

EXTRAORDINARY  
PART II-Section 3-Sub-section(i)

MINISTRY OF COMPANY AFFAIRS

**NOTIFICATION**

NEW DELHI, the 2<sup>nd</sup> September, 2004

**G.S.R. 562(E).** - In exercise of the powers conferred by sub-section (1) of section 642, read with clause (d) of sub-section (1) of section 209 of the Companies Act, 1956 (1 of 1956), and in supersession of the Cost Accounting Records (Caustic Soda) Rules, 1967, Cost Accounting Records (Soda Ash) Rules, 1976, Cost Accounting Records (Sulphuric Acid) Rules, 1980 and Cost Accounting Records (Chemical Industries) Rules, 1987, except as respects things done or omitted to be done before such supersession, the Central Government hereby makes the following rules, namely:-

- (1) These rules may be called the Cost Accounting Records (Chemical Industry) Rules, 2004.
- (2) They shall come into force on the date of their publication in the Official Gazette.

**2. Application.** - These rules shall apply to every company engaged in the production, processing or manufacture of products as specified in the Appendix to these rules :

Provided that these rules shall not apply to a company, -

- (a) wherein, the aggregate value of machinery and plant installed as on the last date of the preceding financial year, does not exceed the limit as specified for a small scale industrial undertaking under the provisions of Industries (Development and Regulation) Act, 1951 (65 of 1951); and
- (b) the aggregate value of the turnover made by the company from sale or supply of all its products or activities during the preceding financial year does not exceed ten crores of rupees.

**3. Maintenance of records.** - (1) Every company to which these rules apply shall, in respect of each of its financial year commencing on or after the commencement of these rules, keep proper books of accounts relating to utilisation of materials, labour and other items of cost in so far as they are applicable to any of the products referred to in rule 2. The books of account, so maintained, shall contain, *inter-alia*, the particulars specified in the Schedule annexed to these rules and proformae A, B, C and D prescribed in the said Schedule:

Provided that if the said company is manufacturing any other product(s) or is engaged in other activities in addition to product(s) referred to in rule 2, the particulars relating to utilisation of materials, labour and other items of cost in so

far as they are applicable to such other products or activities shall not be included in the cost of the products referred to in rule 2.

(2) The books of accounts referred to in sub-rule (1) shall be kept on a regular basis in such a manner as to make it possible to calculate per unit cost of production and cost of sales of each product referred to in rule 2 for every financial year from the particulars entered therein. Every such book of account and the proformae prescribed in the said Schedule, shall be completed not later than ninety days from the close of the financial year of the company to which it relates.

(3) The statistical and other records shall be maintained in accordance with the provisions of the Schedule annexed to these rules and in line with Cost Accounting Standards issued by the Institute of Cost and Works Accountants of India, in so far as they are applicable, in such a manner as to enable the company to exercise, as far as possible, control over the various operations and costs with a view to achieve optimum economies in utilization of resources. These records shall also provide the necessary data which may be required to be furnished under Cost Audit Report Rules, 2001 as prescribed under section 233B of the Companies Act, 1956 and amended from time to time.

(4) It shall be the duty of every person, referred to in sub-section (6) and (7) of section 209 of the Companies Act, 1956 (1 of 1956), to take all reasonable steps to secure compliance by the company with the provisions of sub-rules (1), (2) and (3) of this rule in the same manner as he is liable to maintain accounts required under sub-section (1) of section 209 of the said Act.

**4. Penalty.** – If a company contravenes the provisions of rule 3, the company and every officer thereof who is in default, including the persons referred to in sub-rule (4) of rule 3 shall, be punishable as provided under sub-section (2) of section 642 read with sub-sections (5) and (7) of section 209 of the Companies Act, 1956 (1 of 1956).

**5. Saving.** - (1) The supersession of the Cost Accounting Records (Caustic Soda) Rules, 1967, Cost Accounting Records (Soda Ash) Rules, 1976, Cost Accounting Records (Sulphuric Acid) Rules, 1980 and Cost Accounting Records (Chemical Industries) Rules, 1987, shall not in any way affect –

- a) any right, obligation or liability acquired, accrued or incurred thereunder ;
- b) any penalty, forfeiture or punishment incurred in respect of any contravention committed thereunder ;
- c) any investigation, legal proceeding or remedy in respect of any such right, privilege, obligation, liability, penalty, forfeiture or punishment as aforesaid, and; any such investigation, legal proceeding or remedy may be instituted, continued or enforced and any such penalty, forfeiture or punishment may be imposed as if those rules had not been superseded.

(2) Companies required to maintain records under Cost Accounting Records (Caustic Soda) Rules, 1967, Cost Accounting Records (Soda Ash) Rules, 1976, Cost Accounting Records (Sulphuric Acid) Rules, 1980 and Cost Accounting Records (Chemical Industries) Rules, 1987, shall continue to do

the same under the respective rules till the Cost Accounting Records (Chemical Industry) Rules, 2004 become applicable to them.

