applicability status should be noted –

1. Maintenance of Cost Records will be applicable to all the products covered under table B irrespective of location of manufacture / production (i.e. SEZ or non-SEZ)
2. Cost Audit will be applicable to all the products covered under Table B and manufactured / produced in non-SEZ location.
3. Products covered under Table B, but manufactured / produced in SEZ location will be exempt from the Cost Audit.

Query: TCMQ/018/2018-19:

While reporting the information reconciliation of Indirect taxes (for the company as a whole), as per notification dt. 06/08/2018 (which is not yet notified) para 6B is inserted. Till date as the notification is not Gazetted, XBRL is not modified we are not able to put the same in our Cost Audit Report. **Whether we have to put any specific note for not giving GST Reconciliation?**

Reply:

The Institute of Cost Accountants of India has issued a specific Advisory Dated July 17th 2018 specifically to tackle the issue of disclosures relating to GST. The member is requested to refer this advisory and take suitable action.

The advisory is available at <http://www.icmai.in/upload/CASB/Advisory-2017-18.pdf>.

Query: TCMQ/019/2018-19:

One company has more than 100 crores turnover. It purchases plane synthetic cloth. Give that cloth to outside vendor for printing (i.e. outsourced for printing). Sells finished Saree in its (subject company) Brand Name.

Whether cost Audit is applicable for this company?



Reply:

The information provided by the member is incomplete to give any studied answer. The member is requested to give following information –

1. The CTA Codes under which the final product is sold.
2. CTA Code wise Turnover of the Products sold.

Query: TCMQ/020/2018-19:

A Company importing product A, B & C and carrying labeling and relabeling activities (Manufacturing activity).

Manufacturing Turnover:-

Product name	CTA Heading	Turnover (Cr.)
Product A	2905	5
Product B	2906	2
Product C	3823	3
Total Manufacturing Turnover		10

Selling of Imported Products A, B & C as it is without Packing Repacking (Trading Activity)

Trading Turnover:-

Product name	CTA Heading	Turnover (Cr.)
Product A	2905	8
Product B	2906	10
Product C	3823	30
Product D	3823	20
Product F	2906	40
Total Trading Turnover		108

Total Turnover of the company Rs. 118 Crs.

Kindly let us know whether Cost Audit is applicable considering the above.

Appreciate your quick response as the company wants to file CRA 2 by 22nd September 2018 in case Audit is applicable.



Reply:

The Companies (Cost Records & Audit) Amendment Rules, 2014, Rule 3 states – “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-“ This section provides list of Products covered under the mechanism of Maintenance of Cost Records & Cost Audit in Tables A-Regulated Sectors & Table B-Non Regulated Sectors.

It should be noted that the Applicability of the Maintenance of Cost Records apply to the Items manufactured / produced by the company.

As per the information given by the members all the Manufactured CTA Headings 2905, 2906 & 3823 are covered under the products as specified Tables A&B.

Assuming that the Turnover Information provided is for the year 2017-18, since the Turnover of the Company is above Rs. 35 Crores, Maintenance of Cost Records will be applicable to the company for the year 2018-19.

The Companies (Cost Records & Audit) Amendment Rules, 2014, Rule 4 states –

“(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.”

As per the information provided by the member, the Turnover of the Manufactured/ Produced Products is Rs. 10 Crores. Thus it is below the specified minimum turnover criteria for Applicability of Cost Audit.

Thus in the given case, Cost Audit will not be applicable to the company.



Query: TCMQ/021/2018-19:

I would like to know for the following scenarios whether COST RECORDS AND AUDIT is applicable. Please revert on priority.

Turnover/ Companies	Regulated TRADING ACTIVITY	Non regulated	Total Reg & Non Reg	Other	Total Turnover
A	50.41	12.62	63.03	21.41	84.44
B	51.95	27.46	79.41	0.01	79.43
C	0.11	95.14	95.25	0.01	95.25

Scenarios:

1. In regulated sector the company is engaged in trading activity.
2. If in regulated sector 50% is trading and 50% is manufacturing.

Whether Cost records for TRADING ACTIVITY are to be maintained and accordingly COST AUDIT.

Reply:

The Companies (Cost Records & Audit) Rules, 2014 (as amended), Rule 3 states – “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 ...”

It should be noted that the Applicability of the Maintenance of Cost Records apply to the Items manufactured / produced by the company. Thus Maintenance of Cost Records is not applicable for Trading Activity.

The following information should be provided by the member before TC provides the response –

1. Turnover from non-regulated sector, whether it is manufacturing or trading or from service ? If it is mixed turnover, kindly give separate turnover for each.
2. What is meant by “Other”, it should be specified.
3. Figures mentioned are in which denomination (lakh, crore, million, etc.)

Query: TCMQ/022/2018-19:

Is Manufacturing of Gelatin and DCP Joint Product within the ambit of Cost Audit?



Reply:

The following information should be provided by the member before TC provides the response –

1. CTA codes of the products.
2. CTA Code wise Turnover of the manufactured goods.
3. Overall Turnover from all its products and services.

Query: TCMQ/023/2018-19:

Is it advisable to report cost statement on the basis of COGS (Cost of goods sold) cost accounting concept in Cost Audit Report because client follows COGS concept and cost element wise details are readily available in that format ?

Presently, client is reporting on the basis of actual cost accounting concept in a traditional manner. In COGS method the client need not report change in inventory (WIP & FG in value term) along with FG production quantity in cost statement because the cost shown in the cost statements relate to quantity sold and not produced.

The client will report sold quantity as production quantity.

If the client shifts from actual cost accounting concept to COGS cost accounting concept for cost statement in cost audit report then what impact is to be mentioned in cost accounting policy? Although value wise it will not have any impact due to change in presentation from cost of production to cost of sales.

Please advise on this matter.

Reply:

The maintenance of cost records & annexure to the Cost Audit Report has to be in compliance with the forms CRA1 & CRA 3 as prescribed by The Companies (Cost Records & Audit) Rules, 2014 (as amended).

Form CRA 1 para 26, 27 & 28 clearly prescribe the details of quantity records that are to be maintained by the company as part of Cost Records.

Form CRA 3, Annexure to Cost Audit Report clearly prescribes the format which requires disclosure of Cost of Production.

Thus it is advised that the Company & Cost Auditor have to ensure compliance with the requirements of CRA 1 & CRA 3.

In case of non-compliance, the same has to be reported in Cost Audit Report by way of Qualifications.



Query: TCMQ/024/2018-19:

We are conducting Cost Audits for Defence Industry - manufacturing of parts of missiles under 9306 and a Public Sector undertaking manufacturing special alloys.

We are facing problem in the audit with the client on the capacity with reference to each product manufacture by them. on the following grounds'

PSU - Manufacturing special alloys:

1. The company manufacturing various alloy metals - Titanium in difference grades and also special steels and some machinery components under Chapter 84.
2. As the items manufactured are different they are justifying that the production capacity product wise is not possible to be established.
3. In Annexures to Cost Audit Report, we are not giving any installed, utilised capacity for these products and under para 2 of the CRA 3 audit report we are giving a note to cover that the company is unable to give product wise installed capacity..
4. We are allocating the entire fixed over head on the production during the year. This according to us may not give true cost of production

Defence Industry - Manufacturing parts of missile besides various other items.

1. The company is taking same justification and says they will not be able to provide product wise installed capacity. Each of the missile part being classified under 9306 CETH and it is next to impossible to give each product wise capacity. All these parts are different in nature but all classified under Central Excise Tariff (customs tariff) under 9306.
2. Here also we are not giving any product wise installed capacity or actual utilised capacity.

We are of the opinion that the capacity utilisation shall be removed from product wise and included in the general information for the unit as a whole. This capacity utilisation can be considered for allocation of Fixed Overhead to the products manufactured.

We request the Technical Cell to deliberate on this aspect and give guidance to practicing fraternity and at the same move the MCA through Institute for amendment to the Quantitative date in Cost Audit Annexures.

Reply:

The TC is thankful to the member for identifying practical issues in the current reporting format where reporting of Installed Capacity & Capacity Utilisation is not feasible or gives incorrect picture in some cases. The issue is already taken up with MCA and the same is under discussion.



Query: TCMQ/025/2018-19:

Request you to guide on the Cost Records to be maintained by a shipyard situated in a SEZ .

Reply:

The cost records are to be maintained as per the requirements of The Companies (Cost Record & Audit) Rules, 2014 (as amended), form CRA 1, Cost Accounting Standards & Generally Accepted Cost Accounting Standards.

Query: TCMQ/026/2018-19:

Would like to bring to kind notice that refractory Industry is very old industry in India and has started way back in 1954 or may be earlier also

We do not have a cost audit prescribed for refractory industry where in cost sheets play a major role in ascertaining cost of production and helping in setting prices etc. This will also enable refractory industries to compete with foreign players who might be probably playing with their costs to capture the market where by indian industries can flourish in better way

Please give a thought and bringing in Refractory Industry under purview of Cost Audit.

Reply:

The issues of inclusion of additional industries, products, services under the mechanism of cost audit are handled by the Central Council of the Institute. The suggestion given by the member will be communicated to the President of the Institute for further action.

Query: TCMQ/027/2018-19:

What is the treatment of :

- 1) IndAS adjustment of B/S and P/L
- 2) Preliminary expenses adjustment (pre-production expenses before actual production) in cost audit report.

Reply:

- 1) The query requires generic guidelines on treatment of various IND As adjustments/principles in Cost Records. This is under the purview of Cost Accounting Standard Board of the Institute. The query is forwarded to CASB.



2) Preliminary expenses should form part of reconciliation statement in cost records if that are charged to P&L.

Query: TCMQ/028/2018-19:

While reporting the information as per amendment rules 2017 for IndAs applicable Company under cost audit. Kindly let us know the impact which we need to be consider also clarify on whether previous year details need to be furnished as per IndAs, if company maintains their financials on retrospective effect from previous year.

We are finalising Cost Audit report of a company for F.Y.2016-17. In financials of F.Y.2016-17 the company has adopted IndAs. They have also given effect of IndAs for F.Y.2015-16 and F.Y.2014-15. They have reduced gratuity in financials, whether we have to give any effect of re-measurement in our cost accounting records for the same reduction.

Secondly, they have provided borrowing cost as per IndAs on Debentures, whether the same cost is the part of our financial cost in our cost records. Whether in our cost audit report we have to change the figures of F.Y.2015-16(previous year column)as per IndAs.

Reply:

The query requires generic guidelines on treatment of various IND As adjustments/principles in Cost Records. This is under the purview of Cost Accounting Standard Board of the Institute. The query is forwarded to CASB.

Query: TCMQ/029/2018-19:

Can a Cost Auditor also be appointed as GST Auditor for the same company and for the same period? Since, many aspects of GST Audit are covered in Cost Audit.

Reply:

The issue is forwarded to Central Council of the Institute.

Responded on 21st October 2019

Any practicing chartered/cost accountant can audit and submit annual report. The GSTR-9C form itself makes it clear that the audit report can be submitted either by statutory auditor or any other auditor. Please check GSTR-9C form. There is no bar on statutory Cost Auditor to do GST audit.



Query: TCMQ/030/2018-19:

I want to know the effective date of CAS-4 (Revised 2017) which attached with this email for consideration. Further, I want a clarification that the CAS-4 (Revised) will be applicable in following case:

A Contract (Related to Supply of Goods and Erection Services) which was awarded in Pre-GST Regime and completed or to be completed in Post-GST Regime, there is additional claim of the contractors on account of additional tax burden due to roll out of GST. Therefore while ascertaining their claim, is there any need to take into consideration CAS-4 (Revised 2017).

Reply:

The CAS-4 (Revised 2017) has not yet been released by the Institute. The effective date of the same will be decided by the Council of the Institute at the time of issue / release of the standard.

Query: TCMQ/031/2018-19:

One Company who is EPC Company and fabricate/Manufacture Heat Exchangers for fertilizers Plants and refinery whose turnover is Rs. 371.20 Crores during Financial year 2017-18 & Turnover 2016-17 243.92 Crores. The breakup of revenue is given in table below activity wise:-

S.No.	Revenue	2017-18 (Rs.)	2016-17 (Rs.)
1	Revenue From Project Activity	3,669,398,285	2,346,086,183
2	Sale of Services	-	56,341,614
3	Scarp Sales	20,336,293	1,787,094
	TOTAL	3,689,734,578	2,404,214,891
4	Other Income	22,221,563	35,011,468
	TOTAL	3,711,956,142	2,439,226,359

The Companies revenue is recognized as per AS - 7 and fabrication is made at Gujarat and Registered office is at New Delhi. The company fabrication turnover is more than 100 crores and they falls in other machinery as per their HSN 8417 and that amount is included in Project revenue. Now the company people is telling that only fabrication is covered in cost audit among the whole turnover and sale of services as installation and commencing is not covered in cost audit. However as per the guidance note issued by the institute and I personally feel that you are an EPC company and revenue is from services is also covered in Cost audit. However in guidance note the product is covered as given in the example. Now I want to know the things from the technical committee members that whether all the income that is fabrication, Installation and commencing is covered in cost audit or the



fabrication is covered in cost Audit. This is sure that cost audit is applicable to the Company. Now the problem is that how much revenue is covered in cost audit. Sale of services is falls in HSN 9987 & 9983 and Scrap sales falls in HSN 7204. Now please guide me I am in dilemma.

Reply:

The Companies (Cost Records and Audit) Rules, 2014 (as amended) column 3 CETA Heading (Now CTA Heading) determines the applicability. CTA 8417 is covered and hence Cost Audit will become applicable for Industry/Sector/Products/Service covered under this CTA (HSN) 8417. Other HSN 9987, 9983 & 7204 are not covered. Sale of services as installation and commencing is not covered under Cost Audit as separate services.

Query: TCMQ/032/2018-19:

One of the Company whose turnover is 72 Crores in Financial year 2017-18 and their product fall in HSN 2901 -2942. The turnover of the company financial year 2016-17 is 35 crores. The company is Selling raw material to pharmaceuticals Company. Their maximum sales to Sun Pharma, Piramal Enterprise & Sanfoi. The question is that company is covered in Cost audit as per regulated sector or not Covered in regulated sector. The company falls in non-regulated sector. Please guide me.

Reply:

Considering the CTA 2901 – 2942 (HSN) the Company is covered under Regulated Sector. Since the turnover in Previous year 2016-17 is 35 Crores the Cost Audit will not be applicable in the year 2017-18 and Cost Record Maintenance will be applicable. The Cost Audit will be applicable in the year 2018-19 as the turnover for the year 2017-18 is more than 50 Crores.

