

FAQs

Frequently Asked Questions

on

Maintenance of Cost Records and Audit thereof

Under the Companies Act 2013



Technical Cell
The Institute of Cost Accountants of India
(Statutory body under an Act of Parliament)

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Frequently Asked Questions

Maintenance of Cost Records and Audit thereof Under the Companies Act 2013

The Technical Cell had issued the Frequently Asked Questions (FAQs) on maintenance of Cost Records and Audit thereof in terms of the Companies (Cost Records and Audit) Rules 2014 (CCRAR, 2014), in the following three tranches:

1. FAQs 1 on 19th March 2015
2. FAQs 2 on 8th July 2015
3. FAQs 3 on 26th April 2022

Over the years, many amendments to the CCRAR, 2014 were notified by the Ministry of Corporate Affairs. Apart from this other developments took place such as discussions with the Ministry, experience gained by the Technical Cell on relevant issues, consultations on sectoral coverage under the Rules etc.

In the light of the above, the Technical Cell of the Institute decided to review all the FAQs issued and accordingly after a lot of deliberations the Technical Cell has come out with a compilation of thoroughly revised FAQs in supersession of the previous three tranches of FAQs issued on the CCRAR, 2014. The FAQs have been distributed in the following categories for the ease of reference:

1. General FAQs
2. FAQs relating to the Turnover
3. FAQs relating to the Appointment of Cost Auditor
4. FAQs relating to the Sectoral Coverage
5. FAQs relating to the Captive Consumption
6. FAQs relating to the Form CRA-3
7. FAQs relating to the Reporting
8. FAQs relating to the Applicability of Cost Audit

For any clarification or further information please send your queries relating to the FAQs on technicalcell@icmai.in to the Technical Cell of the Institute for its opinion.



General FAQs

FAQ 1

Which Rules govern maintenance of cost accounting records and cost audit as per Section 148 of the Companies Act, 2013?

Reply

The Central Government issued Companies (Cost Records and Audit) Rules, 2014 on June 30, 2014. Since then the said Rules have been amended many times. The Companies (Cost Records and Audit) Rules, 2014 as amended till date govern the maintenance of cost accounting records and cost audit as per Section 148 of the Companies Act, 2013.

FAQ 2

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

Reply

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

However, foreign companies having only liaison office in India and engaged in production, import and supply or trading of medical devices listed in Sl. 33 of Table B are exempted.

Further, companies which are classified as a micro enterprise or a small enterprise including as per the turnover criteria under sub-section (9) of section 7 of the Micro, Small and Medium Enterprises Development Act, 2006 (27 of 2006) are also excluded from the purview of the Rules.

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



1. Every company covered under the rules including all units and branches thereof, shall, in respect of each of its financial year commencing on or after the 1st day of April, 2014, maintain cost records in form CRA-1.
2. However, a company covered in serial number 12 and serial numbers 24 to 32 of item (B) of rule 3, the requirement under this rule shall apply in respect of each of its financial years commencing on or after 1st day of April, 2015.

(A) Regulated Sectors

Sl.	Industry /Sector/ Product/Service	Customs Tariff Act Heading (wherever applicable)
1.	Telecommunication services made available to users by means of any transmission or reception of signs, signals, writing, images and sounds or intelligence of any nature and regulated by the Telecom Regulatory Authority of India under the Telecom Regulatory Authority of India Act, 1997 (24 of 1997); including activities that requires authorisation or license issued by the Department of Telecommunications, Government of India under Indian Telegraph Act, 1885 (13 of 1885);	Not applicable
2.	Generation, transmission, distribution and supply of electricity regulated by the relevant regulatory body or authority under the Electricity Act, 2003 (36 of 2003);	Generation – 2716; Other Activity – Not Applicable
3.	Petroleum products; including activities regulated by the Petroleum and Natural Gas Regulatory Board under the Petroleum and Natural Gas Regulatory Board Act, 2006 (19 of 2006);	2709 to 2715; Other Activity – Not Applicable
4.	Drugs and pharmaceuticals;	2901 to 2942; 3001 to 3006.
5.	Fertilisers;	3102 to 3105.
6.	Sugar and industrial alcohol;	1701; 1703; 2207.

(B) Non-regulated Sectors

Sl.	Industry /Sector/ Product/Service	Customs Tariff Act Heading (wherever applicable)
1.	Machinery and mechanical appliances used in defence, space and atomic energy sectors excluding and ancillary item or items; Explanation – For the purposes of this sub- clause any	8401; 8801 to 8805; 8901 to 8908



