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**COST ACCOUNTING RECORDS (ENGINEERING INDUSTRIES)  
RULES, 1984**

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**SCHEDULE 2 :- SCHEDULE II**

**COST ACCOUNTING RECORDS (ENGINEERING INDUSTRIES)  
RULES, 1984**

G.S.R. 688, dated 25th June, 1984 1 .-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 :-**

( 1 ) These rules may be called the Cost Accounting Records (Engineering Industries) Rules, 1984.

2. They shall come into force on the date of their publication in the Official Gazette.

### **2. Application :-**

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

(i) Overtime wages earned;

(ii) Piece rate wages earned (wherever applicable);

(iii) Incentive wages earned, either individually or collectively as production bonus or under any other scheme based on output;

(iv) earning of casual labour engaged on casual work under classified headings.

2.2 Idle time shall be separately reported under classified headings indicating the reasons therefor. This data shall be maintained as far as possible, cost centrewise. The method adopted for accounting of idle time payments in determining the cost of products shall be disclosed in the cost records.

2.3 Any wages and salaries allocable to capital works such as addition or heavy repair works to plant and machinery, building or other fixed assets shall be accounted for under the relevant capital heads.

2.4 If the wages and salaries are charged to production on any basis other than actuals, the reconciliation of such wages with actuals and the treatment of variances shall be made and disclosed in the cost records in any suitable manner.

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### **3 \ 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 of these rules, keep proper books of account containing inter-alia, the particulars specified in Schedule I and Annexure thereto and the cost statements specified in Schedule II of these rules, relating to the utilisation of materials, labour and other items of cost in so far as these are applicable to the products referred to in rule 2. Provided that if the said company is manufacturing any other product or is engaged in any other activity in addition to the manufacture of those mentioned in rule 2, the particulars relating to the utilisation of material, labour and other items of cost in so far as they are applicable to such other product or activity shall not be included in the cost of production of the items mentioned in rule 2.

(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 sale of all types of Engineering items referred to in rule 2 manufactured by the company during a financial year (hereinafter referred to as the relevant period) from the particulars entered therein and every such book of account and the proformae specified in Schedule II shall be completed within ninety days from the end of the financial year of the company to which they relate.

(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 he is liable to maintain financial accounts under sub-section (1) of Section 209 of the said Act.

#### **4. Penalty :-**

4.1 Power : Adequate records shall be maintained for the quantity of power purchased and/or generated by the company. Records shall also be maintained to show the cost of power (purchased and generated) consumed by the different cost centres in such detail as may enable the company to furnish the particulars in Annexure I of this schedule. Where power is generated and supplied by any other unit of the company, adequate records shall be maintained to assess the quantity and cost of power so supplied. The rates charged by the supplying unit shall be on a reasonable basis.

4.2 Other utilities : Similar records shall be maintained in respect of

other utilities viz. Water. Steam, Compressed air etc.

## **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 sub-rule (3) of rule 3, 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 day during which such contravention continues.

### SCHEDULE 1

#### SCHEDULE-I

#### **1.1. BOUGHT OUT MATERIALS :-**

#### **1.1. MANUFACTURED COMPONENTS :-**

#### **1.3. CONSUMABLE STORES, SMALL TOOLS, MACHINERY :-**

#### **1. 4. Jigs and dies :-**

#### **1.5. WASTAGE, SPOILAGE, REJECTION, LOSSES ETC. OF MATERIALS: :-**

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

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

(i) Overtime wages earned;

(ii) Piece rate wages earned (wherever applicable);

(iii) Incentive wages earned, either individually or collectively as production bonus or under any other scheme based on output;

(iv) earning of casual labour engaged on casual work under classified headings.

2.2 Idle time shall be separately reported under classified headings indicating the reasons therefor. This data shall be maintained as far as possible, cost centrewise. The method adopted for accounting of idle time payments in determining the cost of products shall be disclosed in the cost records.

2.3 Any wages and salaries allocable to capital works such as addition or heavy repair works to plant and machinery, building or other fixed assets shall be accounted for under the relevant capital

heads.

2.4 If the wages and salaries are charged to production on any basis other than actuals, the reconciliation of such wages with actuals and the treatment of variances shall be made and disclosed in the cost records in any suitable manner.

### **3. SERVICES DEPARTMENT EXPENSES :-**

Detailed records shall be maintained to indicate expenses incurred for each service cost centre or department. These expenses shall be apportioned to other service and production departments on an equitable basis and applied consistently.

### **4. UTILITIES :-**

4.1 Power : Adequate records shall be maintained for the quantity of power purchased and/or generated by the company. Records shall also be maintained to show the cost of power (purchased and generated) consumed by the different cost centres in such detail as may enable the company to furnish the particulars in Annexure I of this schedule. Where power is generated and supplied by any other unit of the company, adequate records shall be maintained to assess the quantity and cost of power so supplied. The rates charged by the supplying unit shall be on a reasonable basis.