**APPENDIX**  
(See rule 2)

**List of products for which the rules shall apply:**

01. Acetic Acid
02. Acetic Anhydride
03. Acetone
04. Aluminium Fluoride
05. Aniline
06. Benzene
07. Boric Acid
08. Butadiene
09. Butanol
10. Calcium Carbide
11. Carbon Black
12. Caustic Soda
13. Chloro Methanes
14. Diacetone Alcohol
15. Diethylene Glycol
16. 2-Ethyl Hexanol
17. Ethylene
18. Ethylene Dichloride
19. Ethylene Glycol
20. Ethylene Oxide
21. Formaldehyde
22. Isopropanol
23. Linear Alkyl Benzene
24. Maleic Anhydride
25. Methanol
26. Methyl Ethyl Ketone
27. Methyl Isobutyl Ketone (MIBK)
28. Nitrobenzene
29. Ortho Nitro Chloro Benzene
30. Para Nitro Chloro Benzene
31. Penta Erithritol
32. Phenol
33. Polyethylenes viz. LDPE, HDPE, LLDPE
34. Polypropylene
35. Polyethylene Glycol
36. Propylene
37. Soda Ash
38. Sodium Tripoly Phosphate
39. Sulphuric Acid
40. Resins (excluding natural resins), Paints, Varnishes and Plastics
41. Synthetic Rubber
42. Titanium Dioxide

43. Toluene
44. Xylenes

**SCHEDULE**  
(See rule 3)

**1. MATERIALS**

(1) Proper records shall be maintained showing separately all receipts, issues and balances both in quantities and cost of each item of raw material (including all direct charges upto the works) required for the production, processing or manufacturing of products under reference. The basis on which quantities, costs of issue and consumption are calculated, shall be indicated in the cost records and followed consistently. In the case of imported raw materials, proper records shall be maintained showing quantity of imported material, Free On Board value, overseas freight, insurance, customs duty and inland freight charges along with license-wise quantities allowed, actual quantities imported, actual quantities consumed, quantities in stock and quantities yet to be imported out of total licensed quantities. If both indigenous and imported materials are consumed, the records showing details of percentage mix of the same, have to be maintained for each item.

(2) The proper records shall be maintained separately showing the receipts, issues and balances both in quantities and cost of each item of intermediate, process material and catalyst used in the manufacture of the products under reference. The cost shall include all direct charges upto works. In case of catalyst, proper records shall be maintained for the value and quantity issued in a financial year suitably adjusted for consumption. If the life of the catalyst is more than one financial year, necessary adjustment should be made. If the life of the catalyst is not known, consumption may be assessed on technical basis.

(3) Where the company produces these raw materials, intermediates or process materials, separate records showing the cost of production of such items, shall be maintained in proforma 'B'. The basis on which quantities and cost of issues and consumption of such materials produced or processed by the company are calculated, shall be indicated in the cost records and followed consistently.

(4) The issues, consumption of all raw materials, intermediates, process materials and catalysts shall be identified with the product process-wise.

(5) The proper records shall be maintained indicating the quantity as well as value of recoveries in different processes having significant value in relation to cost of material. In case the recoveries are not reused in the process and are sold or disposed of without further processing, the realisation from such sales shall be recorded and adjusted against the process concerned. In case further processing is necessary to make the recoveries usable or saleable, as the case may be, proper records of the cost involved for such further processing shall be maintained. If such processing is done by any outside agency, proper records to show the quantity sent for processing, quantity received back after processing and cost incurred thereon shall be maintained. The net realization, if any, shall be adjusted against the major process relating

to such recoveries. The cost of recoveries shall be determined on equitable and reasonable basis and applied consistently. The records indicating the actual sales realization of recoveries shall also be maintained.

(6) The proper records shall be maintained to show the receipts, issues and balances, both in quantities and cost of each item of consumable stores, other process materials not covered by sub-rule (2), small tools and machinery spares, indirect materials etc. The cost shall include all direct charges upto works.

(7) The cost of consumable stores, small tools and machinery spares shall be charged to the relevant cost center or department or product process on the basis of actual issues. In the case of consumable stores and small tools, the cost of which are insignificant, the company may, if it so desires, maintain such records for the group of such consumable stores and tools.

(8) The proper records shall be maintained showing the quantity and value of wastage, spoilage, rejections and losses of raw materials, intermediates, process materials, consumable stores, small tools and machinery spares, whether in transit, storage, manufacture or at any other stage. The method followed for adjusting the above losses as well as the income derived from the disposal of rejected and waste materials including spoilage, if any, in determining the cost of product, shall be indicated in the cost records. Any abnormal wastage or spoilage or rejection or losses shall be indicated distinctly and separately along with reasons thereof.

(9) The proper records shall also be maintained to indicate the value of raw materials, intermediates and process materials, finished and semi-finished, consumable stores, small tools and machinery spares, which have not moved for more than twelve months.

(10) Where any credit under Central Value Added Tax (CENVAT) under the Central Excise Act, 1944 (1 of 1944) or any other benefits of the nature of CENVAT credit, are available on any item of material, the cost of such material shall be shown after adjusting such credit or benefits.

(11) If any of the input materials is processed through an outside party, proper records shall be maintained for the quantity sent for processing, quantity received after processing, balance quantity of material, losses and wastage of material during processing, by-products recovered, if any, and the cost involved in processing.

