



Frequently Asked Questions on **Cost Accounting Records Rules, 2011 and** **Companies (Cost Audit Report) Rules 2011**

FAQ - 6
09.03.2012

6.1 What is the effective financial year from which Cost Audit Order No. 52/26/CAB-2010 dated 24th January 2012 will be applicable?

The Cost Audit Order No. 52/26/CAB-2010 dated 24th January 2012 will be applicable on a company engaged in industry/activity listed in the order in respect of each of its financial year commencing on or after 1st April, 2012.

Examples:

- a) A company under company specific cost audit order having financial year 1st April to 31st March. The company will be subject to cost audit till financial year ending 31st March 2012 under company specific cost audit order and from financial year 2012-13, the company will be subject to cost audit under industry specific order.
- b) A company under company specific cost audit order having financial year 1st January to 31st December. The company will be subject to cost audit till financial year ending 31st December 2012 under company specific cost audit order and from financial year commencing on 1st January 2013, the company will be subject to cost audit report under industry specific order.

In both the above cases, the company should meet the threshold limits as prescribed (Regulated Industry or Non-Regulated Industry) at the time of first application of industry specific cost audit order.

6.2 Cost Audit has been prescribed for an Industry corresponding to the relevant Chapter Heading of the Central Excise Tariff Act, 1985 (CETA). The same Chapter Heading has been notified under different Industry. How to decide under which Industry the product of the company is to be categorized?

The categorization of a product under a particular industry will follow the General Rules for the Interpretation of the First Schedule of CETA 1985.

6.3 A company manufactures different types of Ball Valves, Controlled Valves and Actuator and their turnover is more than threshold limit as defined in Cost Audit Order No. 52/26/CAB-2010 dated 24th January 2012. These products are covered under excise chapter heading 84. In the opinion of company cost audit on "Valves" are not covered since the said Cost Audit Order mentions "Engineering Machinery" and Valve is not a machinery. Is the said interpretation correct?

The term "Engineering Machinery" has to be read in the context of inclusive items like "Electrical and Electronic Products". Accordingly, the term "Engineering Machinery" would include all engineering products including valves, controlled valves and actuator covered under Chapter 84 & 85 of Central Excise Tariff Act 1985.

6.4 According to cost audit order dated 24th January 2012 certain specific industries are required to get cost records audited applicable from 1st April 2012. This order also covers intermediate and



Frequently Asked Questions on **Cost Accounting Records Rules, 2011 and** **Companies (Cost Audit Report) Rules 2011**

FAQ - 6
09.03.2012

allied products related to Packaged Food Industries. Whether a supplier of packaging material like tin containers, cartons, bottle, pouches etc. are also covered under cost audit in terms of above notification?

Packing material manufacturing company may be covered under cost audit as articles of the input material used for manufacture of the packing material. For example, Paper Cartons/Boxes cleared under Chapter 48 is covered under cost audit vide cost audit order dated 30th June 2011.

6.5 Whether packaged food manufacturing companies as recently covered under Cost Audit also include packaged food products like rice, flour, salt, haldi, mirch, spices, tomato sauce, butter, desi ghee, tea, coffee, cold drinks, juice, mineral water, namkeens, biscuits, bread, rusks, and other various packaged food products like chips, chocolates etc.?

If the above products are covered under the relevant excise chapters of Central Excise Tariff Act, 1985, then the cost audit will be applicable under the packaged food products provided the company meets the threshold limit prescribed in the cost audit order. However, Tea/Coffee (packet and blended including instant tea) are considered to be Plantations Products.

6.6 Whether sugar manufacturing companies using the word 'cooperative' and Ltd. in the last of their names are also covered under cost audit report rules?

Cost Audit is applicable to companies registered under the Companies Act 1956. The word "Cooperative" may be a part of the name of a company registered under the Companies Act 1956 in which case the company would be covered under CARR and cost audit depending on its product/activity. However, organisations not registered under the Companies Act 1956 would be outside the purview of CARR and cost audit.

