

## **COST ACCOUNTING RECORDS (FORMULATIONS) RULES, 1988**

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### **SCHEDULE 2 :- Material**

## **COST ACCOUNTING RECORDS (FORMULATIONS) RULES, 1988**

G.S.R. 452, dated, 22nd April, 1988 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)

(1) Proper records shall be maintained showing separately all receipts, issues and balances both in quantities and cost of each item of direct materials such as bulk drugs, pharmaceutical aids, excipients, etc., required and actually used in the manufacture of different types of formulations, batch-wise. These records for direct materials shall contain such detail like excise duty, freight and other charges as to enable the company to determine the quantity, cost of receipt (including all direct charges up to the works), issue, balance of each item of direct material separately for imported and indigenous supplies, for a batch of each formulation produced. In the case of imported materials including those canalised through Government agencies, details of free on board price, freight and insurance charges, customs duty, port charges, inland freight charges paid shall be recorded separately. The basis on which the said quantities, issues, consumption of materials and cost thereof have been calculated shall be indicated in the cost records and followed consistently.

(2) In case any bulk drug/intermediate/process chemical, already covered under the Cost Accounting (Records) Rules prescribed, is manufactured by the company, proper cost records shall be maintained as per those rules so as to arrive at the cost of such items.

(3) Adequate quantitative records for determining the net consumption of pharmaceutical aids, excipients, etc., which are used for manufacturing shall be maintained. The cost records shall clearly indicate absorption or loss in the process of these items used for the production of each formulation in a scientific manner.

(4) The records relating to consumption of production materials shall be identified with the batch of production or the cost centres to which the materials are issued. Consumption reflected in cost records should correspond to the data recorded in the manufacturing register under the Drugs Rules. If the quantity and value of materials consumed are determined on any basis other than actuals, for example standards, 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.

(2) Consumable stores, small tools, machinery spares, etc.- (2)

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

(2) In the case of consumable stores and small tools, the cost of which is insignificant, the company may, if it so desires, maintain such records for the main group of such items

(3) In 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.

(3) Wastages, spoilages, rejections, losses, etc., of materials.- 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 disposal of rejected and waste materials including spoilage, if any, in determining the cost of the product shall be indicated in the cost records. Any abnormal wastages, spoilages, etc., shall be indicated distinctly and separately batch-wise, along with reasons therefor.

## **2 \Application**

[. .-They apply to every company engaged in the production. processing or manufacture of formulations 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 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.] Provided that companies which are subject to price control under the Drugs (Prices and Control) Order as notified from time to time under the Essential Commodities Act, 1955 , will not be exempt from the operation of these rules.

1. Subs by G.S.R. 571, dated 22nd July, 1989 (w.e.f. 5th August, 1989).

2. Subs. by G.S.R. 331 (E), dated 24th March.1993 (w.e.f. 24th March, 1993).

## **2A. Definitions :-**

In these rules, unless context otherwise requires :

(a) "Act" means the Companies Act, 1956;

(b) the expression "bulk drug" and "formulation" shall have the same meaning respectively assigned to them under the Drugs and Cosmetics Act, 1940 , and the Drugs (Prices and Control) Order as notified from time to time under the Essential Commodities Act, 1955.]

## **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, animal house, transport, quality control, testing, etc. These expenses shall be apportioned to other service and production departments on an equitable basis and applied consistently. Where these services are utilised for other products in the company. the manner of allocation of due share to formulations shall be clearly shown in the records and applied consistently.

## **4 \Penalty**

. .-If any company contravenes the provisions of rule 3, the said company and every officer thereof who is in default including the persons referred to in sub-rule (3) of the said rule 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 day during which such contravention continues.

## SCHEDULE 1

### Material

#### **1. Direct 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 such as bulk drugs, pharmaceutical aids, excipients, etc., required and actually used in the manufacture of different types of formulations, batch-wise. These records for direct materials shall contain such detail like excise duty, freight and other charges as to enable the company to determine the quantity, cost of receipt (including all direct charges up to the works), issue, balance of each item of direct material separately for imported and indigenous supplies, for a batch of each formulation produced. In (he case of imported materials including those canalised through Government agencies, details of free on board price, freight and insurance charges, customs duty, port charges, inland freight charges paid shall be recorded separately. The basis on which the said quantities, issues, consumption of materials and cost thereof have been calculated shall be indicated in the cost records and followed consistently.

(2) In case any bulk drug/intermediate/process chemical, already covered under the Cost Accounting (Records) Rules prescribed, is manufactured by the company, proper cost records shall be maintained as per those rules so as to arrive at the cost of such items.