## **2. SALARIES AND WAGES**

(1) The proper records shall be maintained to show the attendance and earnings of all employees assigned to the cost centres or departments and the work on which they are employed. The records shall also indicate the following separately for each cost centre or department:

- (a) piece rate wages (wherever applicable);

- (b) incentive wages, either individually or collectively as production bonus or under any other scheme based on output;
- (c) overtime wages;
- (d) earnings of casual or contractual labour;
- (e) bonus or gratuity, statutory as well as other;
- (f) contribution to superannuating scheme;
- (g) any other earnings of the nature specified in (a) to (f) above.

(2) The records shall be maintained in such a manner as to enable the company to book these expenses cost centrewise or departmentwise with reference to products under reference and to furnish necessary particulars under this head in Proformae A, B, C and D of Schedule annexed to these rules. Where the employees work in such a manner that it is not possible to identify them with any specific cost centre or department, the employees cost shall be apportioned to the cost centres or departments on equitable and reasonable basis and applied consistently.

(3) The idle labour cost shall be separately recorded under classified headings indicating the reasons therefor. The method followed for accounting of idle time payments shall be disclosed in the cost records.

(4) Any wages and salaries allocable to capital works, such as, additions to plant and machinery, buildings or other fixed assets shall be accounted for under the relevant capital heads. Similarly, payments in the nature of deferred revenue expenditure shall be separately recorded under separate classified headings indicating the reasons therefor. The method followed for accounting of such payments in determining the cost of the product(s) under reference shall be on equitable and reasonable basis and applied consistently. The said method shall be disclosed in the cost records also.

(5) The cost of normal retirement benefits payable to employees shall be recorded separately and charged to cost. The method followed for accounting of such costs in determining the cost of the products under reference shall be on equitable and reasonable basis and applied consistently and disclosed separately. Termination benefits which are payable in addition to the normal retirement benefits, such as benefits under voluntary retirement scheme, shall be treated as abnormal and shall not form part of salaries and wages and cost of production.

### **3. UTILITIES**

(1) The proper records shall be maintained showing the quantity and cost of each major utility such as power, water, steam, effluent treatment, etc. produced and consumed by the different cost centres in such detail as to enable the company to furnish the particulars for each utility separately in proforma 'A' of the Schedule.

(3) If a utility is purchased, proper records showing the delivered cost including all direct charges upto the works shall be maintained for the quantity and value of each utility purchased.

(3) Where a utility is produced and supplied by any other unit of the company, proper records shall be maintained to assess cost and the quantity of the utility so supplied.

(4) The cost of utility, if any, supplied to any other unit(s) of the company, shall be calculated on equitable and reasonable basis and applied consistently.

(5) The cost of utility allocated/apportioned to the cost centers and further to the individual products shall be on equitable and reasonable basis and applied consistently.

(6) Where direct power is one of the major inputs to electrolyse the raw material used in production or manufacture of any of the product under reference, such direct power shall be included in the cost of such raw material and shown accordingly.

(7) The records shall also indicate the measures taken on conservation of energy and its corresponding impact on per unit cost of production.

#### **4. SERVICE DEPARTMENT EXPENSES**

The proper records shall be maintained to indicate expenses incurred in respect of each service department or cost centre like laboratory, welfare, transport etc. These expenses shall be apportioned to other services and production departments on equitable and reasonable basis and applied consistently. Where these services are utilized for other products of the company also, the basis of apportionment of such expenses to products under reference and to the other products shall be on equitable and reasonable basis and applied consistently. The said basis shall be disclosed in the cost records also.

#### **5. REPAIRS AND MAINTENANCE**

(1) The 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. The records shall also indicate the basis of charging such expenses to different cost centres or departments. Where maintenance work is done by direct workers of any production cost centre or department, the wages and salaries of such workers shall be treated as direct expenses of the respective cost centre or department. If the services are utilized for products other than referred to in rule 2, the manner of charging a share of the cost of workshop, tool room and repairs and maintenance expenses to such products shall be on equitable and reasonable basis and applied consistently.

(2) In addition to the above, records shall indicate the amount and also the proportion of closing inventory of stores and spare parts representing items which have not moved for over twenty four months.

(3) The expenditure on major repair works from which benefit is likely to accrue for more than one financial year shall be shown separately and absorbed in the cost over the period for which such benefits are expected to accrue on

equitable and reasonable basis and applied consistently. Method of accounting along with the basis of allocation of such costs shall also be clearly indicated in cost records.

## **6. FIXED ASSETS, DEPRECIATION AND LEASE CHARGES**

(1) The proper and adequate records shall be maintained for assets used for production, processing or manufacturing of the products under reference in respect of which depreciation has to be provided for. These records shall, inter-alia, indicate grouping of assets under each product referred under rule 2, the cost of acquisition of each item of asset including installation charges, date of acquisition and rate of depreciation.

