

A Presentation to the Expert Committee on Companies (Cost Records and Audit) Rules 2014



**New Delhi
17th September 2014**



A Warm Welcome to the

Expert Committee

On

**Companies (Cost Records
and Audit) Rules 2014**

New Delhi
17th September 2014



Legal Framework & Background



- ▶ Provisions of Cost Accounting and Cost Audit under Companies Act, 1956 introduced in 1965 for manufacturing & mining sectors
 - **Section 209(1)(d) – Maintenance of Cost Records**
 - **Section 233B – Audit of Cost records**
- ▶ Objects & Reasons – companies maintain cost records
 - to inculcate a cost consciousness and for better resource management
 - to make efficiency audit possible; and
 - to make cost data available with the Government
- ▶ Provisions under Companies Act, 2013 for production of goods and providing of services
 - **Section 148(1) – Maintenance of Cost Records.**
 - **Section 148(2) – Audit of Cost records**

Make Industry cost conscious and globally competitive

Scheme of Presentation



- What brought us to this point and why we need course correction ?
- What large economies did in similar situations (Global Practices) ?
- What Utility is reassured by a corrected course ?

**What brought us to this point and why
we need course correction ?**

Status till 2010



- ▶ 1966-2004, MCA notified separate Cost Accounting Records Rules (CARR) for 44 industries/products.
- ▶ MCA notified Cost Audit Report Rules in 1968, amended in 1996 and again amended in 2001
- ▶ Cost audit orders issued on individual companies on selective basis in an ad hoc manner
- ▶ Multi-product companies were required to comply with multiple Rules
- ▶ Multiple cost audit orders & reports for the same company
- ▶ Reports contained cost data unit-wise, product-wise & SKU-wise
- ▶ Till 2005, cost audit reports were submitted as hard copies
- ▶ From 2006, e-filing of reports as a PDF file.

Product specific, ad-hoc and discriminatory structure followed



Shortcomings of Pre-2011 Mechanism

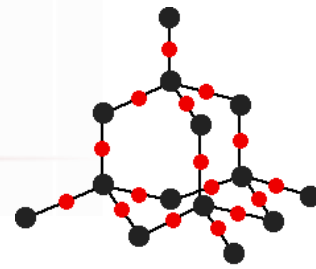


- ▶ Separate Rules for each Industry / Product
- ▶ Too much emphasis on Government mandated Form leaving no room for flexibility with the company management.
- ▶ Companies viewed “cost accounting records” as a form-filling exercise rather than using it as a management tool
- ▶ Multiplicity of Rules for one company
- ▶ No mechanism in MCA to ensure compliance of these rules by the companies
- ▶ In the absence of product level database, selective and ad hoc approach of ordering cost audit led to discrimination
- ▶ As a result number of companies left out of cost audit coverage

A period of “form filling” rather than “content” – defeating the objective of inculcating cost consciousness and competitiveness



Salient Features of 2011 Records Rules



- ▶ Repealed and replaced existing 44 CARRs
 - Common consolidated Rules for non-regulated sectors engaged in *Production, Processing, Manufacturing and Mining* activities
 - Individual Rules for Regulated Sectors – *Sugar, Pharma, Petroleum, Fertilizers, Telecommunication & Electricity*
 - Applicable to all companies in Regulated and Non-Regulated Sectors
 - ✓ Net Worth exceeding Rs.5 crores or
 - ✓ Turnover exceeding Rs.20 crores or
 - ✓ Listed on any stock exchange in India or abroad
- ▶ Shifted maintenance of records from Rule-based to Principle-based mechanism based on Generally Accepted Cost Accounting Principles (GACAP) and Cost Accounting Standards (CAS) issued by the Institute
- ▶ No formats for record maintenance.
- ▶ In compliance with the 2011 rules, Companies were allowed to maintain cost records according to the nature and size of business.

Salient Features of 2011 Report Rules

- ▶ Reporting paras reduced from 28 to 11
- ▶ Unit-wise, product-wise, SKU-wise submission of detailed cost statements dispensed with and kept with company
- ▶ Product Group level submission of cost details
- ▶ Bulky reports simplified and compliance cost reduced
- ▶ Confidentiality of sensitive cost details protected
- ▶ Filing of Cost audit report in XBRL Mode introduced
- ▶ Performance Appraisal Report introduced for Board's consideration
- ▶ Cost audit made applicable to companies under different sectors with an upward revision of threshold limits from Rs.10 crore
 - ✓ **Regulated Sectors** – turnover exceeding Rs.20 crore
 - ✓ **Non-regulated Sectors** – turnover exceeding Rs.100 crore

Mechanism for proper flow of authenticated management information with protection of confidentiality and reduced compliance cost



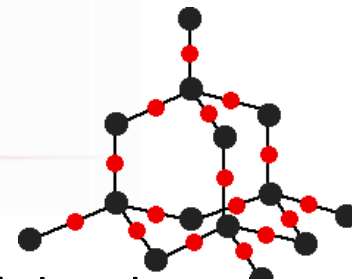
Other Salient Features of 2011 Rules

- ▶ Product Group concept introduced – established linkage to CETA Codes making identification definite
- ▶ Cost audit orders issued using CETA codes to ensure identification of product/sector with clarity
- ▶ Companies covered under CARR but not covered under cost audit – Compliance Report authenticated by employee cost accountant resulting in zero compliance cost
- ▶ Multi-product companies no longer required to:
 - ✓ Follow multiple cost accounting records rules
 - ✓ Comply with multiple cost audit orders
 - ✓ File multiple cost audit reports