(3) Adequate quantitative records for determining the net consumption of pharmaceutical aids, excipients, etc., which are used for manufacturing shall be maintained. The cost records shall clearly indicate absorption or loss in the process of these items used for the production of each formulation in a scientific manner.

(4) The records relating to consumption of production materials shall be identified with the batch of production or the cost centres to which the materials are issued. Consumption reflected in cost records should correspond to the data recorded in the manufacturing register under the Drugs Rules. If the quantity and value of materials consumed are determined on any basis other than actuals, for example standards, 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.

(2) Consumable stores, small tools, machinery spares, etc.- (2)

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

(2) In the case of consumable stores and small tools, the cost of which is insignificant, the company may, if it so desires, maintain such records for the main group of such items

(3) In 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.

(3) Wastages, spoilages, rejections, losses, etc., of materials.- 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 disposal of rejected and waste materials including spoilage, if any, in determining the cost of the product shall be indicated in the cost records. Any abnormal wastages, spoilages, etc., shall be indicated distinctly and separately batch-wise, along with reasons therefor.

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

(1) Proper records shall be maintained to show the attendance and earnings of all employees and the cost centres, departments and the work/batch on which they are employed. The records shall also indicate the following separately for each cost centre/batch.

(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) Records shall be so maintained that it will be possible for the company to bill up cost details under this head in the various annexures and proformae as shown in the Schedules. Where the employees work in such a manner that it will not be possible to identify them with any one cost centre alone, the apportionment of labour charges to the cost centres where they are employed shall be reasonably assessed and, the method of such assessment shall be consistently followed.

(3) Idle time shall be separately recorded under classified headings indicating the reasons therefor. This data shall be maintained as far as possible for each cost centre. The method adopted for accounting of idle time payments in determining the cost of the product shall be disclosed in the cost records.

(4) 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. Service department expenses :-**

Detailed records shall be maintained to indicate expenses incurred in respect of each service department or cost centre like laboratory, welfare, animal house, transport, quality control, testing, etc. These expenses shall be apportioned to other service and production departments on an equitable basis and applied consistently. Where these services are utilised for other products in the company. the manner of allocation of due share to formulations shall be clearly shown in the records and applied consistently.

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

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

- (i) Power;
- (ii) Raw water, soft water, demineralised water;
- (iii) Brine and chilled water;
- (iv) Refrigeration;
- (v) Compressed air;
- (vi) Effluent treatment;
- (vii) Oxygen/Nitrogen;
- (viii) Air-conditioning;
- (ix) L.P.G.

(2) Proper records shall also be maintained in respect of any other utility produced/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 suitable and appropriate.

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

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

(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.

(6) The cost of utility apportioned to the cost centres and further to the individual products shall be on a reasonable basis and applied consistently.

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

(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 and departments. Where maintenance work is done by workers of any production cost centre, wages and salaries of such men shall be treated as direct

expenses of the respective cost centres. If the services are utilised for other products also, the manner of charging the share to formulations shall be clearly indicated in records and applied consistently.

(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 adopted for determining the appropriate portion of expenditure to be charged each year with reference to the period for which the benefits of such expenditure are likely to last.

#### **6. Multi-purpose vessels/machines :-**

When more than one manufacturing process is carried out in a particular series of vessels/machines, adequate records about the usage of such vessels/machines for different products shall be kept. The cost of using such vessels/machines shall be charged to the different products on an equitable basis such as, equipment occupancy, usage, hours, etc. Where composite machine hour rates are applied for absorption of wages overheads and equipment usage, proper records relating to the utilisation of labour and multipurpose 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 formulation. The variances between the actuals and the amounts charged at pre-determined rates shall be adjusted for arriving at the actual cost of production periodically and at the end of the year.

#### **7. Depreciation :-**

(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 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 cost. Such a valuation shall exclude revaluation of any assets that had been done prior to the aforesaid date.

(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 or groups 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 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 group of such assets. In case the amount of depreciation charged in the cost accounts 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.

**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 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.

**9. Other overheads :-**

(1) Proper records shall be maintained showing the various items of expenses comprising overhead. These expenses shall be analysed, classified and grouped according to functions, viz., works, administration and selling and distribution.

(2) Where the company is engaged in the manufacture of 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 formulation activity and other activities. In case any expense included in the above categories of overheads can be identified with a particular activity/product such expenses shall be segregated and charged to the relevant activity/product at 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.

