

March 23, 2012

**Dr. M. Veerappa Moily**  
**Union Minister for Corporate Affairs**  
**Ministry of Corporate Affairs**  
Room No.437, 'C' Wing  
Shastri Bhawan, Dr. R.P. Road  
New Delhi-110 001

Sir,

**Sub : Exemption from Applicability of Cost Accounting Record Rules to  
Construction Industry - (Contracting Business)**

**Reference:** 1. G.S.R. 429 (E) dated 3.6. 2011 issued by Ministry of Corporate Affairs

2. General Circular No 67 dated 30.11.2011 & subsequent FAQ no 5.18 on the subject issued by Institute of Cost Accountants of India & further clarification of FAQ No 5.18 dated 3<sup>rd</sup> Feb 2012

Construction Federation of India (CFI) is a representative body of the leading engineering construction firms of the country engaged in building dams, power stations, roads etc. and other basic infrastructure of national importance.

Our members comprise of HCC, Gammon, L&T, Simplex, Shapoorji Pallonji, HUDCO, Punj Lloyd, Essar Projects, IRCON, C&C Infrastructure etc.

Our members work as contractors for construction of various roads, bridges, nuclear power plants, civil projects in water & sewage management and many others. Many of the contracts activities are subcontracted with material to small contractors who could be a private limited companies. Considering the fact that our member activities are bulk, the turnover always will be higher.

The main features of work are :

1. We are awarded a contract for Construction ,reconstruction, repairing, rehabilitation etc **mainly by the Central Government or State government** either directly or through their appointed agencies herein referred as "Client". (e.g. NHAI for roads, NHPC for hydro electric projects).
2. The contract is treated as a project and the end result of the contract is a non movable asset like road, bridge ,nuclear power station etc.

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: 2 :

3. As per the G.S.R. dated 3<sup>rd</sup> June 2011 the definition of "Product" is reproduced below,
4. Para 2(m) "Product" means any tangible or intangible good, material, substance, article, idea, know-how, method, information, object, service, etc. that is the result of human, mechanical, industrial, chemical, or natural act, process, procedure, function, operation, technique, or treatment and is intended for use, consumption, sale, transport, store, delivery or disposal.
5. The Construction activity is considered as a processing activity as per the definition in Para 2-I-(ix) which is reproduced below
6. Para 2-I "Processing Activity" includes any act, process, procedure, function, operation, technique, treatment or method employed in relation to-
7. (ix) constructing, reconstructing, reconditioning, repairing, servicing, refitting, finishing or demolishing of buildings or structures;
8. As per the definition & the common parlance the project is to be treated as Product as this is the end result of a process.
9. The Processing activity for this product is spanned for the duration which extends beyond one financial year.

Considering the above facts, the Federation would like to draw your kind attention to following problems faced by the construction industry :

1. The product is a result of the contract between Client and contractor for which the price( which includes Cost and margin) is already fixed.
2. The contract is awarded after detail technical & commercial scrutiny of the scope and the total cost workings and the compensation to be paid is fixed by the Client with sometimes with provision of escalation (that too after approval by the Client).
3. Each project is separate product and unique in characteristics and process for making every product (i.e. project) is different.
4. The product is not marketable.
5. The only customer for the product is the Client.
6. The nature of the product varies from the environmental conditions and some products are constructed in geographically challenging conditions and remote areas.
7. Considering the nature of industry, remote location of the activities it is not possible to maintain the minute details of the activities carried out and getting required skilled manpower to maintain the data is difficult.
8. The payment condition for the product varies from client to client & for the same client varies from product to product and the exact realisation of product is known after many years due to claims, escalations, delays ,arbitrations etc.

: 3 :

9. The purpose of cost accounting records is to protect the user from over charging by the producer/manufacturer. In case of construction & infrastructure industry, the user (normally Govt agencies like NHAI, PWD or corporates) fix the price of the product well in advance through bidding/tendering process and therefore the contractors cannot influence the rates at all.
10. The cost information for one product/project is completely different from another and the value addition done by the contractor is as per the size, cost, structure, engineering, design, terms & conditions of the contract.
11. Cost is always with reference to a Unit of Measurement (UOM). In case of construction /infrastructure, the whole project is a unit which cannot be bifurcated in small units. Even if the project can be divided in measurable units, it is impracticable to determine unit cost. The same problems will be there in power project, airport, dam etc.
12. There are no guidelines issued for maintenance of costing records by the Institute for construction Industry.
13. **The Cost Accounting Standards which have been framed are suitable for manufacturing industry. They are not at all suitable for construction companies. While the manufacturing company may make one cost statement for each factories but Construction company may have to prepare 100 to 150 cost statements each year. The scenario is totally different.**
14. The Institute of Chartered Accountants of India has issued Accounting Standard -7 (AS7), which is mandatory for Companies executing the construction contract, wherein the CTC (Cost to Completion) concept is used.
15. Due to the CTC concept there is huge gap between the cost as reported in the financial statements and as per the costing records.

**In view of the above, we request you to kindly exempt the Construction industry from the applicability of Companies (Cost Accounting Records) Rules 2011.**

With kind regards,

(Siddharth Singh)  
Secretary General