



**THE INSTITUTE OF
COST ACCOUNTANTS OF INDIA**
(STATUTORY BODY UNDER AN ACT OF PARLIAMENT)
CMA BHAWAN
12, SUDDER STREET, KOLKATA – 700 016.

Telephones : +91-33- 2252-1031/1034/1035
+ 91-33-2252-1602/1492/1619
+ 91-33- 2252-7143/7373/2204
Fax : +91-33-2252-7993
+91-33-2252-1026
+91-33-2252-1723
Website : www.icmai.in

Press Release

KOLKATA, 23rd NOVEMBER, 2013

Cost Competitiveness vs. Compliance

CMA Suresh Chandra Mohanty, President of the Institute, in a press release, expressed deep concern that the Draft Companies (Cost Record and Cost Audit) Rules, 2013 issued by the Ministry of Corporate Affairs would hurt the economy, the corporate sector and the profession. He said that the Draft Rules fails to reflect the necessity and importance of mandatory requirement for maintaining cost accounting records and cost audit in a market economy, most players in which are yet to make the best use of cost accounting information to achieve competitive advantage and to survive on the face of increasing competition. In formulating the Rules the government has totally ignored the recommendations of the Expert Group constituted by the Ministry of Corporate Affairs, Government of India, which emphasised the need for companies, irrespective of scale and industry, to have an adequate cost accounting system to support decision-making. On the basis of recommendations of the Group the scope of the law relating to the maintenance of cost accounting records and cost audit was extended. The whole process will be reversed if the Draft Rules is not modified. This reversal will hurt shareholders and other stakeholders, who do not participate in day-to-day management. It is well established that managers act opportunistically and they take short-term view and benefit themselves even when the going is bad. In absence of reliable cost accounting information, independent directors will not be able to assess whether the company is moving towards achieving the optimal productivity of resources. An effective cost accounting system in itself is a risk management mechanism – risk that the company will find itself vulnerable from sudden onslaught of competition or increase in the cost of inputs. Cost Accounting system also throws data that are used for detecting frauds. An effective cost accounting system supports the corporate governance mechanism.

It appears that the Draft Rules is formulated on the assumption that the government should ensure integrity of cost data only for products that are of strategic importance or which are subject to regulations or which are purchased by government department (Railways) or purchase of which are funded by the government, and natural resources (mining and oil exploration). The Rules does not answer the question why integrity of cost information is not important for independent directors and the Board, which oversees the executive management.

By increasing the threshold limit of net worth from Rs.5 crores to Rs.500 crores and turnover from Rs.20 crores to Rs.100 crores, the Draft Rules has excluded companies operating in SME sector, which are poised to grow and become part of global supply chain. In absence of an effective cost management system, India will lose out to neighbouring countries. For example, in the ready-made



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garment sector, India has lost out to Bangladesh. By mandating maintenance of cost accounting records and cost audit, the government develops the cost management culture in the SME sector.

In view of the importance of the cost accounting profession, it was recognized through a special Act in 1959. It has managed the transition to a different role after the liberalization of the economy successfully. This is reflected in its internationalization through tie-ups with foreign bodies like CIMA-UK, IMA-USA and IPA-AUSTRALIA etc. It is now poised for a big leap. At this stage, de-facto withdrawal of recognition by limiting the scope of its services protected by regulations will hurt the profession very badly. In absence of protection from the government, the profession will not be able to attract talent and it will become weak. This will hurt all the stakeholders.

Mr. Mohanty emphasised that the Institute will take up the matter at all levels to ensure that the Draft Rules is modified appropriately before notification to avoid a potential disaster.
