BEHIND EVERY SUCCESSFUL BUSINESS DECISION THERE IS ALWAYS A CMA - ENABLING TRANSFORMATION

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Abstract

The recent developments happening at a fast phase in the business processes through the well publicised capabilities of AI, have led to intense discussions in the professional forums on how to leverage its capabilities, for playing a value-added role. While the rule or regulations-based professions are said to be facing a major threat, the CMA profession, seems to have the unique advantage of leveraging on the developments and convert them to their advantage. The Cost Management over history has always been looking at more granular approach to identify the true and fair cost, starting with ABC, ABCM, etc., The AI models have given the confidence to reach any granular level as is warranted by the user requirements, due to its inherent capability to process large volumes of both structured and unstructured data and come out with results of different hue. This article explores the contours of the current developments and is aimed at creating a road map to a CMA to be behind every successful business decision in the true sense.

Introduction

All of us are very familiar with the epithet "Behind every successful Business Decision there is always a CMA", which we see day in day out in all the Institute communications. Each word in the epithet is important as it conveys a deeper meaning than what appears with a first reading. In a way it represents the essence of the Vision and Mission of ICMAI profession, as it reflects the true spirit of CMA profession. In the past, it represented the decision-making collective, which starts with strategy, evaluation of alternatives, assessing each of those alternatives on the profitability platform and taking the best decision based on the current environment. It becomes evident that decision-making occurs throughout the organisation, spanning multiple levels, timeframes and functions. While the information considered for the decision making can be of various hues, the final selection of the best is based on economics of the decisions based on human judgement and its estimated financial impact on the entity. This gives rise to the next question, of the number of decisions that are taken. If we really do a count, it will reveal a mind-boggling number, majority of which may have to be tested on the cost platform, which is rarely done, leading to a lopsided hit or miss situation. Ultimately, the success of the entity depends on providing the best stakeholder value which is more often measured in monetary terms with few exceptions (Eg. ESG, Regulatory etc.,). For the decisions taken to be progressively more successful, the system which provides the cost information should be robust be able to process information from varied cross functional sources across timelines and should be self-correcting based on changing scenarios.

.The Importance of Robust Cost Information Systems in Decision Making [1]

A system that delivers cost information must possess resilience and reliability to ensure the long-term viability through the validity of its outputs. If the infrastructure behind cost reporting is not sufficiently robust, any decisions derived from such data may be compromised or may not yield the intended results. Therefore, it is crucial for organisations to implement and maintain cost information systems that can withstand the test of time and adapt to evolving business environments. Only then can decision makers rely on the cost data provided to drive successful outcomes more consistently.

Emerging environment to support Robust Cost Information System

A major metamorphosis is happening in the Corporate World, through the rapid progression of Artificial Intelligence, which has become an enabler of what seemed impossible till recently. Cost Management Systems so far have been successful in processing historical information which usually is available in a structured form. The Management Decision making, while learning from the past, depends on the current (near real time) and predictive information, to have a menu of choices to identify business improvement possibilities leading to better profits. While the existing IT based cost accounting system through any ERP can effectively cater to arrive at cost for Inventory valuation and consequently for Financial Reporting purposes, the cost reporting for profitability analysis at a granular level, requires a different set of advanced modules such as COPA (For SAP) and EPM (For Oracle). Even they have limited facility to provide dynamic cost information "on the go" based on changes in key variables, as well as on a "futuristic or predictive mode". In the CII TCM© [2] terminology this is termed as Does Cost (Historical), Would Cost (Current) and Should Cost (Predictive). The Would Cost and the Should Cost are not shackled by the (artificial) Assignment and Allocation requirement as they only require costs relevant to decisions, which in most cases are linear relating to the specific cost object, which can be a product, service or process.

