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GOVERNMENT OF INDIA
MINISTRY OF CORPORATE AFFAIRS

NOTIFICATION

New Delhi, the 7th December, 2017

G.S.R..... (E).- In exercise of the powers conferred by sub-sections (1) and (2) of section 469 and section 148 of the Companies Act, 2013 (18 of 2013) (hereinafter referred as the Act), the Central Government hereby makes the following rules further to amend the Companies (cost records and audit) Rules, 2014, namely:-

1. These rules may be called the Companies (cost records and audit) Amendment Rules, 2017.

2. In the Companies (cost records and audit) Rules, 2014 (hereinafter referred to as the principal rules), in rule 2, after clause (f), the following clause shall be inserted and shall be deemed to have been inserted with effect from the 1st day of April, 2016, namely:-

(fa) "Indian Accounting Standards" means Indian Accounting Standards as referred to in Companies (Indian Accounting Standards) Rules, 2015.

3. In the principal rules, in the Annexure, for Form CRA-1 and Form CRA-3, the following Forms shall respectively be substituted and shall be deemed to have been substituted with effect from the 1st day of April, 2016, namely:-

"FORM CRA-1

(See rule 5(1) of the Companies (cost records and audit) Rules, 2014)

Particulars relating to the Items of Costs to be included in the Books of Accounts

1. **Material Costs.-**

(a) Proper records shall be maintained showing separately all receipts, issues and balances both in quantities and cost of each item of raw material required for the production of goods or rendering of services under reference.

(b) The material receipt shall be valued at purchase price including duties and taxes, freight inwards, insurance, and other expenditure directly attributable to procurement (net of trade discounts, rebates, taxes and duties refundable or to be credited by the taxing authorities) that can be quantified with reasonable accuracy at the time of acquisition.

(c) Finance costs incurred in connection with the acquisition of materials shall not form part of material cost.

(d) Self-manufactured materials or captive consumption shall be valued including direct material cost, direct employee cost, direct expenses, factory overheads, share of administrative overheads relating to production but excluding share of other administrative overheads, finance cost and marketing overheads.

(e) Spare parts shall be recognised as property, plant and equipment when they meet the definition of property, plant and equipment and depreciated accordingly. Otherwise, such items shall be classified as inventory.

(f) Normal loss or spoilage of material prior to reaching the factory or at places where the services are provided shall be absorbed in the cost of balance materials net of amounts recoverable from suppliers, insurers, carriers or recoveries from disposal.

(g) Losses due to shrinkage or evaporation and gain due to elongation or absorption of moisture etc., before the material is received shall be absorbed in material cost to the extent they are normal, with corresponding adjustment in the quantity.

(h) The forex component of imported material cost shall be converted at the rate on the date of the transaction. Any subsequent change in the exchange rate till payment or otherwise shall not form part of the material cost.

(i) Any demurrage or detention charges, or penalty levied by transport or other authorities shall not form part of the cost of materials.

(j) Subsidy or grant or incentive and any such payment received or receivable with respect to any material cost shall be reduced from cost of the cost object in the financial year when such subsidy or grant or incentive and any such payment is recognised as income.

(k) Issues shall be valued using appropriate method as per the provisions contained in the accounting standard applicable for the time being in force.

(l) Where materials are accounted at standard cost, the price variances related to materials shall be treated as part of material cost.

(m) Any abnormal cost shall be excluded from the material cost.

(n) Wherever, material costs include transportation costs, determination of costs of transportation shall be governed by paragraph number 9 on determination of cost of transportation.

(o) Self-manufactured components and sub-assemblies or captive consumption shall be valued including direct material cost, direct employee cost, direct expenses, factory overheads, share of administrative overheads relating to production but

excluding share of other administrative overheads, finance cost and marketing overheads.

(p) The material cost of normal scrap or defectives which are rejects shall be included in the material cost of goods manufactured. The material cost of actual scrap or defectives, not exceeding the normal shall be adjusted in the material cost of good production. Material cost of abnormal scrap or defectives should not be included in material cost but treated as loss after giving credit to the realisable value of such scrap or defectives.

(q) Material costs shall be directly traced to a cost object to the extent it is economically feasible or shall be assigned to the cost object on the basis of material quantity consumed or similar identifiable measure and valued as per above principles.

(r) Where the material costs are not directly traceable to the cost object, the same shall be assigned on a suitable basis like technical estimates.

(s) Where a material is processed or part manufactured by a third party according to specifications provided by the buyer, the processing or manufacturing charges payable to the third party shall be treated as part of the material cost.

(t) Wherever part of the manufacturing operations or activity is subcontracted, the subcontract charges related to materials shall be treated as direct expenses and assigned directly to the cost object.

(u) The cost of indirect materials shall be assigned to the various cost objects based on a suitable basis such as actual usage or technical norms or a similar identifiable measure.

(v) The cost of materials like catalysts, dies, tools, moulds, patterns etc. which are relatable to production over a period of time shall be amortised over the production units benefited by such cost.

(w) The cost of indirect material with life exceeding one year shall be included in cost over the useful life of the material.

2. Employee Cost.-

(a) Proper records shall be maintained in respect of employee costs in such a manner as to enable the company to book these expenses cost centre wise or department wise with reference to goods or services under reference and to furnish necessary particulars. Where the employees work in such a manner that it is not possible to identify them with any specific cost centre or service centre or department, the employees cost shall be apportioned to the cost centre or service centres or departments on equitable and reasonable basis and applied consistently.

(b) Employee Cost shall be ascertained taking into account the gross pay including all allowances payable along with the cost to the employer of all the benefits, including the cost of retirement benefits charged in the financial statements in an accounting period. In case of companies to which Indian Accounting Standards

apply, any re-measurement of such costs recognised in other comprehensive income shall not form part of the employee cost.

(c) Bonus whether payable as a statutory minimum or on a sharing of surplus shall be treated as part of employee cost. *Ex gratia* payable in lieu of or in addition to bonus shall also be treated as part of the employee cost.

(d) Remuneration payable to managerial personnel including Executive Directors on the Board and other officers of a corporate body under a statute shall be considered as part of the employee cost of the year under reference whether the whole or part of the remuneration is computed as a per cent. of profits. Remuneration paid to non-executive directors shall not form part of employee cost but shall form part of administrative overheads.

(e) Separation costs related to voluntary retirement, retrenchment, termination and other related matters shall be amortised over the period benefitting from such costs.

(f) Employee cost shall not include imputed costs.

(g) Cost of idle time is ascertained by the idle hours multiplied by the hourly rate applicable to the idle employee or a group of employees.

(h) Where employee cost is accounted at standard cost, variances due to normal reasons related to employee cost shall be treated as part of employee cost. Variances due to abnormal reasons shall be treated as part of abnormal cost.

(i) Subsidy or grant or incentive and any such payment received or receivable with respect to any employee cost shall be reduced from cost of the cost object in the financial year when such subsidy or grant or incentive and any such payment is recognised as income.

(j) Any abnormal cost where it is material and quantifiable shall not form part of the employee cost.

(k) Penalties, damages paid to statutory authorities or other third parties shall not form part of the employee cost.

(l) The cost of free housing, free conveyance and any other similar benefits provided to an employee shall be determined at the total cost of all resources consumed in providing such benefits.

(m) Any recovery from the employee towards any benefit provided, namely, housing shall be reduced from the employee cost.

(n) Any change in the cost accounting principles applied for the determination of the employee cost should be made only if it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an enterprise.

(o) Where the employee services are traceable to a cost object, such employees' cost shall be assigned to the cost object on the basis such as time consumed or number of employees engaged or other related basis or similar identifiable measure.

(p) While determining whether a particular employee cost is chargeable to a separate cost object, the principle of materiality shall be adhered to.

(q) Where the employee costs are not directly traceable to the cost object, the same shall be assigned on suitable basis like estimates of time based on time study.

(r) The amortised separation costs related to voluntary retirement, retrenchment, and termination or other related matters for the period shall be treated as indirect cost and assigned to the cost objects in an appropriate manner provided that unamortised amount related to discontinued operations, shall not be treated as employee cost.

(s) Recruitment costs, training cost and other such costs shall be treated as overheads and dealt with accordingly.

(t) Overtime premium shall be assigned directly to the cost object or treated as overheads depending on the economic feasibility and the specific circumstance requiring such overtime.