**Removal of multiplicity of Rules, discrimination & ad-hocism
Simplified Compliance Mechanism**



Concept of Product Group



- ▶ **“Product Group”** is a group of alike products.
- ▶ On the suggestion of Industry Associations, “Product Groups” developed by their representatives
- ▶ MCA notified Product Groups on 07/08/2012.
- ▶ Classification identifies individual products by mapping it to a Product Group based on 4 digit code of CETA 1985. Service & Trading Activities also classified under Product Groups
- ▶ Product Group is used only for reporting purposes and not for maintenance of records.
- ▶ Introduction of Product Group has helped in:
 - ✓ Ensuring confidentiality of product level cost details
 - ✓ Substantial reduction in size of cost audit reports
 - ✓ Reduction in compliance cost
 - ✓ Can be used to supplement segmental reporting

A revolutionary concept that allows the Government access to sectoral data for proper analysis and decision making

Cost Record – Is it an additional burden

- ▶ Integration of cost and financial accounting obviates the necessity for maintaining separate cost records
- ▶ Any transaction – statistical, quantitative or other details – that has a bearing on the cost of the product/activity are important
- ▶ Such records and details are usually maintained in a structured manner on a regular basis
- ▶ Cost records are now the only source for quantitative details after introduction of new Schedule VI
- ▶ Therefore, accumulation of quantitative data co-related with the accounting information does not result in additional effort/cost
- ▶ The above process culminates into cost statement which is the final outcome and end result of maintenance of cost records

Cost Accounting Records are not a stand-alone set of records but integrated to the overall accounting system of the company



Companies (Cost Records and Audit) Rules 2014

► Main concerns of the notified Rules

- ✓ There is scope for drafting improvement. Use of words like “*such as*” leave open scope for interpretation
- ✓ The linkage of industries/sectors with CETA Chapter Codes introduced in 2011 Rules while retained in the Draft Rules exposed by MCA; missing in final notified Rules.
- ✓ Sectors intended to be covered is left undefined leading to ambiguity & confusion
- ✓ Important and strategic sectors left out of the coverage
- ✓ Multiple threshold limits for different categories and also within the same category
- ✓ Maintenance of cost accounting records reverted to ***Rule Based Mechanism*** (prevailing since 1965) from the ***Principle Based Mechanism***, which was introduced in 2011 in consultation and recommendation of industry.



Companies (Cost Records and Audit) Rules 2014

► Main concerns of the notified Rules

- Condensed/comprehensive system of reporting introduced in 2011 reverted to old mechanism of product-wise, unit-wise multiple reports leading to:
 - ✓ compromising confidentiality of sensitive cost data
 - ✓ Increased cost of compliance
 - ✓ Increased size of report
- Coverage does not follow any logic
- Sector descriptions copied from CETA without mentioning corresponding codes
- Prescription of high net worth and low turnover is inconsistent
- Coverage of regulated sectors not properly defined. Reference to regulatory bodies & its scope do not match with the intended coverage.
- Product or Service specific turnover criteria effectively excludes every company otherwise intended to be covered



Effect of Rules 2014 – matters of concern

Issue	Rules 2011	Rules 2014
Coverage for records and cost audit	Applicable to production, processing, manufacturing & mining at company level; audit sectors identified by CETA Code	Applicable to few sectors at product level not properly defined; no linkage to CETA Codes; multiple threshold limits
Applicability of Generally Accepted Cost Accounting Principles, and Cost Accounting Standards	Principle based cost records to be maintained according to standards; no specific formats; companies to maintain records according to size & nature of business	No application of standards; cost elements defined in the rules; no flexibility to companies to maintain records according to size & nature of business
Maintenance of cost records	To maintain cost details of each product; submission of report at Product Group level	To maintain cost details of each product; submission of report also at Product level
Product Group	Concept introduced to protect confidentiality of sensitive cost details and dispense with product level details	Product Group concept completely dispensed with.

Effect of Rules 2014 – matters of concern

Issue	Rules 2011	Rules 2014
Detailed product-wise cost statements	To remain with Company	To be submitted
Submission of multiple cost audit reports for each unit & each product	Dispensed with	Reintroduced
Size and content of reports	Only Product Group level cost details in 11 paras including simple & abridged product group-wise cost statement; confidentiality protected	Reporting under 28 Paras with details not feasible at product level; to submit cost statements of each variety of product; confidentiality compromised
Mode of filing Cost Audit Report	Cost Audit Report filed in XBRL Mode thereby further protecting confidentiality with extremely limited access to reports.	The reporting structure is not compatible for XBRL Mode of filing.

