

COST ACCOUNTING RECORDS (BULK DRUGS) RULES, 1974

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SCHEDULE 2 :- SCHEDULE

COST ACCOUNTING RECORDS (BULK DRUGS) RULES, 1974

¹1. Published in the Gazette of India, Extraordinary, Pt. II. Sec. 3 (i), dated 14th March, 1974 (w.e.f. 1st April, 1974). 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), the Central Government hereby makes the following rules, namely:

1. Short title and commencement :-

(a) Adequate records shall be maintained showing all receipts, issues and balances both in quantities and cost of each item of raw material and intermediate required and actually used for producing, processing or manufacturing any [bulk drugs and/or intermediates], The basis on which the said quantities and costs have been calculated shall be clearly indicated in the cost records, or if so desired by the company, in a separate manual of procedure, if any, maintained by the company or in foot-notes or explanatory notes to the cost statements. The basis adopted shall be applied consistently. The costs shown in the records shall include all direct charges up to the works. Any wastage whether in storage, _____¹[bulk drugs and/or intermediates] shall be clearly indicated in the cost records,

(b) Where basic raw materials or ingredients such as Sorbitol for the manufacture of Vitamin 'C' or for other¹[bulk drugs and/or intermediates] are manufactured by the company or by its holding company or its wholly owned subsidiary, adequate records showing the cost of production of such items shall be maintained in such details as may enable the company to fill up the particulars in Proforma 'A' of Sch. II or in any form as near thereto as practicable. Where farm products are raised by the company for use in the manufacture of¹[bulk drugs and/or intermediates] or phytochemical products, adequate records to disclose the cost of production of such products shall be maintained in a suitable form. Separate cost statements in respect of each such raw material/ingredient/farm product shall be maintained by the company. The records of these materials shall be maintained in such details as may enable the company to determine the actual cost of production as well as the ultimate cost at the consuming point including all charges upto the works. The basis of pricing adopted by the holding company or subsidiary company for the supply of these raw materials to the subsidiary or holding company, as the case may be, shall be disclosed in the cost records.

(c) Adequate quantitative records for determining the net consumption of solvents like acetone, alcohol, methanol which are used for processing shall be maintained. The cost records shall clearly indicate absorption or loss in the process of solvents used for the production of each¹[bulk drugs and/or intermediate] in a scientific manner indicating in-plant stocks and actual recovery of

pure solvents arising out of production of each individual ¹ [bulk drug and/or intermediate]. Adequate records shall also be maintained showing the receipts, issues and balances, both in quantities and costs of process chemicals, such as, caustic soda, activated carbon and benzene,

(d) The records relating to consumption of production materials shall, as far as possible, be identified with the batch of production or the cost centres to which the materials are issued.

2 \Application

[.-They shall apply to every company engaged in the production, processing or manufacturing of bulk drugs and/or intermediates required specifically for production of bulk drugs or both, excepting those companies falling under the category of small scale industrial undertakings.

3 [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 on 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. 505, dated 16th April, 1984 (w.e.f. 26th May, 1984).

2. Subs. by G.S.R. 551, dated 22nd July, 1989 (w.e.f. 5th August, 1989).

3. Subs. by G.S.R. 311 (E), dated 24th March, 1993 (w.e.f. 24th March, 1993).

3. Definitions :-

Adequate records shall be maintained in order to ascertain the cost of power and fuel. The cost of power and fuel consumed shall be determined on the basis of actual meter reading of consumption or calculated on a reasonable basis and applied consistently. Where

power is generated by the company itself, separate records shall be maintained to show in detail the different items making up the cost of generation of power.

4 \Maintenance of records

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(1) Every company to which these rules apply shall, in respect of each of its financial year commencing on or after the commencement _____ [bulk drugs and/or intermediates]: Provided that if the said company is manufacturing any products or engaged in other activities in addition to any of the [bulk drugs and/or intermediates], the particulars relating to the 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 such [bulk drugs and/or intermediates].

[(2). The books of account referred to in sub-rule (1) shall be kept on a regular basis so as to make it possible to calculate the cost of production and cost of sales of each of the bulk drugs and/or intermediates at regular intervals, say quarterly during the financial year (hereinafter referred to as the relevant period) as well as for the financial year as a whole, from the particulars entered therein and every such books of account and the performance specified in Sch. II shall be completed within ninety days from the end of the financial year of the company to which they relates.]