(u) Idle time cost shall be assigned direct to the cost object or treated as overheads depending on the economic feasibility and the specific circumstances causing such idle time.

3. Utilities.-

(a) Proper records shall be maintained showing the quantity and cost of each major utility such as power, water, steam, effluent treatment, and other related utilities produced and consumed by the different cost centres in such detail as to have particulars for each utility separately.

(b) Each type of utility shall be treated as a distinct cost object.

(c) Cost of utilities purchased shall be measured at cost of purchase including duties and taxes, transportation cost, insurance and other expenditure directly attributable to procurement (net of trade discounts, rebates, taxes and duties refundable or to be credited) that can be quantified with reasonable accuracy at the time of acquisition.

(d) Cost of self-generated utilities for own consumption shall comprise direct material cost, direct employee cost, direct expenses and factory overheads.

(e) In case of utilities generated for the purpose of inter unit transfers, the distribution cost incurred for such transfers shall be added to the cost of utilities determined as above.

(f) Cost of utilities generated for the intercompany transfers shall comprise direct material cost, direct employee cost, direct expenses, factory overheads, distribution cost and share of administrative overheads.

(g) Cost of utilities generated for the sale to outside parties shall comprise direct material cost, direct employee cost, direct expenses, factory overheads, distribution cost, share of administrative overheads and marketing overheads. The sale value of such utilities shall also include the margin.

(h) Finance costs incurred in connection with the utilities shall not form part of cost of utilities.

(i) The cost of utilities shall include the cost of distribution of such utilities. The cost of distribution will consist of the cost of delivery of utilities up to the point of consumption.

(j) Cost of utilities shall not include imputed costs.

(k) Where cost of utilities is accounted at standard cost, the price variances related to utilities shall be treated as part of cost of utilities and the portion of usage variances due to normal reasons shall be treated as part of cost of utilities. Usage variances due to abnormal reasons shall be treated as part of abnormal cost.

(l) Subsidy or grant or incentive and any such payment received or receivable with respect to any cost of utilities shall be reduced from cost of the cost object in the financial year when such subsidy or grant or incentive and any such payment is recognised as income.

(m) The cost of production and distribution of utilities shall be determined based on the normal capacity or actual capacity utilisation whichever is higher and unabsorbed cost, if any, shall be treated as abnormal cost. Cost of a stand-by utility shall include the committed costs of maintaining such a utility.

(n) Any abnormal cost where it is material and quantifiable shall not form part of the cost of utilities.

(o) Penalties, damages paid to statutory authorities or other third parties shall not form part of the cost of utilities.

(p) Credits or recoveries relating to the utilities including cost of utilities provided to outside parties, material and quantifiable, shall be deducted from the total cost of utility to arrive at the net cost of utility.

(q) Any change in the cost accounting principles applied for the measurement of the cost of utilities shall be made only if, it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an organisation.

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

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

(t) The most appropriate basis of distribution of cost of a utility to the departments consuming services is to be derived from usage parameters.

4. Direct Expenses.-

(a) Proper records shall be maintained in respect of direct expenses in such a manner as to enable company to book these expenses cost centre wise or cost abject or department wise with reference to goods or services under reference and to furnish necessary particulars.

(b) Direct expenses incurred for the use of bought out resources shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of trade discounts, rebates, taxes and duties refundable or to be credited.

(c) Other direct expenses shall be determined on the basis of amount incurred in connection therewith.

(d) Direct expenses paid or incurred in lump-sum or which are in the nature of 'one – time' payment, shall be amortised on the basis of the estimated output or benefit to be derived from such direct expenses.

(e) If an item of direct expenses does not meet the test of materiality, it can be treated as part of overheads.

(f) Finance costs incurred in connection with the self-generated or procured resources shall not form part of direct expenses. Direct expenses shall not include imputed costs.

(g) Where direct expenses are accounted at standard cost, variances due to normal reasons shall be treated as part of the direct expenses. Variances due to abnormal reasons shall not form part of the direct expenses.

(h) Subsidy or grant or incentive and any such payment received or receivable with respect to any direct expenses shall be reduced from cost of the cost object in the financial year when such subsidy or grant or incentive and any such payment is recognised as income.

(i) Any abnormal portion of the direct expenses where it is material and quantifiable shall not form part of the direct expenses.

(j) Penalties, damages paid to statutory authorities or other third parties shall not form part of the direct expenses.

(k) Credits or recoveries relating to the direct expenses, material and quantifiable, shall be deducted to arrive at the net direct expenses.

(l) Any change in the cost accounting principles applied for the measurement of the direct expenses should be made only if, it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an organisation.

(m) Direct expenses that are directly traceable to the cost object shall be assigned to that cost object.

5. Repairs and Maintenance.-

(a) Proper records showing the expenditure incurred by the workshop, tool room and on repairs and maintenance in the various cost centres or departments shall be maintained under different heads.

(b) Repairs and maintenance cost shall be the aggregate of direct and indirect cost relating to repairs and maintenance activity. Direct cost shall include the cost of materials, consumable stores, spares, manpower, equipment usage, utilities and

other identifiable resources consumed in such activity. Indirect cost shall include the cost of resources common to various repairs and maintenance activities such as manpower, equipment usage and other costs allocable to such activities.

(c) Cost of in-house repairs and maintenance activity shall include cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources used in such activity.

(d) Cost of repairs and maintenance activity carried out by outside contractors inside the entity shall include charges payable to the contractor and cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other costs incurred by the entity for such jobs.

(e) Cost of repairs and maintenance jobs carried out by contractor at its premises shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discount), taxes and duties refundable or to be credited. This cost shall also include the cost of other resources provided to the contractors.

(f) Cost of repairs and maintenance jobs carried out by outside contractors shall include charges made by the contractor and cost of own materials, consumable stores, spares, manpower, equipment usage, utilities and other costs used in such jobs.

(g) Each type of repairs and maintenance shall be treated as a distinct activity, if material and identifiable.

(h) Cost of repairs and maintenance activity shall be measured for each major asset category separately.

(i) Cost of spares replaced which do not enhance the future economic benefits from the existing asset beyond its previously assessed standard of performance shall be included under repairs and maintenance cost.

(j) The cost of major overhaul shall be amortised on a rational basis.

(k) Finance costs incurred in connection with the repairs and maintenance activities shall not form part of repairs and maintenance costs.

(l) Repairs and maintenance costs shall not include imputed costs.

(m) Price variances related to repairs and maintenance, where standard costs are in use, shall be treated as part of repairs and maintenance cost. The portion of usage variances attributable to normal reasons shall be treated as part of repairs and maintenance cost. Usage variances attributable to abnormal reasons shall be excluded from repairs and maintenance cost.

(n) Subsidy or grant or incentive and any such payment received or receivable with respect to repairs and maintenance activity shall be reduced from cost of the cost object in the financial year when such subsidy or grant or incentive and any such payment is recognised as income.

(o) Any repairs and maintenance cost resulting from some abnormal circumstances, namely, major fire, explosions, flood and similar events, if material and quantifiable, shall not form part of the repairs and maintenance cost.

(p) Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the repairs and maintenance cost.

(q) Credits or recoveries relating to the repairs and maintenance activity, material and quantifiable, shall be deducted to arrive at the net repairs and maintenance cost.

(r) Any change in the cost accounting principles applied for the measurement of the repairs and maintenance cost should be made only if, it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an organisation.

(s) Repairs and maintenance costs shall be traced to a cost object to the extent economically feasible.

(t) Where the repairs and maintenance cost is not directly traceable to cost object, it shall be assigned based on either of the following the principles of (1) Cause and Effect - Cause is the process or operation or activity and effect is the incurrence of cost and (2) Benefits received – overheads are to be apportioned to the various cost objects in proportion to the benefits received by them.

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

6. Fixed Assets and Depreciation.-

(a) Proper and adequate records shall be maintained for assets used for production of goods or rendering of services under reference in respect of which depreciation or amortisation has to be provided for. These records shall, inter-alia, indicate grouping of assets under each good or service, the cost of acquisition of each item of asset including installation charges, date of acquisition and rate of depreciation.

(b) The depreciation and amortisation shall be the amount recognised as an expense for the year in the financial statements, which shall be measured as per the provisions contained in Schedule II of the Companies Act, 2013 and the accounting standards applicable for the time being in force. The amount of Depreciation and Amortisation not recognised as expense in the financial statements shall be treated as a non-cost item.