(3) Proper records shall be maintained showing quantity and cost of each formulation issued as physician samples and also for sale promotion.

(4) 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 Proforma of the Schedule to these rules.

#### **10. Conversion cost :-**

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 filing the relevant annexures and proformae of Schedules.

#### **11. Research and development expenses :-**

(1) Proper records showing the details of expenses, if any, incurred by the company for research and development work on the products covered under these rules according to the nature, viz., development of products, existing and new, improvement of process 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.

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

(3) Where formulations and other products are subject to periodic quality check in quality control or allied departments, necessary records shall be maintained to enable the company to determine the share of expenses chargeable to each formulation and other products. The details of formulations rejected shall also be maintained indicating the batch, cost of raw material and other conversion charges for the company to fill up the relevant cost data

as per proforma of Schedule II.

**12. Captive consumption :-**

Proper records shall be maintained showing the quantity and cost of formulations transferred to other departments/units of the company for self-consumption. Such transfer shall ordinarily be effected at cost and shall be disclosed in the cost records. If, however, the transfer of formulation is made for captive consumption at a valuation other than cost, the notional profit or loss arising out of such transfer shall also be disclosed in the cost records.

**13. Packing :-**

(1) Proper records shall be maintained showing separately all the receipts, issues and balances both in the quantities and cost of various packing materials such as strips, ampoules, vials, bottles, cartons, boxes, labels, literature, etc., and for wages and other expenses incurred in respect of different sizes of packs adopted for marketing of formulations separately. The details of various packing materials actually used and spoiled shall be maintained in respect of each formulation. Where any formulation is re-packed due to defective packing, details of such re-packing for each formulation, size/pack-wise shall be maintained if repacking cost is significant. If such packing materials are manufactured by the company, proper records showing the cost of production of such items shall be maintained.

(2) Where packing expenses are incurred in common, the basis of apportionment of such expenses amongst different types and sizes of formulations and other products shall be equitable and clearly indicated in the cost records and applied consistently.

(3) Separate records of special expenses incurred on export packing in respect of formulations shall be maintained and exhibited in the relevant cost of sales statement for exports, as shown in Schedule II of the rules.

**14. Expenses on interest charges :-**

Proper records shall be maintained showing interest charges. The amount of interest shall be allocated/apportioned to formulations and other activities on a reasonable and equitable basis which shall be followed consistently. The basis of such allocation/apportionment shall be spelt out clearly in the cost statements. Basis of further charging of the share of interest to the various formulations shall also be reasonable and equitable and the same shall be followed

consistently.

**15. Expenses/incentive on export :-**

Proper records showing the expenses incurred on the export of formulations, 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 shall be treated as other income and reflected in the cost records.

**16. Capital works carried out departmentally :-**

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 plant and machinery and other assets, shall be capitalised under relevant head.

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

The method followed for determining the cost of work-in-progress, finished goods and stock of products 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 for equivalent production for various elements of cost 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 the relevant proforma of Schedule II.

**18. Cost statements :-**

(1) Separate cost statement shall be maintained in respect of each type of formulation produced and for each type and size of pack as strip, bottle, tin, vial, ampoule, carton, etc., showing the actual cost of production and cost of sales in proformae of Schedule II respectively. Export of formulations shall be exhibited separately in cost statements and the same be excluded from the cost statements meant for sale in the intenal market and shall be shown in proforma L of Schedule II.

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

**19. Reconciliation of cost and financial accounts. :-**

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. A statement showing the total expenses incurred and the income received by the company and the share applicable to formulations activity shall be maintained in pro formae N and O of Schedule II.

**20. 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 systems. 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 pro formae of Schedule II. The reason for variances in respect of materials shall, inter alia, be furnished separately for major materials. Variances analysis shall be made at least quarterly during the financial year. The reason for the variances shall be given in the cost records

**21. Records of physical verification :-**

Records of physical verification shall be maintained in respect of all items held in stock such as raw materials, process materials, packing materials, chemicals, 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.

**22. Inter-company transaction :-**

In respect of supplies made for 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 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 rates charged/paid for such services.

**23. Statistical records :-**

(1) Statistical data such as available plant hours, actual plant hours with reasons for stoppages, under classified headings, yield percentage of formulations shall be kept.

(2) Adequate records shall be maintained to enable the company to identify the capital employed (net fixed assets and working capital) separately for formulations and other activities. Fresh investment of fixed assets that have not contributed to production during the relevant period shall be indicated in the records. The records shall in addition show assets added as replacement and that added for increasing the existing capacity.

**SCHEDULE 2**

Material