(3) It shall be the duty of every person referred to in sub-section (6) and sub-section (7) of Sec. 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) and (2) in the same manner as they are liable to maintain financial accounts required under sub-section (1) of Section 209 of the said Act.

5. Penalty :-

Adequate records shall be maintained to determine correctly the quantity and the cost of brine and chilled water utilised by the different production departments.

5 \Penalty

.-If a company contravenes the provisions of rule 4, the company and every officer thereof who is in default, including the persons referred to in sub-rule (3) of that rule ¹ [shall, subject to the provisions of Sec. 209 of the Companies Act, 1956 (1 of

1956), 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.

1. Subs. by G.S.R.. 789, dated 3rd June, 1977 (w.e.f. 25th June, 1977).

SCHEDULE 1

SCHEDULE

1. Production Materials :-

(a) Adequate records shall be maintained showing all receipts, issues and balances both in quantities and cost of each item of raw material and intermediate required and actually used for producing, processing or manufacturing any [bulk drugs and/or intermediates], The basis on which the said quantities and costs have been calculated shall be clearly indicated in the cost records, or if so desired by the company, in a separate manual of procedure, if any, maintained by the company or in foot-notes or explanatory notes to the cost statements. The basis adopted shall be applied consistently. The costs shown in the records shall include all direct charges up to the works. Any wastage whether in storage, _____ ¹[bulk drugs and/or intermediates] shall be clearly indicated in the cost records,

(b) Where basic raw materials or ingredients such as Sorbitol for the manufacture of Vitamin 'C' or for other ¹[bulk drugs and/or intermediates] are manufactured by the company or by its holding company or its wholly owned subsidiary, adequate records showing the cost of production of such items shall be maintained in such details as may enable the company to fill up the particulars in Proforma 'A' of Sch. II or in any form as near thereto as practicable. Where farm products are raised by the company for use in the manufacture of ¹[bulk drugs and/or intermediates] or phytochemical products, adequate records to disclose the cost of production of such products shall be maintained in a suitable form. Separate cost statements in respect of each such raw material/ingredient/farm product shall be maintained by the company. The records of these materials shall be maintained in such details as may enable the company to determine the actual cost of production as well as the ultimate cost at the consuming point including all charges upto the works. The basis of pricing adopted by the holding company or subsidiary company for the supply of these raw materials to the subsidiary or holding company,

as the case may be, shall be disclosed in the cost records.

(c) Adequate quantitative records for determining the net consumption of solvents like acetone, alcohol, methanoi which are used for processing shall be maintained. The cost records shall clearly indicate absorpition or loss in the process of solvents used for the production of each ¹[bulk drugs and/or intermediate] in a scientific manner indicating in-plant stocks and actual recovery of pure solvents arising out of production of each individual ¹ [bulk drug and/or intermediate]. Adequate records shall also be maintained showing the receipts. issues and balances, both in quantities and costs of process chemicals, such as, caustic soda, activated carbon and benzene,

(d) The records relating to consumption of production materials shall, as far as possible, be identified with the batch of production or the cost centres to which the materials are issued.

1. Subs. by G.S.R. 505, dated 16th April, 1984 (w.e.f. 26th May, 1984).

2. Cotisumable stores, small tools, machinery spares, etc :-

(a) Adequate records shall be maintained to show all receipts, issues and balances both in quantity and cost of each item of consumable stores, lubricants and items of spare parts and consumable tools required in connection with the manufacture of the ¹ [bulk drugs and/or intermediates]. The costs shown shall include all direct charges upto works, wherever specifically incurred. In the case of small tools, the costs of which are insignificant, the company may, if it so desires, maintain such records for the main group of such items.

(b) The cost of consumable stores, small tools and machinery spares consumed shall be charged to the relevant heads of account, such as, repairs to plant and machinery, repairs to buildings, maintenance of township and maintenance of vehicles. Items issued for capital works, such as, additions to buildings, plant and machinery, shall be shown under the relevant capital heads. Any wastage in storage, transit or for other reasons shall be shown separately. The method of dealing with such losses in costs shall also be indicated in the cost records.