(c) Depreciation on an asset which is temporarily retired from production of goods and services shall be considered as abnormal cost for the period when the asset is not in use.

(d) Impairment loss on assets shall be excluded from cost of production/service.

(e) Spare parts, stand-by equipment and servicing equipment shall be recognised as property, plant and equipment when they meet the definition of property, plant and equipment and depreciated accordingly. Otherwise, such items shall be classified as inventory.

(f) Depreciation shall be traced to the cost object to the extent economically feasible.

(g) Where the depreciation is not directly traceable to cost object, it shall be assigned based on either of the following two principles; namely:-

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

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

7. Overheads.-

(a) Proper records shall be maintained for various items of indirect expenses comprising overheads pertaining to goods or services under reference. These expenses shall be analysed, classified and grouped according to functions.

(b) Overheads representing procurement of resources shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discounts), taxes and duties refundable or to be credited.

(c) Overheads other than those referred to above shall be determined on the basis of cost incurred in connection therewith.

(d) Any abnormal cost where it is material and quantifiable shall not form part of the overheads.

(e) Finance costs incurred in connection with procured or self-generated resources shall not form part of overheads.

(f) Overheads shall not include imputed cost.

(g) Overhead variances attributable to normal reasons shall be treated as part of overheads. Overhead variances attributable to abnormal reasons shall be excluded from overheads.

(h) Subsidy or grant or incentive and any such payment received or receivable with respect to overheads shall be reduced from cost of the cost object in the financial year when such subsidy or grant or incentive and any such payment is recognised as income.

(i) Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the overheads.

(j) Credits or recoveries relating to the overheads, material and quantifiable, shall be deducted from the total overhead to arrive at the net overheads. Where the recovery exceeds the total overheads, the balance recovery shall be treated as other income.

(k) Any change in the cost accounting principles applied for the measurement of the overheads shall be made only if, it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an entity.

(l) While assigning overheads, traceability to a cost object in an economically feasible manner shall be the guiding principle. The cost which can be traced directly to a cost object shall be directly assigned.

(m) Overheads shall be classified according to functions, *viz.*, works, administration, selling and distribution, head office, corporate etc.

(n) Assignment of overheads to the cost objects shall be based on either of the following two principles: (1) Cause and Effect - Cause is the process or operation or activity and effect is the incurrence of cost and (2) Benefits received – overheads are to be apportioned to the various cost objects in proportion to the benefits received by them.

(o) The variable production overheads shall be absorbed to products or services based on actual capacity utilisation.

(p) The fixed production overheads shall be absorbed based on the normal capacity.

(q) Assignment of administration overheads shall be in accordance with paragraph number 8.

(r) Marketing overheads that can be identified to a product or service shall be assigned to that product or service.

(s) Marketing overheads that cannot be identified to a product or service shall be assigned to the products or services on the most appropriate basis.

8. Administrative Overheads.-

(a) Administrative overheads shall be the aggregate of cost of resources consumed in activities relating to general management and administration of an organisation.

(b) In case of leased assets, if the lease is an operating lease, the entire rentals shall be included in the administrative overheads. If the lease is a financial lease, the finance cost portion shall be segregated and treated as part of finance costs.

(c) The cost of software (developed in house, purchased, licensed or customised), including up-gradation cost shall be amortised over its estimated useful life.

(d) The cost of administrative services procured from outside shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discount), taxes and duties refundable or to be credited.

(e) Subsidy or grant or incentive and any such payment received or receivable with respect to any administrative overheads shall be reduced from cost of the cost object in the financial year when such subsidy or grant or incentive and any such payment is recognised as income.

(f) Administrative overheads shall not include any abnormal administrative cost.

(g) Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the administrative overheads.

(h) Credits or recoveries relating to the administrative overheads including those rendered without any consideration, material and quantifiable, shall be deducted to arrive at the net administrative overheads.

(i) Any change in the cost accounting principles applied for the measurement of the administrative overheads should be made only if it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an organisation.

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

(k) Assignment of administrative overheads to the cost objects shall be based on either of the following two principles; namely:-

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

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

9. Transportation Cost.-

(a) Proper records shall be maintained for recording the actual cost of transportation showing each element of cost such as freight, cartage, transit insurance and others after adjustment for recovery of transportation cost. Abnormal costs relating to transportation, if any, are to be identified and recorded for exclusion of computation of average transportation cost.

(b) In case of a manufacturer having his own transport fleet, proper records shall be maintained to determine the actual operating cost of vehicles showing details of various elements of cost such as salaries and wages of driver, cleaners and others, cost of fuel, lubricant grease, amortized cost of tyres and battery, repairs and maintenance, depreciation of the vehicles, distance covered and trips made, goods hauled and transported to the depot.

(c) In case of hired transport charges incurred for despatch of goods, complete details shall be recorded as to date of despatch, type of transport used, description of the goods, destination of buyer, name of consignee, challan number, quantity of goods in terms of weight or volume, distance involved, amount paid and other related details.

(d) Records shall be maintained separately for inward and outward transportation cost specifying the details particulars of goods despatched, name of supplier or recipient, amount of freight etc.

(e) Separate records shall be maintained for identification of transportation cost towards inward movement of material (procurement) and transportation cost of outward movement of goods removed or sold for both home consumption and export.

(f) Records for transportation cost from factory to depot and thereafter shall be maintained separately.

(g) Records for transportation cost for carrying any material or product to job-workers place and back shall be maintained separately so as include the same in the transaction value of the product.

(h) Records for transportation cost for goods involved exclusively for trading activities shall be maintained separately and the same shall not be included for claiming any deduction for calculating assessable value excisable goods cleared for home consumption.

(i) Records of transportation cost directly allocable to a particular category of products shall be maintained separately so that allocation can be made.

(j) For common transportation cost both for own fleet or hired ones, proper records for basis of apportionment shall be maintained.

(k) Records for transportation cost for exempted goods, excisable goods cleared for export shall be maintained separately.

(l) Separate records of cost for mode of transportation other than road like ship or air are to be maintained, which shall be included in total cost of transportation.

(m) Inward transportation costs shall form the part of the cost of procurement of materials which are to be identified for proper allocation or apportionment to the materials or products.

(n) Outward transportation cost shall form the part of the cost of sale and shall be allocated or apportioned to the materials and goods on a suitable basis.

(o) The following basis shall be used, in order of priority, for apportionment of outward transportation cost depending upon the nature of products, unit of measurement followed and type of transport used, namely :-

i) Weight;
ii) Volume of goods;
iii) Tonne-Km;
iv) Unit or Equivalent unit;
v) Value of goods;
vi) Per cent. of usage of space.

(p) Once a basis of apportionment is adopted, the same shall be followed consistently.

(q) For determining the transportation cost per unit, distance shall be factored in to arrive at weighted average cost.

(r) Abnormal and non-recurring cost shall not be a part of transportation cost.

10. Royalty and Technical Know-how.-

(a) Adequate records shall be maintained showing royalty or technical know-how fee including other recurring or non-recurring payments of similar nature, if any, made

for the goods or services under reference to collaborators or technology suppliers in terms of agreements entered into with them.

(b) Royalty and technical know-how fee paid or incurred in lump-sum or which are in the nature of 'one–time' payment, shall be amortised on the basis of the estimated output or benefit to be derived from the related asset. Amortisation of the amount of royalty or technical know-how fee paid for which the benefit is ensued in the current or future periods shall be determined based on the production or service volumes estimated for the period over which the asset is expected to benefit the entity.

(c) Amount of the royalty and technical know-how fee shall not include finance costs and imputed costs.

(d) Subsidy or grant or incentive and any such payment received or receivable with respect to amount of royalty and technical know-how fee shall be reduced from cost of the cost object in the financial year when such subsidy or grant or incentive and any such payment is recognised as income.

(e) Penalties, damages paid to statutory authorities or other third parties shall not form part of the amount of royalty and technical know-how fee.

(f) Credits or recoveries relating to the amount royalty and technical know-how fee, material and quantifiable, shall be deducted to arrive at the net amount of royalty and technical know-how fee.

(g) Any change in the cost accounting principles applied for the measurement of the amount of royalty and technical know-how fee should be made only if, it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an organisation.

