

**COST ACCOUNTING RECORDS (CHEMICAL INDUSTRIES)  
RULES, 1987**

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**SCHEDULE 2 :- SCHEDULE**

**COST ACCOUNTING RECORDS (CHEMICAL INDUSTRIES)  
RULES, 1987**

G.S.R. 596, dated 27th July, 1987 1.-In exercise of the powers conferred by sub-section (1) of Section 642, read with (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 :-**

1.1. Proper records shall be maintained showing separately all receipts, issues and balances both in quantities and cost of each item of direct materials required and actually used in the production, processing or manufacture of items referred to in rule 2, in any form or any type. These records for direct materials shall contain such details as to enable the company to determine the quantity, cost of receipt (including all direct charges up to the works in respect of all major direct materials), issues balances of each item of direct material separately for imported and indigenous supplies. In case of imported materials including those canalised through Government agencies, details of free-on-board price, freight and insurance charges (cost, insurance and freight 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 followed consistently.

1.2. Proper records shall be maintained to show the receipts, issues and balances both in quantities and costs of each item of process material/chemical and catalyst. In case of catalyst, proper records shall be maintained for the value and quantity issued in a financial year suitably adjusted for consumption. If the life of the catalyst is more than one financial year, necessary adjustment should be made. If the life of the catalyst is not known, consumption may be assessed on technical basis. The cost of such process materials/chemicals and catalyst shall include all direct charges up to works. The issues and consumption shall be properly identified with the departments, cost centres and products manufactured.

1.2.1. In case where the process materials/chemicals required in the production of items, referred to in rule 2, are manufactured by the company, separate records showing the cost of manufacture of each such item indicating the break up of raw materials consumed for the production and conversion cost shall be maintained in proforma "A" to Sch. II or in any other proforma as nearthereto as may enable the company to determine the cost of such process materials/chemicals produced.

1.2.3. In case any process chemicals, like caustic soda, already

covered under the Cost Accounting Records Rules prescribed, is manufactured by the company, proper cost records shall be maintained as per these rules so as to arrive at the cost of such items.

1.3. If the quantity and value of materials consumed are determined on any basis other than actuals, the method adopted shall be mentioned in the cost records and followed consistently. The overall reconciliation of such quantities and values of materials with the actuals shall be made at least quarterly during the financial year explaining the reasons for variations. The treatment of such variations in determining the cost of the items referred to in rule 2 shall be indicated in the cost records.

1.4. Proper records shall be maintained indicating the quantity and cost of chemicals recovered in the different processes having significant value say 5 per cent or above of the cost of input of materials. In the case of the certain chemicals recovered which cannot be re-used in the process and are sold or disposed of without further processing, the realisation from such sales shall be recorded and adjusted against the process concerned on a reasonable basis. In case further processing is necessary to make these chemicals usable or saleable, as the case may be, adequate records of cost involved for such further processing shall be maintained.

1.5.1. 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. The cost shall include all direct charges up to works.

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

1.5.3. The cost of consumption of consumable stores, small tools and machinery spares shall be charged to the relevant cost centres on the basis of actual issues.

1.6. Proper records shall be maintained showing the quantity and value of wastages, spoilages, rejections and losses of raw materials, process materials, consumable stores, small tools and machinery spares, whether in transit, storage, manufacture or at any other stage. The method followed for adjusting the above losses as well as the income derived from the disposal of rejected and waste

materials including spoilages, if any, in determining the cost of the product shall be indicated in the cost records. Any abnormal wastages or spoilages, etc., shall be indicated distinctly and separately along with reasons therefor.

## **2 \Application**

[. .-These rules shall apply to every company engaged in the production, processing or manufacture of the classes of chemical goods as specified in the Appendix to the Cost Accounting Records (Chemical Industries) Rules, 1987, and those added thereto from time to time by notification in the official Gazette, excepting those companies falling under the category 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; an

(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. 5/0, dated 22nd July, 1989 (w.e.f. 5th August, 1989).