However as per FAQ – 1 Dt. 19-03-2015 no. 1.10 also to be kept in mind. “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.

Query: TCMQ/033/2018-19:

During the manufacturing of some products, it gives rise to H2 Gas.

This H2 Gas is :

1. sold to outside party,
2. transferred to other plants to be used in mfg of other products,



3. remaining quantity is ventilated in the air.

Please advise treatment of H2 Gas ventilated in the Air in Cost Records.

Reply:

Based on the information given by the member, it is assumed that the H2 Gas is a by-product while producing some other main product and the company is not engaged in production of H2 Gas.

In this case there will be no Cost associated with the production of H2, as it is “Released” during the process of manufacture.

Thus there will be No Cost associated with the Ventilated Gas and thus will not merit any separate treatment in the Cost Records.

Query: TCMQ/034/2018-19:

One of my clients is engaged in packing or repacking of goods in a small pack from bulk pack and the company is manufacturer under section 2(f) (iii) of Central excise Act, 1944. The Companies (Cost Records and Audit) Rules, 2014 is applicable to the said client and covered under cost audit because of the product and turnover. But the repacking activities have not been defined as Manufacturing under The Central Goods and Service Tax Act, 2017.

My queries are:

1. Whether the company is manufacture or trader?
2. Whether cost audit is applicable to the said company?

Reply:

The Technical Cell requests the member to provide the details of the CTA Heads under which the goods are cleared under GST mechanism. The member is also requested to provide the information of Turnover for the CTA Codes and total turnover of the company.

Response by the sender on clarification sought by the TC

CTA/HSN 2815 / 2924 / 2910 / 2922 / 3906 / 2934 / 2907

The Company is covered under the Companies (Cost records and Audit) Rules, 2014 to manufactured other products under CTA/HSN 2924 - Manufacturing Activity

Total Turnover as: Rs. 182.00 Crores

Manufacturing activity Rs. 52.00 Crores



Repacking activity	Rs. 2.00 Crores
Trading Activity	Rs. 128.00 Crores
Repacking Activity - CTA/HSN 2815 / 2924 / 2910 / 2922 / 3906 / 2934 / 2907	
Manufacturing Activity - CTA/HSN 2924	

Further Reply:

The applicability of the Maintenance of Cost Records depends on the CTA codes. Only the Trading Activity is excluded from the applicability of the Maintenance of Cost Records and subsequently Cost Audit. Considering the CTA and turnover information given by the member, it is clear that the CTA for both Manufacturing and Repacking Activity are covered under the Applicability as defined by the rules. It is also clear that the company meets the Turnover Criteria for the applicability of Cost Audit.

Thus from the information provided by the member, it is clear that Maintenance of Cost Records and Cost Audit will be applicable for the Manufacturing and Repacking Activity of the Company.

Query: TCMQ/035/2018-19:

According to section 148 of Companies Act, 2013 the Cost Audit Rules is applicable on M/s Oswal Cables Private Limited. We had appointed Cost Auditor from 2011 to 2017. Many times we did not receive cost audit report within the time limit from the Cost Auditor. In this regard, we are facing many penalties for submission of Cost Audit Report. At present, for financial year 2014-2015 the Cost Audit Report is being litigated in court, due to which we are not paying for the work done by him.

Now we have appointed another Cost Auditor for financial year 2017-2018, who wants an NOC from previous cost auditor for submission of Cost Audit Report for the Financial Year 2017-18, but the NOC is not being provided by the previous cost auditor.

Under the circumstance, what steps should we take to submit the Cost Audit Report of the financial year 2017-2018?

Reply:

The Companies (Cost Records & Audit) Rules, 2014 under Rule 6 (3) & 6 (3A) specify the procedure to be followed by the company for removal of existing Cost Auditor and appointment of new Cost Auditor. The company has to follow these provisions.

In terms of the Companies (Cost Records and Audit) Rules 2014, any provision for seeking NOC from previous cost auditor does not exist. However a cost accountant in practice shall be deemed to be guilty of professional misconduct vide clause (8) of Part I of the First



Schedule to the Cost and Works Accountants Act, 1959 if he accepts a position as a cost accountant previously held by another cost accountant in practice without communicating him in writing. The communication must be sent by registered/speed post.

Thus there is no requirement of NOC from the previous Cost Auditor and the newly appointed Cost Auditor can submit the Cost Audit Report for the FY 2017-18 to the company and then the company can file the same with MCA.

Query: TCMQ/036/2018-19:

1. I want to know exactly what types of services are covered For Port & at Airport in Cost Audit.
2. Whether Ports owned & managed by Non Govt Companies are covered.
3. Whether Airlines Operating at Air Ports are covered.
4. Is there any guidance note for Cost records maintenance for services for port & at airport?
5. How many companies are providing these kind of services?

Reply:

1. The activities for Port and Airport have been listed out in the Table (B) of the Companies (Cost Records and Audit) Rules 2014 as amended from time to time.
2. In terms of the Companies (Cost Records and Audit) Rules 2014 only Ports regulated by the Tariff Authority for Major Ports under the Major Ports Trusts Act, 1963 (38 of 1963) and Airports regulated by the Airports Economic Regulatory Authority under the Airports Economic Regulatory Authority of India Act, 2008 (27 of 2008) have been covered.
3. If the Airlines are providing the services as mentioned under Table B, Sr. No. 8 at the Airport, then the Airline will be covered.
4. As of now Institute has not issued any guidance note on the subject but it is under process and will be released in due course.
5. This query is out of the purview of the Technical Cell.

Query: TCMQ/037/2018-19:

One of my clients is a company manufacturing and marketing Copper based products likes Copper rods, Copper bars, Copper Tubes, Copper pipes, Copper Sheets, Copper foils, Copper Strips, Copper Conductors, Copper wires etc. The products are covered under CETA Code 7407 and its turnover in the year 2014-15 exceeds Rs.100 crores. The Company has informed me that it falls under the category of small enterprise up to 31st March, 2016.



Further the Company has informed me that there is a notification dated 1st November, 2013 issued by Ministry of Micro, Small and Medium Enterprise which states as under:

"If an enterprise falling under any of the three categories of enterprises as defined in the Micro, Small and Medium Enterprise, as per the Micro, Small and Medium Enterprises Development Act, 2006 (27 of 2006), graduates to a higher category from its original category or beyond the purview of the act, it shall continue to avail all non-tax benefits of its original category notified by the ministry of Micro, Small and Medium Enterprises for a period of 3 years from the date of such graduation to the higher category."

The turnover of the Company from Manufacturing and Marketing of the said products is above Rs.100 crores from year 14-15 and the products are covered under CETA code 7407. So as per turnover criteria Cost Audit is applicable to the Company from the Financial year 2015-16. But As per Companies (Cost Records and Audit) Rules, it is mentioned that nothing contained in this rule shall apply to a company which is classified as 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).

Requesting you to indicate whether maintenance of Cost Records and Conducting Cost Audit would be applicable to this Company under section 148 of the Companies Act, 2013 from the financial year 2015-16 or 2018-19 considering the facts of the matter.

Reply:

As per the information given by the member, the Turnover of the company exceeds Rs. 100 Crores from the year 2014-15 and the products of the company are covered under Table B, S. No. 17. Thus considering the threshold criteria given under the Companies (Cost Records and Audit) Rules, 2014, Maintenance of Cost Records and Cost Audit will be applicable to the company from the year 2015-16 onwards.

Sender requested for review of the TC opinion

We have gone through the specific provision regarding MSME in the Companies (Cost Records and Audit) Rules 2014 (CCRAR 2014) and the existing provisions of the MSMED Act 2006.

Reply after the review:

The Companies (Cost Records and Audit) Rules 2014 clearly state –

“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)”

Thus the exemption from the maintenance of cost records and cost audit is awarded only to micro & small enterprises and that too as per the Turnover Criteria under sub-section (9) of Section 7 of the MSMED Act 2006. It should be noted that the MSMED Act 2006 is yet not amended to include Turnover Criteria in sub-section (9) of Section 7 of the said act.

Thus in the opinion of the Technical Committee, as on date there is no turnover criteria under sub- section (9) of section 7 of MSMED Act 2006. Hence the exemption as given in the CCRAR 2014 is not effective and does not apply.

In this situation the only defining criteria to decide the applicability of Maintenance of Cost Records and Cost Audit is Turnover as defined in the CCRAR 2014. Considering the information given by the member the company is meeting the turnover criteria from the year 2014-15 onwards and hence maintenance of cost records and cost audit will be applicable from the year 2015-16 onwards.

Query: TCMQ/038/2018-19:

After the new amendment in Companies Cost records and Audit Rule 2018, Whether maintenance of Cost Records is applicable for a Logistic Company engaged predominantly in PORT related services?

The logistic company is doing port related services NOT directly to Port but they do as a CONTRACTOR for other undertakings which have direct dealing with Port and also the company is acting as Agent for others

Business activity of the company is -

- 1) Port Operations- handling of dry and liquid bulk cargo
- 2) Handling of Containers at Port terminals
- 3) Trucking and warehousing
- 4) Bulk terminals-exclusive berth
- 5) Container trains-being operated on pan India basis

It is a listed company, having turnover more than 500 cr. Major source of income is from 1) warehousing Rent, freight, stevedoring & coal handling 2) Clearing and handling and 3) Transportation. The new amendment in the said Rule the Company will come under the purview of maintenance of cost records but the Company's argument is that since it is not directly associated with Port and since carrying out the services for someone else as a contractor the new amendment is not applicable to the company.

Please enlighten the word "Service rendered for a Port in relation to a vessel ----- given in 2(i) in new amendment Rules 2018.



Reply:

After the Amendment on 3rd December 2018 to The Companies (Cost Records & Audit) Rules, 2014 the applicability under Table B, Sl. No. 7 now reads as under –

“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 Ports Trusts Act, 1963 (38 of 1963)”

While deciding the applicability the important aspect is that the service rendered is For Port and it is the service as specified in the amended rules. The ultimate recipient of the service should be Port and the service should be of the category mentioned in the rules, for deciding the applicability of Maintenance of Cost Records and Cost Audit.

Thus in the given example, the company will be covered under the provisions of Maintenance of Cost Records & Cost Audit as the ultimate recipient of the service is Port, subject to coverage of services and threshold limits as specified in the Rules.

Query: TCMQ/039/2018-19:

Please advise the basis of allocation of Steam Cost to Products under below mentioned scenario:

A Company has three plants namely A, B & C

It manufactures three different products-X, Y & Z in Plants A, B & C respectively

For Steam requirement- Plant A- Product X has Oil Fired Boiler - Its Capacity is in line with Steam requirement of Product X

For Steam requirement - Plant B - Product Y has Coal Fired Boiler - again Its Capacity is in line with Steam requirement of Product Y

For Steam requirement - Plant C- Product Z has Gas Based Boiler - again its Capacity is in line with Steam requirement of Product Z

In view of the above :

Whether Average Steam Cost of these 3 Boilers should be charged to All 3 Products - X,Y & Z or

Respective Products should be charged Steam Cost of Boiler dedicated to it.

Reply:

CAS 8 on Utilities gives following principles for assignment of costs to cost objects :

“6. Assignment of costs



6.1 While assigning cost of utilities, traceability to a cost object in an economically feasible manner shall be the guiding principle.

6.2 Where the cost of utilities is not directly traceable to cost object, it shall be assigned on the most appropriate basis.”

Thus based on the principle 6.1 given above, the respective Products should be charged Steam Cost of Boiler dedicated to it.

Query: TCMQ/040/2018-19:

Please advise the basis for charging working capital interest to products.

Reply:

CAS 17 on Interest and Finance Charges gives following principles for assignment of costs to cost objects :

“6 Assignment of costs

6.1. Assignment of Interest and Financing Charges to the cost objects shall be based on either of the following principles:

(a) Cause and effect- cause is the process or operation or activity and effect is the incurrence of cost.

(b) Benefits received- Interest and Financing Charges are to be apportioned to the various cost objects in proportion to the benefits received by them.”

The basis of allocation of the Interest of Working Capital should be in line with the principle laid down in CAS 17 as mentioned above.

Query: TCMQ/041/2018-19:

Please advise the basis to allocate Common Corporate Administrative Expenses & Common Corporate Marketing Expenses among Various Plants & thereafter among Various Products.

Reply:

CAS 11 on Administrative Overheads gives following principles for assignment of costs to cost objects :

“6. Assignment of Costs



6.1 While assigning administrative overheads, traceability to a cost object in an economically feasible manner shall be the guiding principle.

6.2 Assignment of administrative overheads to the cost objects shall be based on either of the following two principles;

i) Cause and Effect - Cause is the process or operation or activity and effect is the incurrence of cost.

ii) Benefits received – overheads are to be apportioned to the various cost objects in proportion to the benefits received by them.”

The basis of allocation of the Common Corporate Administrative Expenses should be in line with the principle laid down in CAS 11 as mentioned above.

CAS 15 on Selling & Distribution Overheads gives following principles for assignment of costs to cost objects :

“6. Assignment of Costs

6.1 Selling and Distribution Overheads directly traceable shall be assigned to the relevant product sold or services rendered.

6.2 Transportation cost relating to distribution shall be assigned as per CAS – 5, where relevant and applicable.

6.3 Assignment of Selling and Distribution Overheads to the cost objects shall be based on either of the following two principles;

i) Cause and Effect - Cause is the process or operation or activity and effect is the incurrence of cost.

ii) Benefits received – overheads are to be apportioned to the various cost objects in proportion to the benefits received by them.”

The basis of allocation of the Common Marketing Expenses should be in line with the principle laid down in CAS 15 as mentioned above.

Query: TCMQ/042/2018-19:

Please advise with respect to the following :

A Company may have several Utilities to support its Mfg Activities

If Employee Cost of Top Management of Utility Functions is allocated among various Utilities like Filtered Water, DG Set, Boiler, Cooling Water, Chilled Water, etc. then it may involve arbitrariness. So, instead, if it is considered as part of Common Corporate Administrative Expenses and this practise, if followed consistently, would it be in compliance with respective Cost Accounting Standard.



Reply:

CAS 8 on Utilities, Principle of Measurement states as under –

“5.3.1 Cost of self generated utilities for own consumption shall comprise direct material cost, direct employee cost, direct expenses and factory overheads.”