6.7 Whether industries related to manufacturing of HUPS Inverter & electronic energy meter are covered under cost audit order dated 24th January 2012? Also whether Generators/Transformers are covered under cost audit?

Companies engaged in manufacturing of Engineering Products (including electrical & electronic products) covered under Chapters 84 and 85 of the Central Excise Tariff Act 1985 are covered under cost audit vide cost audit order dated 24th January 2012.

6.8 Cost Audit Order dated 24th January 2012 says that all company specific orders issued prior to 31st March 2011 have been withdrawn from the financial year commencing on or after 1st April 2012. Whether cost audit is applicable wherever industry specific orders are issued or for all the company specific orders issued earlier? What would be the status of cost audit in respect of company specific orders issued earlier on companies engaged in Soaps, Detergents or Toiletries or Footwears?

1. All company specific cost audit orders issued to individual companies prior to 31st March, 2011 stand withdrawn with effect from the financial year commencing on or after the 1st day of April, 2012.



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

FAQ - 6
09.03.2012

2. All companies who were earlier issued company specific orders prior to 31st March, 2011 but are later covered either by any of the industry specific orders dated 2nd May 2011 or 30th June 2011 or 24th January 2012 [subject to their meeting with the qualifying criteria mentioned therein] shall now comply with the industry specific orders, as applicable, replacing the earlier company specific order.
3. Companies engaged in product/activity not listed in any of the orders dated 2nd May 2011 or 30th June 2011 or 24th January 2012 will be outside the purview of cost audit after 1st April 2012 even if the company was earlier under company specific cost audit.

The list of industries/activities for which cost audit is now applicable after 24th January 2012 is given in [Annexure-1 \(Page-1\)](#) and [Annexure-1 \(Page-2\)](#).

6.9 Whether Ready Made Garments and textile articles like sewing thread are covered under Cost Audit?

All products including intermediate products and articles or allied products of the industries covered under cost audit orders dated 2nd May 2011, 30th June 2011 and 24th January 2012 are covered under cost audit. Products falling under Chapter references mentioned in the orders are to be considered against the respective industry as applicable.

6.10 Whether automotive parts used in 4 wheeled Motor Vehicles are covered or all automotive components including automotive parts for 2/3 wheelers are also covered under the cost audit?

Motor Vehicle is a mechanically propelled vehicle adapted for use upon roads and includes a chassis to which a body has not been attached and a trailer. Therefore, motor vehicles includes 2 or more wheelers and components for all such motor vehicles are covered under cost audit. Automotive Components falling under Chapters 84, 85 & 87 used for motor vehicles are covered under cost audit.

6.11 Whether film industry like film producing companies/studios registered under Indian Companies Act covered under Companies (Cost Accounting Records) Rules, 2011?

Companies (Cost Accounting Records) Rules, 2011 is applicable to developing, fixing, and washing exposed photographic or cinematographic film or paper to produce either a negative image or a positive image. In case a film producing company is also engaged in these activities, the same would be covered.

6.12 Whether readymade garment manufacturing companies exporting garments to overseas countries are covered under CARR and cost audit.

Readymade garment manufacturing company meeting the threshold limit will be covered under the Companies (Cost Accounting Records) Rules 2011 and are required to maintain cost accounting records. The company would also be covered under cost audit as per cost audit order dated 24th



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

FAQ - 6
09.03.2012

January 2012 provided it is not a 100% EOU that have been exempted from cost audit only as per MCA General Circular No. 67/2011 dated 30th November 2011. In case the company is exempted from cost audit, the company will be required to file a Compliance Report.

