

Frequently Asked Questions on Companies (Cost Accounting Records) Rules, 2011



1. What is the legal authority of the Companies (Cost Accounting Records) Rules 2011?

Central Government, in exercise of the powers conferred by clause (b) of sub-section (1) of section 642 read with clause (d) of section 209 of the Companies Act, 1956 (1 of 1956), has notified Companies (Cost Accounting Records) Rules 2011.

2. What is the effective date from which Companies (Cost Accounting Records) Rules 2011 come into force?

The Companies (Cost Accounting Records) Rules, 2011 have been published vide G.S.R. 429(E) dated 3rd June, 2011. As per sub-rule (2) of Rule 1, these rules have come into force on the date of publication in the Official Gazette.

3. What is the status of the 44 Cost Accounting Records Rules issued till the date of issue of Companies (Cost Accounting Records) Rules 2011 and what is its applicability?

The Companies (Cost Accounting Records) Rules 2011 has superseded 36 cost accounting record rules [refer Annexure 1 of this FAQ].

The said Rules are applicable to all companies engaged in production, processing, manufacturing and mining activities as defined under Rules 2(j), 2(k), 2(l) or 2(o) respectively and where:

- a) the aggregate value of net worth as on the last date of the immediately preceding financial year exceeds five crores of rupees; or
- b) the aggregate value of the turnover made by the company from sale or supply of all products or activities during the immediately preceding financial year exceeds twenty crores of rupees; or
- c) the company's equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India.

Any company meeting the above criteria would be required to maintain cost accounting records and file a Compliance Report in the prescribed format from financial year commencing on and from 1st April 2011.

These Rules are not applicable to a company which is a body corporate governed by a Special Act.

Further, the Companies (Cost Accounting Records) Rules 2011 is not applicable to activities or products covered in any of the following rules:

- (a) *Cost Accounting Records (Bulk Drugs) Rules, 1974*
- (b) *Cost Accounting Records (Formulations) Rules, 1988*
- (c) *Cost Accounting Records (Fertilizers) Rules, 1993*
- (d) *Cost Accounting Records (Sugar) Rules, 1997*
- (e) *Cost Accounting Records (Industrial Alcohol) Rules, 1997*
- (f) *Cost Accounting Records (Electricity Industry) Rules, 2001*

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- (g) *Cost Accounting Records (Petroleum Industry) Rules, 2002*
- (h) *Cost Accounting Records (Telecommunications) Rules, 2002*

In case a company is engaged in activities, in addition to the activities covered by the above 8 Rules, such activities shall be covered under the Companies (Cost Accounting Records) Rules 2011.

4. The Companies (Cost Accounting Records) Rules 2011 have not prescribed any specific formats for the cost statements. In what manner and format would the cost statements be kept under these Rules?

As per sub rule (2) of Rule 4, the companies are required to maintain cost records on regular basis in such manner so as to make it possible to calculate 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/quarterly/half-yearly/annual basis. The cost statements are to be prepared for every unit and every product produced, processed, manufactured or mined.

As per sub rule (3), the cost records are to be maintained in accordance with the generally accepted cost accounting principles and cost accounting standards issued by the Institute; to the extent these are found to be relevant and applicable.

These Rules have not prescribed any specific formats for the cost statement. A guidance note on the subject is under preparation by ICWAI, inter alia, containing model formats for cost records, statements, schedules etc.

5. What does turnover mean under these Rules? Is gross turnover inclusive of excise duty?

As per Rule 2(p), "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 does not include any non-operational income.

From a reading of the Rules, it appears that the word "Gross" denotes "total". Hence, the "Turnover" under these Rules would exclude duties and taxes.

6. Who can authenticate the Compliance Report as per the Companies (Cost Accounting Records) Rules 2011?

As per Rule 5, the Compliance Report and annexure thereto is required to be certified by a "cost accountant" as defined under Rule 2(c).

As per Rule 7, the annexure to the Compliance Report is to be duly approved by the Board of Directors.

A "cost accountant" within the definition of these Rules does not include:

- a) A member holding a part-time certificate of practice; or

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- b) A member who is in full time employment whose membership fees are in arrears;
- c) A member of ICWAI who has been admitted as a member through reciprocal arrangement of membership by virtue of being a member of Institute of Management Accountants USA.

7. Will companies engaged in the eight (8) products/activities, which have been excluded from the purview under Rule 3(a) to 3(h) of Companies (Cost Accounting Records) Rules 2011, be required to file Compliance Report?

Companies engaged in activities or products to which the cost accounting records rules listed under Rule 3(a) to 3(h) apply will not be required to file a Compliance Report until these Rules are amended.

However, if the concerned company is also engaged in other activities covered under the Companies (Cost Accounting Records) Rules 2011, in that case the company would be required to file a Compliance Report.

8. Is there any ceiling on the number of Compliance Reports which can be authenticated by a practicing cost accountant or a cost accountant in permanent employment of the company?