In the given example the Employee Cost of the Top Management of Utility Function is in the nature of factory overheads for operations of Utility and hence they should form part of the cost of Utility.

The basis of allocation of the Employee Cost of the Top Management of Utility Function should be in accordance with the Principle of Assignment of Cost given in CAS 3 on Overheads (CAS 3, Para 6). It requires the allocation to be carried out using the principle of “Cause and Effect” or “Benefits Received”.

Since it is an Employee Cost, estimated time devoted for management of various Utilities can be taken as a rational basis for allocation of the cost.

But if it is not possible to formulate a rational basis of allocation of this cost amongst various utilities, then it can be treated as an overall indirect cost of production and can be classified as “Production Overheads” or to be more precise “Administration Overheads Relating to Production” and apportioned to products accordingly.

Query: TCMQ/043/2018-19:

A Company follows following Inter Unit Price to Transfer Finished Product of One Plant (Which has otherwise good market) to Other Plant to be used as Raw Material in that Plant. Inter Unit Transfer Price followed is Cost or Market Price whichever is higher.

Reason for applying above mentioned Inter Unit Price is :

- 1) Plant which transfers the Finished Product, which if it would have otherwise sold in the market, then it would have sold it at Market Price
- 2) Plant to which this Finished Product is transferred, if it would have purchased it from Market, it would have paid Market Price. Thus it enables management to arrive at Profitability of Both Plants correctly.

Please advise whether this Practice if followed consistently over period of time, then is it in accordance with Cost Accounting Principles & Cost Accounting Standards?

Reply:

CAS 6 on Material Cost defines Principle of Valuation of Receipt of Material as under –



“5.3 Self manufactured components and sub-assemblies 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. In case of captive consumption, the valuation shall be in accordance with Cost Accounting Standard 4.”

The principle laid down also applies to the Inter Unit Transfers. Thus the Inter Unit Transfer has to be effected as per CAS-4, i.e. at Cost of Production.

Query: TCMQ/044/2018-19:

Please suggest whether Cost Audit is applicable or not:

1. The service provider is a limited company
2. The turnover of the company for the F.Y. 360 crores
3. The company takes contact from different mine owners for raising of ore mines
4. The company works as per the agreement with different mines owner and its operation is limited to raising and transportation
5. The company neither owns any mines nor has any ownership of the owns raised
6. For the above the company utilizes its machine and manpower and for the service, raises bill to the mine owner on the basis of tonnage

Reply:

The Companies (Cost Records & Audit) Rules, 2014, Rule 3, Tables A & B specify the products / services covered under the mechanism of Maintenance of Cost Records & Cost Audit. The operations of the company are not covered under the above mentioned applicability criteria and hence Cost Audit is not applicable to the company.

Query: TCMQ/045/2018-19:

One of my client's Products under the ambit of cost audit and having cost audit for 2013-14, 2014-15 and 2016-17. But in the financial year 2017-18 company export turnover exceeded 75% of total Turnover. Kindly advise whether company needs to file Cost Audit Report for FY 2017-18 or not?

Reply:

The threshold limits are prescribed in the Companies (Cost Records and Audit) Rules, 2014 for maintenance of Cost Records and also for Audit of these Records.

Since the threshold limit for maintenance of Cost Records and Audit of these Records is met in Year 2013-14, the cost records are required to be maintained and audit of the same is



applicable from that year. 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 2013-14 and for every year thereafter irrespective of the fact that prescribed threshold limit is not met.

Query: TCMQ/046/2018-19:

One of the company to whom I am a Cost Auditor requires to re-file the CRA 4. The re-filing is required as there was change in the financial figures due to transfer pricing audit. Whereas the Cost Audit Report for the FY 2017-18 was filed before the same.

Can we re-file the CRA-4. If yes, what would be the procedure?

Reply:

MCA website provides a link for Resubmission of SRN. This option can be explored for re-filing of the CRA-4.

(For Technical Cell Secretary – please confirm with MCA / Iris / Infosys whether this option is available for re-filing of the form CRA-4)

Query: TCMQ/047/2018-19:

One company engaged in Construction of Commercial Complexes. They have one more group company which is engaged in maintenance of this commercial complexes, the nature of activities are as follows:

- Purchasing power from Government and supplying the same to clients who are occupied in this commercial complex turnover crosses Rs.100 crores
- Providing DG power during power failure - turnover around Rs.30 crores
- Maintaining lifts, roads, providing security and garden etc. for the whole complex
- providing internal transport facility for the employees who are occupied in this complex.

Since they are involved in construction related activity, they are of the opinion they will come under Cost Audit. They want to know whether the Power purchased from State Govt. will come under Table A -Regulated Sectors or Table B -Non-regulated Sectors.

Reply:

The query can be answered after receiving additional information.

Please provide the information pertaining to the following –

1. How the Power Purchased is supplied to the clients
2. Whether this supply is in the nature of reimbursement of power supplied in the commercial space.



3. What kind of commercial complex is this.

Query: TCMQ/048/2018-19:

In sugar manufacturing process, the bagasse (which is a residue of sugar cane after crushing) is generated as by-product. On an average it is 30% of quantity of sugarcane crushed. In traditional sugar factories, having only sugar manufacturing facility, it is the practice of using about 80% of such bagasse as fuel in boilers to produce steam which is further used to generate electricity. The said steam and electricity is being used in sugar factory itself as captive consumption. Moreover some factories use live steam of high pressure while some are using exhaust steam after condensing at low pressure (depends upon type of boiler they use). Any excess generated electricity is being sold to Distribution companies. Remaining bagasse (about 20%) is being sold as fuel for boiler in market to outside units. As per the financial accounting practice followed by such sugar factories, only sale of bagasse and sale of electricity is credited as income while generation of bagasse, its captive consumption in steam boilers, generation of steam, generation of electricity, captive consumption of steam, electricity etc. are not being accounted for.

In view of such financial accounting practice followed by sugar factories and in absence of values of such by-products, captive consumption etc. in financial accounts, what treatment for bagasse, steam, electricity is to be given in cost accounts?

Reply:

Financial Accounting and Cost Accounting principles are different. Cost Accounts will consider valuation of by-products and relevant income and corresponding cost entries will be considered while compiling cost statements.

Bagasse will be valued in Cost Accounts similarly for steam separate statement for cost of steam generation is to be compiled. As regards electricity, the steam cost will be considered as inputs, which is valued based on cost accounting principles and statements. Cost of Electricity used for captive consumption will be valued. Similarly cost of Electricity for outside sale is computed against the revenue generated through sale of electricity.

The erstwhile Cost Accounting Record Rules for Sugar Industry and the industry specific guidance notes published by the Institute may be referred for additional guidance.

Query: TCMQ/049/2018-19:

Company uses solvents like Acetone, Acetonitrile, Methelene Chloride etc. When put into process, part of it is recovered. Recovered solvents have less potency as compared to original Pure Material. Recovered Solvents need to be distilled to make it equivalent to Pure Material to make them reusable.



Please advise for the following:

- 1) How the consumption of these Solvents in Product to be shown
 - As pure - both quantity & value
 - As Recovered which is distilled - both quantity & value
- 2) How Distillation Expenses should be treated
- 3) How inventory valuation of Recovered Material should be done at month end / at year end
 - which is yet to be distilled
 - which is distilled and has become reusable

Reply:

1) & 2) Consumption of solvents is an element of Cost. The recovery of solvents should be given credit in costing. Conversion cost incurred for distillation process should be considered as part of cost of recovered solvent. Recovered solvent will be an element of Cost. Depending upon the composition of input material, pure & recovered, the relevant cost & quantity should be considered in the cost sheet.

3) Inventory Valuation –

- Which is yet to be distilled – rate of pure solvent less processing cost of distillation
- Which is distilled and has become reusable – same as that of pure solvent

Query: TCMQ/050/2018-19:

Often the Packing Material such as Fibre Drums and Polythene Bags are used to transfer the Finished Products of One Plant to another Plant in which it will be used as Raw Material. Under this situation:

- 1) How the cost of such Packing Materials will be allocated to Products of such Other Plant where such Material is transferred?
- 2) In Product Cost Sheet, how this cost will be presented?

Reply:

Refer Cost Accounting Standard 6 on Material Cost & Cost Accounting Standard 9 on Packing Material Cost.



Query: TCMQ/051/2018-19:

Commission on Sale is traceable to each product. Details are available Product wise. In Abridged Cost Statement:

- Whether Sale Value should be Net Value after deduction of Commission or
- Whether both should be shown separately in which case Commission will be part of Selling Expenses or
- Whether Company can follow any one of above mentioned two methods (provided it is followed consistently).

Reply:

Please refer Cost Accounting Standard 15 on Selling and Distribution Overheads.

Query: TCMQ/052/2018-19:

I would like to know whether Facility Management Services offered by Companies at Commercial & Residential premises will be covered under Construction Activity or not. These include:

1. Housekeeping & Pantry Management
2. Security & Fire Safety
3. Facility Management Consulting
4. Pest Control
5. Landscaping & Horticulture
6. Façade Cleaning
7. Energy & Safety Audits
8. Mechanical, Electrical & Plumbing (MEP) Services
9. Society & Condominium Management
10. Office Support Services

Such services are provided in Commercial, Industrial, Retail, Hospitality and Residential sectors. The billing in such cases is under head of Facilities Management Fees, which generally has one consolidated rate for all/some of the services offered. The entire operational revenue (Rs. 60 cr.) is from Facility Management Services which the company provides at several establishments.

Submitted please.



Reply:

Table B Sr. No. 21 of The Companies (Cost Records & Audit) Rules 2014 applies to Construction Industry as per Para No. 5 (a) as specified in Schedule VI of the Companies Act, 2013.

Schedule VI, Para 5 (a) covers –

(5) Industrial, commercial and social development and maintenance, including the following, namely:—

(a) real estate development, including an industrial park or special economic zone

The item specifically covers development and maintenance. Thus the activity of “Facility Management Service” which is in nature of maintenance will get covered under the Maintenance of Cost Records & Cost Audit.

Para 5 refers to Industrial, Commercial and Social development & maintenance. Hence the Facility Management Service for Industrial, Commercial & Social infrastructure will be covered under the Maintenance of Cost Records.

Query: TCMQ/053/2018-19:

There is a Company engaged in the business of construction and sale of residential flats only and earned revenue only from sale of residential apartments. Now for the F.Y. 2018-19 Company's turnover is approximately INR 200 Crores that is beyond the threshold limit as per the provisions of Section 148 of Companies Act, 2013 read with rules made hereunder for maintenance of Cost Record and to go for Cost Audit.

Since Company is engaged only in construction and sale of residential flats and as per the definition of Construction Industry as specified in Schedule VI (5) of the Companies Act, 2013, only Industrial, commercial and social development and maintenance has been prescribed. Please provide your guidance whether earning from sale of residential flats are covered in the definition of Construction Industry or not as Company is required to file form INC-22A and in that form we have to select Whether Cost Audit is applicable on our Co on or after March 30, 2019.

Reply:

Construction Industry has been defined to be corresponding to para No. (5)(a) as specified in Schedule VI of the Companies Act, 2013. Para (5) of Schedule VI of the Companies Act, 2013 pertains to “Industrial, commercial and social development and maintenance” and covers “real estate development, including an industrial park or special economic zone” as



per sub-clause (a). Hence, every construction activity in relation to the above sectors is covered under the Rules.

Since the company in question is involved with construction and sale of Residential Flats, which has not been covered under the para mentioned above, maintenance of cost records and audit thereof will not be applicable to the company.

Query: TCMQ/054/2019-20:

As per Table B Serial No 7 below activities are covered under Cost Audit.

"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"

My query is whether activities of CHAs (for Custom Clearance at port) covered under cost audit? Please advise what activities generally done by Freight Forwarders at port (Sea or ICD) are covered under cost Audit?

Reply:

The matter is pending as of now.

Query: TCMQ/055/2019-20:

CTA 8544 has Meter as UOM whereas it is Kilogram as per ITC-HS-Code MCA-XBRL. The product under CTA 8544 has Kilogram as UOM in Market trade practice. Following the trade practice client uses Kilogram as UOM and does not have Quantity data in terms of Meter. My query is that which one is to be followed and accordingly to report in Form CRA 3.

Reply:

Many industry representatives have raised this issue of UOM. The Institute has taken up the issue of UOM with the Ministry of Corporate Affairs and continuous follow up is going on.

As a practical solution since the notification relating to UoM has been issued on 3rd Dec 2018, the company may continue with the UoM as Kg. A note to this effect may be given for the accounting year 2018-19. However from the accounting year 2019-20 the company should also maintain the data as provided for in Customs Tariff Act 1975.



Query: TCMQ/056/2019-20:

With reference to the below mentioned fact it is requested to please let us know whether the cost audit is applicable to the Company or not.

1. XYZ private Limited Company is dealing in the pharmaceutical products the details of Revenue from operation is mentioned as under ;

Particular	Note	2017-18	2016-17
Revenue from Operation	A	798,501,284	793,556,317
Other Income	B	20,667,380	7,103,443
Total Revenue		819,168,665	800,695,760

Note : Bifurcation of Revenue From Operation

A. REVENUE FROM TRADING AND MANUFACTURING ACTIVITY

Particular	2017-18	2016-17
Bulk Drug	6046815	248529
Formulation	759 696532	759464591
Other	2280551	-
Less Excise Duty	-	(17,895)
Total	768,023,898	759,695,225

Description of Major Item Note A

Injection	119,511,775	419,529,73
Suspension	53,023,776	165,017,372
Tablets	406,852,266	129,599,487
Capsule	180,308,714	45,318,558
Bulk Drug	6046816	230634
Other	2280551	-

In view of the above, we would like to inform you that the Company has purchased same products from other companies, however according to the point number 2.4 of the Institute's FAQs-2 the Cost is applicable to the Company. However the Company is exporting 100% of the aforesaid products wherein we could not be able to understand the point no. 2.5 i.e. w.r.t. 75% is to be calculated for the specific products/services covered under Rule 3 and not in respect of all the products/services of the company. Does it mean that the Cost audit is applicable to the Company for the Injection during the previous year & Tablets during the year 2017-18 ??



B. OTHER OPERATING INCOME

Particular	2017-18	2016-17
Duty drawback	11,009,411	13,552,304
Focus License	19,467,976	20308788
Total	30,477,387	33,861,092

Kindly let us know the Applicability of Cost Audit to our Company in order to Comply with the requirement of the Companies Act and any other Act in true spirit.