Comparison of Existing Coverage vis-à-vis New Rules

Sector/Industry/Product	Pre-2011	2011	2014	Remarks on 2014
Regulated Sectors				
Sugar, Molasses, & Industrial Alcohol	Yes	Yes	Yes	Partly covered
Crude Oil, petroleum products & gases (incl. survey, exploration, production, transportation & distribution)	Yes	Yes	Yes	To be properly defined
Bulk Drugs & Pharmaceutical Products	Yes	Yes	Yes	To be properly defined
Fertilizers	Yes	Yes	Yes	
Telecommunication Services	Yes	Yes	Yes	To be properly defined
Generation, Transmission & Distribution of Electricity	Yes	Yes	Yes	To be properly defined
Non-Regulated Sectors				
Air-Conditioners and Refrigerators	Yes	Yes	No	
Alcoholic Beverages		Yes	No	
Aluminium & Aluminium Products	Yes	Yes	Yes	To be properly defined
Articles of Stones, Plaster, Cement, Asbestos and Mica		Yes	No	

Comparison of Existing Coverage vis-à-vis New Rules

Sector/Industry/Product	Pre-2011	2011	2014	Remarks on 2014
Base Metals and Articles of Base Metals	Yes	Yes	Yes	To be properly defined
Batteries including Dry Cell Batteries	Yes	Yes	No	
Bearings	Yes	Yes	No	
Cement	Yes	Yes	Yes	Partly covered
Ceramic Products		Yes	No	
Colours, Dyes and Pigments	Yes	Yes	No	
Cosmetics & Toiletries (Personal Care Products)	Yes	Yes	No	
Electric Motors, Lamps, Fans, Cables, Conductors, etc.	Yes	Yes	No	
Electronic Products	Yes	Yes	No	
Engineering Machinery, Appliances, and Parts thereof	Yes	Yes	Yes	Very limited application
Explosives		Yes	No	
Footwear	Yes	Yes	No	
Glass and Glass Products		Yes	No	

Comparison of Existing Coverage vis-à-vis New Rules

Sector/Industry/Product	Pre-2011	2011	2014	Remarks on 2014
Industrial Gases	Yes	Yes	No	
Insecticides & Pesticides	Yes	Yes	No	
Jute & Jute Products	Yes	Yes	Yes	
Leather Products & Tanning Substances		Yes	No	
Milk Food	Yes	Yes	No	
Mineral Products (Coal and Lignite)		Yes	Yes	To be properly defined
Mineral Water and Aerated Drinks		Yes	No	
Mining and Metallurgy	Yes	Yes	Yes	To be properly defined
Organic & Inorganic Chemicals and Petrochemicals	Yes	Yes	Yes	To be properly defined
Paints and Varnishes	Yes	Yes	No	
Paper, Paperboard and Articles thereof	Yes	Yes	No	
Pearls, Diamonds, Stones and Jewellery Articles		Yes	No	
Plantation Products	Yes	Yes	No	

Comparison of Existing Coverage vis-à-vis New Rules

Sector/Industry/Product	Pre-2011	2011	2014	Remarks on 2014
Plastics, Polymers and Articles thereof	Yes	Yes	No	
Prefabricated Structures		Yes	No	
Prepared (Packaged) Food Products		Yes	No	
Railway or tramway locomotives, rolling-stocks & parts		Yes	Yes	Partly covered
Rayon, Nylon & Polyester	Yes	Yes	No	
Rubber & Allied Products		Yes	Yes	To be properly defined
Ships, Aircrafts, Vessels, Parts & Components thereof		Yes	No	
Soaps, Detergents and Cleaning Agents	Yes	Yes	No	
Steel Plant, Steel Tubes & Pipes and Steel Products	Yes	Yes	Yes	Partly covered, not defined properly
Surgical or Medical Instrument and parts thereof		Yes	No	
Textiles	Yes	Yes	No	
Tobacco Products		Yes	No	

Comparison of Existing Coverage vis-à-vis New Rules

Sector/Industry/Product	Pre-2011	2011	2014	Remarks on 2014
Tractors & other Motor Vehicles (incl. Cycles)	Yes	Yes	No	
Tyres & Tubes	Yes	Yes	No	
Vanaspati, Edible Oils, Oil Seeds & Products thereof	Yes	Yes	Yes	To be properly defined
Construction & Real Estate Development (incl. PPP Projects)		Yes	Yes	To be properly defined
Infrastructure Projects		Yes	Yes	To be properly defined
Storage & Warehousing Activities		Yes	No	
Education Services			Yes	Mainly trust bodies, not under the Act
Healthcare Services			Yes	
Civil Aviation & Airport Services			Yes	Partly covered
Port Services			Yes	Partly covered

Our Proposals & Recommendations



- ▶ Principle based cost accounting records based on cost accounting standards and GACAP as existed under Rules 2011
- ▶ Rules may be redrafted in consultation with the Institute
- ▶ Threshold for maintenance of **cost accounting records**:
 - ✓ **Companies engaged in production of goods**: net worth of Rs.10 crores or turnover of Rs. 25 crore, or listed or in the process of listing.
 - ✓ **Companies engaged in specified services**: net worth of Rs. 5 crores or turnover of Rs. 10 crore, or listed or in the process of listing.
 - ✓ For Multi-product or multi-service Company, product/service should be:
 - at least 5% of the total turnover of the company, or,
 - Minimum Turnover: Products Rs. 25 crore; Services Rs. 10 crore
- ▶ Threshold for applicability of **cost audit** for turnovers exceeding:
 - ✓ Non-Regulated Industries/Sectors : Rs. 100 crore or listed
 - ✓ Regulated Industries/Sectors : Rs. 25 crore or listed

