

Government of India Ministry of Corporate Affairs

NOTICE INVITING COMMENTS ON THE DRAFT COMPANIES (COST RECORDS AND AUDIT) AMENDMENT RULES, 2017

Dated: 11th August, 2017

Pursuant to implementation of IndAS, the Companies (Cost Records and Audit) Rules, 2014 are to be amended to bring parity between financial records and cost records. Accordingly, the Draft Companies (Cost Records and Audit) Amendment Rules, 2017 have been placed on the Ministry's website www.mca.gov.in for suggestions/comments.

Suggestions/ comments on the draft rules along with justifications in brief may be sent latest by 26/08/2017 through email at comments_cra@mca.gov.in

It is requested that the name, contact number, email address and postal address of the sender be indicated clearly at the time of sending suggestions/comments in the following format:-

Format for sending suggestions/comments

1. Name, contact number, email address and postal address of stakeholder
2. Suggestions/comments as under

Serial Number	Rule/para/clause/ subclause	Suggestion/ comments	Justification

**Summary of changes as per
Draft Companies (Cost Records and Audit) Amendment Rules, 2017**

FORM CRA-1

(Pursuant to 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**

Para	Existing	Revised
1	Material Costs	
(e)	Spares which are specific to an item of equipment shall not be taken to inventory, but shall be capitalized with the cost of the specific equipment. Cost of capital spares or insurance spares, whether procured with the equipment or subsequently, shall be amortised over a period, not exceeding the useful life of the equipment.	Spares which are specific to an item of equipment shall not be taken to inventory, but shall be capitalized with the cost of the specific equipment. Cost of capital spares or insurance spares, whether procured with the equipment or subsequently, shall be amortised over a period, not exceeding the useful life of the equipment. In case of companies to which Indian Accounting Standards apply, items such as spare parts, stand-by equipment and servicing equipment are recognised as property, plant and equipment when they meet the definition of property, plant and equipment and depreciated accordingly. Otherwise, such items are classified as inventory.
(j)	Subsidy or Grant or Incentive and any such payment received or receivable with respect to any material shall be reduced from cost for ascertainment of the cost object to which such amounts are related.	Subsidy or Grant or Incentive and any such payment received or receivable with respect to any material shall be reduced from cost for ascertainment of the cost object to which such amounts are related. In case of companies to which Indian Accounting Standards apply, any such Grants recognized as deferred income shall be reduced from the cost of materials in the financial year when such deferred income is recognised as income.
2	Employee Cost	
(b)	Employee Cost shall be ascertained taking into account	Employee Cost shall be ascertained taking into account the gross pay including all allowances

Para	Existing	Revised
	the gross pay including all allowances payable along with the cost to the employer of all the benefits.	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 recognized in other comprehensive income shall not form part of the employee cost.
(i)	Any Subsidy, Grant, Incentive or any such payment received or receivable with respect to any Employee cost shall be reduced for ascertainment of cost of the cost object to which such amounts are related.	Any Subsidy, Grant, Incentive or any such payment received or receivable with respect to any Employee cost shall be reduced for ascertainment of cost of the cost object to which such amounts are related. In case of companies to which Indian Accounting Standards apply, any such Grants recognized as deferred income shall be reduced from the employee cost in the financial year when such deferred income is recognised as income.
3	Utilities	
(l)	Any Subsidy or Grant or Incentive or any such payment received or receivable with respect to any cost of utilities shall be reduced for ascertainment of the cost to which such amounts are related.	Any Subsidy or Grant or Incentive or any such payment received or receivable with respect to any cost of utilities shall be reduced for ascertainment of the cost to which such amounts are related. In case of companies to which Indian Accounting Standards apply, any such Grants recognized as deferred income shall be reduced from the utility cost in the financial year when such deferred income is recognised as income.
4	Direct Expenses	
(h)	Any Subsidy or Grant or Incentive or any such payment received or receivable with respect to any Direct Expenses shall be reduced for ascertainment of the cost object to which such amounts are related.	Any Subsidy or Grant or Incentive or any such payment received or receivable with respect to any Direct Expenses shall be reduced for ascertainment of the cost object to which such amounts are related. In case of companies to which Indian Accounting Standards apply, any such Grants recognized as deferred income shall be reduced from the direct

