

## **COST ACCOUNTING RECORDS (BEARINGS) RULES, 1985**

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## **COST ACCOUNTING RECORDS (BEARINGS) RULES, 1985**

<sup>1</sup>1. Published in the Gazette of India, Pt. II, Sec. 3 (i), dated 13th July. 1985. In exercise of the powers conferred by sub-section (1) of Section 642 read with Cl. (d) of sub-section (1) of Sec. 209 of the Companies Act, 1956 (1 of 1956) (hereinafter referred to as "the Act"), the Central Government hereby makes the following rules, namely :

### **1. Short title and commencement :-**

1.1. Direct Materials.-Proper records shall be maintained showing separately all receipts, issues and balances both in quantities and cost of direct materials like steel tubes, bars, wires, strips, etc., required for the production, processing or manufacturing of products referred to in rule 2. These records for direct material shall contain such details as will enable the company to determine the quantity, cost of receipts (including all direct charges up to the works), issues and balances of materials separately for imported and indigenous supplies. In case of imported materials including those canalised through Government agencies, details of FOB price, freight and insurance charges (CIF Value), customs duty, port charges, inland freight charges paid shall be recorded separately. The basis on which the said quantities and costs of issues and consumption have been calculated shall be indicated in the cost records and such basis shall be followed consistently.

1.2. Consumable stores, small tools, machinery spares, etc.

1.2.1. Proper records shall be maintained to show the receipts, issues and balances, both in quantities and cost of each item of consumable stores, small tools and machinery spares, dies, etc. The cost shown shall include all direct charges up to the works.

1.2.2. In the case of consumable stores, small tools and machinery spares the cost of which are insignificant, the company may, if it so desires, maintain such records for the main groups of such items.

1.2.3. The cost of consumable stores, small tools, machinery spares, dies, etc., shall be charged to the relevant cost centres on the basis of actual issues.

1.3. Materials consumed on capital works such as additions to buildings, plant and machinery and other fixed assets shall be shown under relevant capital heads.

1.4. Wastages, spoilages, rejections, losses, etc., of materials.

1.4.1. Proper records shall be maintained showing the quantity of wastages, spoilages, rejections and losses of materials in manufacture (operation-wise), consumable stores, small tools and machinery spares, dies. etc., whether in transit, storage, manufacture or at any other stage. The reasons for wastages, spoilages, rejections and losses and method followed for the adjustment of the above losses shall be indicated in the cost records.

1.4.2. Proper records shall be maintained showing the quantity of different kinds of scrap generated.

1.4.3. If any scrap is recycled, proper records in regard to quantity and reprocessing charges shall be maintained.

1.4.4. Records for the realisation derived from the disposal of scrap, rejected and waste material and the value of rejected materials re-used in process, shall be maintained separately and the method adopted for adjusting the aforesaid recoveries in the cost of production shall be indicated in the cost records.

## **2 \Application**

[. .-They shall apply to every company engaged in the production, processing or manufacture of bearings of various types, viz., ball and roller bearings, needle bearings and of various sizes, excepting those companies falling under the category of small scale industrial undertakings.

**2** [Explanation.-For the purposes of this rule, the expression "small scale industrial undertaking" means a company,-

(a) The aggregate value of the machinery and plant installed wherein does not exceed sixty lakh rupees as on the last day of the preceding financial year, and for this purpose the value of any machinery or plant shall be,-

(i) in the case of any machinery or plant owned by the company the cost thereof to the company; and

(ii) in the case of any machinery or plant held by the company or lease or by hire purchase, the cost thereof as in the case of owner of such machinery or plant; and

(b) the aggregate value of the realisation made by the company from the sale or supply of all its products during the preceding financial year does not exceed ten crore rupees.]

1. Subs. by G.S.R. 568, dated 22nd July, 1989 (w.e.f. 5th August, 1989).

2. Subs. by G.S.R. 328 (E), dated 24th March.1993 (w.e.f. 24th March, 1993).

## **3. Maintenance of records :-**

3.1. Detailed records shall be maintained to indicate expenses incurred for each service department/cost centre like welfare, testing, etc. These expenses shall be apportioned to other services and production departments on an equitable basis which shall be

applied consistently.

### 3.2. Power :

3.2.1. Adequate records shall be maintained for the quantity and cost of power purchased. Where power is generated by the company itself adequate records shall be maintained to show the cost of power generated. Necessary records shall also be maintained to show total power consumed for the production of bearings in different cost centres and departments. These records shall be maintained in such detail as may enable the company to furnish the necessary particulars in Annexure I to this Schedule or in a form as near thereto as practicable.