Sl.	Industry /Sector/ Product/Service	Customs Tariff Act Heading (wherever applicable)
	company which is engaged in any item or items supplied exclusively for use under this clause, shall be deemed to be covered under these rules.	
2.	Turbo jets and turbo propellers;	8411
3.	Arms and ammunitions and Explosives;	3601 to 3603; 9301 to 9306.
4.	Propellant powders; prepared explosives (other than propellant powders); safety fuses; detonating fuses; percussion or detonating caps; igniters; electric detonators;	3601 to 3603
5.	Radar apparatus, radio navigational aid apparatus and radio remote control apparatus;	8526
6.	Tanks and other armoured fighting vehicles, motorized, whether or not fitted with weapons and parts of such vehicles, that are funded (investment made in the company) to the extent of ninety per cent, or more by the Government or Government agencies;	8710
7.	Port services of stevedoring, pilotage, hauling, mooring, re-mooring, hooking, measuring, loading and unloading services rendered for a Port in relation to a vessel or goods regulated by the Tariff Authority for Major Ports under the Major Ports Trusts Act, 1963 (38 of 1963);	Not applicable.
8.	Aeronautical services of air traffic management, aircraft operations, ground safety services, ground handling, cargo facilities and supplying fuel rendered at the airports and regulated by the Airports Economic Regulatory Authority under the Airports Economic Regulatory Authority of India Act, 2008 (27 of 2008);	Not applicable.
9.	Iron and Steel;	7201 to 7229; 7301 to 7326
10.	Roads and other infrastructure projects corresponding to para No.(1) (a) as specified in Schedule VI of the Companies Act, 2013;	Not applicable.
11.	Rubber and allied products; including products regulated by the Rubber Board constituted under the Rubber Act, 1947 (XXIV of 1947);	4001 to 4017
12.	Coffee and tea;	0901 to 0902



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Sl.	Industry /Sector/ Product/Service	Customs Tariff Act Heading (wherever applicable)
13.	Railway or tramway locomotives, rolling stock, railway or tramway fixtures and fittings, mechanical (including electro mechanical) traffic signaling equipment's of all kind;	8601 to 8608; 8609.
14.	Cement;	2523; 6811 to 6812
15.	Ores and Mineral Products;	2502 to 2522; 2524 to 2526; 2528 to 2530; 2601 to 2617
16.	Mineral fuels (other than Petroleum), mineral oils etc.;	2701 to 2708
17.	Base metals;	7401 to 7403; 7405 to 7413; 7419; 7501 to 7508; 7601 to 7614; 7801 to 7802; 7804; 7806; 7901 to 7905; 7907; 8001; 8003; 8007; 8101 to 8113.
18.	Inorganic chemicals, organic or inorganic compounds of precious metals, rare-earth metals of radioactive elements or isotopes, and Organic Chemicals;	2801 to 2853; 2901 to 2942; 3801 to 3807; 3402 to 3403; 3809 to 3824.
19.	Jute and Jute Products;	5303, 5307, 5310
20.	Edible Oil;	1507 to 1518
21.	Construction Industry as per para No.(5) (a) as specified in Schedule VI of the Companies Act, 2013 (18 of 2013)	Not applicable.
22.	Health services, namely functioning as or running hospitals, diagnostic centres, clinical centres or test laboratories;	Not applicable.
23.	Education services, other than such similar services falling under philanthropy or as part of social spend which do not form part of any business.	Not applicable.
24.	Milk powder;	0402
25.	Insecticides;	3808
26.	Plastics and Polymers;	3901 to 3914; 3916 to 3921; 3925
27.	Tyres and Tubes;	4011 to 4013



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Sl.	Industry /Sector/ Product/Service	Customs Tariff Act Heading (wherever applicable)
28.	Pulp and Paper;	4701 to 4704; 4801 to 4802
29.	Textiles;	5004 to 5007; 5106 to 5113; 5205 to 5212; 5303; 5307; 5310; 5401 to 5408; 5501 to 5516
30.	Glass;	7003 to 7008; 7011; 7016
31.	Other machinery and Mechanical Appliances;	8402 to 8487
32.	Electricals or electronic machinery;	8501 to 8507; 8511 to 8512; 8514 to 8515; 8517; 8525 to 8536; 8538 to 8547.
33.	Production, import and supply or trading of following medical devices, namely:- (i) Cardiac stents; (ii) Drug eluting stents; (iii) Catheters; (iv) Intra ocular lenses;; (v) Bone cements; (vi) Heart valves; (vii) Orthopaedic implants (viii) Internal prosthetic replacements; (ix) Scalp vein set; (x) Deep brain stimulator (xi) Ventricular peripheral shud; (xii) Spinal implants; (xiii) Automatic impalpable cardiac defibrillators; (xiv) Pacemaker (temporary and permanent); (xv) Patent ductusarteriosus, atrial septal defect and ventricular septal defect closure device; (xvi) Cardiac re-synchronize therapy; (xvii) Urethra spinicture devices (xviii) Sling male or female; (xix) Prostate occlusion device; and (xx) Urethral stents;	9018 to 9022

FAQ 3**What constitutes the cost records under Rule 2(e)?****Reply**

As per Rule 2(e) the Companies (Cost Records and Audit) Rules, 2014, “cost records” means ‘books of account relating to utilization of materials, labour and other items of



cost as applicable to the production of goods or provision of services as provided in section 148 of the Act and these Rules'. There cannot be any exhaustive list of cost accounting records. Any transaction - statistical, quantitative or other details - that has a bearing on the cost of the product/ activity is important and form part of the cost accounting records.