(h) Royalty and technical know-how fee that is directly traceable to a cost object shall be assigned to that cost object. In case such fee is not directly traceable to a cost object then it shall be assigned on any of the following basis, namely:-

i) Units produced;
ii) Units sold; or
iii) Sales value.

(i) The amount of royalty fee paid for mining rights shall form part of the cost of material.

(j) The amount of royalty and technical know-how fee shall be assigned on the nature or purpose of such fee. The amount of royalty and technical know-how fee related to product or process know how shall be treated as cost of production; if it is related to trademarks or brands shall be treated as cost of sales.

11. Research and Development Expenses.-

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

i. The cost of materials and services consumed in research and development activities;

ii. Cost of bought out materials and hired services as per invoice or agreed price including duties and taxes directly attributable thereto net of trade discounts, rebates, taxes and duties refundable or to be credited;

iii. The salaries, wages and other related costs of personnel engaged in research and development activities;

iv. The depreciation of equipment and facilities, and other tangible assets, and amortisation of intangible assets to the extent that they are used for research and development activities;

v. Overhead costs, other than general administrative costs, related to research and development activities;

vi. Costs incurred for carrying out research and development activities by other entities and charged to the entity;

vii. Expenditure incurred in securing copyrights or licences;

viii. Expenditure incurred for developing computer software;

ix. Costs incurred for the design of tools, jigs, moulds and dies; and

x. Other costs that can be directly attributed to research and development activities and can be identified with specific projects.

(b) Subsidy or grant or incentive and any such payment received or receivable with respect to research and development activity shall be reduced from cost of the cost object in the financial year when such subsidy or grant or incentive and any such payment is recognised as income.

(c) Any abnormal cost where it is material and quantifiable shall not form part of the research and development cost.

(d) Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the research and development cost.

(e) Research and development costs shall not include imputed costs.

(f) Credits or recoveries relating to research and development cost, if material and quantifiable, including from the sale of output produced from the research and development activity shall be deducted from the research and development cost.

(g) Research and development costs attributable to a specific cost object shall be assigned to that cost object directly. Research and development costs that are not attributable to a specific product or process shall not form part of the product cost.

(h) Development cost which results in the creation of an intangible asset shall be amortised over its useful life. Assignment of development costs shall be based on the principle of "benefits received".

(i) Research and development costs incurred for the development and improvement of an existing process or product shall be included in the cost of production. In case the research and development activity related to the improvement of an existing process or product continues for more than one accounting period, the cost of the same shall be accumulated and amortised over the estimated period of use of the improved process or estimated period over which the improved product will be produced by the entity after the commencement of commercial production, as the case may be, if the improved process or product is distinctly different from the existing process or product and the product is marketed as a new product. The amount allocated to a particular period shall be included in the cost of production of that period. If the expenditure is only to improve the quality of the existing product or minor modifications in attributes, the principle shall not be applied.

(j) Development costs attributable to a saleable service namely; providing technical know-how to outside parties shall be accumulated separately and treated as cost of providing the service.

12. Quality Control Expenses.-

(a) Adequate records shall be maintained to indicate the expenses incurred in respect of quality control department or cost centre or service centre for goods or services under reference. Where these services are also utilised for other goods or services of the company, the basis of apportionment to goods or services under reference and to other goods or services shall be on equitable and reasonable basis and applied consistently.

(b) Quality control cost incurred in-house shall be the aggregate of the cost of resources consumed in the Quality control activities of the entity. The cost of resources procured from outside shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discounts), taxes and duties refundable or to be credited by the Tax Authorities. Such cost shall include cost of conformance to quality, namely, (a) prevention cost; and (b) appraisal cost.

(c) Identification of quality control costs shall be based on traceability in an economically feasible manner.

(d) Quality control costs other than those referred to above shall be determined on the basis of amount incurred in connection therewith.

(e) Finance costs incurred in connection with the self-generated or procured resources shall not form part of quality control cost.

(f) Quality control costs shall not include imputed costs.

(g) Subsidy or grant or incentive and any such payment received or receivable with respect to any quality control cost shall be reduced from cost of the cost object in the financial year when such subsidy or grant or incentive and any such payment is recognised as income.

(h) Any abnormal portion of the quality control cost where it is material and quantifiable shall not form part of the cost of quality control.

(i) Penalties, damages paid to statutory authorities or other third parties shall not form part of the quality control cost.

(j) Any change in the cost accounting principles applied for the measurement of the quality control cost shall be made only if, it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an organisation.

(k) Quality control cost that is directly traceable to the cost object shall be assigned to that cost object. Assignment of quality control cost to the cost objects shall be based on benefits received by them on the principles, namely:-

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

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

13. Pollution Control Expenses.-

(a) Adequate records shall be maintained to indicate the expenses incurred in respect of pollution control. The basis of apportionment to goods or services under reference and to other goods or services shall be on equitable and reasonable basis and applied consistently.

(b) Pollution Control costs shall be the aggregate of direct and indirect cost relating to Pollution Control activity. Direct cost shall include the cost of materials, consumable stores, spares, manpower, equipment usage, utilities, resources for testing and certification and other identifiable resources consumed in activities such as waste processing, disposal, remediation and others. Indirect cost shall include the cost of resources common to various pollution control activities such as pollution control registration and such like expenses.

(c) Costs of pollution control which are internal to the entity should be accounted for when incurred. They should be measured at the historical cost of resources consumed.

(d) Future remediation or disposal costs which are expected to be incurred with reasonable certainty as part of onerous contract or constructive obligation, legally enforceable shall be estimated and accounted based on the quantum of pollution generated in each period and the associated cost of remediation or disposal in future.

(e) Contingent future remediation or disposal costs *e.g.* those likely to arise on account of future legislative changes on pollution control shall not be treated as cost until the incidence of such costs become reasonably certain and can be measured.

(f) External costs of pollution which are generally the costs imposed on external parties including social costs are difficult to estimate with reasonable accuracy and are excluded from general purpose cost statements.

(g) Social costs of pollution are measured by economic models of cost measurement. The cost by way of compensation by the polluting entity either under future legislation or under social pressure cannot be quantified by traditional models of cost measurement. They are best kept out of general purpose cost statements.

(h) Cost of in-house pollution control activity shall include cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources used in such activity.

(i) Cost of pollution control activity carried out by outside contractors inside the entity shall include charges payable to the contractor and cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other costs incurred by the entity for such jobs.

(j) Cost of pollution control jobs carried out by contractor at its premises shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discount), taxes and duties refundable or to be credited. This cost shall also include the cost of other resources provided to the contractors.

(k) Cost of pollution control jobs carried out by outside contractors shall include charges made by the contractor and cost of own materials, consumable stores, spares, manpower, equipment usage, utilities and other costs used in such jobs.

(l) Each type of pollution control namely, water, air, soil pollution shall be treated as a distinct activity, if material and identifiable.

(m) Finance costs incurred in connection with the pollution control activities shall not form part of pollution control costs.

(n) Pollution control costs shall not include imputed costs.

(o) Price variances related to pollution control, where standard costs are in use, shall be treated as part of pollution control cost. The portion of usage variances attributable to normal reasons shall be treated as part of pollution control cost. Usage variances attributable to abnormal reasons shall be excluded from pollution control cost.

(p) Subsidy or grant or incentive and any such payment received or receivable with respect to pollution control activity shall be reduced from cost of the cost object in the financial year when such subsidy or grant or incentive and any such payment is recognised as income.

(q) Any pollution control cost resulting from abnormal circumstances, if material and quantifiable, shall not form part of the pollution control cost.

(r) Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the pollution control cost.

(s) Credits or recoveries relating to the pollution control activity, material and quantifiable, shall be deducted to arrive at the net pollution control cost.

(t) Research and development cost to develop new process, new products or use of new materials to avoid or mitigate pollution shall be treated as research and

development costs and not included under pollution control costs. Development costs incurred for commercial development of such product, process or material shall be included in pollution control costs.

(u) Any change in the cost accounting principles applied for the measurement of the pollution control cost should be made only if, it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an organisation.

(v) Pollution control costs shall be traced to a cost object to the extent economically feasible.

(w) Direct costs of pollution control such as treatment and disposal of waste shall be assigned directly to the product, where traceable economically.