2. Subs. by G.S.R. 330(E), dated 24th March, 1993 (w.e.f. 24th March, 1993).

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

Detailed records shall be maintained to indicate expenses incurred in respect of each service department or cost centre like laboratory, welfare, transport, etc. These expenses shall be apportioned to other services and production departments on equitable basis and applied consistently. Where these services are utilised for other products of the company also, the basis of apportionment to the chemical goods referred to in rule 2 and to the other products shall be equitable and clearly indicated in the records and applied consistently.

## **4 \ Penalty**

. -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 rule 3(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 contravention is a continuing one, with a further fine which may extended to fifty rupees for every day after the first during which such contravention continues.

### SCHEDULE 1

1

#### **1. Materials :-**

1.1. Proper records shall be maintained showing separately all receipts, issues and balances both in quantities and cost of each item of direct materials required and actually used in the production, processing or manufacture of items referred to in rule 2, in any form or any type. These records for direct materials shall contain such details as to enable the company to determine the quantity, cost of receipt (including all direct charges up to the works in respect of all major direct materials), issues balances of each item of direct material separately for imported and indigenous supplies. In case of imported materials including those canalised through Government agencies, details of free-on-board price, freight and insurance charges (cost, insurance and freight 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 followed consistently.

1.2. Proper records shall be maintained to show the receipts, issues and balances both in quantities and costs of each item of process material/chemical and catalyst. In case of catalyst, proper records shall be maintained for the value and quantity issued in a financial year suitably adjusted for consumption. If the life of the catalyst is more than one financial year, necessary adjustment should be made. If the life of the catalyst is not known, consumption may be assessed on technical basis. The cost of such process materials/chemicals and catalyst shall include all direct charges up to works. The issues and consumption shall be properly identified with the departments, cost centres and products manufactured.

1.2.1. In case where the process materials/chemicals required in the production of items, referred to in rule 2, are manufactured by the company, separate records showing the cost of manufacture of

each such item indicating the break up of raw materials consumed for the production and conversion cost shall be maintained in proforma "A" to Sch. II or in any other proforma as nearthereto as may enable the company to determine the cost of such process materials/chemicals produced.

1.2.3. In case any process chemicals, like caustic soda, already covered under the Cost Accounting Records Rules prescribed, is manufactured by the company, proper cost records shall be maintained as per these rules so as to arrive at the cost of such items.

1.3. If the quantity and value of materials consumed are determined on any basis other than actuals, the method adopted shall be mentioned in the cost records and followed consistently. The overall reconciliation of such quantities and values of materials with the actuals shall be made atleast quarterly during the financial year explaining the reasons for variations. The treatment of such variations in determining the cost of the items referred to in rule 2 shall be indicated in the cost records.

1.4. Proper records shall be maintained indicating the quantity and cost of chemicals recovered in the different processes having significant value say 5 per cent or above of the cost of input of materials. In the case of the certain chemicals recovered which cannot be re-used in the process and are sold or disposed of without further processing, the realisation from such sales shall be recorded and adjusted against the process concerned on a reasonable basis. In case further processing is necessary to make these chemicals usable or saleable, as the case may be, adequate records of cost involved for such further processing shall be maintained.

1.5.1. 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. The cost shall include all direct charges up to works.

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

1.5.3. The cost of consumption of consumable stores, small tools and machinery spares shall be charged to the relevant cost centres on the basis of actual issues.

1.6. Proper records shall be maintained showing the quantity and value of wastages, spoilages, rejections and losses of raw materials, process materials, consumable stores, small tools and machinery spares, whether in transit, storage, manufacture or at any other stage. The method followed for adjusting the above losses as well as the income derived from the disposal of rejected and waste materials including spoilages, if any, in determining the cost of the product shall be indicated in the cost records. Any abnormal wastages or spoilages, etc., shall be indicated distinctly and separately along with reasons therefor.

## **2. SALARIES AND WAGES :-**

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

- (a) Piece rate wages earned (wherever applicable);
- (b) Incentive wages earned, either individually or collectively as production bonus or under any other scheme based on output;
- (c) Overtime wages earned;
- (d) Earnings of casual labour.

