

**COST GOVERNANCE:**

# **THE KEY SUCCESS FACTOR**



**The Institute of Cost Accountants of India**  
(Statutory body under an Act of Parliament)



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## *Mission Statement*

The CMA professionals would ethically drive enterprise globally by creating value to stakeholders in the socio-economic context through competencies drawn from the integration of strategy, management and accounting.

The Institute of Cost Accountants of India would be the preferred source of resources and professionals for the financial leadership of enterprises globally.

## *Vision Statement*

**Behind Every Successful Business Decision, there is always a *CMA***

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*Shri Arun Jaitley*  
*Hon'ble Minister*  
*Ministry of Finance and Ministry of Corporate Affairs*  
*Government of India*

अरुण जेटली  
ARUN JAITLEY



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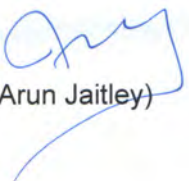
### Message

It is heartening to note that the Institute of Cost Accountants of India is going to release their knowledge Study on **"Cost Governance: The Key Success Factor"** as part of their observance of **'Cost Governance Week'**.

Government of India is determined towards Good Governance, which is key to the country's progress. The government is committed to provide a transparent and accountable administration for the betterment and welfare of the common citizen.

Effective monitoring of costs on a continuous basis and a concurrent evaluation may lead the pathway to Cost Governance, which may help to control the utilisation of resources of an enterprise by following a set of policies, customs and prevailing laws and imposing accountability to all concerned in the process. The enshrined objective is to make the **'Make in India'** mission a success.

I appreciate the Institute of Cost Accountants of India for their endeavour and wish the Institute good luck.

  
(Arun Jaitley)





**CMA Manas Kumar Thakur**  
**President**  
**The Institute of Cost Accountants of India**

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**MESSAGE**

I am very much delighted to publish this Study on **"Cost Governance: The Key Success Factor"**.

We are observing our **'Cost Consciousness Week'** and this timely publication will get released by **Shri Arun Jaitley, Hon'ble Minister of Finance and Corporate Affairs**.

As a premier professional body, The Institute of Cost Accountants of India and its members rededicate themselves to convert the paradigm shift brought in under the dynamic leadership of India's beloved Prime Minister. The concept of Cost Accounting has developed and grown in leaps and bounds from a not so significant one to integral ones of our age and economy.

In recent times, with the declaration of the demonetisation policy of the Government of India, ascertainment of 'Cost' has become more pertinent. Effective control of cost requires accurate and suitable measurement of cost. The Institute reassures that the resolve of the Government of India against corruption, black money and counterfeit notes will go a long way in cleansing the Nation's economic system.

The application of Costing Methods & Techniques helps to govern the Industry, Economy and Society at large and which ultimately helps to fulfil the dream of our Prime Minister's *'Make in India'* mission successful. For the Capacity Building of the nation, 'Cost Governance' will be a new horizon.

My sincere and heartfelt thanks goes to CMA (Dr.) Sreehari Chava, a renowned cost and management consultant and a senior member of our Institute, who has helped to make this study truly knowledgeable.

I must congratulate the Director of Studies and his team for undertaking this knowledge study.

I hope that this study will be very useful and informative to all.

***Wishing you A Very Happy, Healthy & Prosperous New Year-2017.***

**CMA Manas Kumar Thakur**

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# COST ACCOUNTING

## Cost

Cost has a number of synonyms which include price, charge, rate, fee, outlay, expenditure, and so on. When perceived as a noun, Cost is defined as the amount of cash or cash equivalent paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction. Taken as a verb, Cost means ascertaining the cost of a specified thing or activity.

Accountants vouch that Cost is the amount of expenditure, actual or notional, incurred on or attributable to a given thing. Cost Managers assert that Cost is a Resource foregone or sacrificed to achieve a specific objective. Entrepreneurs affirm that Cost is a Resource that adds value when put into the process of Enterprising. Thus go many synonyms, as also the perceptions about the simple word 'Cost'.

Multiple synonyms apart, the sacred word Cost has come to reflect a Benevolent Resource that can Create Value and link together a Value Chain. Cost symbolizes energy that is being converted from one form into the other. Cost keeps on creating value at each and every stage of conversion. As Energy never perishes, so does the Cost.

Let us consider a visible example. The enterprising farmer converts seeds into sugar cane, the carter brings the cane to the factory, the miller converts the cane into sugar, the shipper distributes the sugar to everyone, the baker converts sugar into sweets, the trader sells sweets to the farmer, and the farmer eats sweets and draws the physical energy to sow the seeds again and again.

Farming, Carting, Milling, Shipping, Baking, and Trading are the processes whereby an

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in-cognizable seed is converted into a delicious sweet. The cycle keeps on moving auguring an unending process of Value Creation.

## Accounting

Accounting is the art and science of recording transactions of an organization's economic activities, measuring the end results arising thereof, and conveying the relevant information to a variety of stakeholders such as the management, shareholders, lenders, creditors, regulators, etc. In formal terms, accounting is called book keeping; in simple terms accounting is "the language of business".

Both the words accounting and accountancy were in use in Great Britain by the mid-1800s, and are derived from the words accompting and accountantship used in the 18th century. The word "accountant" is derived from the French word compteur, which, in turn, is derived from the Italian and Latin word computare. The word was formerly written in English as "ac-comptant" and was always pronounced by dropping the "p". In course of time the word has gradually changed, both in pronunciation and in orthography, to its present form. Accountancy refers to the occupation or profession of an accountant, particularly in British English.

The history of accounting is thousands of years old and can be traced to ancient civilisations. The early development of accounting dates back to ancient Mesopotamia, and is closely related to developments in writing, counting and money; there is also evidence for early forms of bookkeeping in ancient Iran, and early auditing systems by the ancient Egyptians and Babylonians. By the time of the Emperor Augustus, the Roman government had access to detailed financial information.

Double-entry bookkeeping was developed in medieval Europe and a popular work on a double-entry bookkeeping system was published in Italy, by Luca Pacioli (1447–1517). Accounting began its transition into an organized profession in the nineteenth century, with local professional bodies in England merging to form the Institute of Chartered Accountants in England and Wales in 1880.

## Cost Accounting

Charles T Horngren, the renowned proponent of modern methods of Cost Accounting states, 'Cost Accounting measures, analyzes and reports financial and nonfinancial information relating to the costs of acquiring or using resources in an organization'. It is that part of Accounting System that measures costs for the purpose of management decision making and financial reporting.

Chartered Institute of Management Accountants" (CIMA) Terminology defines Cost Accounting as gathering of cost information and its attachment to cost objects, the establishment of budgets, standard costs and actual costs of operations, processes, activities or products; and the analysis of variances, profitability or the social use of funds.

In its true sense, Cost Accounting shall be perceived as the need based resource accounting. Its

goal is to advise the management on the most appropriate course of action based on the cost efficiency and capability. Cost accounting provides the detailed cost information to the management for controlling the current operations as also to plan for the future course. The primary function of Cost Accounting is to aid the managers in making decisions. The common iteration for Cost Accounting should be as simple as 'Cost + Accounting'.