(x) Where these costs are not directly traceable to the product but are traceable to a process which causes pollution, the costs shall be assigned to the products passing through the process based on the quantity of the pollutant generated by the product.

(y) Where the pollution control cost is not directly traceable to cost object, it shall be treated as overhead and assigned based on either of the following two principles; namely:-

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

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

14. Service Department Expenses.-

(a) Proper records shall be maintained in respect of service departments, that is, cost centres which primarily provides auxiliary services across the enterprise, to indicate expenses incurred in respect of each such service cost centre like engineering, work shop, designing, laboratory, safety, transport, computer cell, welfare and other related centres.

(b) Each identifiable service cost centre shall be treated as a distinct cost object for measurement of the cost of services subject to the principle of materiality.

(c) Cost of service cost centre shall be the aggregate of direct and indirect cost attributable to services being rendered by such cost centre.

(d) Cost of in-house services shall include cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources used in such service.

(e) Cost of other resources shall include related overheads.

(f) Cost of services rendered by contractors within the facilities of the entity shall include charges payable to the contractor and cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources provided to the contractors for such services.

(g) Cost of services rendered by contractors at their premises shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discount), taxes and duties refundable or to be credited. This cost shall also include the cost of resources provided to the contractors.

(h) Cost of services for the purpose of inter unit transfers shall also include distribution costs incurred for such transfers.

(i) Cost of services for the purpose of inter-company transfers shall also include distribution cost incurred for such transfers and administrative overheads.

(j) Cost of services rendered to outside parties shall also include distribution cost incurred for such transfers, administrative overheads and marketing overheads.

(k) Finance costs incurred in connection with the service cost centre shall not form part of the cost of service cost centre.

(l) The cost of service cost centre shall not include imputed costs.

(m) Where the cost of service cost centre is accounted at standard cost, the price and usage variances related to the services cost centre shall be treated as part of cost of services. Usage variances due to abnormal reasons shall be treated as part of abnormal cost.

(n) Subsidy or grant or incentive and any such payment received or receivable with respect to any service cost centre shall be reduced from cost of the cost object in the financial year when such subsidy or grant or incentive and any such payment is recognised as income.

(o) The cost of production and distribution of the service shall be determined based on the normal capacity or actual capacity utilisation whichever is higher and unabsorbed cost, if any, shall be treated as abnormal cost. Cost of a Stand-by service shall include the committed costs of maintaining such a facility for the service.

(p) Any abnormal cost where it is material and quantifiable shall not form part of the cost of the service cost centre.

(q) Penalties, damages paid to statutory authorities or other third parties shall not form part of the cost of the service cost centre.

(r) Credits or recoveries relating to the service cost centre including charges for services rendered to outside parties, material and quantifiable, shall be reduced from the total cost of that service cost centre.

(s) Any change in the cost accounting principles applied for the measurement of the cost of service cost centre shall be made, only if it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an enterprise.

(t) While assigning cost of services, traceability to a cost object in an economically feasible manner shall be the guiding principle.

(u) Where the cost of services rendered by a service cost centre is not directly traceable to a cost object, it shall be assigned on the most appropriate basis.

(v) The most appropriate basis of distribution of cost of a service cost centre to the cost centres consuming services is to be derived from logical parameters which could be related to the usage of the service rendered. The parameter shall be equitable, reasonable and consistent.

15. Packing Expenses.-

(a) Proper records shall be maintained separately for domestic and export packing showing the quantity and cost of various packing materials and other expenses incurred on primary or secondary packing indicating the basis of valuation.

(b) The packing material receipts should be valued at purchase price including duties and taxes, freight inwards, insurance, and other expenditure directly attributable to procurement (net of trade discounts, rebates, taxes and duties refundable or to be credited) that can be quantified at the time of acquisition.

(c) Finance costs directly incurred in connection with the acquisition of packing material shall not form part of packing material cost.

(d) Self-manufactured packing materials shall be valued including direct material cost, direct employee cost, direct expenses, job charges, factory overheads including share of administrative overheads comprising factory management and administration and share of research and development cost incurred for development and improvement of existing process or product.

(e) Normal loss or spoilage of packing material prior to receipt in the factory shall be absorbed in the cost of balance materials net of amounts recoverable from suppliers, insurers, carriers or recoveries from disposal.

(f) The forex component of imported packing material cost shall be converted at the rate on the date of the transaction. Any subsequent change in the exchange rate till payment or otherwise shall not form part of the packing material cost.

(g) Any demurrage, detention charges or penalty levied by the transport agency or any authority shall not form part of the cost of packing materials.

(h) Subsidy or grant or incentive and any such payment received or receivable with respect to packing material shall be reduced from cost of the cost object in the financial year when such subsidy or grant or incentive and any such payment is recognised as income.

(i) Issue of packing materials shall be valued using appropriate method as per the provisions contained in the accounting standard applicable for the time being in force.

(j) Wherever, packing material costs include transportation costs, determination of costs of transportation shall be in accordance with paragraph number 9 on determination of cost of transportation.

(k) Packing material costs shall not include imputed costs.

(l) Where packing materials are accounted at standard cost, the price variances related to such materials shall be treated as part of packing material cost and the portion of usage variances due to normal reasons shall be treated as part of packing material cost. Usage variances due to abnormal reasons shall be treated as part of abnormal cost.

(m) The normal loss arising from the issue or consumption of packing materials shall be included in the packing materials cost.

(n) Any abnormal cost where it is material and quantifiable shall be excluded from the packing material cost.

(o) The credits or recoveries in the nature of normal scrap arising from packing materials if any, should be deducted from the total cost of packing materials to arrive at the net cost of packing materials.

(p) Packing material costs shall be directly traced to a cost object to the extent it is economically feasible.

(q) Where the packing material costs are not directly traceable to the cost object, these may be assigned on the basis of quantity consumed or similar measures like technical estimates.

(r) The packing material cost of reusable packing shall be assigned to the cost object taking into account the number of times or the period over which it is expected to be reused.

(s) Cost of primary packing materials shall form part of the cost of production.

(t) Cost of secondary packing materials shall form part of distribution overheads.

16. Finance Costs.-

(a) Finance costs are interest and other costs incurred by an entity in connection with the financing arrangements and shall be measured in accordance with the accounting standards applicable for the time being in force.

(b) Finance costs incurred shall be identified for-

i) acquisition or construction or production of qualifying assets including fixed assets; and

ii) Other finance costs for production of goods or operations or services rendered which cannot be classified as qualifying assets.

(c) Finance costs directly attributable to the acquisition or construction or production of a qualifying asset shall be included in the cost of the asset.

(d) Finance costs shall not include imputed costs.

(e) Subsidy or grant or incentive and any such payment received or receivable with respect to finance costs shall be reduced from cost of the cost object in the

financial year when such subsidy or grant or incentive and any such payment is recognised as income.

(f) Penal interest for delayed payment, fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the finance costs. In case the company delays the payment of statutory dues beyond the stipulated date, interest paid for delayed payment shall not be treated as penal interest.

(g) Interest paid for or received on investment shall not form part of the finance costs for production of goods or operations or services rendered;

(h) Assignment of finance costs to the cost objects shall be based on either of the following two principles; namely:-

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

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

17. Any other item of Cost.-

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

18. Capacity Determination.-

(a) Capacity shall be determined in terms of units of production or services or equivalent machine or man hours.

(b) Installed capacity is determined based on-

i) Manufacturers' technical specifications;
ii) Capacities of individual or interrelated production centres;
iii) Operational constraints or capacity of critical machines; or
iv) Number of shifts

(c) In case manufacturers' technical specifications are not available, the estimates by technical experts on capacity under ideal conditions shall be considered for determination of installed capacity. In case any production facility is added or discarded the installed capacity shall be reassessed from the date of such addition or discard. In case the same is reassessed as per direction of the Government, it shall be in accordance with the principles laid down in the said directives. In case of improvement in the production process, the installed capacity shall be reassessed from the date of such improvement.

(d) Normal capacity shall be determined vis-a-vis installed capacity after carrying out adjustments for:

i) Holidays, normal shut down days and normal idle time;

ii) Normal time lost in batch change over;

iii) Time lost due to preventive maintenance and normal break downs of equipments;

iv) Loss in efficiency due to ageing of the equipment; or

v) Number of shifts

(e) Capacity utilisation is the actual production measured as a per cent. of installed capacity.