(2) Those records which enable to identify and/or allocate gross fixed assets, accumulated depreciation up to the year and net fixed assets under the heads; land and building, plant and machinery, furniture and fixtures etc. employed for products under reference shall be maintained. The basis of apportionment of common assets to the products under reference shall be on equitable and reasonable basis and applied consistently. In case of revaluation of assets, the same shall be indicated separately and depreciation on revaluation shall not be included in the cost statement.

(3) The basis on which depreciation is calculated and allocated or apportioned to various cost centres or departments and absorbed on all products shall be clearly indicated in the cost records. If depreciation charged or chargeable to the cost centres or departments is in excess or lower than the depreciation calculated by applying the rates of depreciation prescribed under the provisions of sub-section (2) of Section 205 of the Companies Act, 1956, such amount of excess or lower depreciation shall be indicated clearly in the cost records. The cost records shall also show the effect of such excess or lower depreciation, as the case may be, on the per unit cost of each product. The cumulative depreciation charged in the cost records, against any individual item of asset shall not, however, exceed the original cost of the respective asset.

(4) The proper records shall be maintained giving details of assets taken or given on lease. The break-up of lease rental in terms of financial charges, depreciation etc. paid or received shall be maintained separately. The details shall be maintained separately for assets taken from or given to related party.

## **7. OVERHEADS**

(1) The proper records shall be maintained for the various items of indirect expenses comprising overheads pertaining to products under reference. These expenses shall be analyzed, classified and grouped according to functions, namely, works, administration, selling and distribution as per normally accepted cost accounting principles and practices.

(2) Where the company is manufacturing products other than the products under reference, the records shall clearly indicate the basis followed for apportionment of the common overheads including head office expenses of the company to

such other products and the products under reference, including capital works. Where certain expenses forming part of overheads can be identified with a particular product, such expenses shall be first segregated and charged to the relevant product in the first instance and thereafter the residual expenses under the above categories of overheads shall be apportioned on equitable and reasonable basis and applied consistently. The overheads chargeable to capital works shall be indicated separately in the cost records. The basis of apportionment or absorption of overheads to the cost centres or departments and the products shall be indicated in the cost records. The records shall be maintained in such a manner as to indicate the details of works, administration, selling and distribution overheads.

## **8. ROYALTY AND TECHNICAL KNOW-HOW FEE**

The adequate records shall be maintained showing royalty and/or technical know-how fee including other recurring or non-recurring payments of similar nature, if any, made for the products under reference to collaborators or technology suppliers in terms of agreements entered into with them. Such records shall be kept separately in respect of each such agreement or arrangement. The basis of charging such amount, including lump sum payment and its treatment shall be indicated in the cost records.

## **9. RESEARCH AND DEVELOPMENT EXPENSES**

(1) The proper records showing the details of expenses, if any, incurred by the company for the research and development work on the products covered under these rules, according to the nature of development of products i.e. existing or new products and processes, development of process of manufacture - existing and new, design and development of new plant facilities and market research for the existing and new products, shall be maintained separately. The records shall also indicate the payments made to outside parties for the research and development work. The basis of charging such amount, including lump sum payment and its treatment shall be indicated in the cost records.

(2) The basis of charging these expenses to the cost of production under reference and to other products shall be indicated in the cost records. Where the utility of research and development work extends to over more than one financial year, such expenses shall be charged to the cost of products under reference and to all other products on equitable and reasonable basis and applied consistently indicating the criteria on the basis of which it has been decided to extend the utility period of these expenses to more than one financial year.

(3) The expenses incurred by the research and development department for providing technical know-how to outsiders shall be recorded separately and excluded from the cost of products under reference. The amount recovered for providing technical know-how to outsiders shall also be indicated separately and excluded from the income arising from the sale of products under reference.

**10. QUALITY CONTROL**

The adequate records shall be maintained to indicate the expenses incurred in respect of quality control department or cost centre for products under reference. Where these services are also utilized for other products of the company, the basis of apportionment to products under reference and to other products shall be on equitable and reasonable basis and applied consistently.

**11. 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 product under such system. The cost variances shall be shown against the separate heads and analyzed 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 products shall be indicated clearly in the cost records. The reasons for the variances shall be duly explained in the cost records and statements.

**12. WORK-IN-PROGRESS AND FINISHED STOCK**

The method followed for determining the cost of work-in-progress and finished stock of the products under reference 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.

**13. CAPTIVE CONSUMPTION**

If the products under reference are used for captive consumption, proper records shall be maintained showing the quantity and cost of each such product transferred to other departments or work centres or units of the company for self-consumption and sold to outside parties separately. The rates at which the transfers are effected shall be at cost of production as per normally accepted cost accounting principles and practices of working out such cost of production.

**14. BY-PRODUCTS**

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, as well as actual sales realization of by-product shall be maintained.

**15. JOINT PRODUCTS**

Where more than one product which is of equal economic importance arises from a process, the cost up to the point of separation of products shall be apportioned to joint products on reasonable and equitable basis and shall be applied consistently. The basis on which such joint costs are apportioned to different products arising from the process shall be indicated in the cost records.

**16. PACKING EXPENSES**

The 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 and/or secondary packing. Where such expenses are incurred in common for other products also, the basis of apportioning the expenses between the relevant products shall be on equitable and reasonable basis and applied consistently.