## Cost Classification

Cost Accounting takes forward the financial analysis by introducing cost classification and segregating costs into convenient categories. The enshrined objective is ascertainment of the unit costs with reasonable accuracy for the purpose of cost analysis and cost control.

Cost classification may be carried out element-wise such as Material, Labour, and Expenses; Identification-wise like Direct and Indirect; Function-wise viz. Production, Administration, Selling & Distribution, and Research & Development; Behaviour-wise i.e. Variable and Fixed; and so forth.

Conceptually Direct Material is defined all material that becomes a part of the product, the costs of which are directly charged as part of the prime cost. In other words, it is the material which can be measured and charged directly to the cost of the product. Direct Wages refers to the wages that are incurred in altering the construction, composition, conformation or condition of the product. Direct Expenses include any expenditure other than that direct material or direct labour directly incurred on a specific cost unit.

Overhead is stated as the cost of indirect material, indirect labour and such other expenses, including services, as cannot conveniently be charged direct to specific cost units. Direct costs are directly traced and allocated to the cost units whereas indirect costs are apportioned by adopting a rational base.

## Methods & Techniques

Over the decades, various methods of cost computing were evolved with a view to ascertain the costs with more and more accuracy. The list reads on like Job Costing, Batch Costing, Contract Costing, Process Costing, Operating Costing, Activity Based Costing, etc. Different methods are adopted for different industries. Even a combination of the methods is chosen at times. However, it shall be remembered that any system is prone to successful implementation only if, and only if, it is Economical, Efficient and Equitable.

Simultaneous to the methods, various techniques of Cost Management too have come up. The techniques enable analysis of the costs for managerial decisions. Marginal Costing, Budgetary Control, and Standard Costing may be considered as vital techniques that would instill Cost Sense amongst the small and Medium Enterprises for better decision making.

Modifications in cost accounting systems are occurring even today. Computer integrated manufacturing systems are capable of manufacturing a product without human intervention, eliminating the need for a direct labour category. Many companies now classify product cost



as direct materials and overhead, eliminating direct labour altogether.

The iteration for the new era has been rewritten as Cost Accounting = Management Accounting Plus. Still the research and innovations continue as times move ahead.

## **Full Cost Management**

The latest phase of evolution of the Cost Accounting is the modern phase which we have been experiencing in the 21<sup>st</sup> century wherein Full Cost approach is gaining edge. It is a Satellite phase that is destined to extend the sphere of cost accounting to new origins. Invention of Life Cycle Costing has provided a broader perception to the cost sense. The advent of Triple Bottom Line (TBL) has opened up new vistas. Socio Economic Cost Benefit analysis (SECBA) is being carried out widely. Full Cost Management is turning out to be the order of the day.

Full Cost Management may be perceived as the integrated application of the concepts of LCC, TBL and SECBA for a product, project or industry. We venture to project FCM as a function of LCC, TBL and SECBA put together. The process would embrace the life-cycle costs, internal costs, external costs, and the social costs. The objective, here, is to evaluate Full Life Performance.

We consider it feasible to evolve Full Cost Break analysis by adopting the principles of Marginal Costing; Full Cost Budgeting by extending the budgetary fundamentals; and Full Cost Bench Marking on the lines of standard costing to the full life cycle of any object.

## **Indian Context**

Post Independence, the profession cost accounting is credited to have made significant contribution in nurturing and developing public sector and government enterprises. The role of cost audit in price regulation and competition monitoring is praise worthy. Cost Accounting Records did provide a base for a competitive Private Sector. The profession is slated to play a vital role in the 'Make in India' project as well.

## **Assimilation**

The evolution of Cost Accounting is incessant and perpetual. It continues to take place every day in the factories and offices of the manufacturing & servicing sectors all over the world. The search for 'What Next' keeps on moving forward and forward unabated with a desire to elicit the best answer for a simple question 'What is the Need?'

# COST GOVERNANCE

## Cost Governance

Governance is defined as referring to “all of the processes of governing, whether undertaken by a government, market or network, whether over a family, tribe, formal or informal organization or territory and whether through the laws, norms, power or language.” It relates to “the processes of interaction and decision-making among the actors involved in a collective problem that lead to the creation, reinforcement, or reproduction of social norms and institutions”.

Governance is the way the rules, norms and actions are structured, sustained, regulated and held accountable. The degree of formality depends on the internal rules of a given organization and, externally, with its business partners. As such, governance may take many forms, driven by many different motivations and with many different results. For instance, a government may operate as a democracy where citizens vote on who should govern and the public good is the goal, while a non-profit organization may be governed by a small board of directors and pursue more specific aims.

Cost Governance may consist of the set of policies, principles, processes, customs, and laws paving the way to direct, administer or control the utilization of resources by an enterprise.

The enshrined objective is optimum resource productivity. The principal stakeholders include the shareholders, management, regulators and the community at large.

*Cost Governance may consist of the set of policies, principles, processes, customs, and laws paving the way to direct, administer or control the utilization of resources by an enterprise. The enshrined objective is optimum resource productivity.*





Cost Governance fosters cost competency. Good Cost Governance is conducive to successful economic development.

## Indian Evolution

In the mid-fifties, famous case of corporate frauds in Dalmia-Jain companies virtually jolted the then Government. It resulted in the government appointing Vivian Bose commission and later the Dutta Commission and Daphtary- Sastri Committee. These Commissions/ Committees observed inadequacies in the then existing system of financial accounting and audit and also in the then existing system of corporate disclosures. They recommended a more effective system of cost accounting to supplement the financial accounting and auditing practices.

Further, in the initial phase of industrial development of the country, there was an acute shortage of goods & materials, as well as, majority of inputs and resources for the production/ manufacture of various capital & consumer goods. In the face of scarcity and shortage of almost all the inputs, products and services, government had to resort to a policy of permits and licensing. A mechanism of maintenance of structured cost data was considered important to monitor, control and regulate the efficient use of scarce resources as also to monitor cost of production and administer prices. This had given way for the evolution of the Indian Cost Governance through a well conceived Cost Accounting Records Rules.

## The Inception

The maintenance of cost records was introduced by the Companies amendment bill 1965 through section 209 (1) (d) which warrants:

“Every company shall keep at its registered office proper books of account with respect to: in the case of a company pertaining to any class of companies engaged in production, processing, manufacturing or mining activities, such particulars relating to utilization of material or labour or to other items of cost as may be prescribed, if such class of companies is required by the Central Government to include such particulars in the books of account.”

The primary objective to introduce cost accounting records was to veer the corporate sector to be more efficient. The scheme was intended to serve the best interest of the companies and all its stake holders. This was explained and documented in a few joint select committee reports and Parliamentary debate for Company Amendment Bill 1965, while incorporating sections 209 (1) (d) (Cost Accounting Records) and 233B (Cost Audit). After the aforesaid amendments, the Government notified Cost Accounting Record Rules for 44 Industries.