3.2.2. Where power is generated and supplied by any other unit of the company for the manufacture of the products under reference, adequate records shall be maintained to assess the quantity and cost of power so supplied. The rate charged by that unit shall be on a reasonable basis which shall be applied consistently. The cost of power allocated to production of bearings shall be on a reasonable basis which shall be applied consistently.

## **4 \ Penalty**

4.1. 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 (3) of rule 3 shall, subject to the provisions of Section 209 of the Act, be punishable with fine, which may extend to five hundred rupees and where the contravention is a continuing one, with a further fine which may extend to fifty rupees for every day after the first during which such contravention continues.

### SCHEDULE 1

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#### **1. Material :-**

1.1. Direct Materials.-Proper records shall be maintained showing separately all receipts, issues and balances both in quantities and cost of direct materials like steel tubes, bars, wires, strips, etc., required for the production, processing or manufacturing of products referred to in rule 2. These records for direct material shall contain such details as will enable the company to determine the quantity, cost of receipts (including all direct charges up to the works), issues and balances of materials separately for imported and indigenous supplies. In case of imported materials including those canalised through Government agencies, details of FOB price, freight and insurance charges (CIF Value), customs duty, port

charges, inland freight charges paid shall be recorded separately. The basis on which the said quantities and costs of issues and consumption have been calculated shall be indicated in the cost records and such basis shall be followed consistently.

## 1.2. Consumable stores, small tools, machinery spares, etc.

1.2.1. Proper records shall be maintained to show the receipts, issues and balances, both in quantities and cost of each item of consumable stores, small tools and machinery spares, dies, etc. The cost shown shall include all direct charges up to the works.

1.2.2. In the case of consumable stores, small tools and machinery spares the cost of which are insignificant, the company may, if it so desires, maintain such records for the main groups of such items.

1.2.3. The cost of consumable stores, small tools, machinery spares, dies, etc., shall be charged to the relevant cost centres on the basis of actual issues.

1.3. Materials consumed on capital works such as additions to buildings, plant and machinery and other fixed assets shall be shown under relevant capital heads.

## 1.4. Wastages, spoilages, rejections, losses, etc., of materials.

1.4.1. Proper records shall be maintained showing the quantity of wastages, spoilages, rejections and losses of materials in manufacture (operation-wise), consumable stores, small tools and machinery spares, dies. etc., whether in transit, storage, manufacture or at any other stage. The reasons for wastages, spoilages, rejections and losses and method followed for the adjustment of the above losses shall be indicated in the cost records.

1.4.2. Proper records shall be maintained showing the quantity of different kinds of scrap generated.

1.4.3. If any scrap is recycled, proper records in regard to quantity and reprocessing charges shall be maintained.

1.4.4. Records for the realisation derived from the disposal of scrap, rejected and waste material and the value of rejected materials re-used in process, shall be maintained separately and the method adopted for adjusting the aforesaid recoveries in the cost of production shall be indicated in the cost records.

## **2. Wages and Salaries :-**

2.1. Proper records shall be maintained to show the attendance and earnings of all employees in each cost centre and the work on which they are employed. The records shall also indicate separately for each cost centre :-

(i) piece rate wages earned;

(ii) incentive wages earned either individually or collectively as production bonus or under any other scheme based on output;

(iii) overtime wages earned;

(iv) earnings of casual labour.

2.2. Idle time shall be separately recorded under classified headings indicating the reasons therefor. The method followed for accounting of the idle time payments in determining the cost of the product shall be disclosed in the cost records.

2.3. Wages and salaries chargeable to capital works such as additions to plant and machinery, building or other fixed assets shall be accounted for under the relevant capital heads.

## **3. Service Department Expenses :-**

3.1. Detailed records shall be maintained to indicate expenses incurred for each service department/cost centre like welfare, testing, etc. These expenses shall be apportioned to other services and production departments on an equitable basis which shall be applied consistently.

3.2. Power :

3.2.1. Adequate records shall be maintained for the quantity and cost of power purchased. Where power is generated by the company itself adequate records shall be maintained to show the cost of power generated. Necessary records shall also be maintained to show total power consumed for the production of bearings in different cost centres and departments. These records shall be maintained in such detail as may enable the company to furnish the necessary particulars in Annexure I to this Schedule or in a form as near thereto as practicable.

.2.2. Where power is generated and supplied by any other unit of the company for the manufacture of the products under reference,

adequate records shall be maintained to assess the quantity and cost of power so supplied. The rate charged by that unit shall be on a reasonable basis which shall be applied consistently. The cost of power allocated to production of bearings shall be on a reasonable basis which shall be applied consistently.

#### **4. Workshop Repair and Maintenance :-**

4.1. Proper records showing the expenditure incurred by the workshop in repairs and maintenance jobs shall be maintained. The records shall also indicate the basis of charging the cost of these jobs to different cost centres and departments.