Cost records are to be kept on regular basis in compliance with the provisions contained in CRA-1 of the notified rules.

FAQ 4

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

Reply:

The principles of maintenance of cost accounting records have been notified in the Rules in CRA-1. The word "Form" here does not denote format; it means the form containing principles for maintenance of cost records. The principles are in sync with the cost accounting standards. The Rules are principle based and no formats have been prescribed for maintenance of cost accounting records like pre-2011 industry specific rules.

Companies can maintain cost accounting records according to its size and nature of business so long as it determines a true and fair view of the cost of production, cost of sales and margin of the products/services.

FAQ 5

What is the difference between Cost Accounting policy and Cost Accounting system?

Reply:

Cost Accounting Policy of a company state the policy adopted by the company for treatment of individual cost components in cost determination for drawing its cost statements.

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

**FAQ 6**

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

Reply

Customs Tariff Act Heading has been defined in Rule 2(aa) of Companies (Cost Records and Audit) Rules 2014 as amended. It states "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 Customs Tariff Act 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.

FAQ 7

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

Reply

The concept of "Product Group" has been dispensed with in the 2014 Rules. The cost records referred to in sub-rule (1) of Rule 5 is required to be maintained on regular basis in such manner as to facilitate calculation of per unit cost of production or cost of operations, cost of sales and margin for each of its products and activities. Hence, it is imperative that the cost accounting records are maintained and cost statements prepared for each and every product/service/activity that the company is engaged in.

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

FAQ 8

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

**Reply**

The description and the CTA Heading have to be read harmoniously and construed to be supplementing each other. The CTA Codes are inclusive and all products covered under the codes are covered irrespective of the description. However, in certain cases, in addition to the CTA Codes, description denotes the activities relating to the said CTA Codes covered under the Rules.

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

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

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

FAQ 9

What are the duties of the Companies in relation to provisions of Section 148 of the Companies Act, 2013 and the Rules framed thereunder?

Reply

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

- a) Appoint a cost auditor within one hundred and eighty days of the commencement of every financial year;
- b) Inform the cost auditor concerned of his or its appointment;
- c) File a notice of such appointment with the Central Government within a period of thirty days of the Board meeting in which such appointment is made or within a period of one hundred and eighty days of the commencement of the financial year, whichever is earlier, through electronic



mode, in form CRA-2, along with the fee as specified in Companies (Registration Offices and Fees) Rules, 2014;

- d) Within a period of thirty days from the date of receipt of a copy of the cost audit report, furnish the Central Government with such report alongwith full information and explanation on every reservation or qualification contained therein, in form CRA-4 along with fees specified in the Companies (Registration Offices and Fees) Rules, 2014.
- e) Maintain cost accounting records by all units and branches for the products covered under the Rules as per the principles stated in CRA-1. (Rule 5)
- f) Prepare the Cost Statements including other Statements as per Annexure to CRA-3, approve by the Board of Directors, and submit to the cost auditor to report thereon. (Rule 6 (3B))
- g) Board of Directors to consider and examine the report of the cost auditor, particularly any reservation or qualification contained therein. (Rule 6(5))
- h) Invite the cost auditor to attend the Audit Committee meeting /& Board meeting to discuss & present the cost audit report.
- i) Board of Directors to comply with the provisions of sub-section (12) of section 143, as applicable.

FAQ 10

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

Reply

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

**FAQ 11**

A cost auditor is required to certify under Para 1(vii) of the Cost Audit Report – “Detailed unit-wise and product/service-wise cost statements and schedules thereto in respect of the product/service under reference of the company duly audited and certified by me/us are/are not kept in the company”. Whether product Cost Sheet prepared SKU wise/ type-wise/ size-wise/ specification-wise by the company is required to be certified by the cost auditor and kept in the company?

Reply

Rule 5(2) of the Companies (Cost Records and Audit) Rules 2014 requires that “the cost records referred to in sub-rule (1) shall be maintained on regular basis in such manner as to facilitate calculation of per unit cost of production or cost of operations, cost of sales and margin for each of its products and activities”.

The Rules have identified products as per CTA heading as defined in Rule 2(aa) which states “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)”.

Schedule to the Customs Tariff Act 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.

The above definitions make it clear that maintenance of cost accounting records should conform to the CTA Heading and detailed unit-wise, product/service-wise, SKU wise/type-wise/size-wise/ specification-wise cost statements and schedules thereto are required to be certified by the cost auditor.

FAQ 12

What is the status of companies after the notification of Companies (Cost Records and Audit) Rules, 2014, who have not filed cost audit report and/or compliance report pertaining to any year prior to financial year commencing on or after April 1, 2014?

Reply

Companies that were covered under the Companies (Cost Accounting Records) Rules, 2011 or any of the 6 industry specific Cost Accounting Records Rules and were required to file Compliance Report and/or Cost Audit Report for and upto any financial year commencing prior to April 1, 2014 are required to comply with the erstwhile Rules and file the Compliance Report and/or Cost Audit Report in XBRL Mode for the defaulted years. For this purpose, the Costing Taxonomy 2012 will continue to be available and



such reports would be required to be filed in Form A-XBRL and Form I-XBRL, as the case may be.