Reply:

Reference may be made to the Companies (Cost Records and Audit), Rules 2014 Para 4 Applicability for Cost Audit-(Sub Rule (3)(I)). It is the revenue of the company as a whole which is to be considered and not the revenue from the sale of Individual Products/ Items. If the revenue from exports, in foreign exchange exceeds 75 % of total revenue of the company, the requirement for cost audit shall not apply.

Query: TCMQ/057/2019-20:

After the new amendment in Companies Cost records and Audit Rule 2018 Whether maintenance of Cost Records is applicable for a Logistic Company engaged predominantly in PORT related services? The fact is that the logistic company is doing port related services NOT directly to Port but as a CONTRACTOR for other undertakings / Company, which have direct dealing with Port and also the company is acting as Agent for others.

Business activity of the company is -

- 1) Port Operations- handling of dry and liquid bulk cargo
- 2) Handling of Containers at Port terminals
- 3) Trucking and warehousing
- 4) Bulk terminals -exclusive berth
- 5) Container trains-being operated on pan India basis

The Company is also having Stevedoring Licence at Chennai Port, Visakhapatnam Port, Paradip Port, Kandla Port, New Mangalore Port and VOC Port.

Major source of income is from

- 1) warehousing Rent, freight, stevedoring & coal handling
- 2) Clearing and handling and
- 3) Transportation

We are of the opinion that after the new amendment in the said Rule the Company will come under the purview of maintenance of cost records but the Company's argument is



that since it is not directly associated with Port and since carrying out the services for other undertakings/ Companies as a contractor the new amendment is not applicable to the company.

Please enlighten the word "Service rendered for a Port in relation to a vessel ----- given in 2(i) in new amendment Rules 2018. Also seek your opinion regarding applicability of maintenance of Cost Records and Cost Audit for the said Company.

Reply:

The matter is pending as of now.

Query: TCMQ/058/2019-20:

One Company Manufacturing various products as per details given below. Even though their total turnover exceeds Rs.100 crores and one product CTA heading 7204 turnover is Rs. 54.46 crores. But the company is telling that this product is only Scrap arising out of manufacturing main product and this is not our main product manufactured by us. Please inform whether the Company is coming under Cost Audit or Maintenance of Cost Records.

CTA Heading	Description	Turnover during 2018-19 in Rs.
7204	Waste and scrap of cast iron, stainless steel	544,645,792
7208	Flat-rolled products of iron or non-alloy steel, of a width of 600mm or more, hot-rolled, not clad, plated or coated.	71,487,082
7214	Other bars and rods of iron or non-alloy steel, not further worked than forged, hot-rolled, hot-drawn or hot-extruded, but including those twisted after rolling.	130,082,415
7223	Wire of stainless steel	44,758,948
7229	Wire of other alloy steel	28,164,665
8482	Ball or roller bearings	16,882,492
8483	“Transmission shafts (including cam shafts and crank shafts) and cranks (excluding crankshaft for sewing machine); gear boxes and other speed changers, including torque converters; flywheels and pulleys, including pulley blocks; clutches and shaft couplings (including universal joints)”	10,512,354



8484	Gaskets and similar joints of metal sheeting combined with other material or of two or more layers of metal; sets or assortments of gaskets and similar joints, dissimilar in composition, put up in pouches, envelopes or similar packings; mechanical seals	2,158,641
8708	Parts and accessories of the motor vehicles of headings 8701 to 8705	18,420,509,026

Reply:

Maintenance of Cost Records is applicable for 'Production of the goods or providing services'. Cost Records are applicable for 'Products or services'. Waste and scrap is neither a Product nor variants thereof like Joint Products or By Products. Though the CTA heading 7204 is covered under Table B Sr. No. 9 waste and scrap cannot be construed as 'Product'. Hence, shall not be considered in the Turnover of covered products.

The company is manufacturing products under other CTAs which are covered under Table B and the overall annual turnover of the company from all its products and services during immediately preceding financial year exceeds Rs. 35 crores, Maintenance of Cost Records are mandatory to the company.

Query: TCMQ/059/2019-20:

One company which is under Cost Audit as per Companies (Cost Records & Audit) Rules 2014. During financial year 2018-19 the Companies overall turnover is less than Rs.100 crores. The total Revenue as per P&L account for the earlier years are as follows:

	Rs. in crores
2014-15	343.23
2015-16	245.90
2016-17	236.15
2017-18	134.29
2018-19	96.00

Now, Company wants to know whether they are covered under Cost Audit for FY 2019-20 since their turnover is less than Rs.100 crores during PY 2018-19.



Reply:

Following is the FAQ no. 1.10 of the FAQs 1, on CCRA Rules 2014, issued by the Institute:

Rule 3 of the Companies (Cost Records and Audit) Rules, 2014 states that a company engaged..... Since the threshold limit for applicability of maintenance of cost accounting records is met in Year-0, the cost records are required to be maintained from Year-1. Once the maintenance of cost records becomes applicable, it would be maintained on a continuous basis in the subsequent years also. In the same line, cost audit will be applicable from Year-1 and for every year thereafter.

Since the threshold limit for applicability of Cost Audit is met in previous years, cost audit will be applicable in the year 2018-19 even if the turnover has dropped below Rs. 100 crore. Once the Cost Audit becomes applicable, it will be continued every year.

Query: TCMQ/060/2019-20:

This is with respect to a company whose CETA code is 2914 (Camphor) falling under non-regulated sector i.e. Item B of rule 3 under Inorganic Chemicals, isotopes etc. The company's overall turnover during FY 2018-19 is more than Rs.100 crores and the turnover of CETA 2914 is more than Rs.35 crores.

The company sells camphor in wholesale packages. The process involves procurement of camphor powder pour into Die which is pressed into various shapes and then cut and packaged for sale.

Does the process described above fall under manufacturing activity attracting cost audit for FY 2019-20?

Reply:

The process described amounts to Production activity, satisfies applicability criteria for Cost Audit and hence will attract Cost Audit.

Query: TCMQ/061/2019-20:

The logistics company is doing the port-related provision of services and invoices are raised to clients, not to port. Such as:

- moving of containers,
- import and export of cargo,
- stuffing and de-stuffing of containers,
- cargo storage and last mile delivery.

The turnover of the company is more than Rs. 100 crores in FY 2018-2019.



Please advise whether cost audit is applicable in FY 2019-2020?

Reply:

The matter is pending as of now.

Query: TCMQ/062/2019-20:

I have gone through the compilation guidelines note which is issued by ICAI. Referring to Query TCMQ/037/2018-19: Mentioned that Cost Audit/Records are applicable for MSME (companies also).

(Response to Queries by Technical cell) Page no 31.

Query :

1. Could you please advise whether Institute confirmed with MCA/CAB regarding the same.
2. Please let me know whether companies that fall under MSME development ACT 2006, Cost Audit / Cost Records will applicable or NOT.

Reply:

1. Opinion expressed by the Technical Cell is the opinion of Technical Cell, duly constituted by the Council of the Institute of Cost Accountants of India.
2. The defining criteria to decide the applicability of Maintenance of Cost Records and Cost Audit is Turnover as defined in the CCRAR 2014 and since the MSME Development Act has not been amended as yet, Thus as on date there is no turnover criteria under sub- section (9) of section 7 of MSMED Act 2006. Hence the exemption as given in the CCRAR 2014 is not effective and does not apply.

Query: TCMQ/063/2019-20:

One company has earned interest income during construction period out of equity fund upto 31st March 2017. During 2016-17, Company has capitalised the Building after reducing the Interest income from total Building cost (i.e. in Balance Sheet, they had shown Gross Building cost Less Interest earned during Construction period.)

During 2018-19, the Company has come under Cost Audit. In Financials, they have considered on Net value i.e. after reducing the interest cost.



Please inform, for cost audit purpose, do we have to consider Depreciation based on Financials (net value of Building) or on Gross value of Building and show the difference amount (between Financials and Costing) in reconciliation.

Reply:

For cost audit purpose, consider Depreciation based on Financials (net value of Building).

Query: TCMQ/064/2019-20:

I have some queries regarding some points, which are given below-

1. Who is responsible for the preparation of Cost Audit Report?
2. Is CMA simply responsible to check the report, which is made by management?
3. Who is responsible for preparing the Cost Records either Company or CMAs?
4. If companies are responsible for Cost Records preparation, then why they appoint CMAs for the same?
5. What Records (Proformas or Format) CMAs are supposed to prepare when they are appointed by Companies for Cost Records Preparation?
6. Please give suggestions regarding Cost Records or any minimum criteria for Cost Records because Cost Audit and Records Rules are somehow not specific about Cost Records preparation.
7. Are Cost Sheets (Products and Services) preparation in Cost Records assignment is enough for satisfying Cost Records Rule, 2014 conditions and Principles?

Reply:

1. Cost Auditor appointed by the Company.
2. No. Cost Audit Report is prepared by a Cost Auditor and not by the management.
3. Company is responsible for preparation and maintenance of cost records.
4. Since a CMA has the expertise of preparing and maintaining Cost Records as required by the Companies Act, 2013, the companies assign this responsibility to CMAs by employing them or by outsourcing the activity to any practicing cost accountants.
5. Please refer to the Companies (Cost Records and Audit) Rules 2014 for more information.
6. Please go through the Companies (Cost Records and Audit) Rules 2014 and also the section 148 of the Companies Act for clarity.



7. No. Cost Sheet is prepared on the basis of cost records of a company. Maintenance of Cost Records and Audit thereof will be based on the criteria prescribed under the Companies (Cost Records and Audit) Rules 2014.

Query: TCMQ/065/2019-20:

A company was doing power trading business. Their business was to purchase power and distribute to the consumers. The Power supply Company terminated the contract and stopped the supply of power to this company. The company was coming under the purview of Cost Audit and filing cost audit report with Government. Due to termination of the contract the Company is having other income like interest earning from investments but does not have power distribution business. Under the present circumstances whether they have to file nil report with MCA or does not require to file any report since they do not have any income from power business which was under the purview of Cost Audit.

Please clarify.

Reply:

Since the company is not engaged in production of goods or providing services covered under CCRAR, 2014, company need not file the Cost Audit Report on the basis of information provided in the query. However, if the appointment of Cost Auditor is already done, the company should inform the factual position to MCA (Cost Audit Branch) for non-submission of Cost Audit Report. The company should be advised to send a copy of this letter to Cost Auditor. As a precautionary measure the Cost Auditor should also write to MCA (Cost Audit Branch) explaining the circumstances under which the Cost Audit could not be carried out by him and non-submission of Cost Audit Report.

Query: TCMQ/066/2019-20:

Companies (Cost Records and Audit) Amendments Rules, 2018

In the above referred gazetted rules, at point 4 (ii), it is mentioned that:

In Form CRA3, in Note, Note 3 shall be added, namely:

“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”.

While going through Form CRA3 as notified, we find that under Notes, there are already 3 notes.



Kindly opine:

Whether the notification should have mentioned it as Note 4 and that “Note 3” is a typographical error, or

This note is to be added as point 3 in main body of CRA3 after “Observations & Suggestions”. In this case, it will be mandatory to put this note in CRA3 by Cost Auditor, however the present XBRL taxonomy does not provide for this to be uploaded in XML format.

Reply:

There is no Typographical Error, the note is added as a new Note to Form CRA 3. In form CRA 3, after Part D – 6, there are 2 notes, the third note as mentioned in the notification is added. Thus the note applies to the entire CRA3.

Query: TCMQ/067/2019-20:

One of the manufacturing companies had normal repairs and maintenance expenses towards building in the range of Rs. 40 to 50 lakhs.

During the year 2018-19 the company had incurred repairs and maintenance expenses on building amounting to Rs. 105 lakhs and on analysis it is evident that the major expenses were towards the staff quarters maintenance.

Please let me know whether the expenses on staff quarters’ maintenance should be treated as abnormal cost for the year 2018-19 or be absorbed as part of Fixed Overheads.

Reply:

Please refer the Cost Accounting Standards. Standard 3 – Production & Operation Overheads.

The Standard as provided the definition for abnormal cost.

“An unusual or atypical cost whose occurrence is usually irregular and unexpected or due to some abnormal situation of the production or operation.”

It is the judgement to be taken whether the Cost is Normal or Abnormal in the given situation based on the principles laid down in the Cost Accounting Standards and Generally Accepted Cost Accounting Principles.



Query: TCMQ/068/2019-20:

I would like a clarification on Part D-5, Related Party Transactions (for the company as a whole):

As per Rule 24 (e) (Related Party Transactions) of CRA -1 of the Companies (Cost Records and Audit) Amendment Rules, 2014

“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.”

Is the following interpretation of the above Correct?

“The applicability is restricted to related parties as defined under the companies act, 2013 and for contracts, agreements or understanding relating to production or sale of goods and/or rendering or receiving of services in relation to the product or services under reference for which the cost records are required to be maintained.”

Further, what is the meaning “for the company as a whole”?

And also, if my interpretation (as mentioned in query no.1) is correct then do we have to Report even those transactions which are not related to products or services (specifically those transactions which are related to purchase and sale of goods and receipt and rendering of services) as per Companies (Cost Records and Audit) Amendment Rules, 2014.

Reply:

CRA -1 Rule 24 gives in detail the disclosure requirements pertaining to the Related Party Transactions.

Rule 24 (a) gives specific definition of Related Party. Thus Related Party is as defined under Rule 76 of Section 2 of the Companies Act 2013.

Rule 24 (d) gives the list of Transactions for which disclosure regarding Related Party Transactions is to be given. Thus the information is to be given for all the transactions as mentioned in the said Rule, irrespective of their relation to the products / services for which the records are maintained.

The information is to be provided for The Company as a Whole, this also clearly indicates that the information is to be given for all the related party transactions as mentioned in the Rule 24 (d) and not only the products covered under maintenance of cost records.



Query: TCMQ/069/2019-20:

A company is selling products mentioning only 4 or 6 digit HSN codes in invoices as also in GST return which is aligned with the Requirements of GST Act/Rules.

They are not required to maintain eight digit HSN Codes as per any other law/Act.

Under the circumstances, should reporting in annexure to cost audit report also be on same lines, i.e. in 4 or 6 digit codes or is the Company still required to provide at eight digit HSN in Cost Audit.

Further, if the Technical Cell is of the opinion that the Company should provide data in 8 digit HSN codes, can the Company add four zeroes after the 4 digit CTA code? E.G. if the data is available as 8421 CTA code, can the Company give the same as 8421 0000.