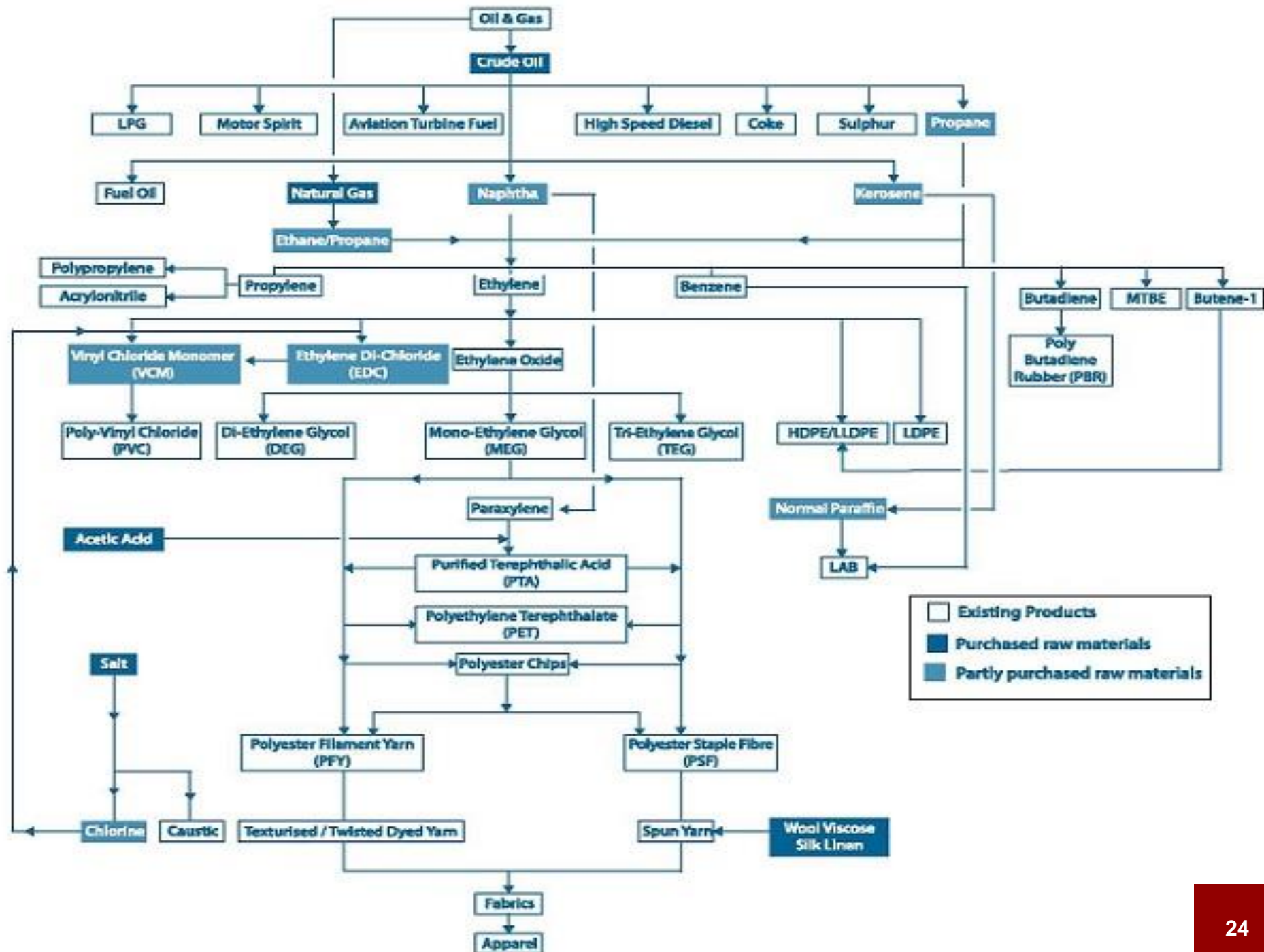


Our Proposals & Recommendations

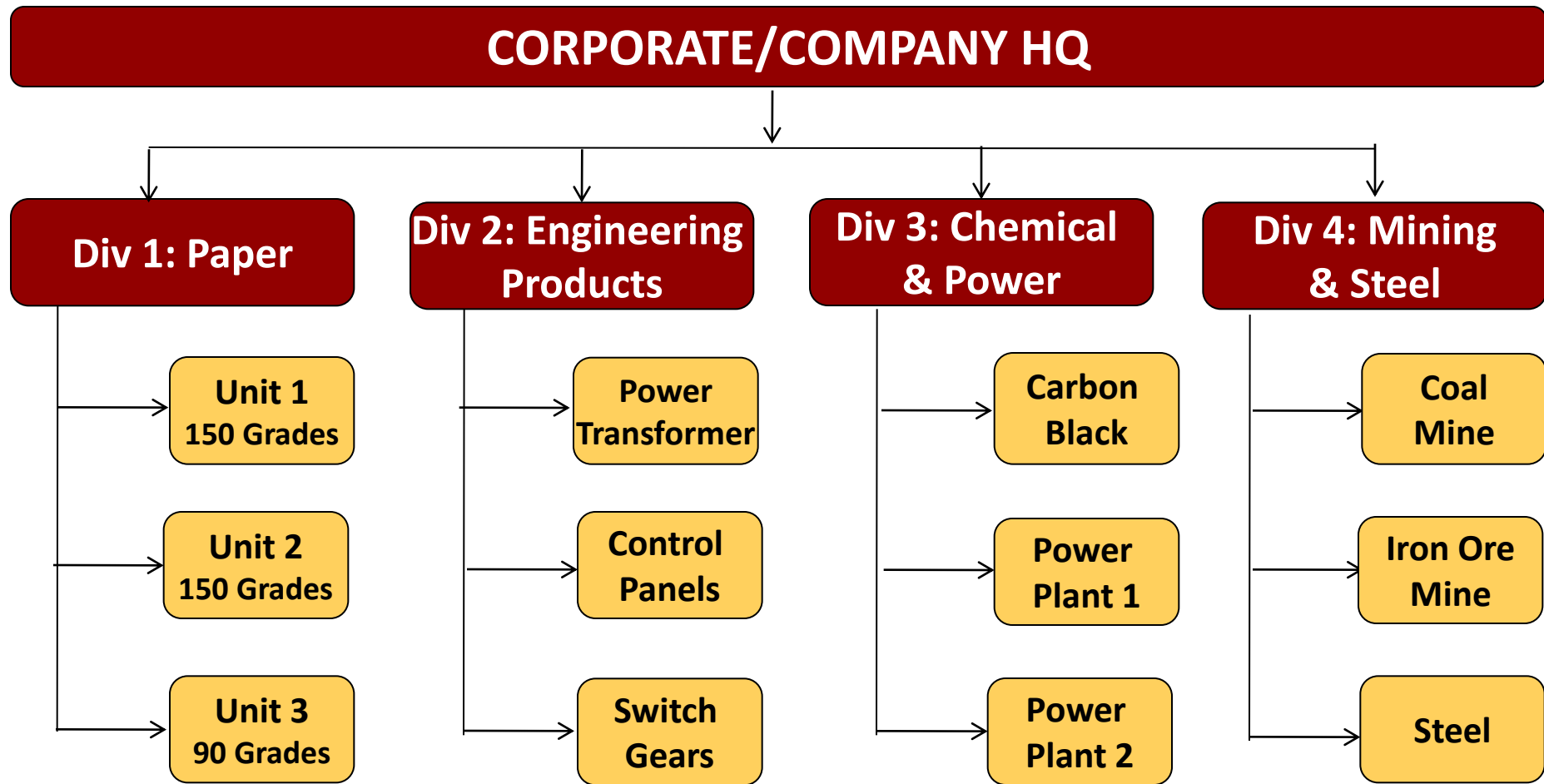


- ▶ IFAC-IGPG states that costing for decision support is valuable for performance improvement, value creation, “what if” analysis, and the effective & efficient application of an enterprise’s resources & processes
- ▶ IFAC Survey – IFRS based financial reporting satisfies the compliance requirements but falls short of a Performance Based Reporting for improved Board Governance
- ▶ Suggests key principles underlying good practice in evaluating and improving costing in organizations, external reporting and providing assurance to stakeholders
- ▶ Cost Accounting and cost audit provides this assurance to stakeholders
- ▶ Performance Appraisal Report to the Board was a vital Value Addition in the 2011 Rules
- ▶ We propose that the Performance Appraisal Report be retained for consideration of the Board

Include Performance Appraisal Report in the Framework



Sample Multi-Product Company Structure



Each of the above Divisions have inter-unit transfers

What large economies did in similar situations (Global Practices) ?

GLOBAL PRACTICES

Based on the following sources:

- ❖ **Primary Survey done by ICAI-CMA in 2008**