**17. INTEREST AND OTHER BORROWING COSTS**

(1) The proper records shall be maintained for money borrowed for each project and/or working capital and interest charged thereon. The amount of interest and other borrowing costs shall be allocated or apportioned to the products under reference and other products or activities on equitable and reasonable basis and applied consistently. The basis of further charging of the share of interest to the various types of such products shall also be equitable and reasonable and applied consistently. The basis of such allocation or apportionment shall be spelt out clearly in the cost records or statements.

(2) Net interest and other borrowing costs incurred for project under execution shall be capitalized for the period up to the date the project is ready to commence commercial activities. However, capitalization of borrowing costs should be suspended during extended periods in which active development is interrupted.

**18. EXPENSES OR INCENTIVES ON EXPORTS**

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

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

**19. COST STATEMENTS**

1. The cost statement showing details of installed capacity, production, wastage, issues and sales and all elements of cost of the current financial year and previous year shall be prepared for each process adopted in the production of products under reference in proformae A, B, C and D.
2. The product emerging from a process, which forms raw material or an input material for a subsequent process, shall be valued at the cost of production up to the previous stage.
3. If the company is operating more than one plant or factory, separate cost statements as specified above shall be prepared in respect of each plant or factory.

**20. RECONCILIATION OF COST AND FINANCIAL ACCOUNTS**

(1) 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 products under reference with the overall profit of the company. The variations, if any, shall be clearly indicated and explained.

(2) A statement showing the total expenses incurred and income received by the company under different heads of accounts and the share applicable to other products or activities and the products under reference shall be prepared and reconciled with the financial statement.

**21. PRODUCTION AND SALES RECORDS**

Quantitative records of all finished goods whether packed or unpacked, showing production, issues for sales and balances of different type of the product packs under reference, shall be maintained. The quantitative details of production shall be maintained separately for self manufactured, third party on job work, loan license basis etc. 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/inter unit transfer.

**22. POLLUTION CONTROL**

Expenditure incurred by the company on various measures to protect the environment like effluent treatment, control of pollution of air, water, etc., should be properly recorded.

**23. HUMAN RESOURCES DEVELOPMENT**

Expenditure incurred by the company on the human resources development such as training of staff, workshop and seminars, health and safety education activities, shall be recorded separately.

## **24. STATISTICAL RECORDS**

(1) The records regarding available machine hours or direct labour hours in different production departments and actually utilized shall be maintained for production of products under reference and shortfall suitably analyzed. Suitable records for computation of idle time of machines and/or labour shall also be maintained and analyzed.

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

(3) Whenever WTO provisions are attracted, proper records shall be maintained to identify the competitiveness of the products under reference in the domestic as well as global market. Adequate statistical records shall also be maintained to identify the market share of the products manufactured and the likely impact thereon on account of competitive goods imported in to the country.

(4) In case of new major projects for product or activity referred to under rule 2, proper records shall be maintained indicating the funds raised from different sources, their utilization, stage-wise cost incurred and progress of the project as per the project report. Cost and time over run shall also be analysed with reference to the cost of services or activity and its impact on the profitability of the company.

## **25. RECORDS OF PHYSICAL VERIFICATION**

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

## **26. RELATED PARTY TRANSACTIONS**

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

- (a) purchase and sale of raw materials, finished products, process materials and rejected goods including scraps, etc;
- (b) utilisation of plant facilities and technical know-how;
- (c) supply of utilities and any other services;

- (d) administrative, technical, managerial or any other consultancy services;
- (e) purchase and sale of capital goods including plant and machinery; and
- (f) any other payment related to production, processing or manufacturing of products under reference.

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

(3) The transactions by the following "related party relationships" shall be covered under sub-rule (1) :

- (a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise (this includes holding companies, subsidiaries and fellow subsidiaries);
- (b) associates and joint ventures of the reporting enterprise and the investing party or venturer in respect of which the reporting enterprise is an associate or a joint venture;
- (c) individuals owning, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise, and relatives of any such individual;
- (d) key management personnel and relatives of such personnel; and
- (e) enterprises over which any person described in (c) or (d) is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the reporting enterprise and enterprises that have a member of key management in common with the reporting enterprise.

(4) However, the following shall not be deemed as "related party relationships":-

- (a) two companies simply because they have a Director in common, notwithstanding paragraph (d) or (e) above (unless the Director is able to affect the policies of both companies in their mutual dealings);
- (b) a single customer, supplier, franchiser, distributor, or general agent with whom an enterprise transacts a significant volume of business merely by virtue of the resulting economic dependence; and
- (c) the parties listed below, in the course of their normal dealings with an enterprise by virtue only of those dealings (although they may circumscribe the freedom of action of the enterprise or participate in its decision-making process) -
  - (i) providers of finance;
  - (ii) trade unions;
  - (iii) public utilities;
  - (iv) government departments and government agencies including government sponsored bodies.