FAQs relating to the Turnover

FAQ 13

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

Reply:

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 other operational income from Job work, loan licence operations, scrap sale, trading turnover, export benefits, etc. but excludes duties & taxes and other income.

FAQ 14

Is maintenance of cost accounting records mandatory for a multi-product company where annual turnover from all the products & services is rupees thirty five crore or more during the immediately preceding financial year even if the turnover of the individual product/s that are covered under the Rules is less than rupees thirty five crores?

Reply:

The Rules provide threshold limits for the company as a whole. The Rules do not provide any minimum product specific threshold limits for maintenance of cost accounting records and consequently the company would be required to maintain cost accounting records for the products covered under Table-A or Table-B or both even if the turnover of such products is below rupees thirty five crores but its overall turnover is rupees thirty five crore or more during the immediately preceding financial year.

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



FAQs relating to the Appointment of Cost Auditor

FAQ 15

Who can be appointed as a cost auditor?

Reply

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

As per section 2(28) of the Companies Act 2013 *a cost accountant means a cost accountant as defined in clause (b) of subsection (1) of section 2 of the Cost and Works Accountants Act, 1959 (23 of 1959).*

As per section 2(b) of the Companies (Cost Records and Audit) Rules, 2014 *Cost Accountant in practice means a cost accountant as defined in clause (b) of sub-section (1) of section 2 of the Cost and Works Accountants Act, 1959 (23 of 1959), who holds a valid certificate of practice under sub-section (1) of section 6 of that Act and who is deemed to be in practice under sub-section (2) of section 2 thereof, and includes a firm or limited liability partnership of cost accountants.*

FAQ 16

What is the eligibility criterion for appointment as a cost auditor?

Reply

Eligibility Criteria under Section 141 of the Companies Act, 2013 read with Rule 10 of the Companies (Audit and Auditors) Rules, 2014 and Rule 6 (1) & (1A) of the Companies (Cost Records and Audit) Rules 2014. The following persons are not eligible for appointment as a cost auditor:

- a) A body corporate. However, a Limited Liability partnership registered under the Limited Liability Partnership Act, 2008 can be appointed. [Section 141(3)(a)].
- b) An officer or employee of the company. [Section 141(3)(b)].
- c) A person who is a partner, or who is in the employment, or an officer or employee of the company. [Section 141(3)(c)].
- d) A person who, or his relative or partner is holding any security of or interest in the company or any of its subsidiary or of its holding or associate company or a subsidiary of such holding company. [Section 141(3)(d)(i)].



- e) Relatives of any partner of the firm holding any security of or interest in the company of face value exceeding Rs. 1 lakh. [Section 141(3)(d)(i) and Rule 10(1) of Companies (Audit and Auditors) Rules, 2014].
- f) A person who is indebted to the company or its subsidiary, or its holding or associate company or a subsidiary or such holding company, for an amount exceeding Rs. 5 lakhs. [Section 141(3)(d)(ii) and Rule 10(2) of Companies (Audit and Auditors) Rules, 2014].
- g) A person who has given any guarantee or provided any security in connection with the indebtedness of any third person to the company or its subsidiary, or its holding or associate company or a subsidiary of such holding company, for an amount exceeding Rs. 1 lakh. [Section 141(3)(d)(iii) and Rule 10(3) of Companies (Audit and Auditors) Rules, 2014].
- h) A person or a firm who, whether directly or indirectly, has business relationship with the company or its subsidiary, or its holding or associate company or subsidiary of such holding company or associate company. [Section 141(3)(e) and Rule 10(4) of Companies (Audit and Auditors) Rules, 2014].

“Business Relationship” is defined in Rule 10(4) of Companies (Audit and Auditors) Rules, 2014 and the same shall be construed as any transaction entered into for a commercial purpose, except commercial transactions which are in the nature of professional services permitted to be rendered by a cost auditor or a cost audit firm under the Act and commercial transactions which are in the ordinary course of business of the company at arm’s length price - like sale of products or services to the cost auditor, as customer, in the ordinary course of business, by companies engaged in the business of telecommunications, airlines, hospitals, hotels and such other similar businesses.

- i) A person whose relative is a director or is in the employment of the company as a director or key managerial personnel of the company. [Section 141(3)(f)].
- j) A person who is in the full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor if such person or persons is at the date of such appointment or reappointment holding appointment as auditor of more than twenty companies. [Section 141(3)(g)].
- k) A person who has been convicted by a court for an offence involving fraud and a period of ten years has not elapsed from the date of such conviction. [Section 141(3)(h)].
- l) Any person whose subsidiary or associate company or any other form of entity, is engaged as on date of appointment in consulting and providing specialised



services to the company and its subsidiary companies: [Section 141(3)(i) and Section 144].

1. accounting and book keeping services
2. internal audit
3. design and implementation of any financial information system
4. actuarial services
5. investment advisory services
6. investment banking services
7. rendering of outsourced financial services
8. management services

FAQ 17

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

Reply

Form CRA-2 is company specific and not product specific.

