

**COST ACCOUNTING RECORDS (INFANT MILK FOODS)
RULES, 1974**

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SCHEDULE 2 :- 1

**COST ACCOUNTING RECORDS (INFANT MILK FOODS)
RULES, 1974**

G.S.R.701 (E), dated 27th December, 1974 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 :-

- (a) Raw materials

(i) Proper records shall be maintained showing the quantity and cost of wet milk procured at the different collection centres. Details showing the premiums paid for higher fat content in milk and deduction made for lower fat content shall also be kept. The cost records for wet milk shall contain such details as to enable the company to determine the quantity and cost of receipts (including all direct charges incurred up to the works), issues and balances. The data shall be maintained in such a manner as to enable the company to furnish the necessary particulars in proforma "A" of Sch. II.

(ii) If any other raw materials such as skimmed milk powder, whole milk powder, butter milk powder or maize starch are used for the production of infant milk foods, proper records showing the quantity and cost of receipts including all direct charges incurred up to the works, issues and balances shall be maintained in such a manner as to enable the company to furnish the necessary particulars contained in Annexure II to this Schedule or in any form as near thereto as practicable. In the case of imported skimmed milk powder allotted by the National Dairy Development Board records of receipts, issues and balances shall be shown separately. The records shall also show the receipts, issues and balances of skimmed milk powder, sugar and other materials used for production of infant milk food and for other products manufactured by the company separately.

(b) Process materials.-Proper records shall be maintained to show the receipts, issues and balances both in quantities and cost of each item of process material, such as, sugar, vitamins, iron and other chemicals. The costs shall include all direct charges incurred up to works, wherever specifically incurred, The issues shall be properly identified with the departments, cost centres and products.

(c) Consumable stores, small tools, machinery spares, etc

(i) 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 costs shown shall include all direct charges up to works, wherever specifically incurred.

(ii) 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 groups of such items.

(iii) The cost of issues of consumable stores, small tools and machinery spares shall be charged to the relevant heads of account, such as, repairs to plant and machinery and repairs to building. Materials consumed for capital works, such as, addition to buildings, plant and machinery and other assets shall be shown under the relevant capital heads.

(d) Wastages, spoilages, rejections, losses, etc. of materials.-Proper records shall be maintained showing the quantity and cost of wastages, spoilages, rejections, and losses of wet milk and other raw materials, process materials, consumable stores, small tools and machinery spares, whether in transit, storage or during manufacture or for any other reasons. Separate records shall also be maintained for the tailings of milk powder declared unfit for processing. The method followed for adjusting the above losses as well as the income derived from the disposal of rejected and waste materials including scrap, if any, in determining the cost of the product shall be indicated in the cost records.

2 \Application

[. They shall apply to every company engaged in the production, or manufacture of Infant Milk Food 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.]]

1. Subs. by G. S. R. 553. dated 2nd July, 1989 (w.e.f. 5th August, 1989).

2. Subs. by G.S. R. 313 (E), dated 24th March, 1993 (w.e.f. 24th

March, 1993).

3. Definition :-

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

4 \ Maintenance of Records

(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 Schedules I and II annexed to these rules relating to the utilisation of materials, labour and other items of cost in so far as they are applicable to infant Milk Foods: Provided that if the said company is manufacturing any other products or engaged in other activities in addition to infant milk foods, 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 the items referred to in rule 2.

(2) The books of account referred to in sub-rule (1) shall be kept in such a way as to make it possible to calculate the cost of production and cost of sales of the items referred to in rule 2 during a financial year (hereinafter referred to as the relevant period) from the particulars entered therein. Such books of account and 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-sections (6) and (7) of Sec. 209 of the Companies Act, 1956 (1 of 1956), to take all reasonable steps to secure compliance by the company to which the rules apply 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 :-

Proper records showing the expenditure incurred by the workshop under different heads and on repairs and maintenance by the

various departments and cost centres shall be maintained. The records shall also indicate the basis of charging the workshop expenses to different departments or cost centres. 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 its accounting in determining the cost of infant milk foods manufactured during the relevant period. Expenditure incurred on works of a capital nature shall be capitalised. The cost of such jobs shall include the expenditure on material, labour and a share of the overheads. The jobs carried out by the workshop of the infant milk food unit for other units of the company and vice versa shall be charged on a reasonable basis and applied consistently.

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.

* Corrected by Corrigendum (Notification. No.50 (E), dated 13th February, 1975, published in Gazette of India, Extra-ordinary Pt. 11 Sec 3 (i), dated 14th February, 1975.

SCHEDULE 1

1

1. Materials :-

(a) Raw materials

(i) Proper records shall be maintained showing the quantity and cost of wet milk procured at the different collection centres. Details showing the premiums paid for higher fat content in milk and deduction made for lower fat content shall also be kept. The cost records for wet milk shall contain such details as to enable the company to determine the quantity and cost of receipts (including all direct charges incurred up to the works), issues and balances. The data shall be maintained in such a manner as to enable the company to furnish the necessary particulars in proforma "A" of Sch. II.