## Expert View

There were various committees formed to evaluate the need & implementation of Cost Records maintenance. Brief on recommendations made by these committees are given below:



**A.** Expert Committee chaired by Dr J J Irani, set up by Ministry of Corporate Affairs, said that Cost Records are important instruments that would enable companies make their operations efficient and exist in their competitive environment.

**B.** Committee on Subordinate Legislation (Fourteenth Loksabha) in its first report (Chapter 3) stated as follows:

- i.** Authentic cost database is of paramount importance to various existing new regulatory bodies, competition commission and Government Departments for fixation of user charges in respect of services provided by them and would go a long way in fulfilling their respective objectives
- ii.** In the present scenario authentic Cost database is not only essential for the industries to improve upon their performance and face competitive environment but is useful for various Government agencies, revenue authorities, regulatory bodies, banks and Financial Institutions for meeting their respective objectives.
- iii.** Service sectors such as banking, insurance, health services, education, hotels etc have admitted by “attained strategic importance to the economy and the public at large, particularly after opening up of the economy for private or foreign companies.”

**C.** Standing Committee on Finance in its report on the Companies Bill 2009, emphasized on the mandatory maintenance of cost records, coverage of more number of companies, particularly sectors covering exploration, mining, processing, manufacturing, infrastructure and utilities under cost audit and due compliance with the cost accounting standards and cost auditing standards.

## **Cost Accounting Record Rules 2011**

Keeping in view the aforesaid recommendations of the committees Government introduced the cost accounting record rules 2011 with the broader scope of working. Highlights of these rules are as under:

- a.** Detailed definition of the Manufacturing Activity, Mining Activity & Processing Activity is added in the rules.
- b.** The definition of product included idea, know how, method, information & service. So for the first time service industry was covered under the purview of Cost Records maintenance.
- c.** The applicability of the Rules linked to 3 criteria
  - i.** Aggregate net worth of the Company – Rs. 5 Crore & above
  - ii.** Total Turnover – Rs.20 Crore & above
  - iii.** Shares / securities are listed in any stock exchange in or outside India.
- d.** Every company which is required to maintain cost records, shall submit the Compli-



ance certificate duly certified by a practicing cost accountant with in prescribed time limit & prescribed format.

## **Cost Accounting Record Rules 2014**

Presently, Section 148 of the Companies Act, 2013 read with Companies (Cost Records and Audit) Rules, 2014 and Companies (Cost Records and Audit) Amendment Rules, 2014 deal with provisions relating to maintenance of Cost Records.

Companies to which maintenance of cost records is applicable are divided into two categories viz. Table A (Regulated Sectors) and Table B (Non-regulated Sectors). The rules prescribe an exhaustive list of industries/sectors/products/services, which need to prepare cost records, along with their respective CETA headings. Cost Records are made mandatory across all of these industries wherein overall annual turnover from all its products and services during the immediately preceding financial year exceeds Rs.35 crores. Requirement of Compliance Certificate has been dispensed with.

## **Cost Accounting Standards**

The Cost Accounting Records Rules set by the government for the industries deal with the various items of cost and the way in which they have to be reported in the Cost Statement in accordance with the cost accounting principles. Since there were no generally accepted cost accounting principles, these were left to be understood by each company or by each cost accountant, as they understand or with reference to the explanations given in various textbooks on the subject.

This led to adoption of practices with a lack of uniformity in preparation and presentation of cost statements. To promote uniformity, there was an urgent need to integrate, harmonize, and standardize the cost accounting principles and practices. Therefore, the Generally Accepted Cost Accounting Principles have been clearly defined and well documented in the form of the Cost Accounting Standards.

Advantages of Cost Accounting Standards:

- a. Providing a structured approach to measurement of costs in manufacturing process or service industry;
- b. Integrating, harmonizing, and standardizing cost accounting principles and practices;
- c. Providing guidance to users to achieve uniformity and consistency in classification, measurement, assignment, and allocation of costs to products and services;
- d. Arriving at the basis of computing the cost of product, activity, or service where required by legal or regulatory bodies;
- e. Enabling practicing members to make use of Cost Accounting Standards in the attestation of General Purpose Cost statements; and

- f. Assisting in clear and uniform understanding of all the related issues by various user organizations, government bodies, regulators, research agencies, and academic institutions.

ICMAI has brought out 24 Cost Accounting Standards so far.

## Recipe for the Stakeholders

Cost computations facilitate identification of wasteful expenditure enabling the enterprises to augment cost competitiveness and profitability. Thus, cost analysis is a good recipe for the stakeholders at large.

**Enterprise Management:** Business survives on its operations and strategy, both being severely dependent on proper measurement and timely reporting. An evolved cost accounting system exactly enables the right decision support in the area of operations and strategy by measuring cost of production, resource consumption, wastage analysis, variances from the plan. It also helps in project planning, improving efficiency in operations and capital investment decision making. It aids the management in reorienting and re-engineering the supply chain and enables assessment of improving revenues through alternative cost incurrence path. Some of the standardised techniques, such as Target Costing, life-cycle costing, etc. help in real time assessment of business sustainability. An evolved cost accounting in the enterprise is a window for implementing the perception of management on operations and strategy into a decision goal.

**Investors:** Investors are of different categories such as the bankers, the FIIs, the venture capitalists, and HNIs - all having different perceptions of how to make money out of their investments. They stay away from business operations, even though most of them may be satisfied by certain statements reflected in the annual reports especially when the exit route is easy. Otherwise they may be interested in specific operational details on cost, efficiency, projections of revenue, product life-cycle, strategic goals for sustenance, and resource availability among other things to make a clear decision to stay invested. Such of these informations can be easily extracted through the Cost Records.

**Direct taxes:** As far as direct taxes are concerned the authorities rely on computation of income derived from book profit. Computation of income has two aspects viz. the allowances and disallowances. The primary defect in arriving at the computation of income derived from financial statements lies in its judgmental nature. Be it depreciation or investment allowance, there are two ends to each issue - one is in the hands of the assessing authority which he pulls to one side and the other is with the assessee which he pulls in the opposite direction. A “cost-based computation of income” is currently lacking even while framing various amendments in the finance act and also while assessing income of business for tax purposes. A right use of this technique will result in objective assessment of income and lesser disputes. This can lead to healthier business practices and compliances.

**Indirect Taxes:** Indirect tax departments require data correlating the input with output. All the operational data are vital for a fair assessment. Cost Accounting Records do form a sound





base for a fair assessment of any of the indirect taxes, including GST.

**Government:** Government and governance are focal points of any accountability mechanism. Democratic India has been for the equality of opportunity and freedom to its nationals. Cost accounting records help to ensure proper utilisation of resources, delivering the right product or services at reasonable price. Government is entrusted with the planning process for overall development of the economy and thereby society. Cost accounting records also help to keep the track of the Business to ensure that its operations are not detrimental to the societal needs. An evolved Cost accounting system will help the government to infuse healthy and transparent economic progress.