Also, in case eight digits will still be applicable, there is no database available in the company for the auditor to check.

Reply:

The requirement of Companies (Cost records and Audit) Rules, 2014 is specific. “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).

First Schedule to the to the Customs Tariff Act, 1975 (51 of 1975) 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.

Hence, the requirement is to identify the product at its sub-code level and not at the Chapter Heading level.

It is immaterial whether the Company is required or not required to maintain its records at 8 digit HSN level under any other law. The Rules require reporting under 8-digit level and the same has to be complied with.

You cannot add 4 zeros as suffix to the chapter heading of 4 digits. This will be treated as invalid and will not pass the validation of Costing Taxonomy.



Query: TCMQ/070/2019-20:

One private company is into the business of modification as well as construction business of airport. Airport Authority of India has awarded contract to them titled "Modification/Expansion of existing Integrated Terminal Building".

I have the following query:

"Whether to group it in Construction Industry or Roads & Other Infrastructure Projects."

Reply:

The Companies (Cost Records & Audit) Rules 2014 specify applicability in respect of "Construction Industry as per para No. (5) (a) as specified in Schedule VI of the Companies Act, 2013 (18 of 2013)" – Table B Sr. No. 21

As per the Schedule VI of The Companies Act 2013, Part (5) (a), Construction Industry covers - Industrial, commercial and social development and maintenance, including the following, namely:— (a) real estate development, including an industrial park or special economic zone.

This covers Development & Maintenance of Commercial and Industrial projects.

From the Information given it appears that the project / contract is for development of Commercial Project and hence it will be covered under Table B, Sr No. 21 – Construction Industry.

Query: TCMQ/071/2019-20:

ONGC takes equipment such as rigs, drilling units, vessels etc. on lease for the exploration and the development of oil wells. The rent and other charges are paid to the supplier over the contractual period and booked under 'Hiring Charges of Equipment' with appropriate cost object so that the cost flows to the activity/product as "Direct Expenses" in the Cost Sheet.

Under Ind AS 17, the Company classified such leases as operating lease and charged the rentals paid to the statement of profit and loss account, unless it is used in the exploration and development of well where it forms part of cost of exploration and development in progress.

Under Ind AS 116, the Company shall be required to create Right-of-use (ROU) asset and Lease liability against the right to use asset received from the supplier and the rentals to be



paid over the contract period respectively. The depreciation and interest cost is recognized on the ROU Asset and Lease liability respectively.

Issues for which guidance is sought from ICAI

In SAP ERP environment, the Financial & Cost Accounting are integrated and the Statement of Profit & Loss Account is prepared from the Costing Module, after segregation of cost between capital and revenue, through allocation and apportionment between different cost objects.

Due to present value accounting prescribed under Ind AS 116, the actual cost of hiring of the equipment would no longer be captured in the cost object; instead, different amounts would be captured as Depreciation – representing the amortization of the ROU Asset, and

Finance Charges – representing the unwinding of discount.

Section 148 of the Companies Act read with the Companies (Cost Records and Audit) Rules, 2014 and the Cost Accounting Standards issued by the Institute of Cost Accountants of India mandates maintenance of Cost Accounting Records based on historical cost.

Whether the Cost of the Product/Activity could be calculated, based on Present value accounting, disregarding the actual cost incurred on hiring of the equipment?

Whether the Financing Charges, being notional, be considered as a part of cost of the product/activity or treated as a non-cost item?

Whether it would be proper to capitalize the interest cost on the lease liability for hiring of leased assets involved in the exploration or development of wells?

Whether the distortion in the Period Cost (Quarterly/ Half-yearly/ Annual) be acceptable to all the stakeholders, viz., Cost Auditors, Management, Government, Investors etc., as it would be in non-conformity with the Cost Accounting Standards?

In case of lease payments in foreign currency, the periodic revaluation of lease liability would give rise to Foreign Exchange Loss/Gain which would be charged to Profit & Loss Account. The company has the option to capitalize the forex differences on re-measurement of Foreign Currency Lease liability of leased assets used in exploration or development of wells to the extent of interest differential, as borrowing cost.

Whether such Foreign Exchange Loss/Gain, either capitalized or charged to Profit & Loss Account be treated as non-cost item or part of the cost of product/activity?

Reply:

FACTS OF THE CASE



1. Oil & Natural Gas Corporation Limited (ONGC) is listed Public Sector Maharatna Company. It is the largest crude oil and natural gas Company in India, contributing around 75% of Indian domestic production.
2. Indian Accounting Standard (Ind AS) 116 "Leases" has been notified by the Ministry of Corporate Affairs (MCA), Government of India, on 30.03.2019 to be mandatorily applied by all listed companies in India from April 01, 2019. Hence, Ind AS 116 becomes applicable to ONGC as well. This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases.
3. ONGC takes various equipments such as rigs, drilling units, vessels etc. on lease for the exploration and development of oil wells. Prior to the implementation of Ind AS 116, the rent [i.e. lease charge] and other charges paid to the supplier over the contractual period were booked under 'Hiring Charges of Equipment' with appropriate cost object so that the cost flows to the activity/product as "Direct Expenses" in the Cost Sheet.
4. Earlier as per Ind AS 17, the Company classified such leases as operating lease and charged the rentals paid to the statement of profit & loss account, unless it is used in the exploration and development of well where it forms part of the cost of exploration and development in progress.
5. On introduction of Ind AS 116, the Company is required to create Right-of-use (ROU) asset, and the lease liability against the ROU asset and rentals to be paid over the contract period respectively. The depreciation and interest cost is recognized on the ROU asset and lease liability respectively.
6. The value of the Right-of-use (ROU) asset would be equal to the Present Value of the Cash Outflows in respect of the minimum lease payments to the Lessor for the balance period of the contract by applying a discounting rate equal to the incremental borrowing rate of the lessee i.e. the effective interest rate for the Company. Owing to this Present Value Accounting prescribed under Ind AS 116, the actual cost of hiring of the equipment would no longer be captured in the Profit of Loss Account. Instead, following amounts would be captured:
 - **Depreciation** representing the amortization of the ROU assets
 - **Finance Charges** representing the unwinding of discount
7. The Company shall apply the effective rate of interest to calculate interest on the remaining balance of the lease liability, on a monthly basis, and charge the same in Profit & Loss Account and assign to the appropriate cost object as "Financing Charges".



8. In case of lease payments in foreign currency, the periodic revaluation of lease liability would give rise to Foreign Exchange Loss/Gain which would be charged to the Profit & Loss Account. However, the Company has the option to capitalize the forex differences on re-measurement of Foreign Currency Lease liability of leased assets used in exploration or development of wells to the extent of interest differential, as borrowing cost.
9. The aforesaid methodology reveals the following:
 - Owing to the principle of "risk & reward incidental to ownership of leased asset lie with the lessee", the leased assets are notionally treated as ROU asset in the lessee's books.
 - The ROU asset would be initially measured at the presentvalue of lease payments to be made over the lease term by applying the incremental borrowing rate of the lessee i.e. the effective interest rate for the Company.
 - The present value of all the cash outflows would be capitalized as a Non-Current ROU Asset in the Balance Sheet.
 - The ROU asset would be depreciated over the period of the contract on Straight Line Method (SLM), similar to other non-financial assets i.e. property, plant & equipment.
 - The financing cost mentioned above representing unwinding of discount is imputed in nature.
 - Lessor would be paid the actual lease charges during the contract period. These charges were earlier shown as "Hiring Charges of Equipment" in the Profit & Loss Statement and as "Direct Expenses" in the Cost Statement.
 - The existing cost element "Hiring Charges of Equipment" would be replaced by two elements namely, "Depreciation on ROU Asset" and "Financing Charges".
 - The sum of Depreciation and Financing Charges would be higher than the actual cost [actual lease (hiring) charges paid to the Lessor] in the initial period of lease and lower than the actual cost during the later phase.
 - Over the entire tenure of the lease, the sum total of Depreciation and Financing Charges would be equal to the total Hiring Charges (minimum lease payment) of the equipment.



- In case of lease payments in foreign currency, any Foreign Exchange Loss/Gain would be either charged to the Profit & Loss Account or capitalized as borrowing cost, as the case may be.

QUERIES MADE TO THE TECHNICAL CELL OF THE INSTITUTE

10. Arising from the implementation of Ind AS 116, following queries were made in respect of treatment of various costs relating to the assets taken on lease by ONGC.
- (a) Whether the Cost of the Product/Activity could be calculated, based on the Present value accounting, disregarding the actual cost incurred on hiring of the equipment?
 - (b) Whether the Financing Charges, being notional, be considered as a part of cost of the product/activity or treated as a non-cost item?
 - (c) As suggested by the Company's consultant, the Financing Charges (borrowing costs) that are directly attributable to the acquisition, construction or production of a qualifying asset would be included in the cost of that asset in terms of the provisions of Ind AS 23. In such cases, for maintenance of Cost Records, whether it would be proper to capitalize the interest cost on the lease liability for hiring of leased assets involved in the exploration or development of wells?
 - (d) Whether the distortion in the Period Cost (Quarterly/Half-yearly/Annual) be acceptable to all the stakeholders, viz. Cost Auditors, Management, Government, Investors etc. as it would be in non-conformity with the Cost Accounting Standards?
 - (e) Whether the Foreign Exchange Loss/Gain on lease liability, either capitalized or charged to Profit & Loss Account be treated as non-cost item or part of the cost of product/activity?

DISCUSSIONS HELD IN THE TECHNICAL CELL

11. The queries raised were examined. These were finally discussed in detail in the Technical Cell meetings held in Pune on February 20-21, 2020 where large numbers of very senior members of CMA profession were present.
12. It was noted that existing provisions contained in Section 148 of the Companies Act, 2013 read with the Companies (Cost Records and Audit) Rules, 2014, Generally Accepted Cost Accounting Principles (GACAP) and Cost Accounting Standards (CAS) issued by the Institute contain the following principles:
- Cost Accounting Records and Cost Statements should be maintained based on the "Historical Cost".



- Costs reported under various elements of cost shall not include any imputed or notional costs.
 - Finance costs directly attributed to the acquisition or construction or production of a qualifying asset shall be included in the cost of the asset. However, Finance costs shall not include imputed costs.
 - Any Gain/Loss arising on account of foreign exchange variations shall not form part of the Cost Statements.
 - Similarly, any impairment Gain/Loss shall not form part of the Cost Statements.
 - All such incomes & expenses that are included in Financial Statements but not included in Cost Statements shall be disclosed in the Statement of Reconciliation of Costing Profit/Loss with Financial Profit/Loss.
 - Conversely, all such incomes & expenses that are included in Cost Statements but not included in Financial Statements shall also be disclosed in the Statement of Reconciliation of Costing Profit/Loss with Financial Profit/Loss.
13. It was also noted that following the principles laid down in Ind AS 116, leased assets are treated as ROU asset in the Company's books. Further, imputed depreciation on such ROU assets and imputed Financing Charges representing unwinding of discount on lease liability are charged to the Profit & Loss Account or capitalized in case the leased assets are used in exploration or development of wells. Similarly, in case of foreign currency leases, any foreign exchange loss/gain is either charged to the Profit & Loss Account or capitalized.
14. It was further noted that the Lessor is paid actual lease charges during the contract period, as per contract terms, that have no equivalence to the imputed depreciation on leased assets [treated as ROU assets] and imputed Financing Charges charged to the Profit & Loss Account or capitalized in compliance with Ind AS 116. Therefore, sum of Depreciation and Financing Charges is higher than the actual cost [actual lease charges paid to the Lessor] in the initial period of lease and lower than the actual cost during the later phase. But over the entire tenure of the lease, sum total of Depreciation and Financing Charges remain equal to the total lease payments.
15. After detailed deliberations, a consensus view emerged that as per the widely accepted Cost Accounting Principle & Practice and as already stated in all the Cost Accounting Standards issued by the Institute so far, there is no case for including any imputed or notional costs in the Cost Statements. Even though the Ind AS has recognized various such expenses for inclusion in the Financial Statements, the same have no ground for



being considered as 'Costs' and therefore, their inclusion in the Cost Statements would vitiate the true & fair view of the cost of relevant product/activity.

OPINION OF TECHNICAL CELL ON THE QUERIES MADE

16. In conformity with the principles laid down in the Generally Accepted Cost Accounting Principles (GACAP) and Cost Accounting Standards (CAS) issued by the Institute and the discussions & deliberations held, the Technical Cell provides following opinion on various queries raised by the company, as listed in para 10 above.

- a) In case of leased assets, cost of the Product/Activity shall not be calculated based on the Present value accounting. In place, the existing principle/practice of considering only the actual cost incurred on hiring of the equipment shall be followed.
- b) The notional Depreciation charged on ROU assets [leased assets] and the notional Financing Charges representing the unwinding of discount, considered in the Financial Profit & Loss Statement, shall not be included in the Cost Statement for the respective Product/Activity. These would be treated as non-cost items.

To present true & fair view of the cost of product/activity, Cost Statement would include the actual lease charges paid to the Lessor during the contract period. These charges would continue to be categorized as "Direct Expenses" in the Cost Statement.

The notional Depreciation and Financing Charges considered in Financial Profit & Loss Statement and not included in the Cost Statement shall be disclosed in the Statement of Reconciliation of Costing Profit/Loss with Financial Profit/Loss. Similarly, actual lease charges paid to the Lessor and included in Cost Statements but not included in Financial Statements shall also be disclosed in the Reconciliation Statement. These details would be presented as under:

Profit or Loss as per Cost Accounts	xxxxx
<i>Less: Effect of Accounting of Leased Assets</i>	
(a) Imputed Depreciation on leased assets	xxxxx
(b) Imputed Financing Charges on leased assets	<u>xxxxx</u>
(c) Total Depreciation & Financing Charges (a+b)	xxxxx
(d) Less: Actual Lease Charges paid to the Lessor	<u>xxxxx</u>
(e) Net effect of accounting on leased assets (d-e)	xxxxx
Profit or Loss as per Financial Accounts	xxxxx



- c) CAS-17 provides that interest & financing charges that are directly attributable to the acquisition, construction or production of a qualifying asset would be included in the cost of that asset. However, notional financing charges on the lease liability for hiring of leased assets involved in the exploration or development of wells would not be capitalized; instead the actual lease charges paid to the Lessor for the leased assets used in exploration or development of wells would be capitalized.
- d) Distortion in the Period Cost (Quarterly/Half-yearly/Annual) arising out of any inclusion of imputed depreciation & financing charges and non-inclusion of actual lease charges paid to the Lessor, in the Cost Statements would not be acceptable to all the stakeholders, viz. Cost Auditors, Management, Government, Investors etc. as it would be in non-conformity with the Cost Accounting Standards. Therefore, the modified framework, as suggested above, which is in complete conformity with the Cost Accounting Standards, should be followed that would be fully acceptable to all stakeholders.
- e) Any Foreign Exchange Loss/Gain on lease liability, either capitalized or charged to Profit & Loss Account would be treated as non-cost item and not considered as part of the cost of product/activity. Accordingly, its effect would be disclosed in the Reconciliation Statement.