There is no ceiling on the number of Compliance Reports that can be authenticated by a cost accountant in whole-time practice. A cost accountant working as permanent employee can authenticate the Compliance Report of the company where he is employed provided his membership dues are not in arrears. He cannot authenticate Compliance Report of any other company even under the same group.

9. Can a cost accountant who is working as permanent employee of a company and responsible for maintenance of cost records therein authenticate Compliance Report of the same company?

Yes.

10. Can a cost accountant who has been appointed as cost auditor of the company authenticate the Compliance Report of that company?

Yes.

11. What constitutes the cost records under Rule 2(e)? Whether the format of "Abridged Cost statement" prescribed in the Companies (Cost Audit Report) Rules, 2011 can be considered as a sample cost statement?

Books of account and other records relating to utilization of materials, labour and other items of cost that provides data/information to compute the cost of production, cost of sales and margin of each of the products/activities of the company on monthly/quarterly/half-yearly/annual basis are considered part of the cost records. It includes statistical, quantitative and other records which enable the company to exercise, as far as possible, control over the various operations and costs with a view to achieve optimum economies in utilization of resources. Cost records

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are required to be maintained on continuous basis from the basic stage of inputs to the final output.

There cannot be any exhaustive list of cost records. This would depend on the materiality of cost components in the cost of the product/activity.

The abridged cost statement can be used as a sample cost statement. This may be modified according to the need of the company.

12. Whether production, processing, manufacturing or mining involving manual operation, without the use of power will be also covered under these Rules?

Yes. The definition of product in Rule 2(m) includes manual operation as well. Therefore, any production, processing, manufacturing or mining activity – whether by use of power or not – are included for the purposes of these Rules.

13. Whether product manufactured for 100% captive / self consumption shall be covered under the Companies (Cost Accounting Records) Rules 2011?

The test of inclusion under the Rules is whether it is a production, processing, manufacturing or mining activity resulting in a product [*for definition of “product” refer to Rule 2(m)*] intended for use, consumption, sale, transport, store, delivery or disposal and whether the company carrying out the activity falls within the criteria mentioned under Rule 3(1). If the company meets requirement of Rule 3(1), the activity – whether or not for captive/self consumption – will come under the ambit of these Rules.

14. Will the companies subject to cost audit be also required to file Compliance Report under these Rules?

Every company covered under Companies (Cost Accounting Records) Rules 2011 is required to file a Compliance Report irrespective of whether all or any of its products are covered under cost audit. Thus the Compliance Report shall include product groups covered under cost audit as well as product groups not covered under cost audit.

15. Whether the Compliance Report is to be prepared for the ‘company as a whole’.

Yes, the Compliance Report is to be prepared for the ‘company as a whole’ under different product groups.

16. A company with multiple product range is having cost audit for some of its products. What would be the applicability of cost audit on other products now covered under Companies (Cost Accounting Records) Rules 2011?

The status of the company so far as applicability of cost audit is concerned will remain unchanged until cost audit orders are issued for its other products/activities now covered under Companies (Cost Accounting Records) Rules 2011. The company would

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now be required to maintain cost records for all the products/activities irrespective of whether these are under cost audit or not and also file a Compliance Report.

17. Is it necessary to first prepare “unit wise” and “product/activity-wise” cost statements and then merge into product group-wise cost statement for the company as a whole?

It is mandatory to prepare unit-wise and product/activity-wise cost statements as per the Companies (Cost Accounting Records) Rules 2011. For Compliance Certificate purposes, no cost statement is required to be submitted.

However, if any or all the products/activities of the company is also covered under Cost Audit, then for the purposes of submission of Cost Audit Report under the Companies (Cost Audit Report) Rules 2011, a consolidated cost statement for the product group(s) under cost audit is required to be prepared.



Annexure 1

List of Cost Accounting Records Rules which have been superseded by the Ministry of Corporate Affairs vide Notification dated June 3, 2011

1. **Cost Accounting Records (Cycles) Rules, 1967** published vide G.S.R. 311 dated 2nd March, 1967.
2. **Cost Accounting Records (Tyres & Tubes) Rules, 1967** published vide G.S.R. 1260 dated 10th August, 1967.
3. **Cost Accounting Records (Air-Conditioners) Rules, 1967** published vide G.S.R. 1447 dated 16th September, 1967 and subsequently amended vide G.S.R. 668(E) dated 28th September, 1999.
4. **Cost Accounting Records (Refrigerators) Rules, 1967** published vide G.S.R. 1448 dated 18th September, 1967.
5. **Cost Accounting Records (Batteries other than Dry Cell Batteries) Rules, 1967** published vide G.S.R. 1467 dated 20th September, 1967 and subsequently amended vide G.S.R. 667(E) dated 28th July, 1999.
6. **Cost Accounting Records (Electric Lamps) Rules, 1967** published vide G.S.R. 1503 dated 27th September, 1967 and subsequently amended vide G.S.R. 670(E) dated 28th September, 1999.
7. **Cost Accounting Records (Electric Fans) Rules, 1969** published vide G.S.R. 2298 dated 15th September, 1969.
8. **Cost Accounting Records (Electric Motors) Rules, 1969** published vide G.S.R. 2574 dated 24th October, 1969.
9. **Cost Accounting Records (Aluminium) Rules, 1972** published vide G.S.R. 334 dated 25th February, 1972 and subsequently amended vide G.S.R. 703(E) dated 28th September, 2001.
10. **Cost Accounting Records (Vanaspati) Rules, 1972** published vide G.S.R. 1529 dated 27th November, 1972 and subsequently amended vide G.S.R. 287 dated 29^h May, 1992.
11. **Cost Accounting Records (Jute Goods) Rules, 1975** published vide G.S.R. 590(E) dated 29th December, 1975.
12. **Cost Accounting Records (Paper) Rules, 1975** published vide G.S.R. 601(E) dated 31st December, 1975.