**Consumers:** Consumers are the main stakeholders- interested- yet currently deprived of cost statements and related details. As a consumer, everyone is interested in the cost of the product and the quality, with a transparent and accountable approach by the business to reassure the customers that they are not cheated. Maintenance of cost records and its usage in determining the prices will boost the confidence of consumers about the fair pricing.

**General Public:** The resources of the country and their utilisation are the major concern of the citizens. The right price as also the environmental concerns cannot be neglected. Cost Accounting Standards will trigger a set of practices that will assure the society at large that activity performed in the course of business is not an impediment to the nature.

***Put in a proper perspective,  
Cost Accounting Records  
construe the Performance  
Documents.***

## **Assimilation**

Put in a proper perspective, Cost Accounting Records construe the Performance Documents. In the Indian context, Cost Accounting Records Rules set the tone for Good Cost Governance. As such, cost governance need to be perceived as the discipline being inculcated amongst the Indian Enterprises through the medium of Cost Accounting Records Rules. The impact of cost governance can be multiplied by encouraging voluntary adoption rather than by statutory enforcement.

# UNDERSTANDING THE COST SHEET

## Cost Sheet

Cost Sheet is one of the significant outputs that may be drawn from the Cost Accounting Records. The model format specified by Companies (Cost Records and Audit) Rules, 2014, is furnished as Appendix to this section.

The cost sheet is an abridged statement of expenses detailing the cost of sales per unit, head of account-wise, as also the margin earned for each of the products for the current year and the previous year. The statement includes the quantitative information relating to production and sales CETA heading-wise.

## Cost Terms

The terms and references used in the composition of cost sheet are explained, in brief, as below.

**Materials Consumed:** Materials consumed refer to the details of each and every raw material consumed for carrying out the manufacturing activity. Transportation or any other expenditure which can be directly allocable to these raw materials is also to be included under this heading. Category of materials such as - indigenous, imported or self manufactured- is also to be mentioned. Materials consumed forms part of significant portion of the total cost and hence quantitative details are also to be furnished as an addendum to the cost sheet.

**Process Materials and Chemicals:** Materials other than major raw materials like process materials, dyes, chemicals etc are added under this heading. These materials are not visible in end product but essential for the process. These are required in small quantities. Examples include fermentation agents for distillery units, bleaching chemicals for textile industry, etc.

**Utilities:** Major utilities consumed are Electricity, steam & water. Even captive consumptions are to be included. Utilities occupy substantial quantum of cost in most of the industries and hence quantitative details are also to be furnished as an addendum to the cost sheet.

**Direct Employee Cost:** The cost of employees, engaged directly in the manufacturing process for the particular product covered, is to be included under this heading.



**Direct Expenses:** The manufacturing expenses which are directly allocable to the particular product under reference are to be added under this particular head. These may include calibration charges, material handling charges etc.

**Consumables, Stores & Spares:** The consumption of stores, spares and consumables to be included under this heading. These include oil, grease, paints, belts, nut bolts, bearings etc. These are basically indirect materials which are needed for the upkeep & efficient working of plant & machinery. These items do not form part of the end product but these are needed to facilitate its production.

**Repairs & Maintenance:** Any material or services used for the repairs and maintenance of the plant & machinery, tools & equipments, factory building, etc. are to be included in this heading. This also includes the annual overhaul expenses.

**Quality Control Expenses:** Expenses incurred for the quality check of raw materials, process materials, chemicals and finished goods are to be included under this heading. These may include the in-house quality testing lab expenses and quality check done from outside laboratories.

**Research & Development Expenses:** Any expenditure incurred towards the research & development on the existing product range is to be included in this head.

**Technical know-how Fee /Royalty:** Any contractual fee to be paid for the technical knowhow, patent fee, copy right charges, royalty etc to be included under this head.

**Depreciation / Amortization:** Depreciation on the production assets viz. plant & machinery, tools & equipments, factory building, etc. is included under this head. Also amortization or writing off any long term expenditure incurred in relation to the production activity e.g. patent registration charges, lease license charges, etc. are to be included under this head.

**Other Production Overheads:** Production overheads which are not included in any of the above heads are included here. These may include Fire & safety expenses, machinery hire charges, other factory expenses, etc.

**Industry Specific Operation Expenses:** This head is intended to cover any industry specific expenditure which is not covered under any other head. Industry specific operation expenses are peculiar by nature hence quantitative details are also to be furnished as an addendum to the cost sheet.

**Increase / Decrease in Work in Progress:** Any change in the value of work in Progress is to be added under this head.

**Credits for Recoveries:** This item reduces the total cost by the value of by-products generated

*Cost Sheet facilitates element-wise dissection and analysis of the costs and revenues for each of the products or services.*

during the process. By-products may be valued by adopting any of the standard principles of valuation such as net realizable value or market value as the case may be.

**Primary Packing Cost:** Primary packing is essential packing without which the product cannot be sold. E.g. PP bags for sugar, Pouches for milk products, bottles for chemical or oil etc.

**Cost of Finished goods purchased:** sometimes own production of goods is less than the market requirement. To fill the gap between demand and supply, there is a practice of getting the finished goods on job work basis. The cost of such procurement of finished goods is to be added under this heading.

**Increase/ Decrease in Stock of finished goods :** Any change in finished goods stock is to be mentioned in this item.

**Self/Captive consumption:** Captive consumption means the goods or services produced by using own facility and consumed to run the own production facility. E.g. power consumed by power generating plant, bagasse generated and consumed by sugar plant etc. The value of this consumption is to be reduced from the Total cost of Production. Cost of sampling is also to be shown under this heading.

**Other Adjustments:** Any other adjustment for production or expenditure not adjusted elsewhere in this statement is to be shown under this head. The nature of adjustment is to be mentioned.

**Administrative Overheads:** Administrative Overheads are indirect expenses which are incurred to run the business smoothly. These expenses may be for the Company as whole and can be allocated to various products on certain assumptions. Administrative expenses which are allocated to the specific product need to be added under this heading.

**Secondary Packing Cost:** Secondary packing refers to the packing provided to the product in addition to the basic packing for the purpose of better handling, appealing appearance, etc. Examples include carton packing of pouches, bars, etc. of detergent; small carton pack for toothpaste tubes, etc. All such costs attributed to secondary packing are to be included under this head.

**Selling and Distribution Overheads:** All expenses relating to selling and distribution for the specific products are included under this heading. These expenses include rent of sales office, salary of marketing staff, travelling & communication expenses of sales force, etc.

**Interest and Financing charges:** All the expenses related to borrowing of funds are included under this head. These include interest on long term & short term borrowings, bank charges for regular transactions, processing fee for new funding arrangements, etc.

**Net Sales Realization:** This is the net revenue from the main product minus all taxes and duties. This does not include any realization of revenue relating to the by- products.

**Margin as per Cost Accounts:** The margin is arrived at after deducting Cost of sales from Net Realization. This forms the bottom-line for the any of the products.





## Assimilation

Cost Sheet facilitates element-wise dissection and analysis of the costs and revenues for each of the products or services. The margin stands analysed for the main products, by-products, and even for the captive consumptions. The beauty is that only normal incurrances are included and any abnormality is excluded.