4.2 Other utilities : Similar records shall be maintained in respect of other utilities viz. Water, Steam, Compressed air etc.

### **5. DEPRECIATION :-**

5.1 Proper records shall be maintained showing the cost and other particulars of fixed assets in respect of which depreciation has 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 and the date of installation . and rate of depreciation. In respect of those assets the original cost of acquisition of which cannot be ascertained without an unreasonable delay and expenditure, the valuation shown in the books on the first day of the financial year beginning on or after commencement of these rules shall apply.

5.2 The basis on which depreciation is calculated and allocated to the various cost centres and departments shall be clearly indicated in the cost records. However, depreciation chargeable to the different cost centres and departments shall not be 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 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. otherwise than as provided in the Income-tax Act, 1961 and rules made thereunder in the relevant year, 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, 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. WORKSHOP/REPAIRS AND MAINTENANCE/TOOL ROOMS**

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6.1 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.

6.2 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.

6.3 Expenditure incurred in the workshop and tool room on jobs of a capital nature shall be capitalised. The cost of such jobs shall include the expenditure on material, labour and due share of the overheads.

## **7. 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 according to functions, viz. works

administration and selling and distribution. The method followed for allocation of the above categories of overheads to cost centres and departments and that for absorption by the products shall be indicated in the cost records.

7.2 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 common overheads including head office expenses of the company, to the products referred to in rule 2 other activities and capital works. Where certain 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 remaining common expenses under the above categories of overheads shall be apportioned on a reasonable and equitable basis and applied consistently. 7.3 The details of administrative selling and distribution overheads shall be maintained in such a manner as to enable the company to fill up the necessary particulars in proformae in Schedule II respectively.

**8. 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 supplier 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.

**9. RESEARCH AND DEVELOPMENT EXPENSES :-**

Expenses incurred in connection with the research and development shall be shown separately in the cost records. The methods of charging such expenses to the cost of the products referred to in rule 2 shall be reasonable and applied consistently.

**10. PACKING :-**

Wherever the product referred to in rule 2 is despatched in a packed condition adequate records shall be maintained to calculate the packing cost of the product.

**11. INTEREST :-**

Proper records shall be maintained showing interest charges. The amount of interest shall be allocated/apportioned to the products covered by Appendix and other activities on a reasonable and equitable basis which shall be followed consistently. The basis of such allocation shall be spelt out clearly in the cost statements.

Basis of further apportionment of the share of interest among the various types of such products shall also be reasonable and the same shall be followed consistently.

**12. EXPENSES ON EXPORTS :-**

Proper records showing the expenses on the export sales of the products covered by Appendix 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.

**13. COST STATEMENT :-**

Particulars of costs shall be compiled in the Proformae (A to D) specified in Schedule II or in any form as near thereto as practicable. Where the product under consideration is progressively being indigenised the cost of production of the products shall be worked out separately for each stage of major deletion till such time as the manufacture has reached a deletion of 90 per cent.

**14. WORK-IN-PROGRESS AND FINISHED GOODS STOCK :-**

The value of Work-in-Progress and finished goods stock of products referred to in Rule 2 at the end of the period for which costs are made up shall be calculated to represent 0besides the cost of material and labour, the relevant overhead expenses also.

**15. RECONCILIATION WITH FINANCIAL ACCOUNTS :-**

15.1 The cost record shall be reconciled periodically with the financial books of account so as to ensure accuracy. All variations 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.

15.2 Where the company maintains cost records on any basis other than actuals such as standard costing, the records shall indicate the procedure followed by the company in working out the cost of the product under such procedure. The method followed in adjusting the cost variances shall be indicated clearly with the reasons thereof.

**16. STOCK VERIFICATION RECORDS :-**

Records of physical stock verification shall be maintained in respect of all items held in stock such as raw materials, manufactured



components, bought out components and stores. The method followed in adjusting the cost variances shall be verification shall also be indicated in the relevant records.

**17. INTER-COMPANY TRANSACTIONS :-**

In respect of supplies made or services rendered by the company to its holding company or a subsidiary or a company under 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 understandings 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.

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

**18. STATISTICAL STATEMENTS AND OTHER RECORDS :-**

Statistical statements and other records shall be maintained in such a manner as to enable the company to comply with the requirements of the Schedule I and Schedule II and to enable the cost auditor to report to the Company Law Board on all the points referred to in Cost Audit (Report) Rules, 1968. Statistical data maintained shall be reconciled with the data furnished to the Directorate-General of Technical Development and the Central Excise and other Governmental authorities from time to time.

SCHEDULE 2  
SCHEDULE II