- 6.13 In the industry specific cost audit orders dated 2nd May 2011, 30th June 2011 and 24th January 2012 same chapters are mentioned against different industries. For example, Chapter 38 against Cement, Insecticides, Organic & Inorganic Chemicals; Chapter 12 & 15 against Edible Oils & Packaged Food products; Chapters 17 & 22 against Sugar & Packaged Food Products; Chapter 27 against Petroleum Products & Coal/Lignite; Chapters 29 & 30 against Pharmaceuticals and Organic & Inorganic Chemicals; Chapter 40 against Plantation Products and Tyres & Tubes; Chapters 84 & 85 against Tractors & Motor Vehicles and Engineering Products. What is the reason for duplication of Chapter Headings in multiple Industries?**

The Industry referred to in the respective cost audit orders are subject to cost audit. The product/activity of the industry is identified with reference to Chapter Heading of the Central Excise Tariff Act, 1985. Only such items falling under the relevant chapter(s) of the Central Excise Tariff Act, 1985 constituting intermediate or final or allied products of the industry mentioned in the respective Cost Audit Orders are covered under cost audit. In case of few Chapters, products of different industries are covered under the same Chapter Heading and consequently there is repeat reference of CETA Chapter Headings in multiple industries.

- 6.14 A Company is manufacturing Asbestos sheets and using less than 50% of cement as an input. The product is covered under Chapter 25 of the Central Excise Tariff Act, 1985. Is Cost Audit applicable to Asbestos sheets?**

As per MCA General Circular No. 67/2011 dated 30th November 2011 the words “articles or allied products thereof” refer to such articles or allied products that are produced either wholly or predominantly [not less than 50% by weight or volume] by using the listed products as their primary inputs. In this case, Cement is the product under cost audit which is used as an input. Since Asbestos contains less than 50% of Cement, it will not be covered under cost audit as an allied product of Cement.

- 6.15 A Company is manufacturing Cast Iron Casting and SG Iron Castings in foundry unit which are cleared under Chapter 73 of Central Excise Tariff Act 1985. The products are treated as Iron articles and not steel articles. The predominant input for the manufacture of the same is MS Scrap, Pig Iron. Whether covered for Cost Audit under order dated 30/06/2011?**

Steel Industry referred to in cost audit order dated 30th June 2011 includes iron, pig iron, sponge iron etc. Since Cast Iron and SG Castings are iron/steel products and is cleared under Chapter 73 of Central Excise Tariff Act 1985, the same would be covered under cost audit.

- 6.16 An Automotive Industry is manufacturing multiple products like rear-view mirror, aluminum panels etc. for motor vehicles. The finished products of the Company are covered under**



Frequently Asked Questions on **Cost Accounting Records Rules, 2011 and** **Companies (Cost Audit Report) Rules 2011**

FAQ - 6
09.03.2012

Chapters 70, 72, 76, 84, 85 and 87 of Central Excise Tariff Act 1985 (CETA). The inputs are glass, steel, aluminum etc. which are covered under cost audit. Whether the automotive components manufactured by the Company would be treated as products of glass, steel or aluminum, as the case may be or will the components be treated as Automotive Components and covered under cost audit order dated 24th January 2012.

As per the cost audit order dated 24th January 2012, all automotive components, irrespective of the input material and/or the CETA Chapter under which it is cleared, are classified as automotive components and covered under cost audit from the financial year commencing on or after 1st April 2012.

- 6.17 MCA General Circular No. 67/2011 dated 30th November 2011 mentions that the Cost Audit Orders No. 52/26/CAB-2010 dated 2nd May, 2011 and 30th June, 2011 will not be applicable to 100% Export Oriented Unit. The Unit is clearing its goods in the domestic market after taking necessary approval from the Excise Authorities. In this case, whether cost audit is applicable, since the unit is clearing goods for domestic market. Since Cost Audit to 100% EOU is not applicable in terms of said General Circular, is there any exemption from maintenance of Cost Accounting Records?**

A company having multiple industrial units, out of which one or more are approved as 100% EOU, is required to have distinct identities of domestic units and 100% EOUs with separate accounts (Policy given in Chapter-6 Foreign Trade Policy). As per the Policy, 100% EOUs are allowed to sell a fixed percentage of sales in the Domestic Tariff Area (DTA) within permissible approved limits.

If the 100% EOU is functioning within the permissible approved limits, the Unit will be exempted from cost audit as per MCA General Circular No. 67/2011 dated 30.11.2011 but not exempted under Companies (Cost Accounting Records) Rules, 2011 and hence would be required to file a Compliance Report.