### Appendix

COST SHEET							
Name of the company:							
F.Y.-----							
<b>A. Abridged Cost Statement (for each product with CETA heading separately)</b>							
Name of Product							
CETA heading							
Unit of Measure							
		Production	Finished Goods Purchased	Finished Stock Adjustment	Captive Consumption	Other Adjustments	Quantity Sold
	Current Year						
	Previous Year						
Sl. No.	Particulars					Previous Year	
		Amount (Rs.)	Rate per Unit (Rs.)	Amount (Rs.Lacs)	Rate per Unit (Rs.)		
1	Materials Consumed						
2	Process Materials/Chemicals						
3	Utilities						
4	Direct Employees Cost						
5	Direct Expenses						
6	Consumable Stores & Spares						
7	Repairs and Maintenance						
8	Quality Control Expenses						
9	Research and Development Expenses						
10	Technical know-how Fee / Royalty						
11	Depreciation/Amortization						



12	Other Production Overheads						
13	Industry Specific Operating Expenses						
14	Total (1 to 13)						
15	Increase/Decrease in Work-in-Progress						
16	Less: Credits for Recoveries						
17	Primary Packing Cost						
18	Cost of Production/Operations (14+15 to 17)						
19	Cost of Finished Goods Purchased						
20	Total Cost of production and purchases (18+19)						
21	Increase/Decrease in Stock of Finished Goods						
22	Less: Self/Captive Consumption (incl. Samples, etc.)						
23	Other Adjustments						
24	Cost of Production/Operation of Product Sold (20+21 to 23)						
25	Administrative Overheads						
26	Secondary Packing Cost						
27	Selling & Distribution Overheads						
28	Cost of Sales before Interest (24 to 27)						
29	Interest and financing Charges						
30	Cost of Sales (28+29)						
31	Net Sales Realization (Net of Taxes and Duties)						
32	Margin [Profit/(Loss) as per Cost Accounts] (31-30)						

B. Details of Materials Consumed								
Name of Product								
CETA heading								
Description of Material	Category	UOM	Current Year			Previous Year		
			Quantity	Rate per Unit (Rs.)	Amount	Quantity	Rate per Unit (Rs.)	Amount (Rs. Lacs)



Category: Indigenous/ Imported/Self Maunfactured

C. Details of Utilities Consumed							
Name of Product							
CETA heading							
Description of Material	UOM	Current Year			Previous Year		
	Quantity	Rate per Unit (Rs.)	Amount	Quantity	Rate per Unit (Rs.)	Amount (Rs. Lacs)	

D. Details of Industry Specific Operating Expenses			
Name of Product			
CETA heading			
Description of Industry Specific Operating Expenses		Current Year	Previous Year
		Amount	Amount
1			
2			
3			
4			
5			

# COST TRACING

## Cost Behaviour

Cost Behaviour refers to the variability of input costs with the activity that is being undertaken. Cost may increase proportionately with increasing activity - the usual assumption for a variable cost; or it may not change with increased activity - a fixed cost. Some costs, semi-variable, may have both variable and fixed elements. Other behavior, too, is possible, as some costs may increase more or less than in direct proportion, and there may be step changes in cost. To a large extent cost behaviour will be dependent on the timescale assumed.

Cost is a fact, and so is the Cost Behaviour. Each business has certain fixed costs which must be paid for every month, whether or not any production takes place. The examples include Employee Cost, certain categories of Administrative Expenses, Period related Contractual Expenses, Interest Burden on fixed loans, etc. Each product or service has variable costs that are incurred when the product is produced and sold. The examples cover Raw Material, Direct Wages, Power, Fuel, Chemicals & Other Consumables, Packing Material, Sales Commission, Distribution Expenses, and so on.

There are semi-variable costs that go up or down depending on the level of business activity. The examples that can be stated are Stores & Spares, Repairs & Maintenance, Certain items of Administrative & Other Expenses, etc. Semi variable costs can be segregated into variable and fixed elements by adopting an appropriate statistical technique. Analysis of Cost Behaviour is the key for effective Cost Control. Proper segregation of costs into variable and fixed elements enables adopting relevant control tools and techniques.

Variable Costs are controlled by means of standards at the operational level whereas fixed costs are controlled by means of budgets at the strategic level. Variable Costs are prone control at the lower level; whereas Fixed Costs are prone to better controls from the higher level. It is a proven experience that some of the fixed elements too can be converted into variable elements through long term strategic evolutions.

## Cost Tracing

The main objective of any costing system is to determine scientifically the cost of a product



or service. Costs are of various kinds as detailed in the cost sheet. But all of them can be segregated into two distinct categories, viz. direct costs and indirect costs.

Direct costs are the costs which are traceable to the products or the services that are being offered. On the other hand, indirect costs, which are traditionally called 'overheads', are not traceable to the products or services. Hence these overheads are first identified, classified, allocated, and apportioned to a convenient cost centre, reapportioned to production centres and finally absorbed by the cost units i.e. the products or services.

Direct costs have traditionally been the target of management scrutiny and evaluation. Indirect costs, on the other hand, have not had that level of scrutiny they deserve. Indirect costs get pooled at the cost centre level. The problem associated with such a pooling is that it is very difficult to have the visibility to know what costs are truly necessary and what are not. The lack of adequate visibility impaired the level of scrutiny of indirect costs.

Charging the direct costs to the products is comparatively simple and can be done with remarkable accuracy. However, the absorption of indirect costs by the cost units is complex and there does exist a possibility of distortion of costs leading to hidden and unintentional inaccuracies. Even though the basis of charging the overheads is quite logical, such of these distortions happen to be one of the biggest limitations of the traditional costing systems.

Activity Based Costing has been invented with a view to overcome the limitations of traditional costing systems. The activity based costing system assumes that products consume activities and activities consume costs. Activity based costing provides a means to pool the indirect costs in multiple categories of activities and then apportions the costs individually to the products and services on the basis of Cost Drivers. By using multiple overhead pools and cost drivers, activity-based costing provides more accurate cost figures for costing and pricing the products and services. Activity may be considered as the cost pool of convenience; and Cost Driver is the factor that impacts the cost of activity.

The focus of ABC is on accurate traceability of costs to the products, services, processes, activities, distribution channels, customer segments, contracts, and projects. The process also encourages continual operating improvements. Once business process costs are known with reasonable accuracy, activity-based budgeting can set realistic goals for improving the processes and for identifying those processes that are no longer needed or are unprofitable. The introduction of ABC system in an organization can be either supplementary to the traditional cost accounting system as an offline system or it can be fully integrated with the decision support systems such as ERP.

## **Behaviour Pattern**

Broadly speaking, all the direct costs are variable by nature whereas all the indirect costs are subject to multiple behaviour patterns. The following table provides the general behaviour pattern of elements of cost.