Para	Existing	Revised
		expenses in the financial year when such deferred income is recognised as income.
5	Repair and Maintenance	
(j)	High value spare, when replaced by a new spare and is reconditioned, which is expected to result in future economic benefits, the same shall be taken into stock. Such a spare shall be valued at an amount that measures its service potential in relation to a new spare which amount shall not exceed the cost of reconditioning the spare. The difference between the total of the cost of the new spare and the reconditioning cost and the value of the reconditioned spare should be treated as repairs and maintenance cost.	Deleted
(o)	Subsidy or Grant or Incentive or amount of similar nature received or receivable with respect to repairs and maintenance activity, if any, shall be reduced for ascertainment of the cost object to which such amounts are related.	Subsidy or Grant or Incentive or amount of similar nature received or receivable with respect to repairs and maintenance activity, if any, shall be reduced for ascertainment of the cost object to which such amounts are related. In case of companies to which Indian Accounting Standards apply, any such Grants recognized as deferred income shall be reduced from the repair and maintenance cost in the financial year when such deferred income is recognised as income..
6	Fixed Assets and Depreciation	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 has to be provided for. These records shall, inter-alia,	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/ 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

Para	Existing	Revised
	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.	asset including installation charges, date of acquisition and rate of depreciation.
(b)	<p>Depreciation and Amortisation shall be measured based on the depreciable amount and the useful life. The residual value of an intangible asset shall be assumed to be zero unless:</p> <p>i) there is a commitment by a third party to purchase the asset at the end of its useful life; or</p> <p>ii) there is an active market for the asset and:</p> <p>a) residual value can be determined by reference to that market; and</p> <p>b) it is probable that such a market will exist at the end of the asset's useful life.</p> <p>c) The residual value of a fixed asset shall be considered as zero if the entity is unable to estimate the same with reasonable accuracy.</p>	The Depreciation and Amortisation shall be measured as per provisions contained in Companies Act, 2013 and Rules made thereunder.
(c)	The minimum amount of depreciation to be provided shall not be less than the amount calculated as per principles and methods as prescribed by any law or regulations applicable to the entity and followed by it.	Deleted
(d)	In case of regulated industry, the amount of depreciation shall be	Deleted

Para	Existing	Revised
	the same as prescribed by the concerned regulator.	
(e)	<p>While estimating the useful life of a depreciable asset, consideration shall be given to the following factors:</p> <ul style="list-style-type: none"> i) Expected physical wear and tear; ii) Obsolescence; and iii) Legal or other limits on the use of the asset. 	Deleted
(f)	The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights, but may be shorter depending on the period over which the entity expects to use the asset.	Deleted
(g)	If the contractual or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost. The useful life of a re-acquired right recognised as an intangible asset in a business combination is the remaining contractual period of the contract in which the right was granted and shall not include renewal periods.	Deleted
(h)	The useful life of an intangible asset, in any situation, shall not exceed 10 years from the date it is available for use.	Deleted

Para	Existing	Revised
(i)	<p>Depreciation shall be considered from the time when a depreciable asset is first put into use. An asset which is used only when the need arises but is always held ready for use.</p> <p>Example: fire extinguisher, stand by generator, safety equipment shall be considered to be an asset in use. Depreciable assets shall be considered to be put into use when commercial production of goods and services commences.</p>	Deleted
(k)	Depreciation of any addition or extension to an existing depreciable asset which becomes an integral part of that asset shall be based on the remaining useful life of that asset.	Deleted
(l)	Depreciation of any addition or extension to an existing depreciable asset which retains a separate identity and is capable of being used after the expiry of the useful life of that asset shall be based on the estimated useful life of that addition or extension.	Deleted
(n)	Impairment loss on assets shall be excluded from cost of production.	Impairment loss on assets shall be excluded from cost of production/ service .
(o)	The method of depreciation used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.	Deleted
(p)	An entity can use any of the methods of depreciation to assign	Deleted

Para	Existing	Revised
	depreciable amount of an asset on a systematic basis over its useful life, namely, Straight-line method; Diminishing balance method; and Units of production method etc.	
(q)	The method of amortisation of intangible asset shall reflect the pattern in which the economic benefits accrue to entity.	Deleted
(r)	The methods and rates of depreciation applied shall be reviewed at least annually and, if there has been a change in the expected pattern of consumption or loss of future economic benefits, the method applied shall be changed to reflect the changed pattern.	Deleted
(s)	Spares purchased specifically for a particular asset, or class of assets, and which would become redundant if that asset or class of asset was retired or use of that asset was discontinued, shall form part of that asset. The depreciable amount of such spares shall be allocated over the useful life of the asset.	Spares purchased specifically for a particular asset, or class of assets, and which would become redundant if that asset or class of asset was retired or use of that asset was discontinued, shall form part of that asset. The depreciable amount of such spares shall be allocated over the useful life of the asset. In case of companies to which Indian Accounting Standards apply, items such as spare parts, stand-by equipment and servicing equipment are recognised as property, plant and equipment when they meet the definition of property, plant and equipment and depreciated accordingly. Otherwise, such items are classified as inventory.
(t)	Cost of small assets shall be written off in the period in which	Deleted