Transformation enabled by emerging capabilities

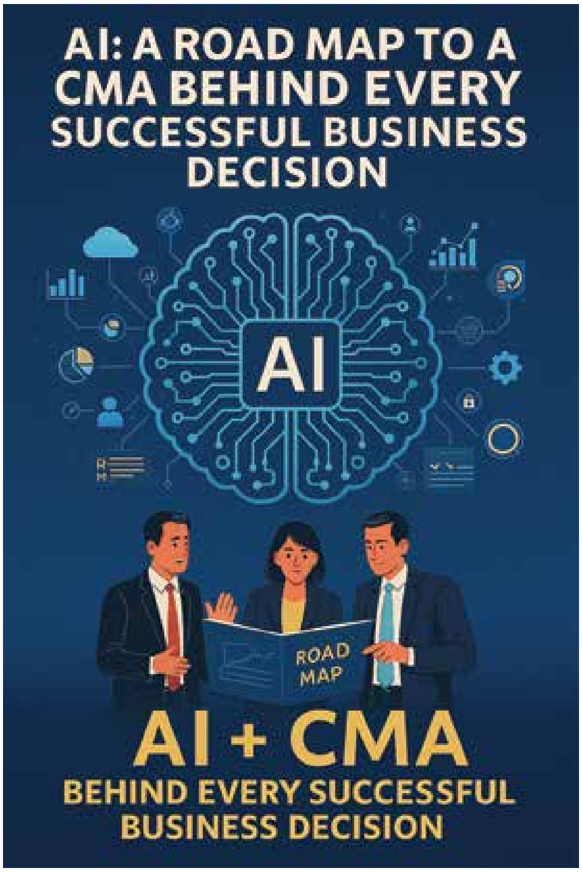
The increased AI capability which is being updated with mind boggling pace has astounded its most ardent critiques. The dependence on historical cost accounting for Decision making is slowly ebbing out as the non-financial disciplines have started experimenting with the AI Capabilities which they use in their domain. By applying the value part, to the quantitative results from AI, they are able to get a ball-park figure, which is sufficient for real time decisions. The recent developments of leading business entities creating cross functional business finance teams, which provide the real time cost related information as well as information on factors leading to such costs ,to the decision-making process by Operations, supply chain, marketing, HR as well as CEO on business strategy, has shifted the costing from under finance to enterprise wide . We also see situations, where the costing and MIS team report to the SBU head, and also as part of the Executive Assist team to the CEO. Leading entities have shifted the focus of the CFO more towards business strategies after having carved out financial team under him taking care of compliance matters leaving his valuable time for the crucial aspect of financial evaluation of business strategies. In effect, he becomes the Chief Business Finance Enabler. This has vastly reduced the friction between the finance and non-finance teams, as the later looked at Finance as a bottleneck for implementing growth strategies. The creation of Business Finance Teams has also shifted the role of Finance professionals from a bean counter role to a bean grower role.

Financial Reporting Systems

The Financial Accounting Standards, which form the basis of financial reporting are largely rule based, with strict guard rails, which reduce the subjective element in Financial Reporting. Another aspect of Financial Audit is the emphasis on "Internal Control Over Financial Reporting", and its compliance. The AI Capabilities have also helped the Auditors to jettison sample testing approach and go for full/ maximum verification of all transactions on the ICFR platform. The large audit firms have built this capability long back through their IT systems and have retuned the same with the AI Capabilities. The competition among the AI providers have also enabled cascading down of costs, because of which small entities can also afford it. We are witnessing the advent of AI Apps which are said to be providing free service to CA practicing fraternity (For a limited period) and claims to provide AI powered book keeping and reconciliation function, which is said to automate 75% of the routine workload of small practitioners, combined with getting linked to Tally and Zoho.

Cost Reporting Systems- Current Status

The same argument which is discussed in the earlier para can be applied to the Cost Information Reporting. But one major aspect in this case, is that the Cost Reporting for Compliance is restricted to Cost Audit. The concept of "Internal Control Over Cost Reporting", strongly advocated by the author in his previous, Articles in The Management Accountant Journal, is yet to take root in the corporate world, as the Financial Reporting team which looks after the Cost Audit, naturally bracket the cost accounting system into a compliance mode. The Business Finance Teams approach, discussed earlier, is yet to take root in most of the business entities. A robust Internal Cost Reporting System is capable of delivering compliance as well as decision making requirement. All the Tools starting with Variance Analysis, Target Costing, ABCM and similar ones are yet to get embedded in the IT systems, which provide the basic information for cost reporting. The processing is still done in the Excel Mode, which is an easier template, but involves human validation to test the robustness of the result and prone to errors. This may change in future as the MS office has already embedded the Co-Pilot in the menu, which has started giving useful prompts (Including in this article). Unlike the Financial Reporting Systems, Cost Reporting Systems, require human in the loop, with deep domain knowledge, as one size does not fit all. Even the Cost Accounting Standards, provide the flexibility, based on materiality, significance, Focus on drivers of value, Cost for a purpose, cost effectiveness, Comparability & consistency and Transparency & auditability. [3]