4.2. Expenditure on major repair works from which benefit is likely to accrue for more than one financial year shall be shown separately in the cost records, indicating the method of allocating these costs to the cost of bearings manufactured during the relevant period.

4.3. Expenditure incurred on works of a capital nature shall be capitalised. The cost of such jobs shall include the expenditure on direct material, direct labour and due share of the overheads.

4.4. The jobs carried out by workshops of other units and for other units of the company shall be charged on a reasonable basis which shall be applied consistently.

#### **5. Depreciation :-**

5.1. Proper records shall be maintained showing the cost and other particulars of fixed assets in respect of which depreciation is to be provided. These records shall, inter alia, indicate the cost of each item of asset including installation charges, if any, the date of installation and rate of depreciation and location of each asset. In respect of those assets, the cost of which cannot be ascertained without any unreasonable expenditure or delay, the valuation shown in the books on the first day of the financial year beginning on or after the commencement of these rules shall be taken as the cost. Such a valuation shall exclude revaluation of any asset that had been done prior to the aforesaid date.

5.2. The basis on which depreciation is calculated and allocated/apportioned to the various cost centres and departments and absorbed on the products shall be clearly indicated in the records. Depreciation chargeable to the different cost centres and

departments shall not be less than the amount of depreciation chargeable in accordance with the provisions of sub-section (2) of Section 205 of the Act, and shall relate to plant, machinery and other fixed assets utilised in such cost centres and departments. In the case of assets and group of assets on which depreciation is written off at the rate of 100 per cent. in the relevant year otherwise than as provided for in the INCOME TAX ACT, 1961 , and the rules made thereunder, such depreciation shall be spread over the number of years during which the benefit is derived from such assets or group of such assets. In case, the amount of depreciation charged in the cost records in any financial year is higher than the amount of depreciation chargeable under the aforesaid provisions of the Act, the amount so charged in excess shall be indicated clearly in the cost records. 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.

**6. Royalty/Technical know-how fee :-**

Adequate records shall be maintained showing the royalty or other recurring or non-recurring payment made to collaborators or technology suppliers in terms of agreements entered into with them. Such records shall be kept separately in respect of each party. The basis of charging such amounts including one-time payments to the products shall be indicated in the cost records.

**7. Other overheads :-**

7.1. Proper records shall be maintained showing the various items of expenses comprising the overheads. These expenses shall be analysed, classified and grouped into works, administration and selling and distribution overheads. In case any expense included in the above categories of overheads can be identified with a particular activity or product, such expenses shall be segregated and charged to relevant activity or product directly at the first instance and thereafter the remaining common expenses under the above categories or overheads shall be apportioned on reasonable and equitable basis and applied consistently. The method followed for allocation/absorption of the above categories of overheads to the departments/cost centres/products shall be indicated in the cost records.

7.2 Where the company is engaged in the manufacture of any other products in addition to the products referred to in rule 2, the records shall clearly indicate the basis followed for apportionment of

the common overheads including head office expenses of the company to the bearings activities, other activities and capital works. The basis followed for apportionment/absorption of overheads to the cost centres and products shall be indicated in the cost records.

**8. Conversion Cost :-**

Proper records shall be maintained for splitting up of conversion costs (the cost of manufacture less direct materials cost) into fixed and variable costs for filling the relevant performance under Sch. II.

**9. Packing :-**

Proper records shall be maintained showing the quantity and cost of various packing materials such as polythene, paper, card board boxes and wooden boxes, etc., used for packing the bearings.

**10. Interest :-**

Proper records shall be maintained showing interest charges. The amount of interest shall be allocated/apportioned to bearings and other activities on a reasonable and equitable basis. The basis of such allocation/apportionment shall be spelt out clearly in the cost records, the incidence of interest for bearings of different types and sizes shall be determined on reasonable and equitable basis.

**11. Expenses/Incentives on export :-**

Proper records showing the expenses incurred on the export of bearing, if any, shall be separately maintained, so that the cost of export sales can be determined correctly. The expenses incurred on exports as well as any export incentive earned shall be reflected in the cost statement relating to export sales. Export incentive be treated as other income and reflected in the cost records as such.

**12. Work-in-progress and finished goods stock :-**

The method followed for determining the cost of work-in-progress and finished goods stock shall be indicated in the cost records so as to reveal the cost elements that have been taken into account in such computation. The method adopted shall be followed consistently. Records showing the value of work-in-progress and the quantities and value of finished goods shall be maintained in Proforma F of Sch. II. The actual consumption of components as against the standard/estimated consumption including normal rejections to bring out excess/abnormal consumption, if any, may also be shown in Proforma F.