Para	Existing	Revised
	they were purchased as per the accounting policy of the entity.	
(u)	Depreciation of an asset shall not be considered in case cumulative depreciation exceeds the original cost of the asset, net of residual value.	Deleted
(v)	Where depreciation for an addition of an asset is measured on the basis of the number of days for which the asset was used for the preparation and presentation of financial statements, depreciation of the asset for assigning to cost of object shall be measured in relation to the period, the asset actually utilized.	Deleted
7	Overheads	
(h)	Any subsidy or Grant or Incentive or amount of similar nature received or receivable with respect to overheads shall be reduced for ascertainment of the cost object to which such amounts are related.	Any subsidy or Grant or Incentive or amount of similar nature received or receivable with respect to overheads shall be reduced for ascertainment of the cost object to which such amounts are related. In case of companies to which Indian Accounting Standards apply, any such Grants recognized as deferred income shall be reduced from the overhead cost in the financial year when such deferred income is recognised as income.
8	Administrative Overheads	
(e)	Any Subsidy or Grant or Incentive or any amount of similar nature received or receivable with respect to any Administrative overheads shall be reduced for ascertainment of the cost object to which such amounts are related.	Any Subsidy or Grant or Incentive or any amount of similar nature received or receivable with respect to any Administrative overheads shall be reduced for ascertainment of the cost object to which such amounts are related. In case of companies to which Indian Accounting Standards apply, any such Grants recognized as deferred income shall be reduced from the

Para	Existing	Revised
		administrative overhead cost in the financial year when such deferred income is recognised as income.
10	Royalty and Technical Know-how	
(d)	Any Subsidy or Grant or Incentive or any such payment received or receivable with respect to amount of Royalty and Technical Know-how fee shall be reduced to measure the amount of royalty and technical know-how fee.	Any Subsidy or Grant or Incentive or any such payment received or receivable with respect to amount of Royalty and Technical Know-how fee shall be reduced to measure the amount of royalty and technical know-how fee. In case of companies to which Indian Accounting Standards apply, any such Grants recognized as deferred income shall be reduced from the royalty and technical know-how fee in the financial year when such deferred income is recognised as income.
11	Research and Development Expenses	
(b)	Subsidy or Grant or Incentive or amount of similar nature received or receivable with respect to Research and Development Activity, if any, shall be reduced from the cost of such Research and Development Activity.	Subsidy or Grant or Incentive or amount of similar nature received or receivable with respect to Research and Development Activity, if any, shall be reduced from the cost of such Research and Development Activity. In case of companies to which Indian Accounting Standards apply, any such Grants recognized as deferred income shall be reduced from the research and development cost in the financial year when such deferred income is recognised as income.
12	Quality Control Expenses	
(g)	Any Subsidy or Grant or Incentive or any such payment received or receivable with respect to any Quality Control cost shall be reduced for ascertainment of the cost object to which such amounts are related.	Any Subsidy or Grant or Incentive or any such payment received or receivable with respect to any Quality Control cost shall be reduced for ascertainment of the cost object to which such amounts are related. In case of companies to which Indian Accounting Standards apply, any such Grants recognized as deferred income shall be reduced from the quality

Para	Existing	Revised
		control cost in the financial year when such deferred income is recognised as income.
13	Pollution Control Expenses	
(p)	Subsidy or Grant or Incentive or amount of similar nature received or receivable with respect to Pollution Control activity, if any, shall be reduced for ascertainment of the cost of the cost object to which such amounts are related.	Subsidy or Grant or Incentive or amount of similar nature received or receivable with respect to Pollution Control activity, if any, shall be reduced for ascertainment of the cost of the cost object to which such amounts are related. In case of companies to which Indian Accounting Standards apply, any such Grants recognized as deferred income shall be reduced from the pollution control cost in the financial year when such deferred income is recognised as income.
14	Service Department Expenses	
(n)	Any Subsidy or Grant or Incentive or any such payment received or receivable with respect to any service cost centre shall be reduced for ascertainment of the cost to which such amounts are related.	Any Subsidy or Grant or Incentive or any such payment received or receivable with respect to any service cost centre shall be reduced for ascertainment of the cost to which such amounts are related. In case of companies to which Indian Accounting Standards apply, any such Grants recognized as deferred income shall be reduced from the service department cost in the financial year when such deferred income is recognised as income.
15	Packing Expenses	
(h)	Any Subsidy or Grant or Incentive or any such payment received or receivable with respect to packing material shall be reduced for ascertainment of the cost to which such amounts are related.	Any Subsidy or Grant or Incentive or any such payment received or receivable with respect to packing material shall be reduced for ascertainment of the cost to which such amounts are related. In case of companies to which Indian Accounting Standards apply, any such Grants recognized as deferred income shall be reduced from the packing material cost in the financial year when such deferred income is recognised as income.
16	Interest & Financing Charges	