Metamorphosis of cost information system

The demand from the users of the cost information system, who are involved in each node of the Business Process Flow, are not satisfied with the existing Historical Cost (even within a shorter time frame of say a week). To illustrate, the Operations executive would like to know the cost of processing each batch of the product as soon as it comes out. The key elements of cost he deals with on the batch may be limited to a maximum of 5 items, Viz., Materials, Labour, Machine Time, related power consumption and consumables. Since the quantity of each item is already available to him, he would like to see the summarised effect of all these in cost terms, which is termed as operations cost, which is a single KPI. Once he looks at the trend of the cost batchwise, he can compare the same with the Technical Standard converted Cost and see whether the deviations are range bound. He will not be bothered about other overheads relating to governance, such as factory overheads, administration overheads and similar ones, as they are anyhow artificially allocated to cost objects based on best judgment of the drivers of those costs. In any case, such costs are mostly time driven and are not variable, to managed at organisational level. The 5 items which he evaluates are the ones which decide the Value Addition from operations batch wise, which he is bothered about. The Use Case at the end of this articles gives a glimpse of the practical reality.

The Capability Gap to be faced by CMA

For the traditional Cost Accountant, who works on excel sheets, it will be a humungous task to provide a batchwise cost, as he will be more worried about the allocation and assignment, which he considers as vital for arriving at total cost. The operations head on the other hand will know that he has all the key quantity parameters at his bidding and requires only to apply the corresponding rates to arrive at the operations relevant cost. This is where the AI comes into the picture, as it is not constrained by the number of transactions. Once a cost algorithm-based model is developed, it can apply the same to the information which is auto populated from the AI driven operations system, with the rates picked up from the Entity database to provide a ballpark figure to the operations head to identify better operations decision. Many scenarios can be built through the now popular Digital Twins, even before starting the production. Through a series of iterations, it can also enhance the cost algorithm model through the inherent Learning Capabilities and provide a reasonably reliable result, which can be depended upon for real time decision making. All these can be done in minutes compared to the manual process which may involve hours of number crunching. Once a model is tested for its robustness, it can be integrated into the IT systems with suitable MCP (Model Context Protocol) plugged in, so that the information provided to the user is system driven.

The Use Case Scenario

The author had a first-hand experience of putting the raw data thru the AI model, during the recent Online Meeting organised by the Institute's forum ***"ICMAI Ignites Digital Transformation"*** under the aegis of ***AI Strategy & Capacity Building Board*** which is being held regularly on every week on Fridays. The participants tested a sample (Imaginary) Raw Data from a machine shop through the various AI Tools such as Perplexity, Co-Pilot, ChatGPT, Gemini etc.,

The prompt given was

"You are an entrepreneur with engineering background and deep knowledge about engineering operations with various types of Lathe, Millers, Drilling Machines, Boring Machines, Hobbing, etc. Analyze attached excel and provide your inferences and possible improvement areas. After analysing, draw a flow diagram identifying and depicting possible bottlenecks and process frictions." [4]

The sample reply was

Response

I've reviewed your Excel file, which contains machine utilization, idle hours, capacity/value loss, and machine hour rate data. Here's a quick **analysis and inferences** before I design the **flowchart of bottlenecks:**

