



VALUE ADDITIONS THROUGH MAINTENANCE OF COST RECORDS AND COST AUDIT

The Cost Accounting Records has made formidable contribution in developing cost accounting system in the industry by way of compiling various data. The Cost Accounting Records help in decision making and guiding for better resource management. Also, the Cost Accounting Records has brought consciousness among Indian industries in the use of cost information. The statutory application of Cost Accounting Records, in fact, contributed a great deal in bringing professionalism in this direction. The experience of Cost Accounting Records in Indian Industries has paid them great reward in devising strategic decisions to face the challenges of open market competition due to liberalization process. Under this situation, cost competitiveness has become the key issue for survival. In this process, the importance of the Cost Accounting Records has increased many folds.

Cost Accounting Records and Audit thereof is found useful to Industry, Government , Tax Authorities, Investors and Consumers in following way.

A. Benefits Industry

1. Help to Management, Directors and Industry:

The CARR and Audit thereof helps the management in understanding and taking decisions in following areas:

- a) Industry structure and developments
- b) Opportunities and threats
- c) Segment-wise or Product-wise performance
- d) Internal Control Systems and their adequacy
- e) Discussion on financial performance with respective operational performance.
- f) Make or Buy decisions.
- g) Optimum utilization of resources.

The non-executive (independent) Directors can be better equipped and appraise the operational performance and efficiencies in operations with the help of classified information maintained and collected in a systematic manner in the process of Maintenance of Cost Accounting Records , Cost Audit and Performance Appraisal Report.

2. Corporate Performance and Economic Efficiency:

- (i) The Cost Audit helps in improving performance in a competitive world through business process reengineering, reorganisation of the working facilities, working environment and through other measures. It also validates the fundamental cost data for achieving competitiveness in new economic scenario. It makes cost data available for “Target



Costing” for achieving competitiveness by pegging the costs and re-orienting the entire activity chain, motivates technological and techno- economical processes.

- (ii) The Cost Audit also makes possible the Performance Appraisal and various analyses such as (a) Capacity Utilisation Analysis (b) Productivity/Efficiency Analysis (c) Utilities/ Energy Efficiency Analysis (d) Key-Costs & Contribution Analysis (e) Product/Service Profitability Analysis (f) Market/ Customer Profitability Analysis (g) Working Capital & Inventory Management Analysis (h) Manpower Analysis and (j) Application of Management Accounting Tools.

3. Optimum utilization of resources

Cost Audit improves efficiency of the organization by ensuring effective utilization of resources through the analysis of cost data and avoidance of wastages highlighted by Cost Audit, and helps in making the industry competitive both in the national and the global market place and also leads to good corporate governance. Business sustainability depends greatly on cost and competitiveness.

4. Segment Reporting

Cost audit and cost accounting make easy the allocation of common cost and assets amongst different segments for segment reporting and provide reliability to cost information given under financial accounts.

5. Related Party Transactions.

The cost audit facilitates cost information required for transfer pricing, inter unit transfers and transfers amongst the related parties. The information in respect of international as well as domestic transfer pricing can be derived from the cost records and audit thereof.

6. Free Trade Agreement

The pivotal point for incorporating any item during the process of negotiations under an FTA is the domestic cost of the product. The costs of item covered under cost audit are being used by the competent authority for decision-making.

7. Predatory Price

To increase market share, the dominant players may opt for a price lower than cost to eliminate competition. This, in long run, is detrimental to consumers. Cost audit helps in deciding predatory pricing cases before the Competition Commission of India.



8. Cross Border Trade

Cost accounting is a source of reliable cost data for various companies for assessing advantages out of bilateral trade and trade negotiations.

9. Quantitative Information

In view of change in the Schedule VI information, Annual Report does not contain any quantitative details. Under the circumstances, Cost Audit Report is the only source which provides authentic data.

10. WTO and Anti-Dumping

The companies, against whom the anti-dumping cases are filed, are required to prove that their international selling prices are not less than indigenous cost. Similarly lodging of complains against foreign rivals for dumping, etc. and determination of compensation essentially requires a proper cost database.