2.2. The records shall be maintained in such a manner as to enable the company to furnish necessary particulars under this head in the various annexures and proformae of the Schedules. Where the employees work in such a manner that it is not possible to identify them with any cost centre, the labour charges shall be apportioned to the cost centres on equitable basis and applied consistently.

2.3. If the wages and salaries are charged to production on any basis other than actuals, the method adopted shall be indicated in the cost records. The reconciliation of such wages and salaries with actuals shall be made at least quarterly during the financial year explaining the reasons for variations. The treatment of such variations in determining the cost of items referred to in rule 2 shall be indicated in the cost records.

## **3. Services and Department Expenses :-**

Detailed records shall be maintained to indicate expenses incurred in respect of each service department or cost centre like laboratory,

welfare, transport, etc. These expenses shall be apportioned to other services and production departments on equitable basis and applied consistently. Where these services are utilised for other products of the company also, the basis of apportionment to the chemical goods referred to in rule 2 and to the other products shall be equitable and clearly indicated in the records and applied consistently.

#### **4. Utilities :-**

4.1. Proper records shall be maintained showing the quantity and cost of various utilities (both purchased and produced) as detailed below and consumed by the different cost centres in such detail as to enable the company to furnish the particulars in annexures I, II and III of this Schedule:

1. Power
2. Water
3. Steam
4. Refrigeration
5. Compressed air
6. Effluent treatment
7. Oxygen/Nitrogen.

4.2. Proper records shall also be maintained in respect of any other utility produced or purchased by the company in addition to the above, to enable the company to furnish the particulars in Annexures I, II and III, whichever is appropriate.

4.3. If a utility is purchased, proper records showing the delivered cost up to the works including all direct charges shall be maintained for the quantity and value of each utility purchased.

4.4. Where a utility is produced and supplied by any other unit of the company, adequate records shall be maintained to assess cost and the quantity of the utility so supplied.

4.5. The cost of utility, if any, supplied to any other unit(s) of the company, shall be calculated on a reasonable basis and applied consistently.

4.6. The cost of utility allocated/apportioned to the cost centres

and further to the individual products shall be on a reasonable basis and applied consistently.

## **5. Workshop/repairs and maintenance/tool rooms :-**

5.1. Proper records showing the expenditure incurred by the workshop under different heads and on repairs and maintenance by the various cost centres and departments shall be maintained. The records shall also indicate the basis of charging the workshop/tool room expenses to different cost centres/departments and units. Where maintenance work is done by direct workers of any production cost centre, the wages and salaries of such men shall be treated as direct expenses of the respective cost centre.

5.2. 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 accounting in determining the cost with reference to the period for which the benefit of such expenditure is likely to last.

## **6. Depreciation :-**

6.1. Proper records shall be maintained showing the cost and other particulars of fixed assets in respect of which depreciation is to be provided for. These records shall, inter alia, indicate the cost of each item of asset including installation charges, if any, the date of its acquisition, the date of installation, rate of depreciation and location of each asset. In respect of those assets, the original cost of acquisition of which cannot be ascertained without unreasonable delay and expenditure, 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 cost. Such evaluation shall exclude revaluation of any asset that had been done prior to the aforesaid date.

6.2. 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 cost records. Depreciation chargeable to the different cost centres and departments shall be not less than the amount of depreciation chargeable in accordance with provisions of sub-section (2) of Sec. 205 of the Companies Act, 1956, and shall relate to plant, machinery and other fixed assets utilised in such cost centres and departments. In the case of assets or group of assets on which depreciation is written off at the rate of 100 per cent. in the

relevant year otherwise than as provided in the Income-tax Act, 1961, and rules made thereunder, such depreciation shall be spread over the number of years during which the benefit is derived from such assets or groups of such assets. In case the amount of depreciation charged in the cost accounts in any financial year 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 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.

#### **7. Royalty/Technical know-how Fee :-**

Adequate records shall be maintained showing the royalty or other recurring or non-recurring payments 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.