- ❖ **Papers submitted during Global Summit of Management Accounting of 2008 at New Delhi**
- ❖ **Management Accounting European Perspectives by Alnnor Bhimani – An Oxford Publication**

Cost & Management Accounting / Audit Practices VARY ACROSS Nations Socio Economic Maturity Levels

Key Drivers of Variation

- ▶ Taxation Policies
- ▶ Price Controls
- ▶ Protection and Competition
- ▶ Empowerment of CMA Profession
- ▶ Academics
- ▶ Ownership of the Firm
- ▶ Inflation, and
- ▶ Other Country Influences



Therefore comparison of cost accounting/audit in India versus major economies will transcend time points

Government powered Japanese CMA Practices



- ▶ Original foundation provided by Japanese Government by making cost accounting standards compulsory in post war scenario.
- ▶ Ministry of Finance, Business Accounting Committee issued cost accounting standards in 1962.
- ▶ Cost Accounting Standards also practiced in Army, Navy and Building ministry.
- ▶ Internal audit reports to be forwarded to shareholders of Japanese Companies also listed in USA.
- ▶ Cost Accounting and its interface with operational cost management taken to micro level in Japanese companies.
- ▶ Target Cost Management taken to strategic level by Japanese companies.
- ▶ Cost Engineers & Business schools and business nurture CMA.