Explanation: -For the purpose of these rules, -

- (a) "related party relationships" means parties who are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions;
- (b) "related party transaction" means a transfer of resources or obligations between related parties, whether or not a price is charged;
- (c) "control" means
  - (i) ownership, directly or indirectly, of more than one-half of the voting power of an enterprise; or
  - (ii) control of the composition of the Board of Directors in the case of a company or of the composition of the corresponding governing body in case of any other enterprise; or
  - (iii) a substantial interest in voting power and the power to direct, by statute or agreement, the financial and/or operating policies of the enterprise;
- (d) "significant influence" means participation in the financial or operating policy decisions of an enterprise, but not control of those policies;
- (e) "an Associate" means an enterprise in which an investing reporting party has significant influence and which is neither a subsidiary nor a joint venture of that party;
- (f) "a joint venture" means a contractual arrangement whereby two or more parties undertake an economic product, which is subject to joint control;
- (g) "joint control" means the contractually agreed sharing of power to govern the financial and operating policies of an economic product so as to obtain benefits from it;
- (h) "key management personnel" means those persons who have the authority and responsibility for planning, directing and controlling the activities of the reporting enterprise;
- (i) "relative" in relation to an individual, means the spouse, son, daughter, brother, sister, father and mother who may be connected by blood relationship;
- (j) "holding company" means a holding company within the meaning of Section 4 of the Companies Act, 1956(1 of 1956);
- (k) "subsidiary" means a subsidiary company within the meaning of Section 4 of the Companies Act, 1956(1 of 1956);
- (l) "fellow subsidiary" means a company is said to be a fellow subsidiary of another company if both are subsidiaries of the same holding company;

- (m) "state-controlled enterprise" means an enterprise which is under the control of the Central Government or a State Government.

### PROFORMA `A'

Name of the company :

Name and address of the factory/unit :

Statement showing the cost of Utilities like Power, Steam, Water, etc., produced and consumed and effluent treatment during the year/period :

#### A. Quantitative Information:

Serial Number	Particulars	Current Year (unit)	Previous Year (unit)
1.	Installed capacity		
2.	Quantity produced		
3.	Capacity utilization		
4.	Quantity re-circulated		
5.	Quantity purchased, if any		
6.	Self-consumption including losses (to be specified)		
7.	Net units available		

#### B. Cost Information :

Serial Number	Particulars	Quantity	Rate per unit (Rupees)	Amount (Rupees)	Cost per Unit (Rupees)	
					Current Year	Previous Year
A 1.	Materials (specify) (a) (b) (c)					
2.	Process materials/ Chemicals					
3	Direct wages and salaries					
4.	Utilities (specify) (a) (b) (c)					
5.	Other direct expenses, if any					
6.	Consumable stores and spares					
7.	Repairs and maintenance					

8.	Depreciation					
9.	Lease rent, if any					
10.	Other works overhead					
11.	Sub-total (1 to 10)					
12.	Less: Credit, if any					
13.	Total cost (11-12)					
B.	Apportioned to cost centre or product :					
	1.					
	2.					
	3.					
	4.					
	.					
	.					
	n.					

Signature

Name and designation of the officer-in-charge of  
maintaining cost records of the company

Notes:

1. Separate cost sheet is to be prepared for each major utility having significant impact on cost, whenever such utility is functionally independent and not forming part of composite unit.
2. If any of the utilities, which are manufactured by the company, is sold to outside parties, the cost of sales and sales realisation shall be worked out in detail as illustrated in Proforma 'C' relating to cost of sales.
3. The proforma may be suitably modified to cover the specific features in such a way that serial numbers are maintained as per proforma with addition of items numbering them by prefixing/ suffixing alpha characters to the serial numbers.
4. Delete items not applicable.

**Proforma 'B'**

Name of the company :

Name and address of the factory/unit :

Name of the **Process material/Intermediate/Product under reference:**Statement showing the **cost of production** for the year/period :**A. Quantitative Information:**

Serial number	Particulars	(unit : MTs)	
		Current Year	Previous Year
1.	(i) Installed capacity (ii) Capacity enhanced during the year by leasing arrangement etc.		

2.	Actual production : (i) self manufactured (ii) third parties on job work, if any (iii) loan license, if any		
3.	Capacity utilization		
4.	Quantity used for captive consumption		
5.	Quantity transferred for : (a) domestic sale (b) export sale (c) others (specify)		
6.	Opening stock (finished goods)		
7.	Closing stock (finished goods) (6+2-4-5)		

**B. Cost Information:**

Serial number	Particulars	Quantity unit	Rate per unit	Amount	Cost Per MT	
			Rupees	(Rupees)	Current Year (Rupees)	Previous Year (Rupees)
1.	Material cost : (itemwise covering 80% of value) (a) (b) (c) ..... Sub total					
2.	Process materials/chemicals (Specify)					
3.	Direct wages and salaries					
4.	Utilities (a)Power (b)Steam (c)Others (specify) Sub total					
5.	Consumable stores and spares					
6.	Depreciation					
7.	Lease rent, if any					
8.	Repairs and maintenance: (a) Building (b) Plant and Machinery (c) Others, if any					
9.	Other works overhead					
10.	Total works overheads (4 to 9)					
11.	Royalty, if any					
12.	Technical assistance/ know-how fee					
13.	Research and development					
14.	Quality control					
15.	Administrative overhead (relating to production activities) (a) salaries and wages					