The unit not qualifying as 100% EOU will be covered under cost audit subject to the Company meeting the threshold criteria mentioned in the applicable cost audit order.

- 6.18 The MCA General Circular No. 67/2011 dated 30th November 2011 is applicable to Companies (Cost Accounting Records) Rules, 2011 as well as industry specific Cost Accounting Records Rules for Telecommunication, Petroleum, Electricity, Sugar, Fertilizer and Pharmaceutical industries. As per the Circular, cost accounting records rules are not applicable to**

- (a) wholesale or retail trading activities; and**
- (b) job work operations wherein the company is paid only the job work or conversion charges.**

What is the applicability of the Rules for the principal manufacturer vis-a-vis a job worker?

The MCA General Circular No. 67/2011 dated 30th November 2011 is clarified under different scenarios as follows:



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

FAQ - 6
09.03.2012

Scenario 1:

Company 'A' supplies materials (self-manufactured or procured) to Company 'B' for conversion and pays conversion/job work charges for job work operations.

OR

Company 'B' procures materials on behalf of Company 'A' and does the job work operation. Company 'A' pays conversion/job work charges and also reimburses Company 'B' for materials procured.

The production may be cleared by Company 'B' by paying Excise Duty on behalf of Company 'A' which is reimbursed by Company 'A'. The production is recorded in the books of Company 'A'. Company 'B' may or may not be distributing the final product directly to the consumer on behalf of Company 'A'.

Company 'A' will be covered under the cost accounting records rules. Company 'B' engaged in job work operations without the use of own materials and receiving only job work or conversion charges is not covered under the cost accounting records rules.

Scenario 2:

Company B manufactures the product with the use of own materials (self-manufactured or procured) and sells to Company A. Company A sells it to the consumers under its own Brand name. In the process, Company A incurs brand building expenses, selling and distribution expenses and other overheads. Company B may or may not be distributing the final product directly to the consumer on behalf of Company A.

Company B, being the manufacturer, will be covered under the cost accounting records rules. Company A will also be covered under cost accounting records rules since the company is undertaking brand building operations and is doing value addition to the product while selling to the ultimate consumer as a unique product.

Scenario 3:

Company B manufactures the product with the use of own materials (self-manufactured or procured) and sells to Company A. Company A sells it to the consumers as it is, i.e., without any further value addition.

Company B, being the manufacturer, will be covered under the cost accounting records rules. Company A being a pure trader will not be covered under cost accounting records rules.

Notes:

- a) In all the above cases, "cost accounting records rules" means Companies (Cost Accounting Records) Rules 2011 or any of the cost accounting records rules notified for 6 Regulated Industries.
- b) The applicability will depend on the companies meeting the threshold limits prescribed in the Rules.



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

FAQ - 6
09.03.2012

6.19 It has been clarified that a captive generating plant as defined under Electricity Rules 2005 is not covered under cost audit. What would be the different situations in a multi-product company having its own generating plant regarding applicability of Compliance Report and Cost Audit?

Situation	Applicability of Cost Audit
Company engaged in: Product A: Under Cost Audit Product B: Under Cost Audit Own Generation of Electricity: 100% consumed for production of Products A and B	Cost audit report to be filed for Product A and Product B. No Compliance Report to be filed.
Company engaged in: Product A: Under Cost Audit Product B: Not under Cost Audit Own Generation of Electricity: 100% consumed for production of Products A and B	Cost Audit Report to be filed for Product A. Compliance Report to be filed for the company as a whole.
Company engaged in: Product A: Not under Cost Audit Product B: Not under Cost Audit Own Generation of Electricity: 100% consumed for production of Products A and B	Compliance Report to be filed for the company as a whole
Company engaged in: Product A: Under Cost Audit Product B: Under Cost Audit Own Generation of Electricity: Generating Plant deemed to be captive generating plant as per Electricity Rules and part of generation is sold outside.	Cost audit report to be filed for Products A and B. Compliance Report to be filed for the company as a whole
Company engaged in: Product A: Under Cost Audit Product B: Cost Audit is applicable but consumed exclusively for production of Product A Own Generation of Electricity: 100% consumed for production of Products A and B	Cost Audit Report to be filed for Product A. No separate cost audit report to be filed for Product B. No Compliance Report to be filed.