🔎 Key Findings

1. **High Idle Hours**
   - Top idle reasons (from MIHSUM sheet):
     - **Material Not Available (ID11)** – 24% of total idle time.
     - **Operator Absence/Leave (ID51)** – ~24%.
     - **Operator Not Allotted (ID54)** – ~15%.
     - **Reconditioning (ID45)** – ~11%.
   - Together, these account for **~75% of total idle losses.**
2. **Capacity & Value Loss Impact**
   - Material shortages and manpower issues (leave/unallotted) are the biggest contributors to lost production hours.
   - Mechanical breakdowns (ID41) and electrical breakdowns (ID42) are smaller but still significant contributors.
3. **Machine Hour Rate (MHR)**
   - Machine rates vary between **₹800 – ₹935/hr** (cost) vs **₹1,066 – ₹1,248/hr** (pricing).
   - This means idle losses directly translate into **substantial financial leakage.**
4. **Process Frictions & Bottlenecks**
   - **Upstream Planning** – Poor raw material planning & scheduling.
   - **Manpower Management** – Operators absent/not allocated.
   - **Maintenance Practices** – Reconditioning + breakdowns.
   - **Logistics/Handling** – Crane availability also adds downtime.

☑ Suggested Improvements

- **Material Planning:** Implement MRP/ERP-driven material planning & supplier coordination.

- **Manpower Management:** Cross-train operators & optimize shift allocation.
- **Preventive Maintenance:** Schedule predictive maintenance to reduce breakdowns & reconditioning delays.
- **Shopfloor Logistics:** Improve crane utilization & handling equipment availability.
- **Monitoring System:** Use digital dashboards to track idle codes in real time.

With appropriate prompts it is also possible to obtain graphical outputs in the form of visuals and dashboard formats.

Road map for CMAs

This requires a Wake-Up Call for CMAs (both in practice and employment) to leverage of the unique capability of looking beyond the "Cost Accounting Veil", which will become a game changer for Futuristic Cost Management System capable of delivering value to the user. The Cost Audit can be a useful tool which can provide a platform to propagate "Internal Control over Cost Reporting". While the compliance-oriented entities will continue to consider Cost Audit as one more compliance exercise, the Cost Auditor can leverage on two of the key paras in the Main Cost Audit Report Viz.,

(v) ***In our opinion, the company has adequate system of internal audit of cost records which to our opinion is commensurate to its nature and size of its business.***

(vii) ***Detailed unit-wise and product-wise cost statements and schedules thereto in respect of the products under reference of the company duly audited and certified by us are kept in the company.***

This will require a physical Visit to the Unit and interact with the Business Heads and seek their opinion on what they require from the Cost Accounting System for day to day decisions. The author is sure that it will open a plethora of opportunities for CMAs to strengthen the tag Line of the Institute **"Behind every successful Business Decision there is always a CMA"**. Even an Internal report to the company on the key aspects observed will add value to the Cost Audit Exercise. Even if the business entity continues to be compliance oriented, the experience will enable to apply the same to other audit and non-audit clients.

Conclusion

Embracing Technological Change: Opportunities for CMAs

Throughout history, technological advancements have consistently brought about both challenges and opportunities. For some, these new developments have posed significant hurdles, while for others, they have opened doors to growth and success. The critical difference lies in how individuals and professionals perceive these changes—whether as obstacles or as opportunities waiting to be seized.

Currently, a similar opportunity is emerging for Cost and Management Accountants (CMAs) in the evolving era of artificial intelligence and digital transformation. Those CMAs who are prepared to meet these technological challenges head-on can distinguish themselves with confidence and competence.

The Institute of Cost Accountants of India is playing a pivotal role in this transformation by providing substantial support in building the capacity of CMA professionals. Through its focused efforts on upskilling, the Institute is enabling CMAs to enhance their capabilities and remain relevant in the changing landscape.

By embracing these upskilling opportunities, the longstanding aspiration of CMAs to play a more value-adding role—one that is actively sought after by users of the profession—can become a reality. If the profession collectively harnesses the potential of ongoing learning and skill development, CMAs will be well-positioned to deliver enhanced value and contribute meaningfully to business success. MA

References

1. *This para is provided by the AI App* ***Perplexity*** *based on the last sentence of the previous para.*
2. ***CII TCM*** *© - Copyright of Total Cost Management Division of Confederation of Indian Industry.*
3. ***Generally Accepted Cost Accounting Principles*** *– Publication by The Institute of Cost Accountants of India.*
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5. *Beyond Traditional Cost Reporting- CMA.M.Gopalakrishnan, Mar 2024 P.70- The Management Accountant*