(ii) If any other raw materials such as skimmed milk powder, whole milk powder, butter milk powder or maize starch are used for the production of infant milk foods, proper records showing the

quantity and cost of receipts including all direct charges incurred up to the works, issues and balances shall be maintained in such a manner as to enable the company to furnish the necessary particulars contained in Annexure II to this Schedule or in any form as near thereto as practicable. In the case of imported skimmed milk powder allotted by the National Dairy Development Board records of receipts, issues and balances shall be shown separately. The records shall also show the receipts, issues and balances of skimmed milk powder, sugar and other materials used for production of infant milk food and for other products manufactured by the company separately.

(b) Process materials.-Proper records shall be maintained to show the receipts, issues and balances both in quantities and cost of each item of process material, such as, sugar, vitamins, iron and other chemicals. The costs shall include all direct charges incurred up to works, wherever specifically incurred, The issues shall be properly identified with the departments, cost centres and products.

(c) Consumable stores, small tools, machinery spares, etc

(i) 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 costs shown shall include all direct charges up to works, wherever specifically incurred.

(ii) 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 groups of such items.

(iii) The cost of issues of consumable stores, small tools and machinery spares shall be charged to the relevant heads of account, such as, repairs to plant and machinery and repairs to building. Materials consumed for capital works, such as, addition to buildings, plant and machinery and other assets shall be shown under the relevant capital heads.

(d) Wastages, spoilages, rejections, losses, etc. of materials.-Proper records shall be maintained showing the quantity and cost of wastages, spoilages, rejections, and losses of wet milk and other raw materials, process materials, consumable stores, small tools and machinery spares, whether in transit, storage or during manufacture or for any other reasons. Separate records shall also

be maintained for the tailings of milk powder declared unfit for processing. The method followed for adjusting the above losses as well as the income derived from the disposal of rejected and waste materials including scrap, if any, in determining the cost of the product shall be indicated in the cost records.

2. Salaries and Wages :-

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

(i) overtime wages earned;

(ii) piece-rate wages earned;

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

(iv) earning of casual labour.

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

(c) Any wages and salaries allocable to capital works, such as, additions to plant and machinery, buildings or other fixed assets shall be accounted for under the relevant capital heads.

3. Service Department Expenses :-

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

4. Utilities :-

(a) Steam.-Where steam is raised by the infant milk food factory of the company, proper records showing the quantity and cost of steam raised and consumed for the production of infant milk food shall be maintained, in such detail as may enable the company to furnish the necessary particulars in Annexure III to this schedule. The cost of steam consumed by the infant milk food factory and other units of the company shall be calculated on a reasonable basis and applied consistently. Where steam is generated and

supplied by any other unit of the company to the infant milk food factory, the cost of steam so supplied shall be charged to the infant milk food activity on a reasonable basis and applied consistently.

(c) Power.-Proper records shall be maintained to show the quantity and cost of power purchased. Where power is generated by the company itself, adequate records shall be maintained to show the cost of power generated and consumed in a similar proforma as for steam. The records shall also show the consumption of power by the various departments or cost centres. The cost of power allocated shall be on a reasonable basis and applied consistently.

5. Workshop/Repairs and Maintenance :-

Proper records showing the expenditure incurred by the workshop under different heads and on repairs and maintenance by the various departments and cost centres shall be maintained. The records shall also indicate the basis of charging the workshop expenses to different departments or cost centres. 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 its accounting in determining the cost of infant milk foods manufactured during the relevant period. Expenditure incurred on works of a capital nature shall be capitalised. The cost of such jobs shall include the expenditure on material, labour and a share of the overheads. The jobs carried out by the workshop of the infant milk food unit for other units of the company and vice versa shall be charged on a reasonable basis and applied consistently.

6. Depreciation :-

(a) Proper records shall be maintained showing the cost and other particulars of fixed assets in respect of which depreciation is to be provided. These records shall, inter alia, indicate the cost of each item of asset including installation charges, if any, the date of installation and the rate of depreciation. In respect of those assets, the original cost of acquisition, which cannot be ascertained without an 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 on the opening balance.

(b) The basis on which depreciation is calculated and allocated to the various departments and cost centres and to the products shall

be clearly indicated in the records. Depreciation chargeable to the different departments and cost centres shall not be less than the amount of depreciation chargeable in accordance with the provisions of sub-section (2) of Sec. 205 of the Companies Act, 1956 (1 of 1956), and shall relate to plant, machinery and other fixed assets utilised in such departments and cost centres. In case the amount of depreciation charged in the cost records in any financial year is higher than the amount of depreciation chargeable under the aforesaid provisions of the 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.