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

FAQ - 6
09.03.2012

Situation	Applicability of Cost Audit
<p>Company engaged in:</p> <p>Product A: Not under Cost Audit</p> <p>Product B: Under Cost Audit but the product is consumed exclusively for production of Product A</p> <p>Own Generation of Electricity: 100% consumed for production of Products A and B</p>	<p>Cost Audit Report to be filed for Product B.</p> <p>Compliance Report to be filed for the company as a whole.</p>
<p>Company engaged in:</p> <p>Product A: Under Cost Audit</p> <p>Product B: Cost Audit is applicable but consumed exclusively for production of Product A</p> <p>Own Generation of Electricity: Generating Plant deemed to be captive generating plant as per Electricity Rules and part of generation is sold outside.</p>	<p>Cost Audit Report to be filed for Product A.</p> <p>No separate cost audit report to be filed for Product B.</p> <p>Compliance Report to be filed for the company as a whole.</p>
<p>Company engaged in:</p> <p>Product A: Under Cost Audit</p> <p>Product B: Under Cost Audit</p> <p>Own Generation of Electricity: Generating Plant is not a captive generating plant as per Electricity Rules.</p>	<p>Cost audit report to be filed for Product A, Product B and Electricity Generation Activity.</p> <p>No Compliance Report to be filed.</p>
<p>Company engaged in:</p> <p>Product A: Under Cost Audit</p> <p>Product B: Not under Cost Audit</p> <p>Own Generation of Electricity: Generating Plant is not a captive generating plant as per Electricity Rules.</p>	<p>Cost audit report to be filed for Product A and Electricity Generation Activity.</p> <p>Compliance Report to be filed for the company as a whole.</p>
<p>Company engaged in:</p> <p>Product A: Not under Cost Audit</p> <p>Product B: Not under Cost Audit</p> <p>Own Generation of Electricity: Generating Plant is not a captive generating plant as per Electricity Rules and part of electricity is sold outside. The revenue from sale of electricity is less than 2% of the total turnover of the company, which is also less than Rs. 20 crores.</p>	<p>No Cost audit report for Product A, Product B and Electricity Generation Activity.</p> <p>Compliance Report to be filed for the company as a whole.</p> <p>Electricity Generation Activity is deemed to be an ancillary activity and would be reported in Compliance Report as a part of miscellaneous group.</p>



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

FAQ - 6
09.03.2012

Situation	Applicability of Cost Audit
<p>Company engaged in:</p> <p>Product A: Not under Cost Audit</p> <p>Product B: Not under Cost Audit</p> <p>Own Generation of Electricity: Generating Plant is not a captive generating plant as per Electricity Rules and part of electricity is sold outside. The revenue from sale of electricity</p> <p>is more than 2% of the total turnover of the company or the revenue is more than Rs. 20 crores.</p>	<p>No Cost audit report for Product A and Product B.</p> <p>Cost Audit report to be filed for Electricity Generation activity.</p> <p>Compliance Report to be filed for the company as a whole.</p>



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

FAQ - 6
09.03.2012

[Annexure-1 \(Page-1\)](#)

List of Industry/Activity under Cost Audit as on date
Effective on all Companies having turnover of Rs. 20 crores or more or having net worth of Rs. 5 crore or
listed or getting listed in any Stock Exchange