Annexure 1

List of Cost Accounting Records Rules which have been superseded by the Ministry of Corporate Affairs vide Notification dated June 3, 2011

13. **Cost Accounting Records (Rayon) Rules, 1976** published vide G.S.R. 606 dated 20th April, 1976 and subsequently amended vide G.S.R. 694 dated 31st August, 2000.
14. **Cost Accounting Records (Dyes) Rules, 1976** published vide G.S.R. 605 dated 22nd April, 1976.
15. **Cost Accounting Records (Polyester) Rules, 1977** published vide G.S.R. 126(E) dated 24th March, 1977 and subsequently amended vide G.S.R. 692(E) dated 31st August, 2000.
16. **Cost Accounting Records (Nylon) Rules, 1977** published vide G.S.R. 157(E) dated 1st April, 1977 and subsequently amended vide G.S.R. 695(E) dated 31st August, 2000.
17. **Cost Accounting Records (Textiles) Rules, 1977** published vide G.S.R. 417(E) dated 28th June, 1977 and subsequently amended vide G.S.R. 29(E) dated 19th January, 1994.
18. **Cost Accounting Records (Dry Cell Batteries) Rules, 1978** published vide G.S.R. 45(E) dated 31st January, 1979.
19. **Cost Accounting Records (Steel Tubes and Pipes) Rules, 1984** published vide G.S.R. 506(E) dated 10th May, 1984.
20. **Cost Accounting Records (Engineering Industries) Rules, 1984** published vide G.S.R. 688 dated 25th June, 1984 and subsequently amended vide G.S.R. 279(E) dated 24th April, 2001.
21. **Cost Accounting Records (Electric Cables and Conductors) Rules, 1984** published vide G.S.R. 767 dated 7th July, 1984.
22. **Cost Accounting Records (Bearings) Rules, 1985** published vide G.S.R. 664 dated 1st July, 1985.
23. **Cost Accounting Records (Steel Plant) Rules, 1990** published vide G.S.R. 574 dated 31st July, 1990 and subsequently amended vide G.S.R. 281(E) dated 24th April, 2001.
24. **Cost Accounting Records (Insecticides) Rules, 1993** published vide G.S.R. 258(E) dated 3rd March, 1993.
25. **Cost Accounting Records (Soaps & Detergents) Rules, 1993** published vide G.S.R. 677(E) dated 29th October, 1993.



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26. **Cost Accounting Records (Cosmetics & Toiletries) Rules, 1993** published vide G.S.R. 678(E) dated 29th October, 1993.
27. **Cost Accounting Records (Footwear) Rules, 1996** published vide G.S.R. 186(E) dated 12th April, 1996.
28. **Cost Accounting Records (Shaving Systems) Rules, 1996** published vide G.S.R. 202(E) dated 6th May, 1996.
29. **Cost Accounting Records (Industrial Gases) Rules, 1996** published vide G.S.R. 271(E) dated 9th July, 1996.
30. **Cost Accounting Records (Motor Vehicles) Rules, 1997** published vide G.S.R. 537(E) dated 11th September, 1997 and subsequently amended vide G.S.R. 328(E) dated 3rd June, 1998, G.S.R. 329(E) dated 3rd June, 1998 and G.S.R. 280(E) dated 24th April, 2001.
31. **Cost Accounting Records (Cement) Rules, 1997** published vide G.S.R. 536(E) dated 11th September, 1997.
32. **Cost Accounting Records (Milk Food) Rules, 2001** published vide G.S.R. 704(E) dated 28th September, 2001.
33. **Cost Accounting Records (Mining and Metallurgy) Rules, 2001** published vide G.S.R. 276(E) dated 24th April, 2001.
34. **Cost Accounting Records (Electronic Products) Rules, 2001** published vide G.S.R. 277(E) dated 24th April, 2001.
35. **Cost Accounting Records (Plantation Products) Rules, 2002** published vide G.S.R. 685(E) dated 8th October, 2002.
36. **Cost Accounting Records (Chemicals) Rules, 2004** published vide G.S.R. 562(E) dated 2nd September, 2004.

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12, Sudder Street, Kolkata – 700 016



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