#### **8. Other Overheads :-**

8.1. Proper records shall be maintained showing the various items of expenses comprising the other overheads. These expenses shall be analysed, classified and grouped according to functions, viz. works, administration and selling and distribution.

8.2. Where the company is manufacturing any product other than those 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 product referred to in rule 2, other activities including capital works. Where certain expenses forming part of overheads can be identified with a particular activity or product, such expenses shall be segregated and charged to the activity or product in the first instance and thereafter the common expenses under the above categories of overheads shall be apportioned on a reasonable and equitable basis and applied consistently. Basis of apportionment or absorption of overheads to the cost centres and products shall be indicated in the cost records.

8.3. The details of works, administration and selling and distribution overheads shall be maintained in such a manner as to enable the company to fill up the necessary particulars in

Annexures and pro formae of the Schedules to these rules.

### **9. Conversion Cost :-**

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

9.2. 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 e.g., 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 chemical goods referred to in rule 2. 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.

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

10.1. Proper records showing the details of expenses, if any, incurred by the company for the research and development work on the products covered under these rules, 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.

10.2. The method of charging these expenses to the cost of the products 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 products referred to in rule 2 and other products on a reasonable basis and applied consistently.

### **11. Interest :-**

Proper records shall be maintained showing interest charges separately on term loan and cash credit/overdraft (working capital). The amount of interest shall be allocated/apportioned to the

products covered by these rules and other activities on a reasonable and equitable basis which shall be followed consistently. The basis of such apportionment shall be spelt out clearly in the cost statements. Basis of further charging of the share of the interest to the various types of such products shall also be reasonable and the same shall be followed consistently.

**12. Expenses/Incentives on Exports :-**

Proper records showing the expenses incurred on the export sales of the products covered by rule 2, 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 incentives earned shall be reflected in the cost statement relating to export sales. Export incentives shall be treated as other income and reflected in the cost records. Separate cost statement as per pro forma "(suitably modified) shall be prepared for products exported giving details of export expenses incurred/incentive earned.

**13. By-products :-**

Proper records shall be maintained for each item of by-product, if any, produced showing the receipt, issues and balances, both in quantity and value. The basis adopted for valuation of (each) by-product for giving credit to the respective process shall be equitable and consistent and should be indicated in cost records. Records showing the expenses incurred on further processing, if any, as well as actual sales realisation of by-product shall be maintained.

**14. Joint Products :-**

Where more than one product which is of equal economic importance arises from a process(es), the cost upto the point of separation of products shall be apportioned to joint products on reasonable and equitable basis and shall be applied consistently. The basis on which such joint costs are apportioned to different products arising from the process/processes shall be indicated in the cost records. The cost of products shall be shown in proforma "B" of Sch. II.

**15. Captive Consumption :-**

Proper records shall be maintained showing the quantity and cost of items referred to under rule 2 transferred to other departments/units of the company for captive consumption. Such transfers shall ordinarily be effected at cost and shall be disclosed in the cost records. If, however, the transfer of items produced

under rule 2 is made for captive consumption at a valuation other than cost, the national profit or loss arising out of such transfer shall also be disclosed in the records.

### **16. Packing :-**

16.1. Proper records shall be maintained showing the quantity and cost of various packing materials and other expenses incurred for packing the finished product for the marketing of items referred to under rule 2. Where such expenses are incurred in common for other products including those stated under rule 2, the basis of apportioning the expenses between the relevant products shall be clearly indicated in the cost records and applied consistently.

16.2. Detailed records of the expenses incurred on export packing, if any, shall also be kept separately and exhibited in the relevant cost statements for exports.

### **17. Expenses of Capital Nature :-**

Material consumed, wages and other expenditure including appropriate share of overheads incurred in respect of works of capital nature, carried out departmentally, such as additions to plants and machinery and other assets, shall be capitalised under relevant heads.

### **18. Work in progress and Finished goods Stock :-**

The method followed for determining the cost of work in progress and finished goods referred to in rule 2, shall be indicated in the cost records so as to reveal the cost elements that have been taken into account in such computation. The appropriate share of conversion cost up to the stage of completion shall be taken into account while computing the cost of work in progress. The method adopted for determining the cost of work in progress and finished goods shall be followed consistently. Records showing the cost of work in progress and the quantities and the cost of finished goods shall be maintained in pro forma of Sch. II.