Cost Accounting Standards' adherence considered as a social discipline for Japanese companies. Corporate and social maturity levels absorbed/enhanced CMA practices.



Legal Transition of Chinese CMA Practices



- ▶ **Accounting Standards for Business Enterprises (ASBE)** issued in 2006 not only influence external reporting but also set the framework of internal accounting.
- ▶ Having cost centers in business accounting is a part of the framework.
- ▶ **Article 103 of ASBE insists that major changes to cost accounting structure should be approved by shareholders or governing bodies**
- ▶ Cost information along with public policy plays a major role in fixation of customs tariff.
- ▶ Ministry of Finance and Ministry of Commerce have powers to access the cost information in any public company.
- ▶ Accountants categorized as in-practice and in-house. CIMA UK and IMA USA have set up shops in China.
- ▶ Graduate and Post Graduate courses contain subjects relating to cost and management accounting.

Institute of Management Accountants-USA survey of Chinese CMA indicates that ASBE has been seen as a tool for transforming Chinese Costing Practices from a controlled economy legacy



Integrated Korean CMA Practices



- ▶ Strong appetite for cost accounting after financial debacle of 1990
- ▶ Cost Accounting records made compulsory in law after 1998 for select category of companies, mainly banks.
- ▶ The cost accounting information can be accessed by the external auditors who are expected to comment on this compliance.
- ▶ Ministry of Environment in Korea initiative on environmental cost measurement and reporting from 2011.
- ▶ Cost and Management Accounting taught in business schools and commerce stream graduation courses.

The financial debacle of the 90s drove the Korean economy to institutionalize cost accounting standards to improve the reliability of financial reporting

Govt. visualized CMA Practices of France



- ▶ Universally accepted single system of cost analysis and product costing system is described in Decree of Ministry of Finance and Economy published as Title III of the 1982, *Plan Comptable General*.
- ▶ Unlike USA and UK, the French approach to product costing is in a spirit of facilitating fair competition and applies to all industries whether or not dealing with any state agency.
- ▶ The CNC [*Conseil National de la Comptabilite*, the official standard setting body of Ministry of Finance and Economy] has asked that each industrial sector define a basic or minimum cost analysis framework tailored to its activities or processes. This cost analysis framework is to be incorporated in the industry specific standard financial accounting chart of accounts.
- ▶ The charts of accounts for those industries whose main line of business requires Government contracts, such as telecommunications, aviation, aerospace electronics and defence are used by Government agencies as the reference for cost audits. They are de facto compulsory.



CMA Practices of France (Contd.)



- ▶ Costing debates take place in industrial engineering association and accounting institutes.
- ▶ The *Plan Comptable* finally adopted are balanced. Industry, was more interested in designing a system of cost analysis that would help them in their decision making and in creating value for their stockholders. They moved beyond the bare minimum.
- ▶ Official bodies such as CNC and *Ordre des Experts Comptables* always design *Plan Comptable* not cast in bronze but can always be continuously updated whenever the need arises.

The costing practices which evolved through the French laws prescribed the minimum costing framework required for intervention in regulated industries and updated practices left to industries to move beyond minimum.

Germany - A veteran of CMA Practices



- ▶ All German companies have a very strong management accounting department and help managements in public reporting by Board on discussion and analysis of performance.
- ▶ Privatized and regulated business like postal services access the cost accounting information of companies.
- ▶ Certain cost accounting concepts such as cost of sales reporting and overheads disclosure are already built into German practice.
- ▶ German antitrust bodies depend on the cost information within companies to a great extent.
- ▶ In Germany cost centre concept is practiced so intensively so that even a single machine becomes a cost centre.
- ▶ SAP systems which are being used world over extensively were developed in Germany only with the cost centre concept.
- ▶ **India record of using costing functionality of SAP? A pain area.**



CMA Practices of Germany (Contd.)



- ▶ *Grenzplankostenrechnung (GPK)*: a costing method focused on costing that is helpful to support short-term decisions, for example a production decision (a decision to accept or reject an additional order based on contribution margin information) or a pricing decision. GPK varies in complexity depending on an organization's history, culture, and requirements (which in turn are determined by the complexity of products and processes). In most instances,
- ▶ Internationaler Controller Verein teaches cost and management accounting. CMA as a subject taught and nurtured in business schools along with the business.
- ▶ Germany has two journals devoted entirely to Cost and Management Accounting i.e., ZFCM ZEITSCHRIFT FOR CONTROLLING AND MANAGEMENT and CONTROLLING
- ▶ German research in India cost accounting supported by ICAI CMA.



German Public Contracts and Laws for Cost Computation

- ▶ In Germany, statutory instruments have been enacted to achieve uniformity and consistency in accounting for contracts with public authorities and to avoid calculation of the cost price at excessive rates.
- ▶ PR 30/53 – Statutory instrument for prices of contracts with public authorities by the Department of industry.
- ▶ Regulation of pricing based on cost prices.
- ▶ PR 1/72- Statutory instrument for prices of public construction work or contracts financed by government investment.
- ▶ Regulation for the calculation of prices of construction works on the basis of cost price.