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

FAQ 18

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

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

Any casual vacancy in the office of a cost auditor, whether due to resignation, death or removal, shall be filled by the Board of Directors within thirty days of occurrence of



such vacancy and the company shall inform the Central Government in Form CRA-2 within thirty days of such appointment of cost auditor.

FAQ 19

What are the required attachments to Form CRA-2?

Reply

The Form has provided an attachment button for attaching certified copy of the Board Resolution appointing the cost auditor. The consent letter of the cost auditor and the company's letter issued to the cost auditor informing his or its appointment may be attached as optional attachments.

FAQ 20

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

Reply

Section 139(3) of the Act, applicable to appointment of auditors and Rule 6 of Companies (Audit and Auditors) Rules, 2014 deals with the provision of rotation of auditors and these provisions are not applicable for appointment of cost auditors. There are no other provisions in the Companies Act 2013 and Rules made thereunder governing the appointment of a cost auditor, except that contained in section 148 read with the Companies (Cost Records and Audit) Rules 2014.

Thus, the Act does not provide for rotation in case of appointment of cost auditors and the same is not applicable to a cost auditor. It may, however, be noted that though there is no statutory provision for rotation of cost auditors, individual companies may do so as a part of their policy, as is the practice with few Public Sector Undertakings.

FAQ 21

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

Reply

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

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

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



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

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

FAQs relating to the Sectoral Coverage

FAQ 22

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

Reply

The Companies (Cost Records and Audit) Rules, 2014 has covered “Telecommunication services made available to users by means of any transmission or reception of signs, signals, writing, images and sounds or intelligence of any nature and regulated by the Telecom Regulatory Authority of India under the Telecom Regulatory Authority of India Act, 1997 (24 of 1997); including activities that requires authorisation or license issued by the Department of Telecommunications, Government of India under Indian Telegraph Act, 1885 (13 of 1885)”. The Telecom Regulatory Authority of India Act, 1997 defines “telecommunication service” as “service of any description (including electronic mail, voice mail, data services, audio text service, video text services, radio paging and cellular mobile telephone services) which is made available to users by means of any transmission or reception of signs, signals, writing, images and sounds or intelligence of any nature, by wire, radio, visual or other electro-magnetic means but shall not include broadcasting services”.

Subsequently, the Central Government has included broadcasting services within the ambit of telecommunication services by notifying “broadcasting services and cable services to be telecommunication service”. [Notification No. 39 issued by Ministry of



Communication and Information Technology dated 9 January 2004, S.O. No. 44(E) issued by TRAI, vide F. No. 13-1/2004].

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

FAQ 23

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

Reply

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

FAQ 24

What is the coverage of Aeronautical Services?

Reply

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

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

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



- (vi) For supplying fuel to the aircraft at an airport;

The Rule has covered all the above services under the ambit of maintenance of cost accounting records and cost audit subject to threshold limits. However, all airports and aircraft operations belonging to or subject to the control of the Armed Forces or paramilitary Forces of the Union are excluded from the scope of these Rules.

FAQ 25

What types of Educational Services are covered under the Companies (Cost Records and Audit) Rules 2014?

Reply

The Companies (Cost Records and Audit) Rules 2014 covers “Education services, other than such similar services falling under philanthropy or as part of social spend which do not form part of any business”.

Any company imparting training or education by means of any mode is covered under Education Services. However, auxiliary services provided by companies, as a separate independent entity, to educational institutions viz., (i) transportation of students, faculty and staff; (ii) catering service including any mid-day meals scheme; (iii) security or cleaning or house-keeping services in such educational institution; (iv) services relating to admission to such institution or conduct of examination are not included under Education Services.

In case the educational institution covered under the Rules is providing the above auxiliary services as a part of their total operations, then the institution will be required to maintain records for such auxiliary services also.

FAQ 26

A company is building a next generation ed-tech platform. It is providing “learning outcomes” based pedagogy to students. It has developed a proprietary tech stack for test analysis and is developing video based content for K-12, pre-UG and pre-PG. It is also providing online education and promoting personalized learning for higher education in India. Will the company be covered under the Education Services as per the Companies (Cost Records and Audit) Rules 2014?

Reply

The Companies (Cost Records and Audit) Rules, 2014 will be applicable in this case, subject to it meeting with the prescribed turnover threshold. However, if the company is engaged only in development of the software and not providing online education services, then it will not be covered under the said rules.



The Companies (Cost Records and Audit) Rules, 2014 shall not be applicable if a company is involved in only developing, printing, sale or distribution of education content, whether in soft form such as online audio or videos or in hard form such as books or other publications, but is not involved in rendering education services, whether in offline (classroom i.e. brick and mortar model) mode or in online (digital) mode. Further, the said Rules shall also not be applicable if a company is involved in rendering education services that fall under philanthropy or as part of social spend which do not form part of any business. In all other cases, the said Rules shall be applicable.