11. Cost Accounting in Service sector

The galloping growth rate of service sector in India has brought new dynamism in Indian economy. Also Service sectors such as IT & ITES, Banking, Insurance, Health Services, Education, Hotel, etc. have attained strategic importance to the economy and the public at large. The cost advantages give tremendous edge to service sector in negotiating trade prospect, give them competitive advantage and enable them to adopt scientific cost management practices for a long-term sustained growth.

B. Benefits to Government

12. Helps the Government in Policy Making

Cost data enables government in policy making e.g., Free Trade Agreements which require analysis of cost data for each product for favourable negotiation, Anti-Dumping which is based on verification of cost data of the industry, subsidies to industries, Transfer pricing, pricing of scarce resources and the like.

The cost audit also helps the government in working out concessional rate, utilities like power, water etc., loans at concessional rates and concessions in taxes in addition to outright subsidies.



13. Preventing Inventory Manipulation

Cost accounting provides cost information for valuation of inventory based on cost records maintained for each products/ services and gives no leverage to the management in manipulating stock valuation. The cost audit report also requires the cost auditor to report under-valuation/ over-valuation of opening/ closing stock in the financial accounts and also requires to give reconciliation of profits between financial and cost records.

C. Benefits to Tax Departments

14. Excise and Income Tax Departments

Cost audit and cost accounting provides cost information relevant to the Excise Department and Income Tax department enabling them to establish input-output ratios, norms for wastages, appropriate consideration of the capacity of the units. This helps in reducing revenue leakages and also reduction in tax related litigations. Cost Audit Report helps the Revenue Department in Related Party Transactions and analysis of Segmental Profitability. Excise Department is using CAS-4 certificate issued by Cost Accountants in practice for valuation for captive consumption. Cost accounting and Cost Audit is a valuable tool for VAT authorities in determining / justifying VAT liability.

Proper cost accounting records and cost audit helps the exchequer, manufacturer as well as service provider in determining the correct service tax liability and thereby reducing the unwarranted litigations to the minimum possible level.

15. Export Promotion Capital Goods (EPCG) scheme:

Capital goods can be imported at concessional customs duty subject to fulfilment of export obligation. Thus benefit is derived much in advance and then subsequently of the track of export obligations may be lost. Many a times the actual exports do not take place and very large defaults are observed. Cost accounting and cost audit provide the classified information which is immensely useful for DGFT/customs and other governmental agencies.

16. Special Economic Zones (SEZs):

SEZs are duty free enclaves enjoying tax sops. Future economic development of the country is planned through SEZ route. Monitoring of economic transactions in SEZs has a great linkage, relevance with 'Cost'. The Cost Accounting at every stage protects revenue and safeguards interests of domestic players in this regard.



D. Benefits to Regulators

Cost audit helps the regulators in fixation of prices /tariff based on reliable and verifiable cost data leading to better regulation of industry keeping in view the interests of the consumers. Cost Audit Reports are of immense use to the Regulators and various agencies of the Government in areas like, subsidy determination, administered pricing, predatory pricing, check price rigging, cartelization, discriminatory pricing, profiteering, siphoning of funds.

E. Banks and Financial Institutions

- (i) In cases of restructuring of loans or enhancements of facilities when the performance of the companies are not up to the mark, banks and financial institutions, among other things, ask for the Cost Audit Report. The cost audit report helps banks to check the operating efficiency, working capital management, working below capacity, inventory management, abnormal costs etc.
- (ii) Cost Audit and cost records also help the corporates/ bankers/ financial institutions in deciding upon matters related to risk assessment and efficient risk management

F. Protection of Investors' Interest

The investors of a company are always interested in the working of the company to know the prospect and safety of their investment. This essentially involves proper utilization of materials, labour and other resources, waste reduction to ensure maximum return on and reliability of investments made. Proper system of Cost Audit ensures investor protection.

G. Benefits to Economy

In the absence of an integrated cost management culture, the cost of products and services become avoidably prohibitive which lead to inflation, increase in current account deficit and will also greatly impact the flow of Foreign Direct Investment into the country which may decelerate the growth rate of Indian economy.

H. Benefits to Consumers

The Cost Accounting helps the consumer in getting the commodities at a fair and competitive price and also protects the consumers from unscrupulous trade practices.