1. Subs. by G.S.R. 505, dated 16th April, 1984 (w.e.f. 26th May,

1984).

3. Power and Fuel :-

Adequate records shall be maintained in order to ascertain the cost of power and fuel. The cost of power and fuel consumed shall be determined on the basis of actual meter reading of consumption or calculated on a reasonable basis and applied consistently. Where power is generated by the company itself, separate records shall be maintained to show in detail the different items making up the cost of generation of power.

4. Steam :-

Adequate records shall be maintained to ascertain the total quantity and cost of steam generated and the quantity and cost of steam consumed in the different processes, departments or cost centres including that consumed for generation of power. The cost of steam so consumed shall be calculated on a reasonable basis and applied consistently.

5. Brine and chilled water :-

Adequate records shall be maintained to determine correctly the quantity and the cost of brine and chilled water utilised by the different production departments.

6. Raw water, soft water :-

Demineralised water, compressed air Adequate records showing the cost of production and distribution of raw water, soft water, demineralised water and compressed air shall be kept. The cost of these services shall be charged to the respective production departments and to the products on a reasonable basis.

7. By-products :-

Adequate records shall be maintained showing the quantity of by-products derived and the basis adopted for their pricing for giving credit to the respective bulk drugs and intermediates. The basis so adopted for pricing the by-products shall be equitable and consistent. Records showing the expenses incurred on the recovery of the by-products like operation of the distillation columns and treatment plant shall be kept to ascertain correctly the ultimate cost of the by-products in saleable form. Records showing the actual quantity sold and sales realisation of the by-products shall also be maintained.

8. Wages and salaries :-

(a) Proper and systematic records shall be maintained to show the attendance and the earnings of workers and other operational staff indicating the departments or the work on which they are employed. Where payments to workers are made on piece-rate basis the records relating thereto shall be maintained so as to enable proper assessment of wages payable to such workers. Necessary records shall also be maintained in respect of all payments made for overtime work and to casual labour. Where any incentive payments are made, whether in the shape of production bonus or other forms of incentive based on output achieved by the workers individually or collectively, proper records shall also be maintained for the assessment of such payments.

(b) The records shall further show the wages and salaries relating to various manufacturing and other departments or units or cost centres, being the amounts payable and allocated to the different departments or units or cost centres. Idle time of workers shall be recorded separately, indicating the reasons for such idle time and the method of its treatment in calculating the costs of products. Any wages and salaries incurred towards additions to plant, machinery, buildings or other fixed assets shall be allocated to the relevant capital heads in the accounts.

(c) If the wages and salaries are allocated to the departments or units or cost centres or products on any basis other than actuals, the reconciliation of such wages with actuals and method followed for adjusting the cost variance, if any, in determining the actual cost of ' [bulk drugs and/or intermediates] shall be indicated in the cost records.

9. Service Departments Expenses :-

Expenses of service departments shall be apportioned to other service departments and the production departments on the basis of services rendered. Detailed records about the utilisation of the services by the different departments, cost centres and their absorption in products costs shall be maintained.

10. Multi-purpose vessels :-

When more than one manufacturing process is carried out in a particular or series of vessels, adequate records about the usage of such vessels for different products shall be kept. The cost of using such vessels shall be charged to the different products on an equitable basis, such as, equipment occupancy hours. Where composite machine hour rates are applied for absorption of wages,

overheads and equipment usage, proper records relating to the utilisation of labour and multi-purpose vessels for different processes connected with the manufacture of different products shall be kept to enable determination of total machine hours and the amounts chargeable to the respective ¹ [bulk drugs and/or intermediates]. The variances between the actuals and the amounts charged at pre-determined rates shall be adjusted for arriving at the actual cost of production at the end of the year.

1. Subs. by G.S.R. 505. dated 1.6th April, 1984 (w.e.f. 26th May, 1984).

11. Workshop/Repairs and Maintenance Shop expenses :-

Adequate records showing the expenditure incurred in the workshop and in the repairs and maintenance shop shall be maintained. The record shall further indicate the basis of charging the expenditure incurred in these shops to the different departments or manufacturing units or cost centres. Expenditure on a major repair work 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 its treatment in determining the cost of ' [bulk drugs and/or intermediates]. Expenditure incurred on capital works shall be capitalised.