## General Behaviour Pattern of Elements of Cost

Item	Traceability	Behaviour
Materials Consumed	Direct	Variable
Process materials and chemicals	Direct	Variable
Utilities	Direct	Variable
Direct Employee Cost	Direct	Variable
Direct Expenses	Direct	Variable
Consumables, Stores & Spares	Indirect	Semi Variable
Repairs & Maintenance	Indirect	Semi Variable
Quality control Expenses	Indirect	Semi Variable
Research & Development Expenses	Indirect	Discretionary
Technical know-how Fee /Royalty	Indirect	Contractual
Depreciation / Amortization	Indirect	Fixed
Other Production Overheads	Direct / Indirect	Variable / Semi Variable
Industry Specific Operation Expenses	Situational	Situational
Primary Packing Cost	Direct	Variable
Administrative Overheads	Indirect	Semi Fixed
Secondary Packing Cost	Indirect	Variable
Selling and distribution overheads	Indirect	Variable / Semi Variable
Interest and Financing charges	Indirect	Semi Variable / Fixed



## Assimilation

A fair understanding of cost behaviour enables better cost tracing and improved cost controls. Application of traceability based costing systems has resulted in changes in various management decision areas, prominent among them, being focus on profitable customers, pricing strategies, and resource sourcing decisions. The overall momentum is shifting from Cost Centre Control to Profit Centre Focus.

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# CONCEPT GOVERNORS

## Cost Competency

The term ‘Cost Competency’ is coined to denote the “Entrepreneurial Output” achieved by means of “Prudent Deployment and Optimum Utilisation of the Available Resources”. In this context, Cost reflects the resources; Competency refers to effective application of capabilities; Capability denotes achieving the outcomes through a set of controllable and measurable faculties, features, functions, processes, or services. Cost Competency, thus, signifies the synergic output arising from the prudent deployment and optimum utilisation of the available resources. The key words are Available Resources, Prudent Deployment, and Optimum Utilisation.

‘Available Resources’ refer to all the Resources, present and future, in whatever form – Machine, Material, Men, Money, and so on – available at the disposal of an entity; ‘Prudent Deployment’ refers to diligent distribution of the resources, amongst the activities that are being undertaken, in a manner as would be done by an entrepreneur of ordinary prudence in the normal course of business; and ‘Optimum Utilisation’ refers to best possible consumption of the resources so distributed.

“Unlimited Wants and Limited Resources” is an age old economic fundamental. “Limited Resources” is a perpetual truth and forms the basic constraint for any economic activity. The contours, for the entrepreneurial outputs, are, thus, set by the limited availability of the desired resources.

“Prudent Deployment” and “Optimum Utilisation” are the Strategic Means that are adopted by the enterprise to derive maximum benefits from the “Available Resources” that are limited by nature.

The superior outcome achieved by means of prudent deployment and through the process of optimum utilisation reflects the impact which we propose to call as ‘Cost Competency’. In other words, Cost Competency reflects the competitive edge scored over the peers over a period of time.

## Cost Synergy

The costnomic definition states that Cost is a Resource consumed in the process of Value Addition. Synergy is the creation of a whole that is greater than the simple sum of its parts. Accordingly Cost Synergy is conceived to reflect the Synergic Impact arising from the chain of Cost Management Activities carried out during the course of Value Addition.

Cost Synergy is the savings in operating costs arising out of a situation wherein cost management activities compliment each other's strengths collectively. Cost Synergy, thus, implies the most efficient utilisation of the input resources whereby the matrix of the Least Cost Combination is achieved. Corporate expansions carried out with the objective of vertical and horizontal integrations do provide an example that highlights strategy formulations towards cost synergy. In the ultimate, Cost Synergy leads to competitive advantage.

Cost Synergy is the core avenue wherein CMA fraternity all over the world has been playing a predominant role. The tools and techniques are many, some are traditional and so many advanced. To name a few, the list begins with Traditional Cost Controls and keeps moving yonder the modern Cost Leadership, Activity Based Management, Balanced Score Card, Lean Management and so on. The outcome depends upon the ability to identify the best of the feasible practices suitable to the entity and adopt them. Inventions and innovations can keep happening perpetually.

The focus of Cost Synergy is directed towards achieving synergic cost combination. The idea is on looking beyond any of Cost Management Activities singularly; and targeting for an integrated unidirectional approach that would foster a synergic impact from the combination.

## Cost Reduction

Put it in a proper perspective Cost Reduction is a process of Change Management. The process and pace of change is influenced by the nature of cost, culture of the organisation, and capabilities of the team.

The nature of cost shows the way, the culture paves the path and capabilities enable achieving the cost reduction.

It shall always be remembered that Profits are here to Stay provided Costs are here for Reduction. Cost reduction is a kaizen process. Every small entrepreneur can squeeze some time to look at the annual reports of industry giants to draw lessons on cost reduction.

Every annual report discusses cost strategies of the entity under various headings such as Director's Report; Industry Prospective; Cost Analysis; and so on. It is for the reader to identify and assimilate the relevant strategy.

## Chinese Parabola

Chinese products of comparable quality, novel conception and low prices have been flooding the world markets. The differential in price ranges from 20% to as high as 50%. Several theo-



ries have been making rounds as to why Chinese goods are cheaper.

Disparity in wages is put forth as the primary reason. It is reported that labour costs in China are lower, and more importantly, labour is largely subservient with a resultant higher labour productivity.

At the same time, most of the Chinese goods are observed to possess high labour content thereby adding an inherent labour cost advantage. Lower costs in relation to utilities, minimal tariffs, cheaper transportation, and smaller costs of capital; followed by mass production are the other competitive factors attributed to Chinese advantage. Dumping strategy is the negative side of the Chinese coin. Broadly speaking, it is reasoned out that China is stated to be doing what Japan did in the 1970s and South Korea in the 1980s.

Interesting would be the fact to understand that wages, utilities, tariffs, transportation and cost of working funds - wherein China enjoys an advantage - are direct costs that are activity related and are variable by character. These costs are prone to concurrent controls.

As the industry is interwoven and interdependent, outputs from one industry are consumed as inputs by a related industry leading to a cascading impact of low variable costs, in turn adding up to a national cost advantage.

In the ultimate, Chinese have been able to draw benefits of their low cost scenario by adopting the technique of pricing at marginal costs.

## Four Way Test of Cost Competency

The research thinking goes around that it would be an added advantage if a 'Test of Cost Competency' can be applied to every entrepreneurial activity, at the start up stage itself, to elicit answers to the four simple related questions derived from the Competency Quadrants.

The questions are formulated to invoke a proactive thinking towards achieving the organisational competitive edge. The test is presented by means of a diagram that follows:



### Four Way Test of Cost Competency

Of the Resources, We Deploy and Utilise

1. Will the Activity BETTER the Revenue Management?
2. Will the Activity PROPEL Capability Engineering?
3. Will the Activity FOSTER Cost Synergy?
4. Will the Activity ELEVATE the Brand Positioning?



The tools and techniques of achieving cost competency could be many; but the objective is singular – “Gaining a competitive edge by unveiling and unleashing the untapped potential of the available resources”.

