

Relevance and Utility of Cost and Management Accounting In the present Socio-Economic scenario

The global business environment is characterized by intense competition from domestic players and multinational companies. Formulating the right strategy is inevitable in order to establish competitive advantage. As a strategist, the management accountant is critically involved in deciding and negotiating appropriate strategic moves and also helping managers determine their most important customers, competitors, substitute products in the market, core competence, adequacy of resources to support a strategy and the like. In a bid to strengthen their strategic role, management accountants concentrate their time and effort on strategic management accounting.

With the pressure of globalization, which has increased the intensity of competition, advancement of technology and pressure to get information almost on real time basis, Management accounting now plays bigger roles in organizations. Management accountant not only play the role of internal analyst and consultant, but participate in top level decision making.

Management accounting continues to focus on value creation through effective use of resources. In other words, management accountants play an important role in preserving and adding value to the organization by managing resources, activities and people to fulfill the organizations' objectives.

Effective rules for maintaining cost accounting records and cost audit encourage use of technology and scientific tools like quantitative techniques, technical/ benchmarked standards, integrated software, etc and help preparing realistic budgets based on such tools. Thereby, it helps identifying wasteful expenditure, underutilized resources, other inefficiencies and frauds. Such outcomes are not expected from traditional accounting and financial audits, which are essentially concerned with recognition and audit of contractual and statutory transactions for the entity (company) as a whole. As such, the purpose of financial accounting and financial audit are quite different from cost audit and they focus on reporting company's financial state of affairs, primarily to shareholders and creditors. On the other hand, cost accounting & cost audit are meant for internal use of those who are in charge of governance in assessing productivity of resources, emerging opportunities and risks. Financial accounting and financial audit have neither designed for looking into internal transactions within an enterprise for build-up and justification of income-expenditure nor have reasons for doing so unlike in cost accounting and cost audit.

Relevance of Cost Audit in India

The Cost Accounting Record Rules and Report Rules (CARR and CART) were introduced in the backdrop of the misuse of national resources and the intimidation of market forces in the 1970s and 1980s. But these rules were used by the policy makers mainly as interventionist policies.

In the recent past, the country has experienced suffering of public interest due to weak corporate governance, adversely affecting trust and confidence of investors and stakeholders. The Indian economy has to migrate from the current status to the top end position of the global competitiveness index in a short/ medium time span. Considering the maturity levels of cost and management accounting in Indian economy, caused by the legacy of protected environment, we have a long way to traverse without the luxury of time. We do not have the luxury of a long learning curve for this to happen and need to work out the strategies including policy interventions, which will position cost and management accounting as a soft architecture towards building national competitiveness. Mere collection of financial information for financial reporting is not sufficient but the same should be supplemented with a Costing system drawing from the same data and proper analyses helping the management to make right decisions.

In India, regulatory mechanism is being strengthened for each and every sector. Availability of detailed cost data is a pre-requisite for the effective functioning of any regulator. Today, more than 80% of international trade disputes relate to transfer pricing which in-turn requires cost data to determine the arms' length price. Benchmarking and assessment of competitiveness for different industries requires cost data. Competition Commission has been continuously seeking cost data for many sectors. Cost information plays a critical role in transfer pricing, predatory pricing, fixation of margin of dumping for the purpose of levying anti-dumping duty, free trade agreement, consumer protection, revival of sick companies and corporate governance.

Cost audit provides a reasonable assurance that the organization's cost accounting records are so maintained as to give a true and fair view of the cost of each product or activity. Therefore, cost audits can be used to the benefit of management, Board, consumers and shareholders by

- Helping to identify weaknesses in cost accounting systems,
- Ensuring data integrity and

- Helping to drive down costs by detecting wastage and inefficiencies.
- Helping the company management to improve its performance, productivity, competitiveness and governance mechanism.

It is a tool to protect the interests of investors with timely information on wastage and optimum utilization of scarce resources.

