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THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
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G:142:07:2014

July 16, 2014

Shri Arun Jaitley

Hon'ble Union Minister for Finance,
Defence and Corporate Affairs,
Government of India
North Block
New Delhi - 110001

Respected Sir,

Subject: Companies (Cost Records and Audit) Rules, 2014 issued on 30-06-2014

This is with reference to the Companies (Cost Records and Audit) Rules, 2014 issued on 30th June, 2014 for operation of Section 148 of the Companies Act, 2013, and further to our letter dated 2nd July, 2014 on the subject.

The Council of the Institute had submitted suggestions to the Ministry of Corporate Affairs (MCA) in response to the Draft Companies (Cost Records and Cost Audit) Rules, 2013 to safeguard the interests of the common consumers and the Indian economy keeping in view the prevailing and emerging competition and investors / public interest.

Unfortunately, the Companies (Cost Records and Audit) Rules, 2014 have failed to address and consider any of the issues submitted by the Council thereby ignoring the public interest involved therein. Thousands of suggestions given by the public at large and by many companies, professionals and academicians have also been ignored.

In view of the above, it is requested to kindly order for review of the Companies (Cost Records and Audit) Rules, 2014 by a small committee of MCA officers and the Institute representatives. Meanwhile, to protect larger public interest, the mechanism and framework implemented by the MCA as recently as 2011, after wide consultation with all stakeholders, may be continued.

Brief note on the subject is enclosed. Detailed discussion note on each clause of the 2014 Rules along with details of important areas which have not been covered under the new Rules is being sent separately.

Thanking you,

Yours sincerely,

(CMA Dr. Suresh Chandra Mohanty)

CC: The Hon'ble Minister of State, Ministry of Corporate Affairs, Government of India
The Secretary, Ministry of Corporate Affairs, Government of India

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Appendix

The Indian economy is striving to achieve sustainable inclusive growth. The key driver for the fulfillment of this cherished objective is enterprise performance in Corporate, Government and Non-Government sectors. The Institute of Cost Accountants of India delivers specialized stream of professionals with unique training in developing systems for efficient utilization of resources, identifying areas for increasing efficiency, enhancing productivity, reducing waste and enabling sustainable decision making through robust cost and management accounting system. The statutorily mandated cost records inculcate uniformity in the methodology and approach to costing. The **Cost Accounting Standards bring in best practices and the Cost Audit provides the assurance on the robustness of the system. While the reports may be used by the Government, the auditees are benefitted by the uniform, principle based cost and management accounting system for growth of their respective operational segments. Cost management is an integral part of a company's strategy to achieve competitiveness in the market place.**

Genesis of Cost Records and Audit

Cost information is vital for achieving operational efficiency which is a pre-requisite for becoming competitive and enable the industry to deliver quality products and services at affordable prices. Consequently, the mechanism of maintenance of cost records and cost audit was brought into the statute book under the Companies Act, 1956 which provided maintenance of cost records under Section 209 and cost audit under section 233B for certain class of companies. The benefits of the mechanism prompted inclusion of Service Sector within its scope u/s 148 in the Companies Act, 2013 based on the recommendations of various Parliamentary Committees including the Standing Committee on Finance.

Change in Cost Records and Audit Mechanism

In view of the emerging environment of Indian economy/ industry, the Ministry of Corporate Affairs constituted an Expert Group in 2008 to go into the state of maintenance of cost records and cost audit and improving its usefulness. The group consisting of members of the profession, industry representatives, corporate representatives and academicians deliberated and analyzed the facts and came up with a set of recommendations. The MCA came out with simplified provisions for maintenance of cost records and audit thereof in 2011. The major shift was that **instead of specific rules for each industry, a set of principle based rules were made applicable to all manufacturing industries on the tenets of Cost Accounting Standards and Generally Accepted Cost Accounting Principles.** Further, threshold limits for cost audit were set covering companies under cost audit instead of on a company to company basis.

Management Accounting concept was introduced in the cost audit mechanism by the inclusion of **Performance Appraisal Report** which is submitted to Audit Committee/ Board of Directors only which provides key operational information and forward looking data to the management for effective decision making leading to sustainable growth of the company.

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The then prevalent Cost Accounting Records Rules and Cost Audit Report Rules, which were archaic at that time, were calibrated with the changing needs of the stakeholders and these were welcomed by both industry and the users in Government. The concern of industry regarding confidentiality was allayed by submission of reports by grouping of information in to product groups instead of individual products.

Benefits to Industry

Cost Audit improves efficiency of the organization by ensuring effective utilization of scarce resources through analysis of Capacity utilization, input-output ratio, energy efficiency, and wastages, 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.

Benefits to Government

Cost data enables government in for policy making e.g., Free Trade Agreements which require analysis of cost data for each product for favorable 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. Considering the maturity that the industry and profession has acquired since 2011 in maintaining cost data and putting it into use for strategic decision making need to be continued and improved upon rather than curtailed. This is 'key' for raising India higher in the cost competitiveness index and improving the economic conditions of the people of the country by enabling availability of quality goods and services at affordable prices to the masses in the public interest and for safeguarding and sub-serving the interest of the Indian economy.

The need for Cost Records and Audit exists because in India as resources on a large scale are made available to corporates at concessional rates to promote Industrial growth. These include land at concessional rate, utilities like power, water etc., loans at concessional rates and concessions in taxes in addition to outright subsidies.

Benefits to Tax Departments

Most of the Excise Duty and Income Tax issues arise due to mis-declaration of costs. Cost Accounting establishes 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.

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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.

Benefits to Economy

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

Impact on Members and Profession

Based on the progressive and forward looking changes brought about in the Cost Records and Audit rules, the profession geared itself to meeting the expectations of the stakeholders by necessary capacity building and skills enhancement. The syllabus for the CMA examination was also thoroughly revised in line with the expected knowledge dimensions with focus on practical aspects of Cost and Management Accounting through case studies approach. With the enhancement in the scope of the profession, many members left their jobs and started practicing as Cost Accountant. The number of students enrolling for the CMA course also increased due to potential employability in industry and as practitioner. In the new rules the scope of coverage for cost accounting records and cost audit has been drastically curtailed and the rules have been framed in such a manner that hardly any company will be covered under cost accounting or cost audit. This will have a major impact on employability of CMA professionals and development of the profession.

Increase in Cost to Company & Non-availability of data to the Government

The new Rules have been made more complex following the system prevailing prior to 2011. This will entail higher cost of compliance to the companies. The product definitions and submission of product cost details will lead to major bottlenecks and resistance from industry. The structure of the report is also not readily adaptable to XBRL. The entire "Costing Taxonomy" and "XBRL" filing process/architecture have to be redone for this purpose, if feasible. Further, the scope of coverage for cost accounting records and cost audit has been drastically curtailed. This, in the long run, will make cost data unavailable. **We regret to point out that the rules have been framed in a manner which does not conform to the spirit of the Act and will exclude practically all companies out of its ambit and it would be non-operational ab initio.**