Query: TCMQ/072/2019-20:

Combination of contracts

Para 17 of Ind AS reads as - An entity shall combine two or more contracts entered into at or near the same time with the same customer (or related parties of the customer) and account for the contracts as a single contract if one or more of the following criteria are met: the contracts are negotiated as a package with a single commercial objective; the amount of consideration to be paid in one contract depends on the price or performance of the other contract; or the goods or services promised in the contracts (or some goods or services promised in each of the contracts) are a single performance obligation in accordance with paragraphs 22–30.

Query 1 - With respect to presentation of above in Cost Sheet / Cost Audit:-

Presently Cost Sheet shows Sale of gases as separate line item and other revenue streams as part of Other Revenue from Operation. Considering above disclosure changes in Financial Statement, what methodology should be followed for presentation in Cost Sheet – Whether it should be clubbed in Sale of products or shall continue separate disclosure in Other Operating Revenue.



Query 2 - With respect to Power cost reduction from Sale of Gases and relevant expense head:-

Whether Cost Sheet shall be prepared at Gross Revenue level or after reducing Power cost from Revenue and relevant expense head

What practice is followed in cost sheets of other industry which are having impact of Para 70 i.e. Pharma, Real Estate, Auto sector where such bought out transactions are common business practice.

Reply:

In Financial Accounts the revenue is classified as Sales of Product & Other Operating Revenue. In Cost Accounts Net Sales Realisation should reflect purely the revenue from sale of product or service in cost statement. The treatment of various items of Other Operating Revenue, in cost statements, will depend upon the nature of the item and the principles as laid down in Cost Accounting Standards.

The Cost Sheet shall be prepared at Gross Level showing Gross Sales and the Power Cost shall be considered as an element of Cost in the Cost Sheet. This is to reflect correct revenue from sale of gases and corresponding costs incurred.

Query: TCMQ/073/2019-20:

Section 143(14) of Companies Act 2013 says the provisions of this section shall mutatis mutandis apply to—

- (a) the cost accountant in practice conducting cost audit under section 148; or
- (b) the company secretary in practice conducting secretarial audit under Section 204.

Here does “this section” means Section 143?

Rule 6(7) of the Companies (Cost Records and Audit) Rules, 2014 says:

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.

Here it says that only the provisions of Section 143(12) of the Companies Act 2013 shall apply mutatis mutandis to a cost auditor.

Please give an interpretation of the above whether the whole of section 143 is applicable mutatis mutandis to a Cost Auditor or only section 143(12)?



Reply:

Yes, “this section” means Section 143.

Whole of section 143 is applicable mutatis mutandis to a Cost Auditor.

Query: TCMQ/074/2019-20:

Construction company is covered under Service Activity. We have to prepare Service Cost sheet. But under service cost sheet there is no column for WIP and Finished Goods. Where will I disclose under Service cost sheet and XBRL. Please solve the problem.

Reply:

This has to be disclosed under Industry Specific Operating Expenses.

Query: TCMQ/075/2019-20:

With reference to a practical situation, described below, of one of my client, I request for a clarification on applicability of Cost audit in the given circumstance.

The Company manufactures three products (having same CETA heading), all falling under Table A – Regulated Sectors, specified under Rule-3 of Companies (Cost Records and Audit) Rules, 2014. The Company has achieved an overall turnover of Rs.55 Crores during the previous financial year 2018-19. Turnover of individual products falling under regulated sectors were Rs.29.50 Crores, Rs.11.50 Crores, Rs.6.90 Crores and turnover of products falling under non-regulated sectors were Rs.7.10 Crores (from two products).

Clarification required on:

1. Number of products to be declared in form CRA-2, under regulated sector category.
2. Need under the Law to declare products falling under non-regulated sector, in form CRA-2
3. Number of products to be covered under Cost audit for FY 2019-20.

I request for clarification on the above queries from Technical Cell.

Reply:

The question of applicability of maintenance of cost records and cost audit thereof has to be determined based on Rule 3 and Rule 4 of the Rules. Rule 3 states -



3. Application of Cost Records:- For the purpose 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....

Hence, a company engaged in any of the activities mentioned under Table A or Table B will be required to maintain cost records u/s 148 if it has “overall turnover from all its products and services of Rs.35 crores or more during the immediately preceding financial year”.

It may be noted that while determining the applicability the Rs.35 crores does not pertain to any individual product/service or whether such products are covered in Table A or Table B.

In the instant case, the company has a turnover of Rs.55 crores and consequently all the products under Table A are covered under maintenance of cost records.

The applicability of cost audit is determined by Rule 4 which states inter alia that “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”.

Hence, for Table A products, the test is to see whether overall turnover of the company is Rs.50 crores or above and whether the turnover of the applicable products (Table A and Table B) is more than Rs.35 crores.

In the instant case, both the criteria are being met and all products under Table A will be covered under cost audit.

Only those products that are coming under the purview of cost audit are required to be mentioned in Form CRA-2.

Since no product under Table B are getting covered under cost audit, these are not required to be mentioned in CRA-2.

Query: TCMQ/076/201920/26Oct

I have some doubts about CRA 1 Rule 24(e) – Related Part Transaction.



It says as: “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.”

What does it mean?

Client’s interpretation of this Rule is as:

“The applicability is restricted to related parties as defined under the companies act, 2013 and for contracts, agreements or understanding relating to production or sale of goods and/or rendering or receiving of services in relation to the product or services under reference for which the cost records are required to be maintained.”

For example: An engineering company is purchasing vegetable oil and other food items for cooking in Canteen from Related Party and not from other than related party. This item is not related to Cost Records. Is this to be reported in Part D5 of Annexure to Cost Audit Report?

Kindly advise.

Reply:

The reference and quote of the Rules and the example has no correlation.

Part D-5 requires Related Party Transactions to be reported for the company as a whole. It is not limited to the products/services under reference.

The different bases for Related Party Transactions have been defined in the Rules. Each transaction must mention the basis adopted for determining the rate at which the related party transactions has taken place.

Query: TCMQ/077/201920/29Oct

We are a private limited company. As per section 148 and the Rule 3 & 4 thereunder we were required to appoint the Cost Auditor since FY 2017-18 as we had crossed the turnover requirement than and continued till last FY 2018-19. (Company Name: Syniverse Technologies India Pvt. Ltd., Applicable Regulated Sector name: Telecommunication Services.)

However, in the current FY 2019-20 the turnover of the previous FY 2018-19 is below the required threshold.



We are writing to you to understand the following:

- If the company is still required to appoint the Cost Auditors when the turnover is below the threshold of 50 Cr or avg. turnover 25 cr.?
- If we need to continue the appointment of the Cost Auditor, could you please share the apt interpretation of the section applicable of the Companies Act 2013, so we could refer it in future?

Request you to kindly guide us. We thank you in advance for helping us understand and comply with the relevant provision of Companies Act 2013.

Reply:

Kindly refer to FAQ No. 1.10 of the FAQ - 1 issued on 19/03/2015 by the Institute. The answer to that FAQ is reproduced hereunder:

Rule 3 of the Companies (Cost Records and Audit) Rules, 2014 states that a company engaged in the production of the goods or providing of services as prescribed having an overall turnover from all its products and services of rupees thirty five crore or more during the immediately preceding financial year, shall include cost records for such products or services in their books of account. Since the threshold limit for applicability of maintenance of cost accounting records is met in Year-0, the cost records are required to be maintained from Year-1. Once the maintenance of cost records becomes applicable, it would be maintained on a continuous basis in the subsequent years also. In the same line, cost audit will be applicable from Year-1 and for every year thereafter.

Query: TCMQ/078/201920/31Oct

I am a practicing member with cost audit report for F.Y.2018-19 submitted on 05.08.19 (Listed Company) and 16.09.2019 (Non listed Co.).

Kindly, Refer Notification dt 15.10.19 regarding Companies (Cost Records and Audit) Amendments Rules 2019 effective from 01.04.18 and General Circular No-12/2019 dt 24.10.19 issued by MCA.

I want to know:

- Whether whole annexures/paras to the audit report and Report para / CRA3 to be re approved/approved in BOD meeting on a date after 15.10.19
- OR Only Relevant Amended Annexures to be received by the company signed on behalf of BOD (without approval in BOD meet.) and then auditor has to sign the CRA3 /



Report para and amended annexures on the date after 15.10.19 or on concerned earlier date.

- OR Only form CRA 4 (Filing in XBRL-updated Costing Taxonomy 2019) has to be filed with updated annexures / paras to the report (without following abovementioned either of 2 options / alternatives as mentioned by me)

(Part D table 6 (Reconciliation-Indirect Taxes) is already updated (based on guidelines issued earlier in this regard) in annexure / report submitted.)

(Whether BOD approved Annexures to the audit report of earlier dates submitted to be kept for records or not.)

Kindly guide.

Reply:

As a cost auditor, your responsibility has come to an end once you have submitted the report to the BOD on the basis of Annexures to the cost audit report approved by the BOD at a meeting held on or prior to the date of your report.

If the company has filed CRA-4 prior to 15/10/19, then the same is valid. If the company did not submit the report till notification dated 15/10/19, then the company is required to file CRA-4 under Costing Taxonomy 2019 which is yet to be deployed.

For this purpose, depending on the activity of the company, few of the Annexures are required to be modified. In case the new Part D-6 was not prepared earlier, the same has to be prepared now.

Technically the BOD should again approve the annexures at a Board Meeting. However, in case the Board has already authorised some Director to file the CRA-4 with or without modification, then the company may avoid holding another Board Meeting to approve the annexures afresh. However, this decision has to be taken by the Company.

Kindly also refer the advisory issued by the Institute on 2nd November, 2019 in this regard.

Query: TCMQ/079/201920/6Nov

I have a query regarding PPLC (Purchase preference local content) circular issued by MoPNG.

1. Can we certify a certificate based on futuristic cost?



2. If we provide a PPLC certificate based on futuristic cost, do we need to mention any clause?
3. Do we have any guidelines or set of procedures, how to proceed?
4. Do we get any ready reckoner on this aspect?

Kindly advise and assist on the above points.

Reply:

Future cost means, an estimated quantification of the amount of a prospective expenditure.

1. Yes. We can certify a certificate based on future cost.
2. Yes. We need to mention in our certificate that this certificate is issued based on future costs/ documents submitted by the management for our verification (e.g. detailed break up of local and import content of estimated consumption). There must be complete disclosure and the basis for cost computation and relevant documents used for its verification may also be clearly mentioned.
3. No. Institute has not issued any guidelines on this.
4. There is no such ready reckoner available.

Query: TCMQ/080/201920/12Nov

We are working for Telecom company to determine Cost of product. It has incurred considerable amount in pre-sales cost centre that is serving for existing and potential customer base. We are not in Agreement with the organization management that entire cost should be absorbed with existing product lines on Sales Ratio. The company is practicing Activity Based Costing system. Could you please suggest us in this regard?

Reply:

01. Company should identify the Pre-Sale Cost Incurred to serve the Potential Customer Base, by Splitting the total Cost into:

- (a) Pre-Sale Cost for Existing Customer Base &
- (b) Pre-Sale Cost for Potential Customer Base.

02. Pre-Sale Cost for Existing Customer Base, should be absorbed in the current period over existing product lines, may be on Sales Ratio.



03. Pre-Sale Cost for Potential Customer Base, should be AMORTISED and absorbed with the Cost of New Customer Base, over a reasonable period of time.

04. Period for absorption of Cost for Potential Customer Base, can be estimated period, which could be 3 to 7 years or so, depending upon case to case and Management strategy.

05. Basis of absorption could be REVENUE GENERATED/SALES RATIO of the potential customer base of the year, in which this cost is being absorbed.

The above opinion is also supported by CAS-15, SELLING & DISTRIBUTION OVERHEADS, Para No.5.2, which reads, as under :

“Selling & distribution overheads, the benefits of which are expected to be derived over a long period, shall be amortised on a rational basis”.

Query: TCMQ/081/201920/14Dec

One Airtel Distributor is engaged in business of selling of Prepaid Mobile SIM Cards, Prepaid Mobile Recharge Coupons(in Paper form), DTH Coupons(in Paper form), Mobile Talk time Balance (Balance is stored in mobile of Distributor) & DTH Balance (Balance is stored in mobile of Distributor) to various retailers through various sales persons (FSE).

The said distributor is also the distributor of Docomo & Telenor. Opening stock, purchases, sales and closing stock of Mobile talk time balance & DTH balance is maintained in software of the distributor. Also Records of sim cards, coupons is kept in Software of the distributor.

So, following are my queries:-

- (1) Whether the Mobile Talk time balance & DTH balance is Stock for the Distributor?
- (2) Can the Mobile talk time balance & DTH balance considered as Inventory for the distributor as per Accounting Standard No.2 [i.e. (AS-2 (Valuation of Inventories))]?

Reply:

1. If the distributor has incurred costs for acquisition of goods/service, it should be reckoned as “Stock”.
2. Once any goods/services are reckoned as stock, inventory valuation needs to be carried out.



Query: TCMQ/082/201920/20Dec

Two companies A & B decide to merge as on 1st April, 2018. As per the Scheme of Merger Company A merged into Company B. Both the companies filed their cost audit reports for FY 2018-19 separately as the merger had not been approved by NCLT. The merger was approved subsequently. The annual report of B Ltd for FY 2018-19, subsequently published, includes financials of A Ltd (merging entity).

Query:

1. Does Company B need to file fresh cost audit report for FY 2018-19 including data of Company A, merging entity?
2. For cost audit of FY 2019-20, what should be given as previous year's (FY 2018-19) data:
 - (a) Should it be as per B Ltd standalone as filed for FY 2018-19: or
 - (b) Should it be based on merged entity's cost records

It may be noted that cost records and data for Annexure to Cost Audit Report cannot be worked out by line-by-line addition of two cost audit reports since there are differences in the cost accounting policy / methods followed by the companies which will impact cost of production, inventory valuation, allocation of post manufacturing costs and margins. Also there are multiple Inter Company Transactions which will further complicate the recasting of the merged Cost Audit Records.