FAQ 27

What types of Health Services are covered under the Companies (Cost Records and Audit) Rules 2014?

Reply

The Companies (Cost Records and Audit) Rules 2014 covers “Health services, namely functioning as or running hospitals, diagnostic centres, clinical centres or test laboratories”.

Any company engaged in providing Health services through functioning as or running hospitals, diagnostic centres, clinical centres, test laboratories, physiotherapy centres and post-operative/treatment centres are covered within the ambit of the Companies (Cost Records and Audit) Rules 2014.

Further, companies running hospitals exclusively for its own employees are excluded from the ambit of these Rules, provided however, if such hospitals are providing health services to outsiders also in addition to its own employees on chargeable basis, then such hospitals are covered within the ambit of these Rules.

It is clarified that companies engaged in running of Beauty parlours / beauty treatment are not covered under these Rules.

FAQ 28

What is a criterion for cost audit in Healthcare Services? Is the cost audit applicable in Test Tube Baby Hospitals?

Reply

The Healthcare Services are covered under the Maintenance of Cost Records and Cost Audit as per Table B Sr. No. 22 “Healthcare services, namely functioning as or running hospitals, diagnostic centres, clinical centres or test laboratories” of the Companies (Cost Record and Audit) Rules, 2014. Thus the Test Tube Baby Hospitals 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) Rules, 2014.

FAQs relating to the Captive Consumption

FAQ 29

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

Reply

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

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

However, if the product is partly for captive consumption and partly sold, or if the product is 100% captively consumed for production of some other product which is not covered under these Rules, then

- maintenance of cost records and audit thereof would be applicable for such product which is partly for captive consumption and partly sold, subject to prescribed threshold limits;
- maintenance of cost records and audit thereof would not be applicable for such product which is 100% captively consumed in the final product which is not covered under the Rules.

FAQ 30

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

Reply

Rule 3(A)(2) dealing with generation, transmission, distribution and supply of electricity has excluded captive generation as defined in the Electricity Rules, 2005, vide Rule 4(3)(iii). The definition of captive power plant as given in Rule 3(1)(a) of the



Electricity Rules 2005 applies only in such case where the Power Plant is a separate entity.

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

One needs to understand that there are two different situations. One is a captive power plant belonging 100% to a company and the other situation is a Power Generating Company promoted by different users of its power and such users hold at least 26% of the ownership of that power generating company and consume atleast 51% of the aggregate electricity generated in a year. In the former case, if the company is selling part of the power generated by captive power plant, then it will be covered under cost audit.

FAQs relating to the Form CRA-3

FAQ 31

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

Reply

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

FAQ 32

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

Reply

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

FAQ 33

CRA-3 requires Details of Material Consumed, Details of Utilities Consumed and Details of Industry Specific Operating Expenses respectively [Part B and Part C, Para 2(a), 2(b) and 2(c)]. In case of companies where number of materials or utilities or industry specific operating expenses is more than 10 each, which items should be disclosed in the respective paras?

**Reply**

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

FAQ 34

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

Reply

Amount in Rupees are required to be provided under this Para.

FAQ 35

In the abridged cost statement, what are Industry specific operating expenses? When should this be used?

Reply

Industry Specific operating expenses are those which are peculiar to a particular industry such as Telecommunication Industry which shows expenses such as Network Operating cost, License fee, Radio Spectrum charges, Microwave charges etc. which are peculiar to this Industry and should be disclosed separately in the cost statement. The Industry Specific operating expenses will vary from industry to industry depending upon the nature of operations. The industry specific operating expenses shall have to be identified and reported upon in the abridged cost statement.

FAQ 36

Whether each and every transactions with Related Parties is to be disclosed under Para D-5 of Annexure to the Cost Audit Report?

Reply

Details of related Party Transaction are required to be provided in respect of each Related Party and each Product/Service for the year as a whole and not transaction-wise.

FAQ 37

A company is engaged in manufacturing of multiple products. Some of the products are covered under the Companies (Cost Records and Audit) Rules, 2014 and some are not. Part-A, Para 4 of the Annexure to the Cost Audit Report (Product/Service Details for the company as a whole) requires Net Operational



Revenue to be reported for each CTA Heading for both the current year and the previous year. Can the Net Operational Revenue of all the Products that are not covered under the Rules be reported in this Para as a single line item?

Reply

Part-A, Para 4 of the Annexure to the Cost Audit Report of Companies (Cost Records and Audit) Rules, 2014 require reporting of Net Operational Revenue of every CTA Heading separately comprised in the Total Operational Revenue as per Financial Accounts. Hence, the company would be required to report Net Revenue of every CTA Heading irrespective of whether the same is covered under maintenance of cost accounting records and cost audit or not.

In case some of the Products are under the same CTA Heading but having different units of measurement (UOM), then Net Revenue is to be reported for separate UOMs. It may be noted that the number of quantitative details and abridged cost statements will have to be provided for each unique combination of CTA Heading and UOM of the Products which are covered under cost audit.