### **13. Research and Development Expenses :-**

13.1. Proper records showing the details of expenses, if any, incurred by the company for the research and development work on bearings according to the nature, viz., development of products, existing and new; processes of manufacture existing and new; design and development of new plant facilities; market research for the existing and new products, etc. shall be maintained separately.

13.2. The method of charging these expenses to the cost of the products during any year shall be indicated in the cost records. Where the utility of such work extends over more than one financial year, such expenses shall be treated as deferred expenses and charged to cost of production of bearings and other products on a reasonable basis which shall be applied consistently.

### **14. Cost Statements :-**

14.1. Separate cost statements showing the conversion cost for each operation like cold heading, turning, grinding, lapping, heat treatment, finishing, etc., shall be maintained to enable the company to fill in Proformae A to H of Sch. II and the ascertainment of the actual conversion cost for each type/size of component/bearing. In case the number of types/sizes of components is large, production can be expressed in terms of standard types and sizes of the component. The relation between the actual and standard type/size of the component may be given in Proforma B indicating the weightage factor. The cost of conversion as arrived at in Proforma A for standard units may be allocated to different types and sizes as per Proforma B.

14.2. The cost of sales statements in respect of different types and sizes of bearing sold shall be maintained in Proforma B, E, F and G.

14.3. In case, it is not possible to compile such data for all types of bearings, the cost of production and cost of sales shall be maintained in Proforma C, D and E, respectively, in respect of bearing which are predominantly produced. This data on an overall basis shall cover not less than 80 per cent. of total value of production (quantity multiplied by average sale price) provided that no item constituting not less than 5 per cent. of the value of production is excluded. The same data regarding the rest of the categories of bearings produced shall be given in total in the above-said proforma for the purpose of reconciliation of the total

expenses and income as pre Proforma H. However, the company shall keep adequate records showing the cost of sales and sales realisation for each category in detail.

14.4. Export of bearings shall be exhibited separately in the relevant cost statements and the same shall be excluded from the cost statements meant for sale in the internal markets. Value of export incentives, if any, shall be shown in the respective cost of sales statements.

#### **15. Reconciliation of cost and Financial Accounts :-**

15.1. The cost records shall be reconciled periodically with the financial books of account so as to ensure accuracy, say, quarterly, as well as for the financial year as a whole. The reconciliation shall be done in such a manner that the profitability of the product under reference can be correctly adjudged and profit/loss of the product reconciled with the overall profits/losses of the company.

15.2. A statement showing the total expenses incurred and the income received by the company and the share applicable to bearings activity shall be maintained in Pro- forma H of Sch. II duly reconciled with the financial accounts.

#### **16. Adjustment of cost variances :-**

Where the company maintains cost records on any basis other than actuals, such as standard costing, the record shall indicate the procedure followed by the company in working out the cost of the products under such procedures. The method followed for adjusting the cost variances in determining the actual cost of the product shall be indicated clearly in the cost records. The cost variances shall be shown against the relevant heads in the respective proforma of Sch. II. The reasons for variances shall be indicated in the cost records.

#### **17. Production records :-**

Quantitative records of all finished products, issued for sale and/or captive consumption and balance of different types and sizes of bearings produced by the company shall be maintained. The cost of all finished production may be kept in detail or in the form of control accounts for each type of product, provided the value of the balances according to such control accounts are reconciled periodically at least once in a year with the value of the quantities shown in the quantitative, accounts of each size and type of

bearings.

**18. Record of physical verification :-**

The records of physical verification shall be maintained in respect of all items held in stock such as raw materials, consumable stores, machinery spares, fuels, finished goods and fixed assets. Reasons for the shortages/surpluses arising out of such verification and the method followed for adjusting the same in the cost of the products shall be indicated in the records.

**19. Inter-company transactions :-**

19.1 In respect of supplies made or services rendered by the company to its holding company or a subsidiary or a company in the same management as defined in Section 370(1B) of the Act or a company in which a Director of the company is also a Director in such companies and vice versa, records shall be maintained showing contracts entered into, agreements or understanding reached in respect of,-

(a) purchase and sale of raw materials and process materials, components, rejected goods including scrap and fixed assets;

(b) utilisation of plant facilities;

(c) supply of utilities; and

(d) administrative, technical, managerial and any other consultancy services.

19.2. These records shall indicate the basis followed for arriving at the rates charged between them so as to enable the determination of the reasonableness of the rates charged/paid for such services.

**20. Statistical Records :-**

20.1. Statistical data such as available plant hours, actual plant hours worked with reasons for stoppages, under classified headings, yield percentage of components to the inputs shall be kept.

20.2. Such records as will enable the company to identify the capital employed for the bearings activity shall also be maintained. The records shall also show fresh investment on fixed assets that have not contributed to the production during the relevant period. The records shall in addition show assets added as replacement and for increasing the existing capacity.

SCHEDULE 2

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