It is, therefore, warranted that a diligent analysis be carried out in relation to each of the constituents of cost competency before the commencement of any of the entrepreneurial activities. It goes without saying that the activities are worthy of acceptance only if the answers to the relevant test questions are positive.

### **Assimilation**

Cost Accounting Records can provide fair answers to the four way test of competency on a time to time basis for each and every activity.

*The nature of cost shows the way, the culture paves the path and capabilities enable achieving the cost reduction.*

# COST MONITOR STUDY

## Cost Monitor

Performance is the outcome of resources utilisation. Resources consumed in the process of performance are termed as costs incurred. An effective outcome warrants an effective monitoring of the performance which implies effective monitoring of the costs.

Effective monitoring of costs means monitoring the costs, on a continuous basis, as and when they are incurred. A simple way could be a concurrent evaluation of the actual incurrence of the key elements with the pre determined parameters. The key elements may consist of the capacity utilization, outputs, Inputs, productivity, and the margin.

Capacity Utilisation refers to the levels of utilisation of infrastructure capacities whose costs are fixed in nature; Outputs refer to the Products and Services produced; Inputs refer to the input resources such as Materials, Man Hours, Utilities, and Others; Productivity refers to the value of outputs in relation to the value of inputs; margin refers to the surplus generated.

Concurrent evaluations enable the timely identification of divergences from the targets. The divergences between the actual incurrence and the pre determined parameters may be converted into implicit monetary gains and losses and can be reviewed with the functional executives responsible for the occurrence. The review would enable appropriate corrective measures as may be warranted.

A Cost Manager tends to play the role of a Friend, Philosopher and Guide in the entire exercise of Cost Monitor.

## Case Study

Cost Monitor is proposed to be demonstrated with the help of illustrative figures drawn from a power plant of 60 MW. The Daily Performance Report of the said power plant for 8<sup>th</sup> December is furnished as an appendix to this section. The relevant figures for the report are sourced from the cost accounting records.

The report provides the quantitative information in terms of Capacity Utilisation, Generation and Fuel Factors. Financials are provided for the plant as a whole and per MW of power

exported. Information is provided under the columns 'for the day', 'upto the day in the month', 'upto previous month in the current year' and 'for previous year'. The report provides valuable insights about the plant performance on a concurrent and continuous basis to the operational managers who are located at the site as also the top functionaries who are located at the head quarters.

Significant observations that may be drawn from the report are as follows:

- a. The percentage of Net Generation has fallen down to 89.50% for the day, 90.25% upto the day in the month, and 90.50% upto previous month in comparison to 90.60% during the previous year. Generation lost is revenue lost. The fall in generation is a consequential impact of corresponding increase in auxiliary consumption. The corrective measures may warrant in-plant in-depth scrutiny of auxiliary consumption.
- b. Specific fuel consumption (kgs of fuel consumed per kw of power generated) is also on the increase during the current year. It has increased to 0.85 for the day, 0.86 upto the day in the month, and 0.85 upto previous month in comparison to 0.84 during the previous year. Similarly, the unit heat rate too shows an increasing trend during the current year. It has increased to 2910 for the day, 3010 upto the day in the month, and 2900 upto previous month in comparison to 2860 during the previous year. In all probability, the quality of fuel needs a detailed examination and corrective action.
- c. Cost of fuel consumed per MW of export is also showing an increasing trend.
- d. Unit Costs of Plant Operation Expenses, Repairs & Maintenance, Employee Cost, Administrative Expenses, and Depreciation are showing a decreasing trend.
- e. Financial expenses per MW have gone up from Rs.821.06 in the previous year to Rs.882.00 during the current year. Fundflow movement may warrant attention.
- f. The overall impact is that the cash margin per MW during the current year has come down to Rs.723.32 from that of Rs.751.43 in the previous year.
- g. However the margin per MW during the current year has gone up to Rs.158.84 from that of Rs.139.45 in the previous year.

## **Assimilation**

The Daily Performance Report is an instant eye opener for the concerned executives at every level of the organization.

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## Appendix

### Daily Power Plant Performance Report for 8<sup>th</sup> December 2016

#### I. Quantitative Data

Serial	Particulars	Current Year			Previous year
		For the Day	Upto the day in the Month	Upto Previous Month in the Year	
<b>A</b>	<b>Capacity Utilisation</b>				
1	Working Days	1	8	250	334
2	Plant Capacity (60 MW per hour)	1440	11520	360000	480960
3	PLF (%)	98.00	99.62	87.00	90.00
4	Unit Running Hours	24.00	730.80	4094.20	5579.17
5	Unit Outage Hours	0	16	375	418
<b>B</b>	<b>Generation (MW)</b>				
1	Generation	1411	11476	313200	432864
2	Auxillary Consumption	148	1119	29754	40689
3	Net Export	1263	10357	283446	392175
	% to Generation	89.50	90.25	90.50	90.60
<b>C</b>	<b>Fuel Factors</b>				
1	Specific Fuel Consumption (Kg / Kwh)	0.85	0.86	0.85	0.84
2	Unit Heat Rate (Kcal/Kwh)	2920	3010	2900	2860

#### II. Financial Performance: Rs. Lakhs

1	Revenue	66.31	543.75	14880.92	20589.18
2	Fuel	37.54	308.91	8332.69	11562.66
3	Fuel Margin	28.76	234.84	6548.23	9026.51
4	Plant Operation Expenses	7.06	57.38	1566.00	2207.61
5	Contribution	21.71	177.46	4982.23	6818.91
6	Repairs & Maintenance			182.00	276.00
7	Manufacturing Margin			4800.23	6542.91
8	Fixed Expenses				
a	Employee Cost			172.00	252.00
b	Administrative Expenses			78.00	124.00
c	Sub Total			250.00	376.00
9	EBITDA			4550.23	6166.91
10	Financial Expenses			2500.00	3220.00



11	Cash Margin	2050.23	2946.91
12	Depreciation	1600.00	2400.00
13	Margin	450.23	546.91

### III. Financial Performance: Rs. Per MW of Export

1	Revenue	5250.00	5250.00	5250.00	5250.00
2	Fuel	2972.63	2982.60	2939.78	2948.34
3	Fuel Margin	2277.37	2267.40	2310.22	2301.66
4	Plant Operation Expenses	558.66	554.02	552.49	562.91
5	Contribution	1718.72	1713.38	1757.73	1738.74
6	Repairs & Maintenance			64.21	70.38
7	Manufacturing Margin			1693.53	1668.36
8	Fixed Expenses				
a	Employee Cost			60.68	64.26
b	Administrative Expenses			27.52	31.62
c	Sub Total			88.20	95.88
9	EBITDA			1605.32	1572.49
10	Financial Expenses			882.00	821.06
11	Cash Margin			723.32	751.43
12	Depreciation			564.48	611.97
13	Margin			158.84	139.45

#### Notes

1. PLF (Plant Load Factor) is the parameter that measures the plant capacity utilisation.
2. Unit Heat Rate is the parameter that measures the fuel efficiency.

