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**THE INSTITUTE OF COST ACCOUNTANTS OF INDIA**  
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G:142:07:2014

July 02, 2014

**Sub: Rules under Section 148 of the Companies Act, 2013.**

Respected *Sir*

This is with reference to the Companies (Cost Records and Audit) Rules, 2014 issued On 30<sup>th</sup> June, 2014 for operation of the Section 148 of the Companies Act, 2013.

In response to the Draft Companies (Cost Records and Cost Audit) Rules, 2013 notified on 21.11.2013, the Council of the Institute vide letter no. G:142:12:2013 dated December 14, 2013 had submitted suggestions to the Ministry of Corporate Affairs to safeguard the interest of the Indian economy, the common consumers, keeping in mind the prevailing competition and investors / public interest.

Unfortunately, the Companies (Cost Records and Audit) Rules, 2014 have failed to consider any of the suggestions. It seems that thousands of the suggestions given by public at large by the due date 14.12.2013 have also been ignored.

In the Companies (Cost Records and Audit) Rules, 2014, issued on 30.06.2014 the provisions for maintenance of Cost Accounting Records and Cost Audit to fulfil the objectives of improving and transforming Indian industry into a globally competitive manufacturing hub and encouraging SSIs has not been addressed.

- Corporate accountability is not only about mandatory disclosures and compliances if it was so it will not lead to the global trend towards sustainability and integrated reporting. Global economies are gradually moving towards comprehensive performance reporting for the good governance demonstration.
- In India also MCA as well as SEBI recognise responsible use of resources as a demonstration of responsible business conduct. SEBI has even made it mandatory for top 100 companies. Top industries such as Paper, Textile, Automobile, Engineering, Electrical, Electronics etc use natural resources heavily. The cost accounting records are used to demonstrate to the governing bodies such as the Board about the responsible use of resources.
- By removing the cost records and Board reporting in these sectors empowerment and governance are weakened and hence accountability gets impacted while Government may need Cost Audit in strategic, regulated and other sectors, the system should have been used to reinforce corporate accountability rather than missing it.

The provisions relating to maintenance of Cost Accounting Records and Cost Audit incorporated in the Companies Act, 1956, in the year 1965, was intended to make efficiency audit possible, to arrest frauds and continuing thereafter to safeguard the interest of the Indian Economy.



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In the year 2008, after reviewing the existing provisions, the Ministry came out with simplified provisions for maintenance of Cost Records and Audit thereof in the year 2011, keeping in mind the maturity level of Cost and Management Accounting in Indian economy, to make Indian industries competitive. These Rules of 2011 have completely been reversed by the Companies (Cost Records and Audit) Rules, 2014.

The maintenance of cost records should comply with the requirement of Cost Accounting standards and Generally Accepted Cost Accounting Principles as mandated in the Companies (Cost Accounting Records) Rules, 2011 and is not recognised in the Companies (Cost Records and Audit) Rules, 2014 which we apprehend will create lot of disparity in computation of cost of product/services.

You are aware that the Institute has been working with the Industry Associations, Academic Institutions and Government Departments to create awareness of Cost Management and to bring cost competitiveness for ensuring quality product and services to the consumers at reasonable prices.

You will kindly appreciate that there is a need to cover the private companies which constitute 93% of the total companies in India under the ambit of Cost Accounting Record Rules to ensure cost maturity level as these companies are using huge resources of the country. Accordingly, the threshold limit for the maintenance of Cost Accounting Records and Cost Audit should be brought back to the level envisaged in the Cost Accounting Records Rules and Cost Audit orders during 2011.

The changes made in the new Rules will severely affect the Profession, its members and students totalling to around 6,00,000, the stakeholders and the Indian economy at large and have operational issues.

We, therefore, request your kind honour for necessary modification of the Rules in line with the suggestions given by the Institute, to safeguard the interest of the Indian economy.

The details of the areas which have not been covered under the new Rules and required modifications are submitted in Annexure-I&II for your kind perusal and necessary rectificatory action.

With Best Regards,

Yours sincerely,

(CMA Dr. S.C. Mohanty)

Encl: as above.

Shri Naved Masood, IAS  
Secretary to the Government of India  
Ministry of Corporate Affairs  
Shastri Bhawan, New Delhi.



**Forms and Filing of Reports**

1. The new Rules and the product definitions will lead to major increase in the cost to the Government as the entire "Product Group", "costing Taxonomy" and "XBRL" filing process has to be redone for this purpose.
2. The existing "Product Group", "costing Taxonomy" and "XBRL" filing process has stood through the test of filing for two years and they have become robust after many course corrections over a period of four years.
3. This will involve major additional cost to the Government.
4. The coverage of industries does not have a clear logic and it will lead to major confusion as to what products are covered and what are not covered. The Product Group as per Excise Classification (Based on international HSN Code) was a clear definition of the products covered. New classification will again has to be developed afresh involving another year of work with additional cost.
5. There is an illogical mention about "stock of services" in annexure (item 16) to Form CRA-2.
6. The new Formats have refurbished the old (upto 2010 rules) rules, which have been found to be too elaborate by the industry. The new rule formats have gone back to the old era which was strongly objected to by the industry.
7. The cost audit report filing (CRA-4) does not have any provision for cost auditor's signature, which is a very important part of audit standards.