7. Overheads :-

Proper record shall be maintained showing the various items of expenses comprising the overheads. These expenses shall be analysed, classified and grouped into works, administration and selling and distribution overheads. The methods followed for the absorption of the overheads in the cost of the products shall also be indicated in the cost records. Where the company is engaged in the manufacture of any other products in addition to infant milk foods, the records shall clearly indicate the- basis followed for apportionment of the common overheads including head-office expenses of the company to the infant milk food activity, other activities and capital works. The basis followed for apportionment of the overheads shall be equitable. Details of selling and distribution expenses and share thereof applicable to infant milk foods activity shall also be maintained in such a manner as to enable the company to fill up the particulars in Proforma 'C' and 'F' of Sch. II. Records showing the expenses incurred on the export of infant milk foods, 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 statements relating to export sales.

8. By-Products :-

Proper records shall be maintained for each item of by-product, such as, cream extracted showing the receipts, issues and balances both in quantity and value. The basis adopted for valuation of the by-products shall be equitable and consistent. Records indicating the actual sales realisation of by-products shall be maintained.

9. Packing :-

Proper records shall be maintained showing the quantity and cost of various packing materials, such as, tins, cartons and for wages and other expenses incurred in respect of different sizes of packs adopted or marketing of infant milk foods. Where such expenses are incurred in common for other products including infant milk foods, the basis of apportioning the expenses between the relevant products shall be clearly indicated in the cost records and applied consistently. Wastages, spoilages, rejections and losses of packing materials, if any, shall be indicated separately in the records. The method adopted for adjusting these losses and the income derived from disposal of rejected and waste materials, if any, in determining the cost of Infant Milk Foods shall be indicated in the cost records. Detailed records of the expenses incurred on export packing shall also be kept separately and exhibited in the relevant cost statements for exports.

10. Work-in-Progress and finished Goods :-

The method followed for determining the cost of work-in-progress and finished goods stock shall be indicated in the cost records so as to reveal the cost elements that have been taken into account in such computation. The method adopted shall be followed consistently.

11. Cost statements :-

Separate cost statements shall be maintained in respect of each brand of infant milk foods other than modified milk foods for infants and showing the actual cost of production and cost of sales in Proformae "B" and "C", respectively. Cost statements in proforma "D" shall be maintained for the basic ingredients used for the manufacture of modified milk foods for infants by whatever name they may be called. Cost statements shall be maintained in respect of each brand of modified milk foods for infants showing the actual cost of production and cost of sales in proformae "E" and "F", respectively. Exports of infant milk foods and modified milk foods for infants shall be exhibited separately in cost statements "C" and "F", respectively and the same excluded from the cost statements meant for sales in the internal market.

12. Reconciliation of Cost and Financial Accounts :-

The cost records shall be reconciled preferably periodically with the financial books of account 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 product under reference can be correctly adjudged and reconciled with the overall profits of the company. A statement showing the total expenses incurred by the company and the share applicable to infant milk foods shall be maintained in profonna "G" duly reconciled with the financial accounts.

13. Adjustment of Cost Variances :-

Where the company maintains cost records on any basis other than actuals, such as, standard costing, the records shall indicate the procedures followed by the company in working out the cost of the products under such a* system. The method followed for adjusting the cost variance* 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 proformae of Sch. II. The reasons for the variances shall be detailed in the cost records.

14. 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, consumable stores. The letter "a" inserted by Corrigendum (G.S.R. 50 (E). dated 13th February. 1975. published in Gazette of India, Extraordinary, Part II, Sec 3 (i). p. 261. dated 14th February, 1975. machinery spares, chemicals, fuels, finished goods and fixed assets. Reasons for 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.

15. Inter-Company Transactions :-

In respect of supplies made or services rendered by the company to its holding company or a subsidiary or a company in the same group 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 :

(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 or paid for such services.

16. Statistical Records :-

Data such as percentage of fat and solid non-fat contained in wet milk purchased and consumed shall be maintained. Data regarding plant utilisation indicating the reasons for stoppages under classified headings shall also be kept. The overall fat and solid non-fat contents of the milk based raw materials consumed in production during the year shall be reconciled with the solid non-fat and fat contents of the total output of infant milk foods. skimmed milk powder and cream. Records as will enable the company to identify the capital employed separately for the infant milk food activity shall also be maintained. Fresh investments on fixed assets that have not contributed to the production during the relevant period shall also be indicated in the records. Statistical and other records maintained in accordance with the provisions of Schs. I and II shall be such as to enable the company to exercise, as far as possible, control over the various operations and costs with a view to achieve optimum economies in costs and to provide the necessary data required by the Cost Auditor to suitably report on all the points referred to in Cost Audit (Report) Rules, 1968, as amended from time to time.

SCHEDULE 2