- Cost audit is a potent tool for detecting and preventing frauds and is essential to support the functions of the Serious Fraud Investigation Office (SFIO), which has been strengthened by incorporating new provisions in the Companies Act 2013.
- Both the Central Excise Authorities and Income Tax Authorities use cost audit reports extensively in Tax assessment and to minimise tax evasion. The Income Tax authorities have made it mandatory to file Cost Audit Report along with Tax Audit Report. Further, with the introduction of Revised Schedule VI, cost audit report is the only source of authentic quantitative data of production and sales, which is essential to safeguard the revenue. The cost accounting records and audit thereof also ensures a structured and systematic inventory valuation.
- The information derived from cost records and cost audit reports maintained under existing statutes facilitates Corporates, Bankers, Financial Institutions and Regulators etc. in deciding matters related to risk assessment and efficient risk management as the parameters prescribed extensively cover relevant information for managerial decision-making to ensure performance and governance.
- Authenticated cost information derived from Cost records and Cost Audit Reports even facilitates the Tariff Commission in making technical evaluation, based on cost & financial analysis, which provides study-based inputs for informed decision making by Government. The emphasis of the Tariff Commission studies is enhancing the competitiveness of the domestic manufacturers focusing on areas delineated in the National Manufacturing Policy.
- The information derived from cost accounting records and cost audit reports facilitates in making effective study unit-wise, product-wise, process-wise and forms a tool for enabling informed decision making and analysing the data/information from inter-alia competitiveness perspective of the studied Product/Sector/Industry/ Organisation.
- SEBI has also recommended for mandatory maintenance of cost records and cost audit with a suggestion to be conducted for even half-yearly or quarterly audit or limited review in case of listed companies as they would be a real measure of performance as compared to satisfaction of compliance by mere annual reporting. It was further recommended as a part of external financial reporting to appropriately consider in circulation of selected information to the shareholders of the company, containing cost trends, key performance indicators, risk assessment or key risk indicators, CSR details, trends or factors like external economic conditions and internal efficiency, etc., as part of the management analysis section of the annual report to meet with the overall objectives of good corporate governance.
- Further, making proper reference to Cost Audit Reports and Cost Accounting Records, as per existing provisions, shall even strengthen the risk-evaluation tool for banks and financial institutions while deciding upon grant of loans and advances to corporates, thereby ameliorating the degree of risk from being NPAs.
- The Government is entering into Free Trade Agreements (FTA) with various countries. To choose products under FTA, basic cost data is required. In India, regulatory mechanism is being strengthened for each and every sector. Availability of detailed cost data is a pre-requisite for the effective functioning of any regulator. Today, more than 80% of international trade disputes relate to transfer pricing which in-turn requires cost data to determine the arms' length price. Bench-marking and assessment of competitiveness for different industries requires cost data.
- The cost accounting records and cost audit report shall facilitate both the assessee and the DGAD to arrive at a fair estimation, to determine the nature of injury and dumping of margin. There can be proper reference made in the following issues also to bring about par for making comparison.

Benefits of Maintaining Cost Records

The following are the benefits that the Country derives from the maintenance of cost records and use of cost information / data:

- Cost Management and Cost Assurance leads to improvement of the productivity of all the resources, resulting in optimum utilisation of resources and minimization of wastages.
- Costing system is required for strategic planning and decision making as it provides timely warning signals thus enabling management to take appropriate decisions for sustained growth.
- Effective management of Cost leads to price reduction in a reasonably competitive environment and thus, benefits consumers by bridging the wide gap between Cost and Price.
- Supports inclusive growth as cost management help companies to provide goods and services at a price that is affordable by marginal consumers in the rural, semi-urban areas and the common man.
- Helps in detection / identification and thus to plug the leakages of direct and indirect taxes.

- During the last decade Indian banking sector has written off huge amounts as Non-Performing Assets. This was mainly due to lack of effective and timely monitoring. Costing system provides relevant data for appraisal and continuous monitoring of borrowers account and thus helps the banks to prevent NPAs.
- The Competition Commission of India (CCI) ensures and guards against unfair trade practices, non-injurious price, price under cutting and predatory pricing. Relevant cost records maintained as per Generally Accepted Cost Accounting Principles enable CCI to identify cases of unfair trade practices.
- Cost Audit (Assurance) mechanism is a potent tool for detecting and preventing fraud, and therefore essential to support the activities of the Serious Fraud Investigation Office (SFIO), which has been strengthened by incorporating new provisions in the Companies Act 2013.
- Both the Central Excise Authorities and Income Tax Authorities use cost audit reports extensively to ensure avoidance of tax evasion. The Income Tax authorities have made it mandatory to file Cost Audit Report along with Tax Audit Report from the year 2012-13.
- Cost Assurance mechanism protects the interests of the investors through focus on waste minimization, and optimum utilization of scarce resources.
- It leads to better corporate governance and value creation by focusing on efficient use of resources and thus enable Indian enterprises to effectively compete in the dynamic market environment.
- With changing social landscape and growing income levels, demanding customers and enhanced public awareness, Cost Audit can be a powerful tool to ensure inclusive growth.
- Cost information is vital for providing the necessary inputs for making various Government plans so that the productivity and efficiency of resource utilization is kept in focus.
- Product/ activity wise cost details are highly useful to the Independent Directors to effectively and efficiently discharge their duties as envisaged in the Companies Bill.
- The cost of maintaining cost records is negligible compared to the enormous benefits to the companies and the nation.
- It plays a critical role in transfer pricing, predatory pricing, fixation of margin of dumping for the purpose of levying anti-dumping duty, free trade agreement, consumer protection, revival of sick companies and corporate governance.
- It is an instrument for continuous improvement and helps in evaluating corporate performance and its economic / operational efficiency.
- It provides information for validation of financial statements and prevents inventory manipulation.
- Maintenance of proper cost records is also essential for fulfilling the objectives laid down under National Voluntary Guidelines (NVG) for economic, environmental and social responsibilities of business as the information provided by the cost records is compatible with the information requirements under NVG.
- In order to make the Indian economy competitive and also to overcome the current account deficit, the productivity and efficiency of the various sectors of the economy viz industry, services and agriculture etc needs to be improved. This requires continuous monitoring of their performance based on relevant cost information.
- Reliable Cost Accounting data and Cost Assurance are essential for early identification of industrial sickness.