	(b) others (specify) (c) Sub total (a+b)					
16.	Total (1+2+3+10 to 15)					
17.	Adjustment for variances (where standard costing system is followed)					
18.	Add: Opening stock Less: Closing stock (Work-in-progress)					
19.	Less: Credits (from wastage and by-products) /Recoveries, if any					
20.	Packing cost (primary packing) (a) materials (b) others (c) Sub total					
21.	Total cost of production(16 to 20)					
22.	Finished goods purchased , if any					
23.	Add: Opening stock Less: Closing stock (Finished products)					
24.	Total (21+22+23)					
25.	Quantity and cost transferred for : (i) captive consumption, if any (ii) sales to Proforma `C` (iii) others, if any					

Signature

Name and designation of the officer-in-charge  
maintaining cost records of the company

Notes :

1. Separate proforma shall be prepared for each type of process material/intermediate/final product under reference produced.
2. Separate proforma shall be prepared for the quantity produced for sale within the country and the quantity produced for export sale. Expenses incurred on export and the incentive earned thereon shall be indicated in the proforma applicable for the quantity produced for export.
3. Separate proforma shall be prepared for any related party/inter-unit transfer of intermediate/finished product(s) under reference. Separate proforma shall also be prepared for production on self manufactured, third party on Job work and loan license basis, as may be applicable, of intermediate/finished product(s) under reference.
4. The administrative overheads shall be included in the cost of production only to the extent they contribute in putting the goods produced to their present

location and condition. The balance of administrative overheads, if any, shall be included in the cost of goods sold.

5. The proforma may be suitably modified to cover the specific features in such a way that serial numbers are maintained as per proforma with addition of items numbering them by prefixing/ suffixing alpha characters to the serial numbers.
6. Delete items not applicable.

### Proforma `C`

Name of the company :

Name and address of the factory/unit :

Name of the process material/ intermediate/ product under reference :

Statement showing the **cost of sales, sales realisation and margin** for the year/ period for :

#### A. Quantitative Information:

Serial Number	Particulars	Unit : MTs	
		Current Year	Previous Year
1.	Quantity transferred from Proforma 'B'		
2.	Opening Stock (finished goods)		
3.	Closing Stock (finished goods)		

#### B. Cost Information:

Serial Number	Particulars	Quantity unit	Rate per unit	Amount	Cost per MT	
			(Rs.)	(Rs.)	Current Year (Rs.)	Previous Year (Rs.)
1.	Quantity and cost transferred from Proforma 'B'					
2.	Packing cost secondary (a) Materials (b) Others (c) Sub total					
3.	Other expenses : (a) Administrative overheads (others) (b) Others (specify)					
4	Selling and distribution expenses : (a) Salaries and wages (b) Freight and transport charges (c) Commission to selling agents (d) Advertisement expenses (e) Royalty on sales, if any (f) Others (g) Sub total (a to f)					
5	Interest and other borrowing costs : (a) for manufacturing activity					

	(b) others (c) total					
6	Total cost of sales (excluding excise duty) of packed quantity sold (1 to 5)					
7	Sales realisation Less: Excise duty and other statutory levies					
8	Net sales realization					
9	Margin (8-6)					
10	Add: export benefits and incentives, if any					
11	Total margin (9+10) (including export benefits)					
12	Ex-factory price (excluding sales tax etc.)					
13	Maximum retail price (excluding sales tax etc.)					
14	Maximum retail price, if any, prescribed by the Government or statutory or regulatory body etc.					

Signature

Name and designation of the officer-in-charge of  
maintaining cost records of the company

Notes :

1. Separate proforma shall be prepared in respect of each process material/ intermediate/final product under reference produced and sold.
2. Separate proforma shall be prepared for quantity sold within the country and the quantity exported. Expenses incurred on export and the incentive earned thereon shall be indicated in the proforma applicable for the quantity produced and exported.
3. Separate proforma shall be prepared for any related party/inter-unit transfer of intermediate/finished product(s) under reference. Separate proforma shall also be prepared for production on self manufactured, third party on Job work and loan license basis, as may be applicable, of intermediate/finished product(s) under reference.
4. The administrative overheads shall be included in the cost of production only to the extent they contribute in putting the goods produced to their present location and condition. The balance of administrative overheads, if any, shall be included in the cost of goods sold.
5. The proforma may be suitably modified to cover the specific features in such a way that serial numbers are maintained as per proforma with addition of

items numbering them by prefixing/ suffixing alpha characters to the serial numbers.