19. Work-in-Progress and Finished Stock.-

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

20. Captive Consumption.-

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

21. By-Products and Joint Products.-

a) Proper records shall be maintained for each item of by-product, if any, produced showing the receipt, issues and balances, both in quantity and value. The basis adopted for valuation of by-product for giving credit to the respective process shall be equitable and consistent and should be indicated in cost records. Records showing the expenses incurred on further processing, if any, and actual sales realisation of by-product shall be maintained. The proper records shall be maintained in respect of credits or recoveries from the disposal of by-products.

b) The cost up to the point of separation of products or services shall be apportioned to joint products or services on reasonable and equitable basis and shall be applied consistently. The basis on which such joint costs are apportioned to different products or services arising from the process shall be indicated in the cost records. Proper records shall be maintained in respect of credits or recoveries from the disposal of joint products or services.

22. Adjustment of Cost Variances.-

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

variances. The method followed for adjusting the cost variances in determining the actual cost of the goods or services shall be indicated clearly in the cost records. The reasons for the variances shall be duly explained in the cost records and statements.

23. Reconciliation of Cost and Financial Accounts.-

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

24. Related Party Transactions.-

(a) "Related party" means related party as defined under clause 76 of section 2 of the Companies Act, 2013 (18 of 2013).

(b) "Normal price" means price charged for comparable and similar products in the ordinary course of trade and commerce where the price charged is the sole consideration of sale and such sale is not made to a related party. Normal price can be construed to be a price at which two unrelated and non-desperate parties would agree to a transaction and where such transaction is not clouded due to the proximity of the parties to the transaction and free from influence though the parties may have shared interest.

(c) The basis adopted to determine normal price shall be classified as under:

i) Comparable uncontrolled price method;
ii) Resale price method;
iii) Cost plus method;
iv) Profit split method;
v) Transactional net margin method; or
vi) Any other method, to be specified.

(d) In respect of related party transactions or supplies made or services rendered by a company to a company termed "related party relationship" and vice-a-versa, records shall be maintained showing contracts entered into, agreements or understanding reached in respect of -

(i) purchase and sale of raw materials, finished goods, rendering of services, process materials and rejected goods including scraps, and other related materials;

(ii) utilisation of plant facilities and technical know-how;

(iii) supply of utilities and any other services;

(iv) administrative, technical, managerial or any other consultancy services;

(v) purchase and sale of capital goods including plant and machinery; and

(vi) any other payment related to the production of goods or rendering of services under reference.

(e) These records shall also indicate the basis followed for arriving at the rates charged or paid for such goods or services so as to enable determination of the reasonableness of such rates in so far as they are in any way related to goods or services under reference.

25. Expenses or Incentives on Exports.-

(a) Proper records showing the expenses incurred on the export sales, if any, of the goods or services under reference shall be separately maintained so that the cost of export sales can be determined correctly. Separate cost statements shall be prepared for goods or services exported giving details of export expenses incurred or incentive earned.

(b) Proper records shall be maintained giving details of export commitments license-wise and the fulfilment of these commitments giving the reasons for non-compliance, if any. In case, duty free imports are made, the cost statements shall reflect this fact. If the duty free imports have been made after actual production, the statement shall reflect this fact also.

26. Production Records.-

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

27. Sales Records.-

Separate details of sales shall be maintained for domestic sales at control price, domestic sales at market price, export sales under advance license, export sales under other obligations, export sales at market price, and sales to related party or inter unit transfer. In case of services, details of domestic delivery or sales at control price, domestic delivery or sales at market price, export delivery or sales under advance license, export delivery or sales under other obligations, export delivery or sales under market price, and delivery or sales to related party or inter unit transfer. Such details shall be maintained separately for each plant or unit wise or service centre wise for total as well as per unit sales realisation.

28. Cost Statements.-

(a) Cost statements (monthly, quarterly and annually) showing quantitative information in respect of each good or service under reference shall be prepared showing details of available capacity, actual production, production as per excise records, capacity utilisation (in-house), stock purchased for trading, stock and other adjustments, quantity available for sale, wastage and actual sale during current financial year and previous year.

(b) Such statements shall also include details in respect of all major items of costs constituting cost of production of goods and services, cost of sales of goods or services and margin in total as well as per unit of the goods and services. The goods or services emerging from a process, which forms raw material or an input

material or service for a subsequent process, shall be valued at the cost of production or cost of service up to the previous stage.

(c) Cost statements (monthly, quarterly and annually) in respect of reconciliation of indirect taxes showing details of total clearances of goods or services, assessable value, duties or taxes paid, CENVAT or VAT or Service Tax credit utilised, duties or taxes recovered and interest or penalty paid.

(d) If the company is operating more than one plant, factory or service centre, separate cost statements as specified above shall be prepared in respect of each plant, factory or service centre.

(e) Any other statement or information considered necessary for suitable presentation of costs and profitability of goods or services produced by the company shall also be prepared.

29. Statistical Records.-

(a) The records regarding available machine hours or direct labour hours in different production departments and actually utilised shall be maintained for production of goods or rendering of services under reference and shortfall suitably analysed. Suitable records for computation of idle time of machines or labour shall also be maintained and analysed.

(b) Proper records shall be maintained to enable company to identify the capital employed, net fixed assets and working capital separately for the production of goods or rendering of services under reference and other goods or services to the extent such elements are separately identifiable. Non-identifiable items shall be allocated on a suitable and reasonable basis to different goods or services. Fresh investments on fixed assets for production of goods or rendering of services under reference that have not contributed to the production of goods or rendering of services during the relevant period or year shall be indicated in cost records. The records shall, in addition, show assets added as replacement and those added for increasing existing capacity.

30. Records of Physical Verification.-

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

Form CRA-3

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

FORM OF THE COST AUDIT REPORT

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

(i) I/We have/have not obtained all the information and explanations, which to the best of my/our knowledge and belief were necessary for the purpose of this audit.

(ii) In my/our opinion, proper cost records, as per rule 5 of the Companies (Cost Records and Audit) Rules, 2014 have/have not been maintained by the company in respect of product(s)/service(s) under reference.

(iii) In my/our opinion, proper returns adequate for the purpose of the Cost Audit have/have not been received from the branches not visited by me/us.

(iv) In my/our opinion and to the best of my/our information, the said books and records give/do not give the information required by the Companies Act, 2013, in the manner so required.

(v) In my/our opinion, the company has/does not have adequate system of internal audit of cost records which to my/our opinion is commensurate to its nature and size of its business.

(vi) In my/our opinion, information, statements in the annexure to this cost audit report gives/does not give a true and fair view of the cost of production of product(s)/rendering of service(s), cost of sales, margin and other information relating to product(s)/service(s) under reference.

(vii) Detailed unit-wise and product/service-wise cost statements and schedules thereto in respect of the product/service under reference of the company duly audited and certified by me/us are/are not kept in the company.

2. Observations and suggestions, if any, of the Cost Auditor, relevant to the cost audit.

Dated: this ____ day of _____ 20__at _____ (mention name of place of signing this report)

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

NOTES:

(1) Delete words not applicable.

(2) If as a result of the examination of the books of account, the Cost Auditor desires to point out any material deficiency or give a qualified report, he or she shall indicate the same against the relevant para (i) to (vi) in the prescribed form of the Cost Audit Report giving details of discrepancies he/she has come across.

(3) The report, suggestions, observations and conclusions given by the Cost Auditor under this paragraph shall be based on verified data, reference to which shall be made here and shall, wherever practicable, be included after the company has been afforded an opportunity to comment on them.