# WAY AHEAD

## Indian SMEs

Small and Medium Enterprises (SMEs) are the backbone of Indian Industry. Indian SMEs are family driven and provide considerable contribution to the country's Gross Domestic Product. The SMEs consume localised skills and use low cost technologies. Being labour oriented, SMEs have a huge employment potential. At the same time, they are found to be low capital intensive. It is estimated that one lakh of rupees, invested in SME Assets, can lead to perpetual employment for one individual.

The knowledge and skills of Indian Small Entrepreneurs are quite high and are acclaimed all over the world. However, the said knowledge and skills could not be translated into competitive outputs because of limitations concerning systems and applications. The cost competency gap of Indian SMEs is caused mainly by inadequate systems and unprofessional application. The way out could be to support the Indian SMEs, by providing Relevant Systems and Affordable Expertise. Model Systems could be Enterprise specific and Enterprise relevant.

It could be adaptation of Japanese Inventions or American Research or British Proficiency or African Stamina, but there lies the Indian Commitment that has been passed on from ages to ages. Unflinching Commitment towards the accepted task is the Core Strength of any Indian. And that is where one can begin to evolve the need based competency module.

## Indian Cost Leadership

Considerable number of Make in India sectors such as Ports Railways, Mining, Space, Defense Manufacturing, Oil & Gas, Aviation, Roads & Highways and Thermal Power have, hitherto, been receiving substantial funding through the budgetary provisions of the central and state governments. They are, now, thrown open to private sector by means of privatisation, disinvestment, public private participation, foreign direct investment, and so on.

When funded from the government budgets, the outcome is more social oriented. When funded through market sources, the outcome has to be profit oriented without compromising the social considerations. And this is where Cost Competency Management has to be perceived as Real Time Resource Management.

It is time to realise that Cost is a real time Resource. The real time fact is that “Cost is a Resource consumed in the process of Value Addition”. Prudent deployment and optimum utilization are to be perceived as real time exercises that should be undertaken on a perpetual basis. Cost Accounting Records are to be tuned as the enablers of Real Time Resource Management. It is all about achieving Core Cost Competency that can lay a strong foundation for ‘Make in India’.

It needs to be realized that the indigenisation brings in absolute advantage, outsourcing sparks comparative advantage, specialization leads to competitive advantage, and a balanced basket enables compatible advantage. Compatible advantage also implies sustainable competitive advantage.

India is stated to be experiencing the law of increasing returns; India holds a lot of untapped potential consisting of cheap and productive resources in the guise of rural spread & Make in India Start Ups; and the Indian strength lies in its Innumerable Innovative Intellectuals.

‘Make in India’ as an exemplary beginning; and the CostVantages that may be explored and experienced in ‘Make in India’ could be the starting point in unleashing the ‘Indian Cost Leadership’!

## True & Fair View

- Cost information enables the organization to structure the cost, understand it and use it for communicating with the stakeholders.
- Costing is an important tool in assessing organizational performance in terms of shareholder and stakeholder value. It informs how profits and value are created, and how efficiently and effectively operational processes transform inputs into outputs.
- Costing contributes to the data input on economy level parameters like Resource Efficiency, Waste Management, Resources Allocation Policies, etc.
- Costing includes product, process, and resource-related information covering the functions of the organization and its value chain.
- Cost information can be used to appraise actual performance in the context of implemented strategies.

## Wrap UP

Cost Governance cultivates Cost Accounting Records; Cost Accounting Records enable Cost Competency, Cost Synergy, and Cost Reduction with the ultimate goal of Cost Leadership. Cost Governance could be the strength of the Indian SMES and the Start-ups to garner the global markets.

Cost Governance is the Key Success Factor in the Indian Context. It is the simplest means that can be adopted by any entity, may it be a Panchayat or the PMO. The call of the hour is for elevation of the position of Cost and Management Accounting as a soft infrastructure towards building Indian Competitiveness.

## *Cost Governance Providing Soft Infrastructure towards Building Indian Competitiveness*





# The Institute of Cost Accountants of India

(Statutory body under an Act of Parliament)

The Institute of Cost Accountants of India is a statutory body set up under an Act of Parliament in the year 1959. The Institute, as a part of its obligations, regulates the profession of Cost and Management Accountancy, enrolls students for its courses, provides coaching facilities to students, organises professional development programmes for members and undertakes research in the field of Cost and Management Accountancy. The Institute pursues the vision of cost competitiveness, cost management, efficient use of resources and a structured approach to cost accounting as the key drivers of the profession. In today's world, the profession of conventional accounting and auditing has taken a back seat and cost and management accountants are increasingly contributing to the management of scarce resources like funds and land and take decisions that are strategic in nature. This has given cost accountants in India and abroad further scope and tremendous opportunities.

After an amendment passed by Indian Parliament, the institute was renamed as 'The Institute of Cost Accountants of India' from 'The Institute of Cost and Works Accountants of India'. This was aimed at synergising with global management accounting bodies and sharing best practices. It was also useful to a large number of transnational Indian companies operating from India and abroad to remain competitive. With the current emphasis on management of resources coupled with the specialized knowledge of evaluating operating efficiency and strategic management, Cost Accountant professionals are now known as 'Cost and Management Accountants (CMAs)'. The institution operates through four regional councils in Kolkata, Delhi, Mumbai and Chennai and 95 Chapters situated in important cities in the country as well as 9 Overseas Centres. The Institute is head-quartered in Kolkata. It is under the administrative control of the Ministry of Corporate Affairs, Government of India.

The Institute, apart from being a member of the

International Federation of Accountants (IFAC), South-Asian Federation of Accountants (SAFA), Confederation of Asian & Pacific Accountants (CAPA), National Advisory Committee on Accounting Standards (NACAS), and National Foundation for Corporate Governance (NFCG) is also a member of the Government Accounting Standards Advisory Board (GASAB)

## **Vision Statement**

"The Institute of Cost Accountants of India would be the preferred source of resources and professionals for the financial leadership of enterprises globally."

## **Mission Statement**

"The CMA professionals would ethically drive enterprises globally by creating value to stakeholders in the socio-economic context through competencies drawn from the integration of strategy, management and accounting."

## **About ICAI-CMA**

- ✓ Four Regional Councils, 93 Chapters all over India, nine Overseas Centres
- ✓ About 50,000 qualified members
- ✓ Over 5 lakh students enrolled
- ✓ Consistent record of campus placements
- ✓ About ICAI-CMA Course
- ✓ Full-time course for students
- ✓ Ideally suits working executives too
- ✓ Choice of classroom learning, or through distance learning from anywhere in India Can be pursued along with other full-time courses

## **Role of a CMA**

- ✓ Improving cost competencies
- ✓ Resource Management
- ✓ Performance Management
- ✓ Financial Reporting and Strategy
- ✓ Cost Audit and Assurance
- ✓ Cost control and Cost Reduction
- ✓ Risk management and Mitigation
- ✓ Direct and Indirect Taxation
- ✓ Valuations
- ✓ Internal Audit





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