The costing practices are strongly embedded into the German manufacturing systems driving cost competitiveness. It reflects in the numerical count of cost centres they practice. Law prescribes cost accounting wherever there are reimbursements

Social Costs and CIMA drive CMA Practices in UK

- ▶ ICWA of UK was started in 1919 and forerunner to global bodies. Later called as ICMAI and now known as CIMA.
- ▶ CIMA is global having 150000 members across globe & 30000 students.
- ▶ CIMA has a journal now called as Financial Management
- ▶ CIMA carries out research on major topics and also funds research activities on management accounting in various parts of the world.
- ▶ Management Accounting is accorded the highest priority as a source of competitive advantage. Though it is not divulged to external entities the annual reports may contain management accounting information.
- ▶ Regulatory bodies such as Airports, Communications, Educational Sector, Energy, Food Standards, Pensions, Postal Services, Railways, etc. extensively use costing information of the business entities.
- ▶ UK Educational sector through the Treasury Green Book uses cost accounting standards for subsidy disbursement.



CMA Practices in UK (Contd.)

- ▶ The regulators have their own checks and balances for ensuring the integrity of the cost information submitted. Health sector is a classic example of Government funding of hospitals based on costs.
- ▶ The UK accounting standards have incorporated Cost of sales and overhead reporting as a part of the financial reporting to the shareholders.
- ▶ CIMA's stand on governance is renowned with emphasis on performance governance. Review of strategy and risk management and internal reporting to the board of directors is strongly recommended by CIMA in their well publicized research documents.

The Costing Information pull is set by many of the regulators such as health care as well as the Government. The status conferred on CIMA by UK Government vis-à-vis CA Institutes of UK is the pull in the remaining sectors



Dichotomy of CMA Practices in USA A case of what not to do ?

- ▶ A body of CMA started as a National Association of Accountants in 1919 which has now evolved as Institute of Management Accountants.
- ▶ Reputed Business Schools such as Harvard, Stanford, etc. also focus on management accounting and has produced brilliant papers and scholars on the subject.
- ▶ Management Accounting , Quarterly is IMA's online journal, which gives an insight in to management accounting & financial management techniques and theories for practitioners, academics, and other financial professionals.
- ▶ IMA-USA is focused on delivering research, best practices and tools for practitioners in the management accounting and finance profession who are involved in decision support, planning, and control functions. In addition to the Foundation for Applied Research (FAR), the Centre of excellence(COE) is comprised of five research practices:
 - ▶ Leadership Strategies and Ethics
 - ▶ Technology Enablement
 - ▶ Strategic Cost Management
 - ▶ Business Performance Management
 - ▶ Enterprise Risk and Control



CMA Practices in USA (Contd.)



- ▶ Various authorities such as Securities Commission, Federal Trade Revenue, Department of Justice etc. extensively access the cost information of organizations
- ▶ The President's office has set up a Federal Cost Accounting Standards Board which mandates the maintenance of cost information as per standards by those entities who do business with the Federal Government
- ▶ In contrast to usage in Government , the private sector freedom not deployed to update cost management practices in 1980 leading to loss of competitive edge in manufacturing to Japan. Documented by several studies including Dr. Robert Kaplan of HBS.

Heavy usage of cost accounting standards and audited cost information in all business done with Federal Government beyond a cut off limit. Research documents of Harvard Business School have documented loss of cost competitiveness of US against Japan in 1980 due to poor costing practices in private sector.



CMA Practices in Canada



- ▶ The CMA Canada Institute was started in 1930 as Registered industrial Accountant & has gradually evolved into the current nomenclature & scope.
- ▶ A premier body of CMA with lot of technical publications and path breaking initiatives to its credit.
- ▶ The management accounting journal published by CMA Canada is called CMA Management Magazine.
- ▶ CMA Canada publishes research by way of its Management Accounting Guidelines and Management Accounting Practices offering the latest in strategic management accounting research.
- ▶ CMA and CA bodies of Canada have now merged to form the CPA Canada.
- ▶ Fiscal Act provides for assurance of certain management accounting information by Government finance controllers.
- ▶ The taxation authorities seek information on cost and management accounting directly from the company.
- ▶ The anti trust jurisprudence has definition of cost terminologies which can be a cost standard for dealing with predatory pricing situation.



CMA Practices in Canada (Contd.)



- ▶ Management Accounting is extensively used in internal reporting and considered an enabler of competitive advantage.
- ▶ No cost accounting standards are prescribed by any authority in Canada. Only good practice guidance publications are provided by CMA Canada which are valued very much.
- ▶ The GAAP of Canada contain certain costing practices in reporting such as Cost of Sales, Overheads disclosure, etc. for external reporting purposes only.
- ▶ In Canada, usually the Public supply contract specifies the components and the methodology of cost accumulation. Cost plus contract is generally used in awarding contracts. It is the responsibility of the purchasing entity to certify whether the costs reflect the content of the contractual agreement. Each contract or series of similar contracts would contain guidelines as to the nature and quantum of allowable costs.