The Institute has set out the following major objectives for the year 2013-14 in line with the above areas:

- To strengthen the cost competitiveness of Indian Industry by inculcating cost management focus through propagating best practices in cost management and cost accounting.
- To provide low-cost accounting services to firms operating in the MSME sector and voluntary organisations by building accounting capabilities at the school level across the country and by creating a cadre of accounting technicians.
- Extending the reach across the accounting value chain by rolling out the Accounting Technician Certification Programme.
- Initiate projects for issuing industry specific technical guidance on risk management, internal audit and cost & management accounting.
- Organize chain seminars across the country on Internal Audit, Indirect Taxation, CAS, CAAS, risk management and Corporate Governance.
- Actively participate in Faculty Development Programme to improve the quality of teaching, robust training mechanism with special focus on soft skills at the college, university and CMA support centers.
- Collaborate with the Government, industry and academic institutions to undertake studies, research and innovation in the core sectors of the Indian economy.

Key actions chalked out under CMA - Vision 2030

- Identify key areas where CMAs can add value for society and country-create a niche through effective advocacy
- Identify value proposition for stakeholders
- List out suggested action plans

- Prioritize action
- Identify what needs to be done over the next 6 months
- Identify who will do what

Industry

- Prepare a presentation for the Banks to highlight skills set possessed by CMAs and how that can be gainfully utilized in the Banking Sector
- Identify target banks and make presentation
- Organize seminars on niche areas-Internal Audit, Sustainability Reporting, Enterprise Risk Management, Cost Optimization, Fraud Detection, Integrated Reporting – identify dates/venue/faculty/participants
- Develop a Consultancy Division within ICAI – Position as consultancy provider to the Government and Industry
- Engage with MSME Chamber and SIDBI – to provide Cost Management & efficiency improvement support to the MSMEs

Government

- Identify ministries/departments and make presentation to various Government Ministries/Departments to show case the need and capability of the ICAI to carry out Cost, Efficiency and Performance studies & Research, and how CMAs can assist in evaluating/monitoring of Government Schemes.

Students

- Prepare a presentation for School/College level students to create awareness about CMA career
- Identify schools/colleges and make presentation
- Focus on imparting soft skills training to the students
- Focus on and extend reach of CMA Centers

Members

- Prepare a profile of the members-age, qualifications, experience
- Involve senior CMAs and Academicians in Developing Technical Guides, Standards, & Guidance Notes on various aspects of Cost and Management Accounting
- Encourage Non-Members and ICON awardees to write articles on the services that CMAs can offer to the government and Industry
- Organize seminars on niche areas – Internal Audit, Sustainability Reporting, Enterprise Risk Management, Cost Optimization, Fraud Detection, Integrated Reporting – identify dates/venue/faculty/participants

The Internal Audit Guidance Notes for the sectors like, Pharmaceutical Industry, Stock Brokers and Depository Participants, Service Industry, Telecommunication Industry, Power Industry, Mining and Metallurgy Industry, Construction Industry, Plantation Industry, Process Industry, Downstream – Oil Sector, Upstream – Oil Sector, Intellectual Property Industry, Non-Banking Finance Companies (NBFC), Sugar Industry, Manufacturing Industry, Engineering Industry are being developed by the Institute.

The changing role of Management accounting is in sync with the changing market environment and governance structure. From only providing information for the purpose of internal business activity, it has already moved towards creating value demanded by customer and other stakeholders. Moreover, Cost & Management Accountants now a days have more responsibilities than before as a result of decentralization and delegation of authority. Precisely, the role of management accountant is now shifted from "works accountant" or "information-provider" to a strategist. Consequently, management accountant should have adequate training and should be equipped with the required skills in order to become significant decision maker, strategic planner and market analyst and make value addition for a sustainable world. .