

# Why cost accounting is crucial for economy



*Manas Kumar Thakur was recently elected the president of the Institute of Cost Accountants of India (ICAI) – the apex body for cost accountants with around 5 lakh students and 69,000 members – for 2016-17. Thakur talks with Governance Now on the role of cost accountants in the economy.*

## **How can cost accountants contribute to economic growth?**

In GDP growth, there must be expenditure analysis. The root cause of the expenditure should be explained properly. No one can 'develop' the profit. But there is no control on expenditure. Our function is to do analysis of the cost element properly, so that surplus or profit can be recovered.

## **Over-estimation or under-estimation of project cost often hampers the viability of large infrastructure projects. What is the way out?**

There are resources and cost mapping. When you are projecting the resources, in parallel we develop cost mapping. We consider all the factors in the cost mapping. In this sort of projects,

we are already in dialogue with the government before the project starts to figure out what sort of expenditure is in the pipeline. That is the job of the cost accountant. They analyse the expenditure. If the time is increased, with inflation, the overhead cost and the preservation cost also increase.

## **Cost management plays an important role in achieving competitiveness. In what ways cost accountants may offer their expertise more effectively in this?**

They are basically decision-makers. How the cost-effectiveness can be achieved, it will come through us. Sometimes the cost is overlapping. In our course, distribution analysis is the first part. When you are able to detect the analysis part, then the cost can be reduced. The market has changed over the years. If we do not have a proper distribution mechanism then we cannot work on reducing the cost. Our ultimate target is cost control or cost reduction. But everywhere the risk is there. We are developing one report for bank and insurance. What is the cost of risk? The cost factor of the risk

should be analysed.

## **How important is cost efficiency for strategic capability of the economy?**

Cost efficiency means productivity or capacity building. Whether it is in manufacturing or service, ultimately your performance will say what your existence is. If cost efficiency is not proper then it will not reflect in the decision-making. Cost efficiency will come through analysis.

## **What are the opportunities for cost accountants?**

Other than income tax, we are present everywhere – like excise, VAT, service tax, corporate governance, GST... Cost audit is done in limited organisations. If we extend our idea we will be able to do proper adjustment of our expenditure. We have to also ensure how MSMEs will develop through this.

## **What are your plans for the institute?**

The main objective would be to enhance the idea of cost mechanism, all over India, wherever it is useful. Cost mechanism is useful everywhere. But it is restricted to only either manufacturing or service sector. It is not very popular in the service sector as well. My plan is to enhance the idea or the subject. This would be my first priority.

Second would be – in the definition of an accountant. In this definition only chartered accountants are counted as accountants in India. The reason is that when the Chartered Accountants Act (1949) was established after independence, there were no members in our fraternity. That is why the government excluded us as accountants.

Whether it is accounting or income tax, whatever be the case, the profit comes only by counting sales minus the cost. If the expenditure is not certified properly, how would you develop the profit? Justification of expenditure is our main job; only then the profit can be certified properly.

And if the profit is certified properly, the government's revenue will enhance.

Also, we are seeking how to cooperate with the government for policy, capacity building, revenue generation, and governance. ■

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