12. Depreciation :-

(a) Adequate records shall be maintained showing the values 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, the date of its acquisition and the rate of depreciation. In respect of those assets, the original cost of acquisition of which cannot be ascertained without an unreasonable expenditure or delay, the valuation as 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 opening balance.

(b) The basis on which depreciation is calculated and turnover allocated to the various departments, cost centres and to the products shall be clearly indicated in the records.

_____ Sec. 205 of the Companies Act, 1956, and shall relate to plant, machinery and other fixed assets utilised in such departments or units or cost centres. If in case the amount of depreciation charged in the cost records is

higher than the amount of depreciation chargeable under the aforesaid provisions of the Companies Act, 1956, the amount so charged in excess shall be indicated clearly in the records. However the cumulative depreciation charged against individual assets over a period of years shall not exceed the original cost of the respective assets, the method once adopted shall be applied consistently,

13. Overhead expenses :-

(a) Adequate records showing the details of the amounts comprising the overhead expenses including the break-up of head office expenses and the data relating to apportionment of overhead expenses to the various departments or manufacturing units or cost centres shall be maintained after reconciling all such expenses with the financial accounts. Overheads relating to works, administration, selling and distribution shall be recorded separately with details. In respect of capital jobs, appropriate share of overhead expenses shall be allocated to the capital heads. Works overheads shall include among other items, indirect materials consumed and the relevant share of staff and labour welfare expenses. The detailed break-up of the items, constituting. Head Office or common unit expenses and their allocation shall be maintained indicating the basis on which they are allocated to different activities or products of the company to enable determination of an equitable charge to the different ¹[bulk drugs and/or intermediates]. The amount allocated to the different ¹[bulk drugs and/or intermediates] shall be reasonable and appropriate. The method of apportioning overhead expenses to the various departments or manufacturing units or cost centres shall be clearly indicated in the cost records and applied consistently. Where the overhead expenses are recovered through the output of the various departments or manufacturing units or cost centres otherwise than at actuals, the method of reconciling such expenses with the actuals for the relevant period, the variances, if any, and the method followed for adjusting the cost variances in determining the cost of bulk drugs shall be indicated in the cost records.

(b) Details of selling and distribution expenses and the share thereof applicable to the ¹[bulk drugs and/or intermediates] and as between different sizes of packs shall be maintained in such a manner so as to enable the relevant particulars to be furnished in Proforma 'C' of Sch. II. Selling and distribution expenses shall be charged only to the quantity of ¹[bulk drugs and/or intermediates]

sold, if applicable. The basis of apportionment of these expenses to the ¹ [bulk drugs and/or intermediates] and others shall be indicated in the cost records and applied consistently. Records showing the expenses incurred on export of bulk drugs, if any, shall be separately maintained so that the cost of sales within the country, and for exports can be correctly determined. These export expenses as well as the credits relating to drawbacks, sale of import entitlements etc., shall be shown in the relevant cost statements of drugs exported for arriving at the net cost.

1. Subs. by G.S.R. 505, dated 16th April, 1984 (w.e.f. 26th May, 1984).

14. Packing :-

Adequate records shall be maintained showing the cost of packing materials and wages and other expenses incurred in respect of different items packed. Where such expenses are not capable of being charged directly against individual items, the basis of _____ apportioning the expenses shall be clearly indicated in the cost records and applied consistently. Detailed records of expenses incurred on export packing, if any, shall also be kept separately and exhibited in the relevant cost statements. The records shall be kept in such a manner that the packing cost in respect of different types and sizes of packs are available separately.

15. Research and Development expenses :-

Adequate records showing the details of expenses incurred by the company for the development of existing products or new products or processes, if any, shall be maintained separately. If the Research and Development Department is also engaged in the design and development of the plant facilities, the appropriate share thereof shall be capitalised. The method of charging research and development expenses to the cost of production shall be indicated in the relevant cost records and such expenses shall be charged to ¹ [bulk drugs and/or intermediates] on a reasonable basis.