6. Delete items not applicable.

### Proforma `D'

Name of the company :

Statement showing the **allocation or apportionment** of total expenses and income of the company between the products referred to under rule 2 and other products or activities for the period/year :

Serial Number	Particulars	Total expenses as per audited financial accounts	Share applicable to products covered under rule 2  (Product 1, Product 2, etc.)	Share applicable to other products or activities	Basis of allocation
1.	Raw material				
2.	Process materials/chemicals				
3.	Direct wages and salaries				
4.	Utilities				
5.	Consumable stores and spares				
6.	Depreciation				
7.	Lease rent				
8.	Repairs and maintenance				
9.	Other works overheads				
10.	Total works overheads (4 to 9)				
11.	Royalty, if any				
12.	Technical assistance know-how fee				
13.	Research and development				
14.	Quality control				
15.	Administrative overhead (relating to production) : (a) salaries and wages (b) others (specify) (c) sub total (a+b)				
16.	Total (1+2+3+10 to15)				
17.	Stock adjustment (Work-in-progress)				
18.	Less: Credits (from wastages and by-products)/ Recoveries, if any				

19.	Cost of production (16 to 18)				
20.	Stock adjustment (finished products)				
21.	Net cost of production of unpacked finished goods (19+20)				
22.	Less: captive consumption				
23.	Net cost of materials available for sales (21-22)				
24.	Packing expense				
25.	Other expenses : (a) Administrative overheads (others) (b) Others (specify)				
26.	Selling and distribution expenses : (a) Salaries and wages (b) Freight and transport charges (c) Commission to selling agents (d) Advertisement expenses (e) Royalty on sales, if any (f) Others (g) Total (a to f)				
27.	Interest and other borrowing costs				
28.	Total cost of sales excluding excise duty (23 to 27)				
29.	Total sales realization excluding excise duty				
30.	Margin (29-28)				
31.	Add: Export benefits and incentives, if any				
32.	Total Margin (30+31)				
33.	Any other expense not included in cost				
34.	Any other income not considered in cost				
35.	Margin as per Financial Accounts				

Signature

Name and designation of the officer-in-charge of  
maintaining cost records of the company

## Notes.-

1. Product 1, Product 2, etc. indicated above are illustrative only.
2. All items of income and expenditure in this proforma shall be reconciled with the financial accounts for the relevant period.
3. The administrative overheads shall be included in the cost of production only to the extent they contribute in putting the goods produced to their present location and condition. The balance of administrative overheads, if any, shall be included in the cost of goods sold.
4. The proforma may be suitably modified to cover the specific features in such a way that serial numbers are maintained as per proforma with addition of items numbering them by prefixing/ suffixing alpha characters to the serial numbers.
5. Delete items not applicable.

F.No.52/15/CAB-2002  
A.K.Kapoor, Adviser (Cost)

Note :-1. Cost Accounting Records (Caustic Soda) Rules, 1967, were published vide G.S.R. 1261, dated the 11<sup>th</sup> August, 1967 and subsequently amended vide -

- (i) GSR 85 dated 4<sup>th</sup> January, 1968;
- (ii) GSR 773, dated 3<sup>rd</sup> June, 1977;
- (iii) GSR 17, dated 5<sup>th</sup> January, 1983;
- (iv) GSR 540, dated 22<sup>nd</sup> July, 1989;
- (v) GSR 300(E), dated 24<sup>th</sup> March, 1993;
- (vi) GSR 327(E), dated 3<sup>rd</sup> June, 1998;
- (vii) GSR 427(E), dated 3<sup>rd</sup> August, 1998;
- (viii) GSR 711(E), dated 28<sup>th</sup> September, 2001.

2. Cost Accounting Records (Soda Ash) Rules, 1976, were published vide S.O. 1720, dated the 29<sup>th</sup> May, 1976 and subsequently amended vide -

- (i) GSR 790, dated 3<sup>rd</sup> June, 1977;
- (ii) GSR 36, dated 5<sup>th</sup> January, 1983;
- (iii) GSR 559, dated 22<sup>nd</sup> July, 1989;
- (iv) GSR 319(E), dated 24<sup>th</sup> March, 1993;
- (v) GSR 443(E), dated 3<sup>rd</sup> August, 1998;
- (vi) GSR 725(E), dated 28<sup>th</sup> September, 2001.

3. Cost Accounting Records (Sulphuric Acid) Rules, 1980 were published vide G.S.R. 395(E), dated the 4<sup>th</sup> July, 1980 and subsequently amended vide -

- (i) GSR 41, dated 5<sup>th</sup> January, 1983;
- (ii) GSR 564, dated 22<sup>nd</sup> July, 1989;
- (iii) GSR 324(E), dated 24<sup>th</sup> March, 1993;

- (iv) GSR 448(E), dated 3<sup>rd</sup> August, 1998;
- (v) GSR 730(E), dated 28<sup>th</sup> September, 2001.

4. Cost Accounting Records (Chemical Industries) Rules, 1987, were published vide G.S.R. 596, dated the 8<sup>th</sup> August, 1987 and subsequently amended vide -

- (i) GSR 732, dated 4<sup>th</sup> August, 1988;
- (ii) GSR 570, dated 22<sup>nd</sup> July, 1989;
- (iii) GSR 34(E), dated 3<sup>rd</sup> January, 1992;
- (iv) GSR 330(E), dated 24<sup>th</sup> March, 1993;
- (vi) GSR 454(E), dated 3<sup>rd</sup> August, 1998;
- (vii) GSR 278(E), dated 24<sup>th</sup> April, 2001;
- (viii) GSR 735(E), dated 28<sup>th</sup> September, 2001.