### **19. Cost Statements :-**

19.1. The product emerging from a process and which forms the raw material for a subsequent process shall be valued at the cost of production up to the previous stage and shown in proforma "B" of Sch. II. Separate cost statement shall be maintained for each product, which is produced by further processing the output of previous processes, in proforma B or in any form as near thereto as

practicable.

19.2. Separate cost of sales statement in respect of different types/grades of intermediates/products under rule 2 produced and sold, if any, shall be maintained in pro- forma "C" of Sch. II. Summary cost statement as per pro formae E and I shall be maintained for each product produced and sold.

19.3. If the company is operating more than one plant/factory, separate cost statements as specified above shall be maintained in respect of each plant/factory.

## **20. Production Records :-**

Quantitative records of all finished and packed products, issues for sales and balances of different types of products referred to in rule 2 produced, by the company, shall be maintained. The cost of all finished and packed products, shall be kept in detail for each type of product or in the form of control accounts, provided the value of the balances according to such control accounts are reconciled periodically at least once in a year when the value of the quantities is shown in the quantitative account maintained for each grade of products referred to in rule 2.

## **21. Reconciliation of Cost and Financial Accounts :-**

21.1. Cost records shall be reconciled with the financial books of account for the financial year so as to ensure accuracy. Variations, if any, shall be clearly indicated and explained. The reconciliation shall be done in such a manner that profit on the product under reference can be correctly adjudged and reconciled with the overall profits of the company.

21.2. A statement showing the total expenses incurred and income received by the company under different heads of accounts and the share applicable to the products under rule 2 shall be maintained in pro formae F and G of Sch. II and reconciled with the financial accounts for the period.

## **22. Adjustment of Cost Variaces :-**

Where the company maintains cost records, on any basis other than actuals, such as standards, costing, the records shall indicate the procedure followed by the company in working out the cost of product under such system. The method followed for adjusting the cost variances in determining the actual costs of the product shall be indicated clearly in the cost records. The cost variances shall be

shown against the relevant heads in the respective pro formae of Sch. II. The reasons for variances in respect of materials shall, inter alia, be furnished separately for major materials. Variance analysis shall be made atleast quarterly during the financial year. The reasons for the variances shall be detailed in the cost records.

### **23. Records of Physical Verifications :-**

Records of physical verifications shall be maintained in respect of all items held in stock such as raw materials, process materials, packing materials, consumable stores, machinery spares, chemicals, fuels, finished goods and fixed assets. Reasons for shortage/surplus arising out of such verifications and the method followed for adjusting the same in the cost of the products shall be indicated in the records.

### **24. Inter-Company Transactions :-**

24.1 In respect of supplies made or services rendered by a company to its holding company or a subsidiary or a company under the same management as defined in Sec. 370(IB) of the Companies Act, 1956 (1 of 1956), 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 or agreements or understandings reached in respect of:

(a) the purchase and sale of raw materials and process materials, components, rejected goods, by-products/joint products including scrap and fixed assets ;

(b) utilisation of plant facilities ;

(c) supply of utilities; and

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

24.2. 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 or paid for such services.

### **25. Statistical Records :-**

25.1. Data regarding available machine hours/direct labour hours in different production departments and actually utilised shall also be maintained and shortfall suitably analysed. Suitable records for

computation of idle time of machines shall be maintained. A statement showing reasons for loss of production due to various reasons shall be prepared in pro forma H or in any form as near thereto as practicable.

25.2. Adequate records shall be maintained to enable the company to identify the capital employed, net fixed assets and working capital separately for each type of product or group of products as listed under rule 2 and other activities. Fresh investments on fixed assets that have not contributed to the production during the relevant period, shall be indicated in the cost records. The records shall, in addition, show assets added as replacement and those added for increasing existing capacity.

SCHEDULE 2  
SCHEDULE