S.No.	Name of the Industry	Description of Activity and Relevant Chapter Heading of the Central Excise Tariff Act, 1985	Effective from Financial Year commencing
1.	Telecommunication Industry	Act, process, procedure, function, operation, technique, treatment or method employed in relation to telecasting, broadcasting, telecommunicating voice, text, picture, information, data or knowledge through any mode or medium	1 st April 2011
2.	Petroleum Industry	Chapter 27 of CETA 1985 or Production, processing, manufacturing or mining of crude oil, gases [including Natural Gas, Compressed Natural Gas, Liquefied Petroleum Gas and regasified gases, etc. as defined in the Petroleum and Natural Gas Regulatory Board Act, 2006 (19 of 2006)] or Biogas or any other petroleum products	1 st April 2011
3.	Electricity Industry	Generation of electricity from any source of energy, and includes transformation, transmission, distribution, and/or supply of electricity by any mode, or medium	1 st April 2011
4.	Sugar Industry	Chapters 17 and 22 of CETA 1985 or Production, processing, or manufacturing of any form or grade of sugar, molasses, or alcohol (including ethyl alcohol, rectified spirit, absolute alcohol, denatured alcohol, power alcohol, or solvent blends etc. but excluding potable alcohol) by using any raw materials	1 st April 2011
5.	Fertilizer Industry	Chapter 31 of CETA 1985 or Fertilizers as defined in clause (h) of Section 2 of the Fertilizer (Control) Order, 1985 made under Section 3 of the Essential Commodities Act, 1955 (10 of 1955)	1 st April 2011
6.	Pharmaceutical Industry	Chapters 29 and 30 of CETA 1985 or Production, processing, or manufacturing of bulk drugs or formulations and includes the meaning assigned to them under the Drugs (Prices Control) Order 1995	1 st April 2011



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

FAQ - 6
09.03.2012

[Annexure-1 \(Page-2\)](#)

List of Industry/Activity under Cost Audit as on date
Effective on all Companies having turnover of Rs. 100 crores or more or listed or getting listed in any
Stock Exchange

SNo.	Name of the Industry	Description of Activity and Relevant Chapter Heading of the Central Excise Tariff Act, 1985	Effective from Financial Year commencing
7.	Cement	Chapter 25, 38 and 68 of CETA 1985	1 st April 2011
8.	Tyres & Tubes	Chapter 40 of CETA 1985	1 st April 2011
9.	Steel	Chapter 72 and 73 of CETA 1985	1 st April 2011
10.	Paper	Chapter 47 and 48 of CETA 1985	1 st April 2011
11.	Insecticides	Chapter 38 (includes all classes of Insecticides as defined under clause (e) of section 3 of the Insecticides Act, 1986 (46 of 1968) and included in the schedule annexed to the said Act and as amended from time to time.	1 st April 2011
12.	Glass	Chapter 70 of CETA 1985	1 st April 2011
13.	Paints & Varnishes	Chapter 32 of CETA 1985	1 st April 2011
14.	Aluminum	Chapter 76 of CETA 1985	1 st April 2011
15.	Jute, Cotton, Silk, Woolen or Blended Fibers/Textiles	Chapters 50 to 63 of CETA 1985	1 st April 2012
16.	Edible Oil Seeds and Oils (including vanaspati)	Chapters 12 and 15 of CETA 1985	1 st April 2012
17.	Packaged Food Products	Chapters 2 to 25 (except Chapters 5, 6, 14, 23 and 24) of CETA 1985	1 st April 2012
18.	Organic & Inorganic Chemicals	Chapters 28, 29, 32, 38 and 39 of CETA 1985	1 st April 2012
19.	Coal & Lignite	Chapter 27 of CETA 1985	1 st April 2012
20.	Mining & Metallurgy of Ferrous & Non-Ferrous Metals	Chapters 26 and 74 to 83 (except Chapters 76 and 77) of CETA 1985	1 st April 2012
21.	Tractors & other Motor Vehicles (incl. automotive components)	Chapters 84, 85 and 87 of CETA 1985	1 st April 2012
22.	Plantation Products	Chapters 8, 9, 21 and 40 of CETA 1985	1 st April 2012
23.	Engineering Machinery (incl.	Chapters 84 and 85 of CETA 1985	1 st April 2012



**Frequently Asked Questions on
Cost Accounting Records Rules, 2011 and
Companies (Cost Audit Report) Rules 2011**

**FAQ - 6
09.03.2012**

	Electrical & Electronic products)		
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