Reply:

1. Company B need not file a revised cost audit report for FY 2018-19.
2. No.
3. Yes. Merged entity's cost records should be re-casted for FY 2018-19 to provide correct comparative figures.

Query: TCMQ/083/201920/29Dec

A private limited Company did not appoint any cost auditors for the FY 2017-18 and FY 2018-19. But the same company now accepts to appoint in Extra ordinary general meeting to be held in the year 2020.

Whether cost auditor can be appointed through extra-ordinary general meeting for the FY 2017-18 and FY 2018-19?



Reply:

Yes. Cost Auditor can be appointed through Extra- ordinary General Meeting.

Query: TCMQ/084/201920/6Jan

Please clarify on the definition of Turnover for Cost Records whether to include non-operational activities like foreign-exchange gains, interest income and other income because as per the FAQ's and Notification it says Aggregate Value and Overall Turnover of the goods and services.

Reply:

As per FAQ 1.6 -

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.

Income from non-operational activities should not form part of turnover.

Query: TCMQ/085/201920/13Jan

This is with respect to applicability of Cost Records and Audit u/s 148 of the Companies Act, 2013 and Companies (Cost Records & Audit) Rules, 2014 and its amendments.

As per the applicability clause of Cost Rules, 2014, I have a couple of queries:

1. For Cost Records Applicability, the criteria of being engaged in production of goods or providing services should be for current year or previous year - since the clause drafting makes it open to both interpretations?
2. For Cost Audit Applicability, the criteria of 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 – should this be considered for current year or previous year - since the clause drafting makes it open to both interpretations?



3. A company has Rs 250 Cr overall turnover in FY 2018-19 but entire turnover pertaining to trading activity. In FY 2019-20, the Company has overall turnover of Rs 300 Cr of which Rs 50 Cr pertains to manufacture of chemicals under HSN 29. Will Cost Records & Cost Audit be applicable from FY 2019-20 or FY 2020-21?
4. In case for the above mentioned point 2, Cost Audit is applicable from FY 2019-20, and the manufacturing activity was initiated in Jan 2020, then the Company would have delayed in Filing of Form CRA-2 the deadline for which is 27th September 2020 – how should the Company deal with such a situation?
5. A Company is newly registered on 1st October 2019 and for FY 2019-20 its total turnover is Rs 150 Cr which entirely pertains to manufacture of chemicals under HSN Code 29. Will Cost Records and Cost Audit be applicable for FY 2019-20 or from FY 2020-21?
6. Company ABC has turnover for FY 2018-19 of Rs 25 Cr and the entire turnover pertains to trading activity. There is another Company XYZ which has a turnover of Rs 150 Cr in FY 2018-19 which entirely pertains to manufacturing of chemicals under HSN Code 29. In FY 2019-20, Company XYZ is merged into -Company ABC (Resultant Company). Will Company ABC be covered under Cost Records and Audit for FY 2019-20 or from FY 2020-21?
7. Company ABC has turnover for FY 2018-19 of Rs 250 Cr and the entire turnover pertains to manufacturing of chemicals under HSN Code 29. Company ABC is demerged in FY 2019-20 and the demerged entity XYZ has a turnover of Rs 110 Cr in FY 2019-20 which entirely pertains to manufacturing of chemicals under HSN Code 29. Will Company XYZ be covered under Cost Records and Audit for FY 2019-20 or from FY 2020-21?

Reply:

1. Applicability of Cost Records is based on turnover of immediately preceding financial year.
2. Applicability of Cost Audit is based on turnover of immediately preceding financial year.
3. As stated in Rules, for applicability, turnover of immediately preceding financial year needs to be considered, hence for FY 2019-20, Cost Audit and Cost Records are not applicable as in FY 2018-19 there is only trading activity. For FY 2020-21, as there is manufacturing turnover of Rs 50 crores in FY 2019-20, Maintenance of Cost Records and Cost Audit for FY 2020-21 is applicable.
4. The applicability of Maintenance of Cost Records and Cost Audit is decided on the basis of “previous year criteria”. Hence, applicability is a certain event.



5. Maintenance of Cost Records and Cost Audit is not applicable for FY 2019-20 and Maintenance of Cost Records and Cost Audit is applicable for FY 2020-21.

6. As stated in Rules, for applicability, turnover of immediately preceding financial year needs to be considered. For FY 2018-19 company ABC has a turnover only of Rs. 25 crores and that too of trading activity and hence for determining applicability for FY 2019-20, considering the standalone accounts of company ABC for FY 2018-19, the Maintenance of Cost Record and Cost audit shall not be applicable. However, if the merged accounts of Company ABC and XYZ for FY 2018-19 are considered the Maintenance of Cost Record and Cost audit shall be applicable for FY 2019-20.

For FY 2020-21, Cost audit shall be applicable to Company ABC.

7. As stated in Rules, for applicability turnover of immediately preceding financial year needs to be considered, hence for FY 2019-20, Cost audit and Maintenance of Cost Record is not applicable to Company XYZ for FY 2019-20 as it is the first year of operation. For FY 2020-21, Maintenance of Cost Record and Cost audit shall be applicable to Company XYZ.

Query: TCMQ/086/201920/3Mar

Please clarify that whether cost records and cost audit would be applicable to principal under job work if principal meets the turnover criteria as per cost record and audit rules. Assuming that the CTA headings are covered under the cost rules;

Reply:

The principal is not the manufacturer. Applicability of Companies (Cost Records and Audit) Rules, 2014 is on the job worker subject to its meeting the turnover criteria as specified in the above mentioned rules.

Query: TCMQ/087/201920/6Mar

Please note the HSN code of the company - 90283010. The company is mainly into electricity meter manufacturing. Request you to advice on cost audit applicability. The turnover of the company is Rs. 65 crores.

Reply:

The HSN CODE chapter 9028 is not covered for cost records /audit under Rule 3 of Companies (Cost Records and Audit) Rules 2014.

The Cost Audit is not applicable on the product / company as the basic condition of HSN applicability is not fulfilled.



Query: TCMQ/088/201920/2Mar

There are 2 Companies, where Company A is doing business through "Contract Manufacturing" and Company B is "Manufacturer and Retailer".

Both Companies are engaged in apparel (readymade garments, clothing accessories etc.), handicrafts, furniture, personal care products and Cafe Business. Turnover of each of the company is more than Rs. 50 Crore.

My query is whether Cost Audit will be applicable on Company A and Company B.

Reply:

Querist has been requested to provide the required CTA Headings.

Query: TCMQ/089/201920/27Mar

This has reference to Cost Audit FY 2019-20. In view of unprecedented "lock down" across the country, such abnormal / aberration may have to be properly exhibited in cost records

Request that suitable advisory may be issued before commencement of Cost Audit this will facilitate common approach by all Auditors/Auditees.

Reply:

The Cost Accounting Standards Board of the Institute is finalising the desired advisory and the same shall be issued very shortly.

Query: TCMQ/090/202021/16Apr

A company comes under Non-Regulated Sector. Total turnover of the Company was Rs. 105 Crores in F.Y.2018-19. The Company is manufacturing products as mentioned in below table and ALL PRODUCTS' CTA Headings (as mentioned below) are covered under Rule 3 of the Companies (Cost records and Audit) Rules, 2014 (as amended). CTA Heading wise turnover is as below:-

Sr. No.	CTA Heading	Additional Details	Turnover (Crores)
1).	1507	Under this CTA Heading (i.e.1507), two products are there :	75



		One product under CTA 1507-9010, another one under CTA 1507-9090.	
2).	1508	Under this CTA Heading (i.e.1508), One product is there under CTA 1508-9010.	20
3).	1509	Under this CTA Heading (i.e.1509), One product is there under 1509-9090.	10
TOTAL			105

Cost Audit will be applicable for F.Y.2019-20, for products covered under CTA Heading 1507, as the total turnover of the company is more than Rs. 100 crores and turnover of CTA Heading 1507 is more than Rs.35 crores according to Rule 4.

Will Cost Audit be applicable to CTA Heading 1508 & CTA Heading 1509 for F.Y.2019-20? If yes then how? AND If NOT then how?

Reply:

As per Companies (Cost Records and Audit) Rules, 2014, Rule 4 (2) – "Every company specified in item (B) of rule 3 shall get its cost records audited in accordance with these rule 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".

From the above Rule, Criteria for Cost Audit applicability in case of Non-Regulated Sector is -

1. Overall Turnover of the company from all its products and services should be Rs. 100 crores or more and
2. Aggregate turnover of covered products or services should be Rs. 35 crores or more

In the given case all products are covered under Cost Records and as per Rule above aggregate turnover of all covered products should be considered to check applicability of Cost Audit. It is to be noted that the turnover criteria is not for individual product but aggregate turnover of all products covered under Rule 3.

The company meets the total turnover criteria of Rs.100 crores or more in the previous year and the “aggregate turnover of the individual products covered under Rule 3”, i.e., combined turnover of the 3 CTA Codes is more than Rs.35 crores. Hence, all the 3 products are covered under cost audit.



Query: TCMQ/091/202021/16Apr

One Company comes under Non-Regulated Sector. Total turnover of the Company was Rs. 101 Crores in F.Y.2018-19. The Company is manufacturing products as mentioned in below table and ALL PRODUCTS' CTA Headings (as mentioned below) are covered under Rule 3 of the Companies (Cost records and Audit) Rules, 2014 (as amended). CTA Heading wise turnover is as below:-

Sr. No.	CTA Heading	Additional Details	Turnover (Crores)
1).	7003	Under this CTA Heading (i.e.7003), two products are there : One product under CTA Heading 7003-1210, another one under CTA Heading 7003-1290.	20
2).	7004	Under this CTA Heading (i.e.7004), One product is there under CTA heading 7004-2011.	10
3).	7005	Under this CTA Heading (i.e.7005), One product is there under CTA Heading 7005-1010.	10
4).	7011	Under this CTA Heading (i.e.7011), one product is there under CTA Heading 7011-1010.	20
5).	7007	Under this CTA Heading (i.e.7007), two products are there : One product under CTA Heading 7007-0010, another one under CTA Heading 7007-1900.	21
6).	7008	Under this CTA Heading (i.e.7008), one product is there under CTA Heading 7008-0010.	20
TOTAL			101

Will Cost Audit be applicable for F.Y.2019-20 to all the products covered under above CTA Headings 7003, 7004, 7005, 7011, 7007 & 7008? If Yes then how AND If NOT then how?



Reply:

As per Companies (Cost Records and Audit) Rules, 2014, Rule 4 (2) – "Every company specified in item (B) of rule 3 shall get its cost records audited in accordance with these rule 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".

From the above Rule, Criteria for Cost Audit applicability in case of Non-Regulated Sector is -

1. Overall Turnover of the company from all its products and services should be Rs. 100 crores or more and
2. Aggregate turnover of covered products or services should be Rs. 35 crores or more

In the given case all products are covered under Cost Records and as per Rule above aggregate turnover of all covered products should be considered to check applicability of Cost Audit. It is to be noted that the turnover criteria is not for individual product but aggregate turnover of all products covered under Rule 3.

The company meets the total turnover criteria of Rs.100 crores or more in the previous year and the "aggregate turnover of the individual products covered under Rule 3", i.e., combined turnover of the all covered CTA Codes is more than Rs.35 crores. Hence, all the 6 products are covered under cost audit.

Query: TCMQ/092/202021/16Apr

A company comes under Regulated & Non-Regulated sectors. Total Turnover (from below products) of the Company was Rs. 159.653 Crores in F.Y.2018-19. The Company is manufacturing products as mentioned in table and All Products' CTA Headings are covered under Rule 3 of the Companies (Cost records and Audit) Rules, 2014 (as amended). CTA Heading wise turnover details is as below:

Sr. No.	CTA Heading	Sector specified as per Rules	Turnover (Crores)
1).	2709	Regulated	0.087
2).	2710	Regulated	0.930
3).	2711	Regulated	14.705
4).	2712	Regulated	27.00



5).	2713	Regulated	9.577
6).	2714	Regulated	4.354
7).	2715	Regulated	62.00
8).	8526	Non-Regulated	41.00
TOTAL			159.653

Different threshold limit has been prescribed for Regulated & Non-Regulated Sector.

1. How to determine applicability criteria for Cost Audit for F.Y.2019-20 as ALL PRODUCTS' CTA Headings are covered under Rule 3?
2. To which CTA Headings Cost Audit will be applicable for F.Y.2019-20 & How?

Reply:

Kindly refer to FAQ – 1 Question Number 1.21 dated 19th March, 2015 issued by The Institute of Cost Accountants of India which clearly indicates to combine the Turnover of the products covered under Table A (Regulated Sector) & Table B (Non- Regulated Sector) to check applicability of Cost Audit.

Hence, Cost Audit will be applicable to Non – Regulated Covered Products as well as Regulated Covered Products.

Query: TCMQ/093/202021/16Apr

A Company comes under Regulated & Non-Regulated sectors. Total turnover of the company was Rs. 2140.126 Crores in F.Y.2018-19. Company is manufacturing products as mentioned in below table.

Some Products of the Company are NOT covered under the Rule 3 of the Companies (Cost records and Audit) Rules, 2014 (as amended) while others are covered. CTA Heading wise turnover details is as below:

Sr. No.	CTA Heading	CTA Heading covered OR NOT?	Sector specified	Turnover (Crores)
1).	6901	NOT covered		2000.50
2).	8501	Covered	Non-Regulated	87.36
3).	3102	Covered	Regulated	0.15
4).	8503	Covered	Non-Regulated	0.87
5).	8504	Covered	Non-Regulated	0.00027
6).	8505	Covered	Non-Regulated	0.00029
7).	8506	Covered	Non-Regulated	0.66



8).	8511	Covered	Non-Regulated	0.051
9).	8512	Covered	Non-Regulated	0.17
10).	8514	Covered	Non-Regulated	4.56
11).	8515	Covered	Non-Regulated	0.00851
12).	8525	Covered	Non-Regulated	0.22
13).	8526	Covered	Non-Regulated	0.698
14).	8527	Covered	Non-Regulated	0.242
15).	8528	Covered	Non-Regulated	NIL
16).	8531	Covered	Non-Regulated	0.05879
17).	8532	Covered	Non-Regulated	2.28
18).	8533	Covered	Non-Regulated	NIL
19).	8535	Covered	Non-Regulated	0.77
20).	8536	Covered	Non-Regulated	NIL
21).	6902	NOT covered	-	NIL
22).	6903	NOT covered	-	NIL
23).	6904	NOT covered	-	2.56
24).	8538	Covered	Non-Regulated	1.43
25).	6905	NOT covered	-	1.58
26).	8539	Covered	Non-Regulated	2.80
27).	8540	Covered	Non-Regulated	6.797
28).	8541	Covered	Non-Regulated	0.13
29).	8542	Covered	Non-Regulated	0.93
30).	6906	NOT covered	-	25.30
TOTAL				2140.126

Different threshold limit has been prescribed for Regulated & Non-Regulated Sector.