Coverage and Critical Sectors and Implementation Issues

1. The maintenance of cost records should comply with the requirement of Cost Accounting standards and Generally Accepted Cost Accounting Principles as defined in the Companies (Cost Accounting Records) Rules, 2011 and is omitted in the Companies (Cost Records and Audit) Rules, 2014.
2. The product, production, production of goods, product group, service and providing service needs to be defined in the Rules to avoid any ambiguity in future.
3. The provision for cost records certificate should be kept which may either be certified by a Practicing Cost Accountant or the management to ensure cost competitiveness of the industry using the resources of the society. This will be applicable to industries which are not covered under the provisions of Cost Audit.
4. The activities mentioned under the companies engaging in strategic sector 3A needs to be co-related with the Chapter heading of the Central Excise Tariff Act, 1985 to avoid any ambiguity.
5. Clarification is required as regards the companies engaged in the production of goods in strategic sectors as mentioned, as such. Whether any other goods in the strategic sectors are covered?
6. The provisions under 3B (ai) for port services should cover both major and minor ports as the minor ports also have substantial contribution in the port services. In India there are 12 major ports out of which one is under the Companies Act and others are under major Ports Act. But there are 176 non-major ports controlled by the State Governments which needs to be covered under the provisions of Cost Accounting Records and Cost Audit to ensure cost effective services to the stakeholders. The Institute is making cost studies for some of the Ports to ensure a structured approach towards arriving at cost of services.
7. The provision under B (a)(v) steel, (vii) drugs and pharmaceuticals, (viii) Fertilisers, (ix) Sugar and industrial alcohol and (xi) Rubber and allied products needs to be co-related with the Chapter heading of the Central Excise Tariff Act, 1985 to avoid any ambiguity.
8. The Companies operating in areas involving public interest in a(ii), (iii), (iv), (v), (vi), (vii), (viii), (ix) needs to be co-related with the Chapter heading of the Central Excise Tariff Act, 1985 to avoid any ambiguity.
9. Machinery, mechanical appliances and parts thereof, electrical/ electronic machinery equipment and parts thereof, automobile and auto ancillary included in Chapter 84, 85 and 87 of the Central Excise Tariff Act, 1985 needs to be covered under the Rules to safeguard the interest of Central exchequer as the country has experienced several disputes in this sector. These sectors consume huge resources and there is a



need to provide for maintenance of cost records and cost audit to bridge the gap between the cost and price and to safeguard the interest of the revenue.

10. Textile Industry included in Chapters 50 to 63 of the Central Excise Tariff Act 1985 needs to be included to safeguard the public interest to bridge the gap between the cost and price for the benefit of the common man.
11. Automobiles and components thereof included in Chapters 84, 85 and 87 of the Central Excise Tariff Act 1985 needs to be included under the provisions of Cost Accounting Records and Cost Audit to ensure cost effective operation of the industry and reasonable pricing for the consumers.
12. Packaged food products included in Chapter 2 to 25 of the Central Excise Tariff Act, 1985 (except chapters 5, 6, 14, 23 and 24) needs to be covered to safeguard the public interest to bridge the gap between the cost and price for the benefit of the common man.
13. Edible Oil Seeds and Oils (included Vanaspati) included in Chapter 12 and 15 of the Central Excise Tariff Act, 1985 needs to be covered being the product of mass consumption to safeguard the interest of the common consumer instead of edible oil under the administrative price mechanism.
14. Plantation Products – Tea, Coffee, Rubber and articles thereof including Tyres & Tubes included in Chapter 9 and 40 of the Central Excise Tariff Act, 1985. These sectors need to be covered under the provisions of Cost Accounting Records and Cost Audit to ensure cost effective operation of the industry and reasonable pricing for the consumers.
15. Paper, Paperboard and articles thereof included in Chapter 47 and 48 of the Central Excise Tariff Act, 1985. These sectors need to be covered under the provisions of Cost Accounting Records and Cost Audit to ensure cost effective operation of the industry and reasonable pricing for the consumers.
16. Glass and Glassware included in Chapter 70 of the Central Excise Tariff Act, 1985. These sectors need to be covered under the provisions of Cost Accounting Records and Cost Audit to ensure cost effective operation of the industry and reasonable pricing for the consumers.
17. To address the concern of the industry regarding confidentiality, the reporting of the product wise costs needs to be changed to product group wise as being provided in the Cost Audit Report Rules, 2011.