1. Subs. by G.S.R. 505, dated 16th April, 1984 (w.e.f. 26th May, 1984).

16. Transfer price for bulk drugs used for captive consumption :-

Adequate records showing the quantities of bulk drugs consumed for captive consumption by the formulation division of the company and the quantity sold to outside parties shall be maintained. The

quantity transferred to formulations shall be valued at cost. A similar procedure shall be followed in respect of intermediates consumed for the manufacture of bulk drugs. However, the selling price as well as the notional price notified to the Central Government under paragraph 5 of Drugs (Prices Control) Order, 1970, shall be shown by way of foot notes in the relevant cost statements indicating the basis on which the notional price has been arrived at.

17. Cost Statements :-

¹[Cost statements showing separately the actual cost of production and marketing of bulk drugs and/or intermediates which are either partially or fully utilised for the manufacture of bulk drugs or sold by the company, shall be shown in pro-firmae 'B' and 'C' of Sch. II or in any form as near thereto as practicable. Costs of bulk drugs and/or intermediates, if exported, shall be exhibited in separate cost statement and the same excluded from the cost statements of these products sold in the internal market.] If a company follows a system of ascertaining costs on any basis other than actuals, such as, standard costing, the method adopted for arriving at the actual costs shown in the Proformae of Sch. II shall also be indicated in the cost records. Packing, selling and distribution expenses in respect of each size of packing shall also be maintained separately. Proforma B of Sch. II is meant to exhibit the final cost of each ¹[bulk drugs and/or intermediates]. Where, however, ¹ [bulk drugs and/or intermediates] passes through identifiable stages of process, such as, fermentation, crystallisation, extraction and purification as in the case of manufacture of antibiotics, cost records for such stages shall be maintained and reconciled with the data incorporated in Proforma 'B' of Sch II.

1. Subs. by G.S.R. 505, dated 16th April, 1984 (w.e.f. 26th May, 1984).

18. Work-in-progress and finished goods stock :-

The basis of arriving at 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 computations. The cost elements referred to shall be related to the items shown in the Proforma of Sch. II. The method adopted shall be consistently followed. _____

Records shall be maintained by the company in such details so as to enable it to fill up the particulars in Proforma 'D' of Sch. II.

19. Reconciliation of cost and financial accounts :-

The cost records shall be periodically reconciled with the financial books of accounts so as to ensure accuracy. Variations, if any, shall be clearly indicated and explained. The period for which such reconciliation is effected shall not exceed the period of the financial year of the company. The reconciliation shall be done in such a manner that the profitability of the products under reference can be correctly adjudged and reconciled with the overall profits of the company from all its activities. A statement showing the total expenses incurred by the company indicating the share applicable to ¹ [bulk drugs and/or intermediates] shall be maintained in Proforma 'E' of Sch. II and reconciled with the financial accounts.

1. Subs. by G.S.R. 505, dated 16th April, 1984 (w.e.f. 26th May, 1984).

20. Records for Stock verification :-

Records of physical stock verification shall be maintained in respect of all materials including different solvents, raw materials, packing materials, consumable stores, small tools and machinery spares and other finished goods stock. Records of consumption and production shall also be reconciled with the excise returns. Any losses or surpluses arising out of such verification or losses in storage or in transit shall also be indicated separately stating the method of their treatment in cost records.

21. Statistical statements and other records :-

Statistical statements and other records shall be maintained in such details so as to enable the company to comply with the requirements of this Schedule and Sch. II and to enable the cost auditor to report to the Company Law Board all the points referred to in the Cost Audit (Report) Rules, 1968, as amended from time to time. Data relating to batch-wise production, standard and actual yields, operational efficiency of individual departments, solvent losses, number of fermentations carried out, equipment occupancy and usage as well as details of major repairs and maintenance carried out shall also be maintained. Such records as will enable to identify, as far as possible, the capital employed separately for the ¹[bulk drugs and/or intermediates] activity shall also be kept. The data shall also reveal fresh investments on fixed assets that have not contributed to the production during the year. The broad effect of under utilisation of capacity, if any, on the cost of production of the ¹ [bulk drugs and/or intermediates] shall also be made

available in the records.

1. Subs. by G.S.R. 505, dated 16th April, 1984 (w.e.f. 26th May, 1984).

SCHEDULE 2

SCHEDULE