If the company is engaged in manufacturing of products as well as providing of services and/or trading, then such services which are covered under the Companies (Cost Records and Audit) Rules, 2014 will be reported separately according to the definition provided in the Rules classified under different types of services within the same class of service. It may be noted that the quantitative details and abridged cost statements will have to be provided for each classification of service covered under cost audit.

Revenue from other services that are not covered under the Rules and Trading Activities may be reported under suitable heads denoting the service/trading activity.

The Taxonomy has introduced a separate line item in this Para to report "Other Operating Incomes" which will form part of the Total Operating Revenue.

FAQs relating to the Reporting

FAQ 38

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

Reply

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



Sub-section (12) of section 143 of the Companies Act 2013 prescribes *Notwithstanding anything contained in this section, if an auditor of a company in the course of the performance of his duties as auditor, has reason to believe that an offence of fraud involving such amount or amounts as may be prescribed, is being or has been committed in the company by its officers or employees, the auditor shall report the matter to the Central Government within such time and in such manner as may be prescribed;*

Provided that in case of a fraud involving lesser than the specified amount, the auditor shall report the matter to the audit committee constituted under section 177 or to the Board in other cases within such time and in such manner as may be prescribed;

Provided further that the companies, whose auditors have reported frauds under this sub-section to the audit committee or the Board but not reported to the Central Government, shall disclose the details about such frauds in the Board's report in such manner as may be prescribed;

As per the above prescription, it is obligatory on the part of cost auditor to report offence of fraud which is being or has been committed in the company by its officers or employees, to the Central Government as per the prescribed procedure under the Rules. In case of a fraud involving lesser than the specified amount, the auditor shall report the matter to the audit committee or to the Board in other cases within such time and in such manner as may be prescribed.

FAQ 39

The Companies (Cost Records and Audit) Rules, 2014 requires submission of a single cost audit report at company level. What is the procedure of certifying and submission of cost audit report of a company where more than one cost auditor is appointed?

Reply

In case of a company having more than one cost auditor, it would be necessary for the company to appoint/designate one cost auditor as the lead cost auditor for consolidation of the report.

The individual cost auditors appointed for specific units/products would be required to audit and provide Para numbers B-1, B-2, B-2A, B-2B, B-2C, C-1, C-2, C-2A, C-2B, C-2C and D-1 (as applicable) in respect of the products/services coming under the purview of their respective audits.

The individual auditors would also be required to submit to the Board of Directors the individual cost audit report as per Form of the Cost Audit Report given in CRA-3.



The lead cost auditor would be responsible for preparing the Para numbers A-3, A-4, D-2, D-3, D-4, D-5, D-6 and consolidate Para numbers A-4, B-1, B-2, B-2A, B-2B, B-2C, C-1, C-2, C-2A, C-2B, C-2C and D-1 (as applicable) received from the individual cost auditors.

The consolidated report should contain the reports of all the individual cost auditors including the report of the Lead Cost Auditor. In case individual cost auditors have any observations or suggestions or qualifications, they would be required to mention the same under Para 2 of the cost audit report and the lead auditor would have to mention the specific observations and/or qualifications of all the individual cost auditors in the place provided for the same in the under Para A-1.

The consolidated report so prepared would be converted to XBRL and submitted to the Central Government by the Company in Form CRA-4.

FAQ 40

The Companies (Cost Records and Audit) Rules, 2014 covers “Generation, transmission, distribution and supply of electricity” with no corresponding CTA Heading. Whether the Quantitative Information and Abridged Cost Statement in respect of Electricity are required to be reported under the Service Sector in the absence of a CTA Heading?

Reply

The reporting of electricity generation activity will be considered under “Manufacturing” and should be shown under CTA Heading 2716. Transmission and Distribution activities should be reported under the “Service Sector”.

FAQs relating to the Applicability of Cost Audit

FAQ 41

A Company is engaged in both Regulated and Non-Regulated sectors and some of 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?

Reply

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

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



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

In case of a multi-product company where some of its products are covered under Table A or Table B or both, then the following would apply:

- a) If the overall turnover of the company in the preceding is more than Rs. 50 crore but less than Rs.100 crore, then only products covered under Table-A will be covered under cost audit provided the aggregate turnover of all the products of the company covered under Table A and Table B is more than Rs.25 crore.
- b) If the overall turnover of the company in the preceding is more than Rs.100 crore, then:
 - I. Products under both Table A and Table B will be covered under cost audit provided the aggregate turnover of all the products of the company covered under Table A and Table B is more than Rs.35 crore.
 - II. Only products of Table A will be covered if the aggregate turnover of all the products of the company covered under Table A and Table B is more than Rs.25 crore but less than Rs.35 crore.

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

The issue is further clarified by means of the following example for ease of understanding.

	Turnover (Rs. Crores) of					Applicability of	
	Table A Products 1	Table B Products 2	Table A + B Products 3 = 1+2	Other Products 4	Total Operating Revenue 5 = 3+4	Cost Records	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	51	Yes	Only Table A Products
Case 4	0	25	25	26	51	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

**FAQ 42**

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

Reply

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

FAQ 43

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

Reply

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

FAQ 44

A company is engaged in manufacturing products on its own as well as purchasing the same products from other companies. The outsourced products are treated as trading activity in the financial accounts. Same products are also manufactured by supply of materials to converters. What would be treatment of such products for the purposes of maintenance of cost accounting records and cost audit?