Annexure to the Cost Audit Report
Part-A

1. General Information

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

2. General Details of Cost Auditor

1	Whether cost auditor is lead auditor	
2	Category of cost auditor	
3	Firm's registration number	
4	Name of cost auditor/cost auditor's firm	
5	PAN of cost auditor/cost auditor's firm	
6	Address of cost auditor or cost auditor's firm	
7	Email id of cost auditor or cost auditor's firm	
8	Membership number of member signing report	
9	Name of member signing report	
10	Name(s) of product(s) or service(s) with CETA Headings	

11	SRN number of Form 23C / CRA-2	
12	Number of audit committee meeting attended by cost auditor during year	
13	Date of signing cost audit report and annexure by cost auditor	
14	Place of signing cost audit report and annexure by cost auditor	

3. **Cost Accounting Policy**

(1) Briefly describe the cost accounting policy adopted by the Company and its adequacy or otherwise to determine correctly the cost of production/operation, cost of sales, sales realisation and margin of the product(s)/service(s) under reference separately for each product(s)/service(s). The policy should cover, inter alia, the following areas:

a) Identification of cost centres/cost objects and cost drivers.
b) Accounting for material cost including packing materials, stores and spares, employee cost, utilities and other relevant cost components.
c) Accounting, allocation and absorption of overheads
d) Accounting for Depreciation/Amortisation
e) Accounting for by-products/joint-products or services, scarps, wastage etc.
f) Basis for Inventory Valuation
g) Methodology for valuation of Inter-Unit/Inter Company and Related Party transactions.
h) Treatment of abnormal and non-recurring costs including classification of other non-cost items.
i) Other relevant cost accounting policy adopted by the Company

(2) Briefly specify the changes, if any, made in the cost accounting policy for the product(s)/service(s) under audit during the current financial year as compared to the previous financial year.

(3) Observations of the Cost Auditor regarding adequacy or otherwise of the Budgetary Control System, if any, followed by the company.

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

Name of Product(s) /Service(s)	UOM	*CETA Heading (Wherever applicable)*	Whether Covered under Cost Audit Yes / No	Net Operational Revenue (net of taxes, duties etc.)	
				Current Year Rs.	Previous Year Rs.
1.					
2.					
3.					
4.					
Total Net revenue from Operations					
Other Incomes of Company					
Total revenue as per Financial Accounts					
Exceptional, Extra Ordinary and Other Comprehensive Income, if any					

Total Revenue including Exceptional, Extra Ordinary and Other Comprehensive Income, if any					
Turnover as per Excise/Service Tax Records					

Note:

1) **Explain the difference, if any, between Turnover as per Financial Statements and Turnover as per Excise/Service Tax Records.**

PART-B

FOR MANUFACTURING SECTOR

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

(b) Domestic Sales of Traded Product			
(c) Export Sale of Product			
(d) Export Sale of Traded Product			
(e) Total Quantity Sold			

2. ABRIDGED COST STATEMENT (for each product with CETA Heading separately)

	Name of Product						
	CETA Heading						
	Unit of Measure						
		Production	**Finished Goods Purchased**	**Finished Stock Adjustment**	**Captive Consumption**	**Other Adjustments**	**Quantity Sold**
	Current Year						
	Previous Year						

Sno.	**Particulars**	**Current Year**		**Previous Year**	
		Amount (Rs.)	**Rate per Unit (Rs.)**	**Amount (Rs.)**	**Rate per Unit (Rs.)**
1	Materials Consumed (specify details as per Para 2A)				
2	Process Materials/Chemicals				
3	Utilities (specify details as per 2B)				
4	Direct Employees Cost				
5	Direct Expenses				
6	Consumable Stores and Spares				
7	Repairs and Maintenance				
8	Quality Control Expenses				
9	Research and Development Expenses				
10	Technical know-how Fee / Royalty				
11	Depreciation/Amortisation				
12	Other Production Overheads				
13	Industry Specific Operating Expenses (specify details as per Para 2C)				
14	Total (1 to 13)				
15	Increase/Decrease in Work-in-Progress				
16	Less: Credits for Recoveries, if any				
17	Primary Packing Cost				
18	Cost of Production/Operations (14 + 15 to 17)				
19	Cost of Finished Goods Purchased				
20	Total Cost of Production and Purchases (18 + 19)				
21	Increase/Decrease in Stock of Finished Goods				
22	Less: Self/Captive Consumption (incl. Samples, etc.)				
23	Other Adjustments (if any)				
24	Cost of Production/Operation of Product Sold (20 + 21 to 23)				
25	Administrative Overheads				

26	Secondary Packing Cost				
27	Selling and Distribution Overheads				
28	Cost of Sales before Interest (24 to 27)				
29	Finance Cost				
30	Cost of Sales (28 + 29)				
31	Net Sales Realisation (Net of Taxes and Duties)				
32	Margin [Profit/(Loss) as per Cost Accounts] (31 - 30)				
	NOTES:				
1.	Separate cost statement shall be prepared for each CETA heading representing the product.				
2.	In case the same product has different unit of measure, separate cost statement shall be provided for different unit of measures.				
3.	The items of cost shown in the Proforma are indicative and the same shall be reflected keeping in mind the materiality of the item of cost in the product. The Proforma may be suitably modified to meet the requirement of the industry/product.				
4.	In case the company follows a pre-determined or standard costing system, the above cost statement shall reflect figures at actuals after adjustment of variances, if any.				

2A. Details of Materials Consumed								
Name of Product								
CETA Heading								
Description of Material	**Category**	**UOM**	**Current Year**			**Previous Year**		
			Quantity	**Rate per Unit (Rs.)**	**Amount**	**Quantity**	**Rate per Unit (Rs.)**	**Amount**
1.								
2.								
3.								
4.								
5.								
6.								
7.								
8.								
9.								
10.								
Category: Indigenous/ Imported/ Self Manufactured								

2B. Details of Utilities Consumed							
Name of Product							
CETA Heading							
Description of Material	**UOM**	**Current Year**			**Previous Year**		
		Quantity	**Rate per Unit (Rs.)**	**Amount**	**Quantity**	**Rate per Unit (Rs.)**	**Amount**
1.							

2.							
3.							
4.							
5.							
6.							
7.							
8.							
9.							
10.							

2C. Details of Industry Specific Operating Expenses		
Name of Product		
CETA Heading		
Description of Industry Specific Operating Expenses	Current Year	Previous Year
	Amount	Amount
1.		
2.		
3.		
4.		
5.		
6.		
7.		
8.		
9.		
10.		

PART-C

FOR SERVICE SECTOR

1. QUANTITATIVE INFORMATION (for each service separately)			
Name of Service			
Service Code (if applicable)			
Particulars	Unit of Measurement	Current Year	Previous Year
1. Available Capacity			
(a) Installed Capacity			
(b) Capacity enhanced during the year, if any			
(c) Total available Capacity			
2. Actual Services Provided			
(a) Own Services			
(b) Services under contractual arrangements			
(c) Outsourced Services			

(d) Total Services			
3. Total Services provided as per Service Tax Records			
4. Capacity Utilisation (in-house)			
5. Actual Sales			
(a) Services rendered – Domestic			
(b) Services rendered – Export			
(c) Total Services Rendered			

2. ABRIDGED COST STATEMENT (for each service separately)					
Name of Service					
Service Code (if applicable)					
Unit of Measure					
		Services Provided	**Captive Consumption**	**Other Adjustments**	**Services rendered**
	Current Year				
	Previous Year				

Sn o.	**Particulars**	**Current Year**		**Previous Year**	
		Amou nt (Rs.)	**Rate per Unit (Rs.)**	**Amount (Rs.)**	**Rate per Unit (Rs.)**
1	Materials Consumed (specify details as per Para 2A)				
2	Utilities (specify details as per Para 2B)				
3	Direct Employees Cost				
4	Direct Expenses				
5	Consumable Stores and Spares				
6	Repairs and Maintenance				
7	Quality Control Expenses				
8	Research and Development Expenses				
9	Technical know-how Fee / Royalty				
10	Depreciation/Amortisation				
11	Other Overheads				
12	Industry Specific Operating Expenses (specify details as per Para 2C)				
13	Total (1 to 12)				
14	Less: Credits for Recoveries, if any				
15	Cost of Services provided (13 - 14)				
16	Cost of Outsourced/Contractual Services				
17	Total Services available				
18	Less: Self/Captive Consumption				
19	Other Adjustments (if any)				
20	Cost of Services Sold (17 – 18 + 19)				
21	Administrative Overheads				

22	Selling and Distribution Overheads				
23	Cost of Sales before Interest (20+21+22)				
24	Finance Cost				
25	Cost of Sales (23 + 24)				
26	Net Sales Realisation (Net of Taxes and Duties)				
27	Margin [Profit/(Loss) as per Cost Accounts] (26 - 25)				

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

2A. Details of Materials Consumed

Name of Service	
Service Code (if applicable)	

Description of Material	Category	UOM	Current Year			Previous Year		
			Quantity	Rate per Unit (Rs.)	Amount	Quantity	Rate per Unit (Rs.)	Amount
1.								
2.								
3.								
4.								
5.								
6.								
7.								
8.								
9.								
10.								

