

Cost Accounting Records Rules (CARR, 2011) & Compliance reporting

New CARR & its Applicability

1. CG notification vide [F.No.52/10/CAB – 2010] dated 03/06/2011 has superseded product specific CAR and replaced them with uniform CARR requirement (in line with CAS issued by ICWAI).
2. New rules cut across all activities/sectors except 8 products/activities for which specific CARR shall remain in force.
3. Applicability:
 - Rule 3(1) of 2011 record rules provides that these shall apply to every company which satisfies following conditions:
 - Co. is engaged in any of the following activities
 - Production
 - Processing
 - Manufacturing or
 - Mining
 - Term Company includes a foreign company as defined under section. 591 of the Act. & any one of following 3 conditions are satisfied:
 - *Aggregate net worth value on last date of immediately preceding F/Y exceeds **Rs. 5 Crores.***
 - *Aggregate value of T/O from sale or supply of products/activities during immediately preceding F/Y exceeds **Rs. 20 Crores.***
 - *The company's equity or debt securities are listed or in the process of listing on any Stock Exchange in India or abroad.*

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Revised Cost Audit Rules

Radically changed mechanism of Cost Accounting and Cost Audit introduced. The revised mechanism marks a clear departure from the erstwhile rule based mechanism to a principle based mechanism. As part of this paradigm shift, among others, the Ministry of Corporate affairs has

1. Superseded The Cost Audit Report Rules, 2001 and replaced it with The Companies (Cost Audit Report) Rules, 2011
2. As part of the new regime, the practice of issue of individual cost audit orders to the respective companies selected for each product covered under cost accounting record rules has been done away with. No individual Cost Audit Orders will be issued hence forth.
3. New industry specific Cost Audit Orders, vide F. No. 52/26/CAB-2010 dated 2nd May 2011, 3rd May, 2011, 30th June, 2011, 24th January, 2012, (subject to certain conditions of Net Worth/ Turnover) applicable to companies to which any of the Uniform or Industry Specific Cost Accounting Records Rules apply have been issued. **These orders will be applicable only up to FY 2012-13**
4. **Order applicable to Financial Year 2013-14 and onwards**

COST AUDIT ORDER NO. F. No. 52/26/CAB-2010 dated 06.11.2012

The aforesaid Cost Audit Order was notified consequent to the notification of the Product or Activity Group classification published vide S.O. 1747(E) dated 7th August, 2012 and in supersession of the earlier Orders issued vide even number dated 2nd May 2011, 3rd May 2011, 30th June 2011 and 24th January 2012. **The order will be applicable to all the financial years commencing on or after 1st January 2013 (i.e. FY 2013-14 and onwards)**

The said Order widens the scope of Cost Audit by bringing 23 chapters of CETA which were not covered in earlier orders, within the purview of Cost Audit with effect from 01.01.2013 and simplifies the determination of coverage and applicability by avoiding reference to multiple orders

The Cost audit under the said Order will be applicable subject fulfillment of the conditions mentioned below

	Product /Activity Groups covered by the respective Cost Accounting Records (Industry) rules or specified in Table I of the Order	Product/Activity Groups covered by uniform CARR and specified in Table II of the Order
1	Aggregate value of net worth on the last day of preceding financial year was more than ` 5 crores.	Aggregate value of the turnover of sales and other activity of all the products exceeds 100 crores in the preceding year.
	Or	
2	Aggregate value of the turnover of sales and other activity of all the products exceeds 20 crores in the preceding year.	Or
	Or	
3	The debt or equity securities of the company are listed or are in process of getting listed on any of the stock exchanges in India or outside India.	
4	COST AUDITORS TO BE APPOINTED WITHIN 90 DAYS FROM THE COMMENCEMENT	

In short, Cost Audit, subject to the turnover and/or net worth criterion, is applicable to all companies engaged in production, processing, manufacturing or mining of products/activities (irrespective of whether Central Excise Duty is levied or not), EXCEPT those products/activities falling under the 11 chapters of CETA which are not covered by the said order:

Implications For Industry

1. Applicability of Rules cuts across industries –manufacturing, service, processing, agriculture
2. Huge number of companies bought under ambit of CARR and CAR
3. Need for compliance through maintenance of appropriate Cost Records
4. The Cost records to be compliant with Cost Accounting Standards (CAS) & Generally Accepted Cost Accounting Principle (GACAP) issued by ICWAI
5. **Yearly Certification of Cost Records, issue of Compliance Report by a Cost and management Accountant [CMA] in practice and filing of the same with central Government**
6. Period of maintenance of Coat records – 8 years
7. **New procedure for appointing the Cost Auditors within 90 days from the commencement of every financial year. Cost Accountants to be appointed as Cost Auditor for conducting the audit of cost records by the companies covered by cost audit orders issued under section 233B of the Companies Act, 1956.**
5. **Cost audit report to be filed within 180 days from the close of the financial year concerned.**
6. Contravention of provisions of CARR 2011 and CAR 2011 will render the Company liable for punishment with fine which may extend to Rs. 5000 and where the contravention is of a continuing nature, with fine which may extend to Rs. 500 per day.
7. Every officer of the company who is in default shall be shall be liable to be punished with imprisonment which may extend to 3 years, or with fine which may extend to Rs.50000 or with both

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Broad Process for Compliance Report / Cost Audit

This would involve

Visit to plants & discussions with Plant representatives by our representatives

Review extent of data availability vis-à-vis requirements

Best possible scenario within given limitations to be arrived at

Formats for submission of data for Compliance/Audit as the case may be, required for processing to be given

Processing of reports applicable for Compliance reporting /Audit

Discussion of results with Plant representative & finalization

Reconciliation with Financial records & reasons to be furnished by client

Final Reporting Compliance Report or Cost Audit Report as the case may be

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