1. How to determine applicability criteria for Cost Audit for F.Y.2019-20 as Some PRODUCTS' CTA Headings are covered under Rule 3 while others are NOT covered?
2. To which CTA Headings Cost Audit will be applicable for F.Y.2019-20 & How?

Reply:

Kindly refer to FAQ – 1 Question Number 1.21 dated 19th March, 2015 issued by The Institute of Cost Accountants of India which clearly indicates to combine the Turnover of the products covered under Table A (Regulated Sector) & Table B (Non- Regulated Sector) to check applicability of Cost Audit.



Hence, Cost Audit will be applicable to Non – Regulated Covered Products as well as Regulated Covered Products.

Query: TCMQ/094/202021/16Apr

Detailed Clarification is requested in respect of the following FAQs issued by the Institute:

FAQs 1.21 and 2.15

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

Kindly explain with Practical Examples.

Reply:

As per Companies (Cost Records and Audit) Rules, 2014, Rule 4 (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".

Rule 4 (2) – "Every company specified in item (B) of rule 3 shall get its cost records audited in accordance with these rule 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".

It is to be noted that the turnover criteria is not for individual product but aggregate turnover of all products covered under Rule 3. This means products covered, whether under Table A and Table B or both.



Example –

	Table A Turnover (Rs. Crores)	Table B Turnover (Rs. Crores)	Table A+ Table B Products	Other Products	Total Operating Revenue	Applicability of Cost Records	Applicability of Cost Audit
Case 1	5	10	15	19	34	No	No
Case 2	5	10	15	25	40	Yes	No
Case 3	10	15	25	26	61	Yes	Only Table A products
Case 4	0	25	25	26	61	Yes	No
Case 5	20	14	34	75	109	Yes	Only Table A products
Case 6	20	20	40	61	101	Yes	Both Table A & B Products

Query: TCMQ/095/202021/16Apr

A company comes under Non-Regulated Sector. Turnover of the Company was Rs.109 Crores in F.Y.2018-19. CTA Heading wise turnover details are as below:-

Sr. No.	CTA Heading	Additional Details	Turnover (Crores)
1).	7401	Waste & Scrap	36
2).	7405	PRODUCT(s) Manufactured	37
3).	7406	By Product	36
	TOTAL		109

Cost Audit is applicable to Product/Service as covered under Rule 3 subject to applicability criteria as mentioned under Rule 4. Cost Audit will be applicable to the Company and will be applicable to the PRODUCTS covered under CTA heading 7405.

Will Cost Audit be applicable to CTA Heading 7401 (as it is waste & scrap) and to CTA Heading 7406 (By Product)?



Reply:

Waste and scrap are generated out of a manufacturing process. For payment of duty it gets classified under a CTA Code. It is not a product and hence cost audit of scrap is meaningless and not applicable. Cost Audit is not applicable to CTA 7401.

Same is the case with By-Product. It is not a product by itself but comes out of a manufacturing process. In case the By-Product is sold as such without any further processing, the realisable value is usually credited to cost of production of the main product. In such a case, preparation of a separate cost statement does not arise.

In case there is further processing of the By Product before being sold, then there would be a separate cost statement and a profit/loss arising out of the by-product. Such cost statement would form part of the cost audit report. In such case CTA 7406 will be covered under Cost Audit.

Query: TCMQ/096/202021/16Apr

Point No.5 (a) of E-Form CRA-4

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

What is this Point No.5 (a) and does this have any Link/Context with Rule 4 of the Companies (Cost records and Audit) Rules, 2014 (as amended)?

Reply:

The query will be referred to MCA for some clarification from their end.

Query: TCMQ/97/202021/22May

Please clarify the following points relating to cost audit Para C-2 of cost audit report.

1. A company constructed 100 number flats Finished Inventory in the FY 2018-19 and sold during the period 70 number flats Finished Inventory and having closing Finished



Inventory 30 Number flats Value Rs.145 Lacs, please advise where to show the cost of opening & closing stock value in cost sheet para C-2 of cost audit report.

2. Opening & closing stock of work in progress is also there Rs.120 Lacs in opening stock & Rs.135 Lacs in closing stock, please also clarify where to show the increase & increase of stock in cost sheet Para C-2.

Reply:

Applicability for the Construction Industry is covered under Table B, Sr. No. 21. This specific Table Entry does not specify any CTA Code associated with the said activity. It should be noted that the XBRL Filing format & the relevant Taxonomy requires that CTA Code should be provided for the Manufacturing Activity. In case of Construction Activity, CTA Code is not applicable and hence it will get classified as Service Activity.

In case of Service Activity, para C1 & C2 needs to be compiled. This para does not provide for the specific disclosure of Change in WIP & Change in Finished Goods Stock. In this case the same shall be disclosed under Sr. No. 12 - Industry Specific Operating Expenses. The change in WIP & FG shall be disclosed separately and the details shall be provided under para C2-C.

Note: The above answer does not consider the question of applicability of Cost Records & Cost Audit.

Query: TCMQ/98/202021/26May

Please guide on Cost Audit applicability for one of my client for the financial year 2020, the details of the organisation are as follows:

- Manufacturing pharmaceutical & animal food supplements on Loan Licence basis, from the year 2015 so covered under Cost Audit and conducting the same from the year 2015 onwards.
- In year 2020, the company is manufacturing only animal food item HSN/CTA code 2309 on Loan Licence basis. And also engaged in trading activity of pharmaceutical (HSN 3003, 3004), insecticides, animal food supplementary products (HSN 2309).
- Overall turnover of the company in year 2019 (immediate preceding year) is more than Rs. 150 crores.



Requesting you to give your expert opinion regarding Cost Audit applicability for this organisation for the year 2020 on most urgent basis, as the company have to make the appointment for the year 2020.

Reply:

In terms of the provisions of the Companies (Cost Records and Audit) Rules, 2014 the following are the observations relevant to the query:

(a) Animal Food Supplementary Products (CTA Code 2309), is not covered in the list of sectors provided in the above mentioned Rules for maintenance of cost records and audit thereof;

(b) The applicability of the Maintenance of Cost Records and audit thereof under the above mentioned rules applies to the items manufactured / produced by the company. Thus Maintenance of Cost Records and Audit thereof is not applicable for Trading Activity.

Hence, the Company shall not be covered under the ambit of maintenance of cost records and audit thereof during the financial year 2020-21.

Query: TCMQ/99/202021/18June

A company is in the business of manufacturing Cloth (CTA code 6006). The company has also been undertaking cloth dyeing on job work basis from third party (HSN code under GST 999719). Before the implementation of GST, this cloth dyeing activity was covered in cost rules in Table B under Textiles as CTA code 5208.

Turnover under CTA 6006 Rs. 150 Crores

Income under Job Work Rs. 40 Crores

Total turnover Rs. 190 Crores.

Query:

Will the maintenance of cost records and cost audit be applicable on job work activity having service code 999719 - cloth dyeing?

Reply:

For applicability of maintenance of Cost Records and Cost Audit we have to refer to The Companies (Cost Records and Audit) Rules, 2014 (as amended). The items of production of



the goods or providing services are specified in the tables (A) and (B). In this table the third column specifies Customs Tariff Act headings (wherever applicable). If the item corresponding to its CTA heading is covered under column three of the tables then only the item will get covered under maintenance of Cost Records and Cost Audit. Similarly in case of services only the specific services covered under column 2 of the tables will get covered under maintenance of Cost Records and Cost Audit.

CTA Code 6006 (manufacturing cloth) and service code 999719 (cloth dyeing on job work basis) are not covered under table (A) or table (B). Hence maintenance of Cost Records and Cost Audit is not applicable.

Query: TCMQ/100/202021/30Apr

A company is engaged in providing following services –

Freight Forwarding – Import & export of general cargo through air, sea, road including customer clearance & warehousing services. Developing Airlines, Shipping lines and CFS vendors, CHA and Overseas agents for global freight movements.

Projects & Breakbulk - Import & export of ODC cargo through multi model transportation having project specific tailor-made solution. Managing Break bulk shipments and developing vendors along with overseas agents for handling International Logistics services.

EXIM + Dredging - Managing Exports & Imports business through vendors. And with new line of business, associated with providing dredging services of deep-water dredging, de silting, de weeding of offshore water bodies, port channels, inland water ways, lakes, ponds etc.

1. Please let me know if any of these services are covered under the provisions of Maintenance of Cost Records.
2. Please also clarify if the above services are covered w.r.t. Table B, Sr. No. 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 Ports Trusts Act, 1963 (38 of 1963) of CCRAR 2014.

Reply:

Port services has been defined as “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 Ports Trusts Act, 1963 (38 of 1963) of CCRAR 2014”.

In the instant case, activities listed under Projects & Breakbulk and EXIM + Dredging do not come under the purview of the definition.

So far as Freight Forwarding is concerned, I am of the opinion that:

(a) “Import & export of general cargo through air, sea, road including customer clearance & warehousing services” is not covered under the definition.

(b) “Developing Airlines, Shipping lines and CFS vendors, CHA and Overseas agents for global freight movements” are also not covered.

However, it is not clear whether the company is providing CHA services or whether they are operating as agents. If they are directly providing services as CHA, then such activity would be covered but functioning as agents would not be covered.

On reading the functions of the company, they are not involved in “stevedoring, pilotage, hauling, mooring, re-mooring, hooking, measuring, loading and unloading services”.

Query: TCMQ/101/202021/22June

A company does job work for others & its Turnover exceeds INR 100 Cr. The raw materials are supplied to the company by the principal and the job worker gets conversion charges only. Will the job worker be covered under the Companies (Cost Records and Audit) Rules, 2014?

Additional information sent by the querist:

Product CTA Code: 5407 & 5408

but in sale billing 9988

The job worker is getting material under CTA code 5407 and / or 5408, and after converting raw material into finished product, it is being dispatched under service code 9988.

Reply:

For applicability of maintenance of Cost Records and Cost Audit we have to refer to The Companies (Cost Records and Audit) Rules, 2014 (as amended). The items of production of the goods or providing services are specified in the tables (A) and (B). In this table the third



column specifies Customs Tariff Act headings (wherever applicable). If the item corresponding to its CTA heading is covered under column three of the tables then only the item will get covered under maintenance of Cost Records and Cost Audit. Similarly in case of services only the specific services covered under column 2 of the tables will get covered under maintenance of Cost Records and Cost Audit.

Service code 9988 is not covered under table (A) or table (B) of the Cost Rules. Hence maintenance of Cost Records and Cost Audit is not applicable in this case.

Query: TCMQ/102/202021/24June

One or more dedicated companies are going to merge into one single company effective 01.04.2019. The Merged dedicated company is doing only Job work activities (manufacturing) for a Customer on the material supplied by the Customer. The company is claiming conversion charges for the job working activities. The Job work charges for the financial year 2019-20 is around Rs.118 crores for which GST is being paid under SAC code No.998898.

Query:

(a) Whether Job work is covered under the Companies (Cost Records and Audit) Amendment Rules, 2014?

(b) If applicable, whether Cost Accounting Records have to be maintained and whether cost audit is applicable?

Reply:

For applicability of maintenance of Cost Records and Cost Audit we have to refer to The Companies (Cost Records and Audit) Rules, 2014 (as amended). The items of production of the goods or providing services are specified in the tables (A) and (B). In this table the third column specifies Customs Tariff Act headings (wherever applicable). If the item corresponding to its CTA heading is covered under column three of the tables then only the item will get covered under maintenance of Cost Records and Cost Audit. Similarly in case of services only the specific services covered under column 2 of the tables will get covered under maintenance of Cost Records and Cost Audit.

Service code 998898 is not covered under table (A) or table (B). Hence maintenance of Cost Records and Cost Audit is not applicable in this case.



Query: TCMQ/103/202021/16July

M/s A Ltd has created a facility under an agreement with State Government to draw electricity from the National Grid System and hand it over to State Government at a particular point. For creating that facility A Ltd. gets fixed remuneration (rent / lease rent) per month irrespective of transmission of power. A Ltd. does not have any unit recording system and the same are recorded by with State Government and National Grid for their billing purposes.

For the year 2019-20, due to non-performance of agreed job by State Government, electricity could not be transmitted whereas A Ltd. was ready to deliver. As per agreed terms A Ltd. charged rent/lease for its facilities created for the year 2019-20. A Ltd booked revenue in its Balance sheet for the year 2019-20 and the same has been realized also.

In given situation how the Cost Per Unit will be calculated as A Ltd. circuit km area is only 1 KM. What is other way of calculating cost under Cost Records and Audit Rules 2014?

Reply:

From the information provided to the Technical Cell, it is noted that the operations of the Company are in the nature of Transmission of Electricity, which falls under Service Category. It is also noted that the Revenue for M/S A Ltd. is not dependent on the Electricity Transmission, but actually is a Fixed Recovery for the Infrastructure Availability. In the given case it is noted that the A Ltd. has not transmitted any electricity during the year 2019-20. However as per the Agreement, A Ltd. has realised revenue for making the infrastructure available for electricity transmission during the year.

In this situation, there is no quantity record for A Ltd. for the period 2019-20. In the Annexure to Cost Audit Report, Quantity Information has to be provided for the Current Year as well Previous Year. Thus A Ltd. will provide Quantity Information for the period 2018-19 w.r.t. a specific UOM. For the year 2019-20 since there is no quantity information available and in XBRL filing the quantity information can't be kept as 'zero', it is advised to specify the Quantity as 1 unit with appropriate note.

The Note shall be given under Part A : Para 4 – Product / Service Details, Part C : Para 1 – Quantity Information, Part C : Para 2 – Abridged Cost Statement and also in Form CRA 3 – Cost Auditor Report under Observations & Suggestions.