Reply

Products manufactured by the company as well as conversion activity through third parties will be covered under the Companies (Cost Records and Audit) Rules 2014 and



the company would be required to maintain cost accounting records and get cost audit conducted subject to threshold limits. The finished products bought from outside parties (treated as Trading Activity in Financial Accounts) would be reflected as "Cost of Finished Goods Purchased" in Abridged Cost Statement.

FAQ 45

The Companies (Cost Records & Audit) Rules, 2014 provides exemption from cost audit to a company which is covered under rule 3, and whose revenue from exports, in foreign exchange, exceeds seventy five per cent of its total revenue. How to determine the percentage to total revenue in the following cases:

- (i) In a company who is manufacturing Pharmaceutical products, the revenue from export of pharmaceutical products earned in foreign exchange divided by total revenue including other income etc. is 58%.
- (ii) The revenue in foreign exchange earned from export of pharmaceutical products plus revenue in foreign exchange earned from rendering of research & development service divided by total revenue including other income etc. is 82%."

Reply

Cost audit is applicable for specified products/services. Rule 4(3) states "The requirement for cost audit under these rules shall not apply to a company which is covered in rule 3, and (i) whose revenue from exports, in foreign exchange, exceeds seventy five per cent of its total revenue".

The term revenue & total revenue referred to in these Rules mean the turnover & total turnover respectively, which is the basis of the applicability of said Rules,

Revenue from exports includes revenue from export of all its products & services.

FAQ 46

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

Reply

Rule 3 of the Companies (Cost Records and Audit) Rules 2014 is specific and it has mandated maintenance of cost accounting records on all products/activities listed under Table-A and Table-B subject to threshold limits. No exemption is available to any company from maintenance of cost accounting records once it meets the threshold



limits. Hence, the company would be required to maintain cost accounting records for all its units including the one located in the special economic zone. In view of the provisions of Rule 4(3)(ii) of the Companies (Cost Records and Audit) Rules 2014 the unit located in the special economic zone would be outside the purview of cost audit and the company would not be required to include particulars of such unit in its cost audit report. The other units of the company located outside the special economic zone would be covered under cost audit subject to the prescribed threshold limits.

FAQ 47

One non-regulated Company's total turnover exceeds Rs.100 crores in the previous year for its two units; one is in SEZ and another is 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 CTA code is 8456. Definitely, Maintenance of Cost Records is applicable but, will the Cost Audit be applicable to the Company for the year?

Reply

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

Thus after considering the given facts 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 exempted from the Cost Audit.

FAQ 48

A robotics and artificial intelligence company that develops drone based solutions to provide actionable intelligence from aerial data. It is also building deeply customized aerial remote sensing tools. Will the company be covered under the Rule 3 (B) of the Companies (Cost Records and Audit) Rules 2014?

**Reply**

If the company is engaged in the composite activity i.e. developing software alongwith the equipment / tools such as robotics, drones, etc. or any part thereof that is covered under CTA Chapter Code 85, then the said Rules shall be applicable, subject to it meeting with the prescribed turnover threshold. The Companies (Cost Records and Audit) Rules, 2014 shall not be applicable if the company is engaged in developing only the software tools.

FAQ 49

A company is engaged in execution of EPC projects in the areas of laying Transmission Lines & Construction of Electrical Sub-Stations for State Transco. Its turnover since financial year 2013-14 has been more than 100 crores. The revenue comes from laying of transmission lines + construction of electrical sub stations on work done & certified basis. The company executes the contracts on EPC basis. Billing is done as per terms of contract on work completed & certified. Will the Cost Audit be applicable to the Company?

Reply

Since, the construction of Electrical Sub Station is covered under the Clause 21 of the Table B of the Companies (Cost Records & Audit) Rules, 2014, namely Construction Industry as per para No. (5) (a) as specified in Schedule VI of the Companies Act, 2013, the Company will be covered under the Maintenance of Cost Records and Cost Audit subject to the threshold Limit of turnover as specified in the Companies (Cost Records & Audit) Rules, 2014.

FAQ 50

Can cost audit report be submitted by the cost auditor without obtaining signed financial statements i.e. can a cost auditor submit his report on the basis of draft financial statements?

Reply

There is no provision in the Companies (Cost Records and Audit) Rules, 2014 for preparing and submitting the Cost Audit Report on the basis of the draft Financial Statements of the company. The cost auditor has to ensure that the cost accounting records are duly reconciled with the audited financial accounts. Till such time the cost auditor gets the signed and audited financial statements, he will not be in a position to ensure this.

However, if the stipulated period of 180 days is about to lapse, the Cost Auditor should inform the Board citing the reasons of non-availability of the audited Financial Statement and his inability to comply with the provisions of the Rule 6 (5) of the Companies (Cost Records and Audit) Rules, 2014.

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