Heavy usage of cost accounting standards and audited cost information in predatory pricing and anti trust law enforcement. Consumer protection and stakeholder value is a driving force for costing practices



Legally backed CMA Practices of Finland



- ▶ War time law for cost based pricing from 1940 by the Ministry of Supply, Regulation 27 of June 1942, Appendix 3.
- ▶ Business Taxation and Accounting Act of 1973 introduced the concept of variable costing in inventory valuation.
- ▶ Accounting Ordinance of 1992 was issued to fulfill the directives of the European Union.
- ▶ As per the above ordinance the concept of full costing in inventory valuation paving way for systematic cost accounting.
- ▶ Managers post 1992 started appreciating new cost management concepts such as Activity Based Costing which enabled them a better understanding of business.
- ▶ CMA developed by Government intervention, business schools and the practitioners in business.

The post second world war pricing requirements and the Accounting Act with their ordinances for supporting inventory valuation drove the evolution of cost accounting in Finland..

International Federation of Accountants (IFAC)

- ▶ IFAC is the global federation of accounting and management accounting bodies world over.
- ▶ ICAI-CMA is an active player in IFAC and represented in the Professional Accountants in Business Committee (PAIB) of IFAC earlier known as Financial and Management Accounting Committee.
- ▶ IFAC publishes various pronouncements on different topics and are based on universally accepted principles.
- ▶ IFAC document on Costing for organizations contain two of the six principles.
- ▶ PRINCIPLE A: The ability to identify, measure, interpret, and present costs as they relate to an organization's economic flow of goods and services, both historically and in a forward-looking context is necessary for a good informed understanding of the organizational drivers of profit and value.
- ▶ PRINCIPLE F: Definitions and sources of cost data, and the methods of calculation of costs, should be recorded and capable of review, risk analysis, and assurance.



India ?

- ▶ An Act of Parliament to regulate and grow the profession of Cost and Management Accounting. The Administering Ministry, MCA should also be a driver of the adoption of the domain by the economy.
- ▶ Competitive Practices (Politics) influencing the corridors of power thwarted the just demands of the institute to rename itself as a management accounting body.
- ▶ Sachar Committee strongly recommended mandatory cost accounting and cost audit as a measure of consumer protection.
- ▶ Cost Accounting Standards and Cost Audit is must in Regulated Sectors as a tool for protecting public interest.
- ▶ In the Non regulated sectors we need the same for promoting cost competitiveness till the subject becomes a part and parcel of business model like Germany. We are far from that stage and we cannot experiment till the time maturity level increases on a voluntary gear.
- ▶ Making cost accounting and cost audit as a part of the governance structure will enable **“MAKE IN INDIA A REALITY.”**



India ?

Quote from the web site of the CII on the need for
TOTAL COST MANAGEMENT

“The prime objective of the division is to facilitate the national movement on TCM in order to make Indian industry cost competitive”

Cost Accounting Standards and Cost Audit enables implementation of the above statement of CII in the unregulated sector as in many other economies of the world

What Utility is reassured by a corrected course ?

Utility of cost data – to the Company Management

- To bring improvement in:
 - Value Creation,
 - Resource Utilization,
 - Risk Management,
 - Competitiveness, and
 - Governance Mechanism
- To analyze and improve performance of each Business Vertical and to undertake:
 - Capacity Utilization Analysis
 - Productivity/Efficiency Analysis
 - Utilities/Energy Efficiency Analysis
 - Key-Costs & Contribution Analysis
 - Product/Service or Market/Customer Profitability Analysis
 - Working Capital & Inventory Management Analysis
 - Inputs Price Volatility or Price-Sensitivity Analysis
 - Environmental and Sustainability Analysis



Utility of cost data – to Government & Regulators

- For determination of
 - Subsidy of controlled products (e.g. petroleum products, fertilizers, sugar, food products, etc.)
 - Tariff under Direct & Indirect Tax Laws
 - Toll recovery charges for all infrastructure projects
 - User charges for various public services & utilities
 - Prices of essential goods and services
 - Goods for inclusion under the Free Trade Agreements (FTA)
- For valuation of
 - Goods under anti-dumping and other agreements under WTO
 - Products/services/entities under various statutes
- To detect cases of
 - Direct & Indirect Tax evasion by CBDT & CBEC
 - Wrongful adoption of transfer pricing in related party transactions and thus transfer of profits
 - Cases of under or over valuation of Inventories and over/under statement of Profits



Utility of cost data – to Government & Regulators

- Competition Commission of India & other Regulators to check
 - Predatory Pricing
 - Unfair Trade Practices
 - Price-Rigging
 - Cartelization
 - Over-charging
 - Discriminatory Pricing
 - Profiteering
 - Siphoning of Funds
- Undertake industry-wise
 - Economic Analysis
 - Sectoral Efficiency Studies
 - Competitiveness Studies
 - Tariff Related Studies
 - Benchmarking Studies
- Protect the interest of consumers



Thank You

Questions?

A blurred background image showing several hands raised in the air, suggesting a crowd or an audience. The hands are in various positions, some with fingers spread, and the overall scene is out of focus, emphasizing the gesture of raising hands.