Category: Indigenous/ Imported/ Self Manufactured

2B. Details of Utilities Consumed

Name of Service	
Service Code (if applicable)	

Description of Material	UOM	Current Year			Previous Year		
		Quantity	Rate per Unit (Rs.)	Amount	Quantity	Rate per Unit (Rs.)	Amount
1.							

2.							
3.							
4.							
5.							
6.							
7.							
8.							
9.							
10.							

2C. Details of Industry Specific Operating Expenses		
Name of Service		
Service Code (if applicable)		
Description of Industry Specific Operating Expenses	Current Year	Previous Year
	Amount	Amount
1.		
2.		
3.		
4.		
5.		
6.		
7.		
8.		
9.		
10.		

PART-D

1. PRODUCT AND SERVICE PROFITABILITY STATEMENT (for audited products/services)

Sn o.	Particulars	Current Year			Previous Year		
		Sales Rs.	Cost of Sales Rs.	Margin Rs.	Sales Rs.	Cost of Sales Rs.	Margin Rs.
	Product 1						
	Product 2						
	Product 3						
	..... etc.						
	Service 1						
	Service 2						
	Service 3						
	..... etc.						
	Total						

2. PROFIT RECONCILIATION (for the company as a whole)			
Sno.	**Particulars**	**Current Year Rs.**	**Previous Year Rs.**
1	Profit or Loss as per Cost Accounting Records		
	(a) For the audited product(s)/service(s)		
	(b) For the un-audited product(s)/service(s)		
2	Add: Incomes not considered in cost accounts (specify details)		
	a)		
	b)		
	c)		
	d)		
	e)		
	f)		
	g)		
	h)		
	i)		
	j)		
3	Less: Expenses not considered in cost accounts (specify details)		
	a)		
	b)		
	c)		
	d)		
	e)		
	f)		
	g)		
	h)		
	i)		
	j)		
4	Difference in Valuation of stock between financial accounts and cost accounts		
5.	Other adjustments, if any		
6	Profit or Loss as per Financial Accounts (excluding Other Comprehensive Income for companies following Ind AS)		
Note: Show abnormal wastages, expenses on strikes/lock-outs and any other items of expenses or incomes of abnormal nature etc. not considered in cost separately			

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

Sno.	Particulars	Current Year Rs.	Previous Year Rs.
	Value Addition:		
1	Gross Sales (excluding sales returns)		
2	Less: Excise duty, etc.		
3	Net Sales		
4	Add: Export Incentives		
5	Add/Less: Adjustment in Finished Stocks		
6	Less: Cost of bought out inputs		
	(a) Cost of Materials Consumed		
	(b) Process Materials / Chemicals		
	(c) Consumption of Stores and Spares		
	(d) Utilities (e.g. power and fuel)		
	(e) Others, if any		
	Total Cost of bought out inputs		
7	Value Added		
8	Add: Income from any other sources		
9	Add: Exceptional, Extra Ordinary and Other Comprehensive Income, if any		
10	Earnings available for distribution		
	Distribution of Earnings to:		
1	Employees as salaries and wages, retirement benefits, etc.		
2	Shareholders as dividend		
3	Company as retained funds		
4	Government as taxes (specify)		
5	Exceptional and Extra Ordinary Expenses, if any		
6	Others, if any (specify)		
7	Total distribution of earnings		

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

Sno.	Particulars	Units	Current Year	Previous Year
A.	**Financial Position**			
1	Share Capital (see Note 1)			
2	Reserves and Surplus (see Note 1)			
3	Long Term Borrowings (see Note 1)			
4	(a) Gross Fixed Assets			
	(b) Net Fixed Assets (see Note 1)			
5	(a) Current Assets			

	(b) Less: Current Liabilities			
	(c) Net Current Assets			
6	Capital Employed (see Note 2)			
7	Net Worth (see Note 3)			
B.	**Financial Performance**			
1	Value Added			
2	Net Revenue from Operations of Company			
3	Profit before Tax (PBT)			
C.	**Profitability Ratios**			
1	PBT to Capital Employed (B3/A6)	%		
2	PBT to Net Worth (B3/A7)	%		
3	PBT to Value Added (B3/B1)	%		
4	PBT to Net revenue from Operations (B3/B2)	%		
D.	**Other Financial Ratios**			
1	Debt-Equity Ratio			
2	Current Assets to Current Liabilities			
3	Valued Added to Net Revenue from Operations	%		
E.	**Working Capital Ratios**			
1	Raw Materials Stock to Consumption	Months		
2	Stores and Spares to Consumption	Months		
3	Finished Goods Stock to Cost of Sales	Months		

Notes:

1) In this table, in case of companies to which Indian Accounting Standards apply:
   a) Share Capital shall mean 'Equity Share Capital'
   b) Reserves and Surplus shall mean 'Other Equity.'
   c) Long Term Borrowings shall mean 'Borrowing under Non-Current Liabilities'
   d) Net Fixed Assets shall mean the sum total of 'Property, Plant and Equipment', 'Capital Work in Progress', 'Goodwill', 'Other intangible assets', 'Intangible assets under development' and 'Biological assets other than bearer plants'.

2) Capital Employed means average of Net fixed assets (excluding effect of revaluation) plus Non-current investments and net current assets existing at the beginning and close of the financial year.

3) Net Worth is as defined under clause (57) of section 2 of the Companies Act, 2013.

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

Sno.	Name and Address of the Related Party	Name of the Product / Service	Nature of Transaction (Sale, Purchase etc.)	Quantity	Transfer Price	Amount	Normal Price	Basis adopted to determine the Normal Price
1								
2								
3								
4								
5								

6			-					
7								
8								
9								
10								

NOTES:

1) Details should be furnished for each Related Party and Product /Service separately.

2) Details of Related Party transactions without indicating the Normal Price and the basis thereof shall be considered as incomplete information.

6. Reconciliation of Indirect Taxes (for the Company as a whole)

	Particulars	Assessable Value Rs.	Excise Duty Rs.	Service Tax Rs.	Cess and Others Rs.	VAT Rs.
	Duties/Taxes Payable					
	Excise Duty					
1	Domestic					
2	Export					
3	Stock Transfers (Net)					
4	Duty Free Clearance, Others etc.					
5	**Total Excise Duty (1 to 4)**					
6	Service Tax					
7	VAT, CST etc.					
8	Other State Taxes, if any					
9	**Total Duties / Taxes Payable (5 to 8)**					
	Duties/Taxes Paid					
10	Cenvat/VAT Credit Utilised - Inputs					
11	Cenvat/VAT Credit Utilised - Capital Goods					
12	Cenvat/VAT Credit Utilised - Input Services					
13	Cenvat/VAT Credit Utilised - Others					
14	Total (10 to 13)					
15	Paid through PLA/Cash					
16	Total Duties/Taxes Paid (14 + 15)					
17	Duties/Taxes Recovered					
18	Difference between Duties/Taxes Paid and Recovered					
19	Interest/Penalty/Fines Paid					
Note: Provide separate amounts in notes in respect of Item 4 above.						

SIGNATURE
NAME

SIGNATURE
NAME

SIGNATURE
NAME

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

Notes:

(1) Wherever, there is any significant variation in the current year's figure over the previous year's figure for any item shown under each para of the Annexure to the Cost Audit Report, reasons thereof shall be given by the Cost Auditor.

(2) Wherever, duration of the current year or the previous year is not twelve months, same shall be clearly indicated in the report."

[F.No. 1/40/2013-CL-V]

7/12/17

AMARDEEP SINGH BHATIA,
Joint Secretary, Government of India

Explanatory Memorandum: It is certified that no person is being adversely affected by giving retrospective effect to this notification. The proposed amendments have been made on account of amendments made in the Companies (Indian Accounting Standards) Rules, 2015.

Note.- The principal rules were published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i), *vide* number G.S.R. 425 (E), dated the 30th June, 2014 and amended *vide* number G.S.R. 01(E), dated the 31st December, 2014 and *vide* number G.S.R. 486 (E), Dated the 12th June, 2015 and *vide* number G.S.R. 695 (E), dated the 14th July, 2016.