Para	Existing	Revised
(a)	Interest and Financing charges are costs incurred by an enterprise in connection with the borrowing of fund or other costs which in effect represent payment for the use of non- equity fund.	Interest and Financing Charges are interest and other costs incurred by an entity in connection with the financing arrangements which shall be measured in accordance with the provisions contained in Companies Act, 2013 and Rules made thereunder.
(e)	Subsidy or Grant or Incentive or amount of similar nature received or receivable with respect to Interest and Financing Charges, if any, shall be reduced to ascertain the net interest and financing charges.	Subsidy or Grant or Incentive or amount of similar nature received or receivable with respect to Interest and Financing Charges, if any, shall be reduced to ascertain the net interest and financing charges. In case of companies to which Indian Accounting Standards apply, any such Grants recognized as deferred income shall be reduced from the interest and financing cost in the financial year when such deferred income is recognised as income.
18	Capacity Determination	
(a)	Capacity shall be determined in terms of units of production or equivalent machine or man hours.	Capacity shall be determined in terms of units of production or services or equivalent machine or man hours.
21	By-Products and Joint Products	
(b)	Proper records shall be maintained 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	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.

Para	Existing	Revised
	disposal of joint products or services.	

Form CRA-3
[Pursuant to Rule 6(4) of the Companies (Cost Records and Audit) Rules, 2014]
FORM OF THE COST AUDIT REPORT

Annexure to the Cost Audit Report	
Part-A	
General Information	
Level of rounding used in cost statements: Absolute/ thousands/ lacs/crores	Level of rounding used in cost statements: INR in Absolute/ thousands/lacs/crores
Reporting currency of entity: INR	Whether Indian Accounting Standards are applicable to the company: Yes/No
PRODUCT/SERVICE DETAILS (for the company as a whole)	
Extra Ordinary Income, if any	Exceptional, Extra Ordinary and Other Comprehensive Income, if any
Total Revenue including Extra Ordinary Income, if any	Total Revenue including Exceptional, Extra Ordinary and Other Comprehensive Income, if any
Note: Explain the difference, if any, between Turnover as per Annual Accounts and Turnover as per Excise/Service Tax Records.	Note: 1) Explain the difference, if any, between Turnover as per Financial Accounts and Turnover as per Excise/Service Tax Records. 2) In case of companies to which Indian Accounting Standards apply, the revenue shall be net of taxes & duties.
<u>Part-D</u>	
PROFIT RECONCILIATION (for the company as a whole)	

Profit or Loss as per Financial Accounts	Profit or Loss as per Financial Accounts (excluding Other Comprehensive Income for companies following Ind AS)
VALUE ADDITION AND DISTRIBUTION OF EARNINGS (for the company as a whole)	
Add: Extra Ordinary Income	Add: Exceptional, Extra Ordinary and Other Comprehensive Income, if any
Extra Ordinary Expenses	Exceptional and Extra Ordinary Expenses, if any
FINANCIAL POSITION AND RATIO ANALYSIS (for the company as a whole)	
Gross Assets	Gross Fixed Assets
Net Assets	Net Fixed Assets
Notes: 1) Capital Employed means average of Net fixed assets (excluding effect of revaluation of fixed assets) plus Non-current investments and net current assets existing at the beginning and close of the financial year. 2) Net Worth is as defined under clause (57) of section 2 of the Companies Act, 2013.	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 & 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.

	<p>3) Net Worth is as defined under clause (57) of section 2 of the Companies Act, 2013.</p> <p>4) In case of companies to which Indian Accounting Standards apply:</p> <ul style="list-style-type: none">a) Revenue shall be net of taxes & duties.b) PBT shall not include “Other Comprehensive Income”
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